Air Links to London from the North of Scotland:Updated Evidence Note

Final Report

Air Links to London from the North of Scotland: Updated Evidence Note

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July 2014

Executive Summary

This report provides an 'update' to the original Evidence Note on Air Links to London from the North of Scotland, commissioned jointly by Nestrans and HITRANS and first published in May 2012. A copy of that document was sent to the Airports Commission in March 2013, and was subsequently used by the two strategic transport partnerships to underpin submissions made to the Commission in response to its various 'calls for evidence' and discussion papers during the spring and summer of 2013. This 'refresh' of the Evidence Note, which forms the basis of their response to the Commission's Discussion Paper No6, uses the latest 2013 CAA survey data for Scottish airports, whereas the earlier document had to rely on 2009 data. It also includes an up-dated policy overview, because there have been a number of significant developments in this regard in the intervening period and contains feedback from interviews with several important business figures in the North of Scotland about the importance of air links to London in serving their sector of the region's economy.

In December 2013, the Airports Commission published its Interim Report to Government, identifying short listed options for a new South East runway, and shortly thereafter a draft of the Appraisal Framework, which they proposed should be used to evaluate them. Both documents met with criticism from a wide range of regional interests, including from the North and north east of Scotland, because of their failure to recognise the broader strategic national importance of the runway decision. It is welcome that the Commission has responded positively to these concerns and used the publication of the final version of its Appraisal Framework to require the short-listed promoters to take an interest in the regional dimension to new runway capacity. Each of the aspirants now accept that UK regional access is a key element in the option evaluation, not least because of the opportunity it offers them and the Commission to build political consensus around the need for a new runway.

Section 2 of this update note, outlines the changing policy context for these developments, looking not only at aviation related developments such as new EU Aviation State Aid Guidelines but also a revised UK protocol on PSO's and the introduction of a Regional Aviation Route Connectivity Fund, but also broader initiatives aimed at helping to re-balance economic growth in the UK and encourage cities to act as catalysts for this activity.

Section 3 updates the regional analysis using the more recent 2013 data, but also cross references and compares analysis and observations from the original 2012 Evidence Note. For Inverness the 2013 data demonstrates the dominant market still remains London, with around 50% of departing passengers continuing to have this as their end destination; but although the point-to-point market to London dominates, 19.5% of passengers on the Gatwick service are nevertheless interlining, most of them on a self-connecting basis. This is only slightly less than recorded in the 2009 survey (20.9%), but materially less than on the now well established Amsterdam route from Inverness (+40%).

Despite its relative isolation there is still a substantial leakage of traffic from Inverness's core catchment in the Highlands and Moray. Since the 2009 CAA survey it seems to have grown materially from around 320,000 in total to nearly 500,000 in 2013. At 44% (vs 42% in 2009) this is well above the levels at many regional airports. Of those leaking passengers that are London bound, the percentage flying to LHR increased from 62%-77% in the period between surveys. In other words it has become the principal London airport which passengers in Inverness' catchment area are willing to travel to another airport to access. Heathrow's dominance in this regard is function of the onward connectivity it offers and seems to have increased in absolute terms between surveys, despite 12,000 connecting passengers now using the new Amsterdam route.

Turning to Aberdeen, the report notes that despite BA being forced to release three of its newly acquired BMI slots to Little Red, frequency from Aberdeen to Heathrow has declined to between 11-12 per day, and yet the market has continued to grow as larger aircraft sizes have been brought onto the route to compensate in terms of overall seat capacity. In 2013 the route passed 700,000 passengers for the first time.

Volumes to Gatwick from Aberdeen have declined by around 15% from their 2001 peak, but by 2013 appeared to have stabilised relative to 2009 in the hands of easyJet, despite competition on the route disappearing when BA shifted their operation to London City and Flybe withdrew from Gatwick altogether.

In 2013, the combined market between Aberdeen and LHR and LGW had grown to an all time high of 885,000 pa (or over 1 million p.a. if Luton and London City are included); this despite a series of new hub links having been added to Aberdeen Airport's portfolio of routes (e.g Paris CDG, Copenhagen and Frankfurt) during the last decade. But although Heathrow still remains the largest single hub route by volume (712,000), its overall share has fallen from 65% to 53%, with much of that being due to the rapid growth of the Frankfurt service.

However, it is undoubtedly still the Heathrow services that represent the most fundamentally important transport infrastructure serving the Aberdeen economy carrying more passengers than to all the other hubs combined. The 2012 Evidence Note provided important insights as to why this is, in the form of sectoral economic and connectivity analysis, which still remain valid today. The latter recognises not just onward frequency, but also the number of inbound frequency from the regional city; in Aberdeen's case there are currently 11 services a day to Heathrow, six to Amsterdam, three to Frankfurt and Paris and twice a day to Copenhagen. When looked at in these terms, Heathrow offers vastly better connectivity than its competitors in terms both of individual of airlines and Alliances.

It is also noted that with 61% of passengers using Aberdeen International Airport to travel on business (7% points higher than in 2009), this is much the highest percentage of any UK airport. When we look at ultimate destinations for onward connecting markets used by Aberdeen originating passengers, the data reinforces the 'business lifeline' message. North America and Europe are the principal global regions for connecting traffic from Aberdeen, with the Middle East, Far East and Africa also material.

Although surface leakage Aberdeen's catchment area has grown from 542,000 passengers in 2009 to 685,000 in 2013, leakage remains materially lower than Inverness and less than occurs at many airports outside London in the UK. But interestingly, of the 685,000 passengers from the Airport's core catchment who used other airports in Scotland (and the North of England), only 17% were travelling on business. In other words, the vast majority of 'leaking' demand is in the form of leisure passengers, using a combination principally of Glasgow and Edinburgh to fly away on holiday.

In Section 4, it is noted that the 2012 analysis, which demonstrated the close relationship between the structural composition of the North of Scotland's economy and its high propensity to fly, is still valid. Much of this section is therefore used to report on the views of key local business figures. The report also looks more closely at business sectors with a high propensity to fly and highlights relevant comments from the 2013 Inverness Airport: Survey of Business Air Travel Needs. Appendix B provides yet further feedback from local business, for which air links to London are a high profile issue, and also reflects on the weight they attach to the issue.

Section 5 looks at possible policy interventions, and derives general insights from recent TfL work, whilst also providing estimates of the impact that loss of connectivity or failure to benefit from additional South East runway capacity would give rise to.

Taken together with its predecessor, this Update remains focused on identifying and securing support for a proportionate policy response for both regions in the North of Scotland. We believe they have a strong claim for some measure of prioritisation, because even though their tax receipts will be funding it in part, the two areas will not benefit to any real extent from HS2 whilst and any slot protection for the region will involve little or no cost to the Exchequer.

Finally, the report states that delivery mechanisms for protecting or allocating additional slots at Heathrow and Gatwick, have been artificially constrained by the government who cite legal advice to support their various positions. It is pointed out this does not accord with legal advice from other sources, common practice in other Member States, discussions a number of parties have had with the responsible EU officials, nor likely changes at an EU level on slot regulation that are expected shortly.

1. Introduction

1.1.   Nestrans and HITRANS commissioned the original Evidence Note on Air Links to London from the North of Scotland[1] from MVA and Northpoint Aviation in 2012, to inform the response of key stakeholders in the North of Scotland to the Department for Transport's Consultation on its Airport Policy Framework, which was eventually published some 10 months later. The Evidence Note was also sent to the Airport's Commission in March 2013 and was subsequently used to inform Nestrans' and HITRANS' responses to a range of Commission consultations during the first half of that year.

1.2.   The 2012 document was originally commissioned as a statement of the high priority each agency and its stakeholders ascribe to the strategic issue of maintaining, and wherever possible, improving air access to London from north east Scotland and the Highlands and Islands. It is available on both organisations' web sites, and was well received by their stakeholders in the North of Scotland for its factual content and carefully formulated policy proposals.

1.3.   In December 2013, the Airports Commission published its Interim Report to Government to a chorus of concerns by regional national interests across the UK (i.e. not just in the North of Scotland) that it had failed to adequately address the regional dimension of the South East runway capacity debate. In February 2014, Nestrans and HITRANS determined that it would be important to have up to date information if they were to continue to seek to influence Commission and Government thinking. The need for this became pressing when the Appraisal Framework for the short-listed proposals was published in May, significantly strengthening the strategic dimension of the option assessment, and explicitly promising to factor regional impacts into the Commission's final evaluation. Since then, Sir Howard Davies has made clear at a number of public events the importance he and his fellow commissioners attach to this dimension, and Discussion Paper No. 6, which focuses on the contribution regional airports can make to finding an overall solution for the UK's current airport capacity crisis, has been published for consultation.

1.4.   This 'refresh' of the Evidence Note responds to all of these developments by revisiting the market analysis based on the 2009 CAA survey of Scottish Airports in the original report and updating it using 2013 CAA survey data, which at the time of finalising this report, had not been published. For this, Northpoint Aviation Services Ltd (who were appointed by the commissioning authorities to undertake this work), and Nestrans and HITRANS themselves, are grateful to Transport Scotland for their co-operation and interest. We have also moved the material on policy background forward to reflect the many developments since the last version of the document was completed, and expanded the section looking at potential policy measures for improving air links to London, both in the short term and more substantively in the longer term associated with the new runway in the South East that the Commission has already concluded is needed by 2030.

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[1] The original report can be found at:
http://www.nestrans.org.uk/db_docs/20120531_Air_Links_to_London_from_the_North_of_Scotland_Final_Report_1.pdf

2. Policy Update

2.1   This section of the report provides a brief overview of the significant policy developments relevant to its core focus, of regional air access to London, since the original Evidence Note was published in May 2012. Essentially it is an up-dated version of the policy retrospective in sections 1.2-1.6 of the Introduction to the original document and as such provides the context for the updated market analysis and policy proposals that then follow.

2.2   The wet and windy winter of 2013 appears to have acted as the defining moment that changed the UK Government's approach to regional aviation policy. When the railway line at Dawlish was swept away by fierce seas, Flybe had already announced its withdrawal from Gatwick - including its link from Newquay. The long-standing service between Dundee and London City was also under threat and the replacement service offered by easyJet between Gatwick and Inverness was accompanied by a less than ideal schedule. Domestic APD was continuing its inexorable rise; Plymouth Airport and Penzance Heliport had been closed; Cardiff, Prestwick, Manston, Durham Tees Valley and other small airports were haemorrhaging traffic and threatened with closure. The UK government's tradition of not intervening to support regional aviation seemed to be in need of updating.

2.3   But fortunately, these problems were finally being noticed and taken seriously by Government. Change was in the air:

- Flybe intervened - with Government support - to add additional flights to London from Newquay at regular fare levels, while the train services linking Cornwall to the capital were disrupted, and Government changed its long-running ambivalence to PSOs with the capital to keep the service running to its traditional home at Gatwick.

- DfT worked closely and speedily with Cornwall Council on the Newquay route, and Dundee City Council and Transport Scotland on the Dundee service, to invite and approve PSO applications, and HM Treasury announced the creation of a Regional Air Connectivity Fund (RACF) to help subsidise these life-line routes, both of whose viability were suffering from the very high charges being levied by GIP at its two London Airports.

- HM Treasury and DfT introduced a Regional Air Connectivity Fund not only to help subsidise these two PSO's but later providing a kick start to other route development activity at smaller regional airports.

- The Welsh and Scottish Government's took the struggling airports of Cardiff and Glasgow Prestwick back into public ownership rather than permit anything untoward to occur to what they regard as nationally important infrastructure assets.

- And the European Commission's decision on the remedies associated with BA's takeover of BMI, which attached considerable importance to maintaining competition and frequencies on regional routes, set a positive example that regional interests should not simply be ignored.

2.4   With the UK as a whole struggling to emerge from recession, and regional economies demonstrating huge imbalances in their relative performance, enhanced connectivity was recognised as a fundamental component of any policy designed to address that problem. With the Midlands, South Wales and North of England set to benefit enormously from Rail and High Speed Rail projects, a laissez faire regional aviation policy running in parallel with Government failure to address runway capacity shortages in the South East is no longer sustainable or tolerable.

2.5   It is not yet clear what form any new policy will ultimately take. There are encouraging signs that policy, which has to date tried to protect slots at Heathrow and Gatwick from regional lobbies attempting to increase access from the other parts of the UK to the principal national hub airport, is changing direction. The value of air connectivity in contributing to export lead economic growth is being more explicitly recognised in economic appraisals and policy decisions and there is the beginnings of an emerging consensus that any new runway capacity in the South East cannot just benefit London and its commuting catchment; it must benefit the UK as a whole.

The Catalytic Role of the Airports Commission

2.6   For this, the Airport's Commission must be given credit in helping to provide a policy lead. Its Interim Report in December 2013 acted as a conduit for regional interests, and the widely differing economic needs of alternative parts of the UK, given the previous concentration on the role of South East airports within only a South East context. The Commission responded to this by:

- Strengthening its Appraisal Guidance for short-listed options to include the following requirements[2]:

  1.7   "….. The Commission wishes to further this assessment, in particular by considering how each proposal can facilitate the delivery of national and regional connectivity."
  1.8   "As each proposal will impact the UK airport system as a whole, all assessments will be conducted on a system-wide basis."

- Having Sir Howard Davies emphasise the importance it attached to the contribution of airports in other regions and nations of the UK in meeting its long term demand for air travel, and the need for them to have good access to a national hub by surface transport or air:

  "*Regional airports and those in London and the south east other than Gatwick and Heathrow remain critical to the Commission's analysis; it is clear that in the future these airports will play a crucial national role, especially at a time when the major London airports are operating very close to capacity.*"[3]

- And ultimately, by publishing Discussion Paper No. 6: The Utilisation of the UK's Existing Airport Capacity in June.

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[2] Airports Commission: Appraisal Framework (April 2014)
[3] Airports Commission: Press Release - Airports Commission publishes discussion on the UK's existing airport capacity (June 2014)

2.7   As a result, the short-listed promoters have taken a greater conscious interest in the regional dimension to new runway capacity (all three have been engaging with stakeholders in the regions) and, indeed, it is accepted now that it is a key element in the option evaluation currently underway by the Commission, not least because of the opportunity it offers to build political consensus.

- London Heathrow has announced their intention to form a Regional Connectivity Task Force to optimise the value of any new runway capacity built at Heathrow for the UK as a whole:

  "Our vision is to connect Heathrow to every economic centre in the UK, bringing additional trade, tourism and economic growth to the whole country. ... We will also work with airlines and Government to deliver better air links between UK regions and Heathrow."[4]

- Transport for London have commissioned two reports [5] [6], both of which appear to suggest a measure of commitment by the Mayor of London to ensuring a new Thames Hub serves other UK regions, as well as London and the south east.

- London Gatwick has yet to go public in any detail on this issue, though it is likely their Stage 2 submission to the Commission will have contained proposals of some kind, and Stewart Wingate was very much aware of the issue at an SCDI meeting in Edinburgh that HITRANS attended.

2.8   As Paul Hackett of the Smith Institute has observed:

"The debate has until recently been conducted largely through the lens of London and the arguments for and against expanding capacity at Heathrow. However, as the government's Airports Commission's latest report makes clear, there are also other important strategic issues at stake, not least the role of regional airports and regional connectivity in the prosperity of all regions and nations in the UK."

Government and EU Policy Initiatives

2.9   Since the middle of 2012 when the original Evidence Note was submitted to DfT as part of Nestrans and HITRANS response to the consultation that was then ongoing, the Aviation Policy Framework has been published in March 2013. It is an interesting document in that it hints at the possibility of a more positive approach to regional aviation, whilst holding back from committing the Government to firm interventions that would bring this about. Instead it restricts itself to:

- A softer line on PSO's, even offering to support them if submitted by the LEP with a sound economic justification.
- Not ruling out the use of start-up aid for regional route development.
- The role of airports 'outside London' in improving connectivity and supporting their local economies, as exemplified below:

Para 1.21   "The Government recognises the very important role airports across the UK play in providing domestic and international connections and the vital contribution they can make   to   the

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[4] Heathrow Airport Limited: Taking Britain Further (2014)
[5] York Aviation for TfL: Making Connections - Improving the UK's Domestic Aviation Connectivity with a New Four Runway Hub Airport (June 2014)
[6] The Smith Institute: Making global connections: the potential of the UK's regional airports (July 2014)

growth of regional economies. For more remote parts of the UK, aviation is not a luxury, but provides vital connectivity ….."
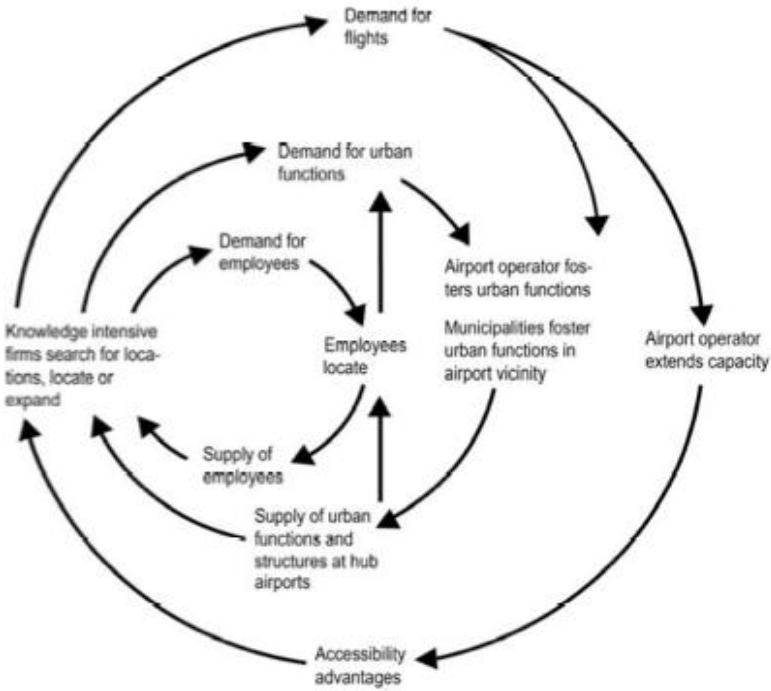
2.10 However, while the language may have pointed to a slight tack in the direction of regionally focused intervention, there was little in the final Framework by way of practical proposals. And set against this were also:

- Up-dated PSO Guidelines that departed little in substance from those that had been in place since 2005,
- funding for RDF's having to be regionally not nationally sourced and subject to the full rigour of the new EU State Aid guidelines published in January 2014, and
- little for regional airports in the first and second round Growth Fund allocations or Core and Secondary City Deals.

2.11 However the nomination of a number of airports (i.e. Newquay, Manchester, Solent-Daedalus Airfield, Glasgow Prestwick and Cardiff/St Athan Airports), as beneficiaries of *Enterprise Zone status*, then others (eg Birmingham, Bournemouth and Durham Tees Valley) to receive regional growth funding has provided tangible evidence of Government support in line with policy in the Framework document.

2.12 But perhaps the highest profile example of positive intervention was the announcement of the establishment of a *Regional Air Connectivity Fund (RACF)* in June 2013 to support PSOs regional airports that were in danger of losing their established routes to London (most notably Newquay and Dundee). The doubling of the fund by the Chancellor in March 2014 and extension of its remit to allow start up funding for new routes, not just PSOs suggests real momentum on regional issues, even taking account the fact that neither domestic air services nor regional airports benefitted materially from recent changes to the banding structure of APD.

2.13 The RACF has generated significant interest in the industry and has also set a precedent for national Government contributing directly to initiatives that improve regional air connectivity. And yet progress is still subject to delays as the DfT formulate the terms of an RACF protocol. It appears that opportunities to support new routes from airports with less than 5 mppa next summer is likely to slip by, taking the scheme into an election period from which it may not emerge unscathed.

2.14 Meanwhile, the debate on Air Passenger Duty (APD) appears to be stalled, with no firm evidence that the differential rate agenda is finding any traction. The amendments to the APD long haul zones in the March budget may have benefitted one or two of the larger regional airports at the margins, but otherwise it seems to have been driven by wider competitiveness issues and the desire to provide the conditions to encourage new long haul routes to China, the Asia Pacific region and South America. There has still been no movement on APD in a form that would materially benefit Aberdeen or inbound flights to the Highlands and Islands.

2.15 Both the Government and the Airports Commission are also taking a conservative line on *slot allocation and ring fencing mechanisms for regional services,* with 'legal advice' that is not made public. The fact that this advice appears to differ markedly from that offered informally by Commission Officials and from the empirical evidence of approved practice in other EU states, suggest that this could become a focal issue in regional air access policy over the next 12 months, especially as the European Parliament is intending to make some potentially significant changes to EU Slot Regulations during that period, that would give higher priority to regional connectivity considerations when allocating slots at congested hubs and potentially radically changing the make-up of airport slot committees.

2.16   The increasingly high profile, both north and south of the border, that the *development of regional cities* as a key policy instrument in securing a spatially more balanced economic growth profile across the UK, is also worthy of note. There is increasing recognition within academia and Government policy circles of the valuable role of cities, including secondary and tertiary cities, as hosts for rapidly growing businesses and knowledge-based sectors of the economy. A good example is the Think Cities campaign being run by the Centre for Cities and their network of city and business leaders.

2.17   There are a number of Urban 'Commissions' that are currently collecting evidence in this area including the second round of City Deals for non-Core Cities which are being negotiated and a Paper on the subject issued by the Cities Minister and the Brookings Institute think tank in Washington[7].

2.18   Interestingly, while there is much talk of the importance of connectivity in these discourses, there is little focus thus far on the contribution small and medium-sized regional airports can make in this regard, nor in their role as the focal points for airport quarters/campuses or economic clusters etc. Some German academics have made some tentative steps in that direction (see Figure 1 below), but UK-focused further work will be needed to ensure these arguments are heard and acted upon in policy terms across Government.

Figure 1

Source: Thierstein et al[8]

2.19   Finally, UK parliamentarians appear to be taking a much greater interest in regional aviation policy issues, of which air links to London is one of the most high profile. This is reflected in:

[7] Rt Hon Greg Clark, Minister for Cities and Greg Clark (2014) Nations and the Wealth of Cities – A New Phase in Public Policy; Brookings Institute, Washington DC

[8] Sven Conventz and Alain Thierstein (2012): Airports Reconsidered - An emerging knowledge-economy-based space; Munich University of Technology

- A well-attended Westminster Hall debate on regional airports on 15 July 2014[9];

- The Transport Select Committees announcement of an Inquiry in the Autumn into airports of less than 5mppa[10]; and

- The establishment of APRAG a new All Party Regional Aviation Group with a remit to:
  - Promote the relationship between improved air connectivity and regional economic, social and urban development.
  - Support for guaranteed regional access to any new UK national hub(s) and legislation measures to ensure this is guaranteed in the medium to long term.
  - Examine the effect of APD on regional air links and new long haul routes.

2.20 So while there is undoubtedly a good deal of scrutiny of regional aviation policy on-going or in the pipeline, it remains to be seen if this will lead to anything ground-breaking. In that regard, it may be that commitments or initiatives from the runway aspirants that could yet prove the key to opening the policy door on regional air access.

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[9] Hansard 15 July 2014 - Columns 215-238

[10] http://www.parliament.uk/business/committees/committees-a-z/commons-select/transport-committee/inquiries/parliament-2010/smaller-airports/

3. Updated Regional Historical Analysis – Aberdeen & Inverness in Context

3.1.   Table 1 provides an updated overview of regional air connections to London factoring in current planned service changes out to October 2014. This suggests that between 2011-14 the long run decline in regional connectivity has stabilised in terms of routes served, with London City showing some modest expansion based on Flybe's decision to base its London operation there (and as a franchise operator for Stobart Air at Southend). But this disguises the quality of those links wherein frequency, scheduling and capacity have in many cases deteriorated in the face of slot pressures and associated charging structures at Heathrow and Gatwick.

3.2.   The core observations from the 2012 Evidence Note remain true, notably that:

- there remains a core of well-served destinations (of which Aberdeen is one, and Belfast and the Scottish Central belt airports the other) that have good frequency to both the primary airports (i.e. LHR, LGW and also LCY) serving London as well as the low cost airports (i.e. STN and LUT, although SNE may also now fall into this category);
- volumes and frequencies to smaller more peripheral markets such as the South West, the Isle of Man and Channel Isles at Gatwick have dropped – materially in some cases;
- a similar pattern to this may be expected on the Gatwick-Inverness route, although on a more moderate scale, as Flybe withdraw and easyJet's sub-optimal schedule for business users takes over, and then Flybe begins to offer indirect competition in the London-Inverness market from London City.

Table 1: Cities with Regional Air Connections to London Airports (1991-2014)

Airport	Heathrow 1991	2001	2011	2014	Gatwick 1991	2001	2011	2014	Stansted 1991	2001	2011	2014	Luton 1991	2001	2011	2014	London City 1991	2001	2011	2014
Aberdeen	X	X	X	X	X	X	X	X	X				X	X	X	X		X		Oct-14
Belfast	X	X	X	X		X	X	X	X		X		X	X	X	X		X		Oct-14
Birmingham	X																			
Derry										X	X									
Dundee																		X	X	
DTVA	X	X																		
East Midlands																				
Edinburgh	X	X	X	X	X	X	X		X	X	X	X		X	X	X		X	X	X
Exeter																				Oct-14
Glasgow	X	X	X	X	X	X	X	X	X	X	X	X		X	X	X			X	X
Guernsey					X	X	X	X												
Inverness	X					X	X	X						X	X					Oct-14
Isle of Man	X	X			X	X	X						X					X	X	X
Jersey	X				X	X	X	X	X				X					X	X	X
Leeds Bradford	X																			
Liverpool														X						
Manchester	X	X	X	X	X	X	X				X									
Newcastle	X	X	X	X	X	X	X		X											
Newquay	X					X	X													
Plymouth					X	X														
Prestwick									X											
No Destinations	17	10	6	7	7	11	11		5	8	5	6	3	8	7		0	6	4	8

3.3.   The explanation for these historic changes remains multi-faceted and has played out differently depending on the route, but includes:

- withdrawal of low cost carriers as Air Passenger Duty (APD) has increased;
- rail competition on routes of 3.5 hrs or less;
- the state of the economy;
- rising fuel prices;

- increasing London hub airport charges requiring an increase in aircraft size to retain viability (eg there is no regional link into Heathrow now with less than 350,000 pax pa); and
- responses by airlines to different market conditions and regulatory decisions (eg BA's acquisition of BMI and subsequent release of slots to Little Red; the rejection by the CAA of Flybe's S41 complaint about discriminatory charges at LGW; the announcement of the RACF; new PSOs awarded or intended on Dundee - Stansted and Newquay - Gatwick).

3.4. The picture in terms of the full spectrum of regional links to the two airports short-listed by the Commission as potential locations for a new runway is shown in Tables 2 and 3.

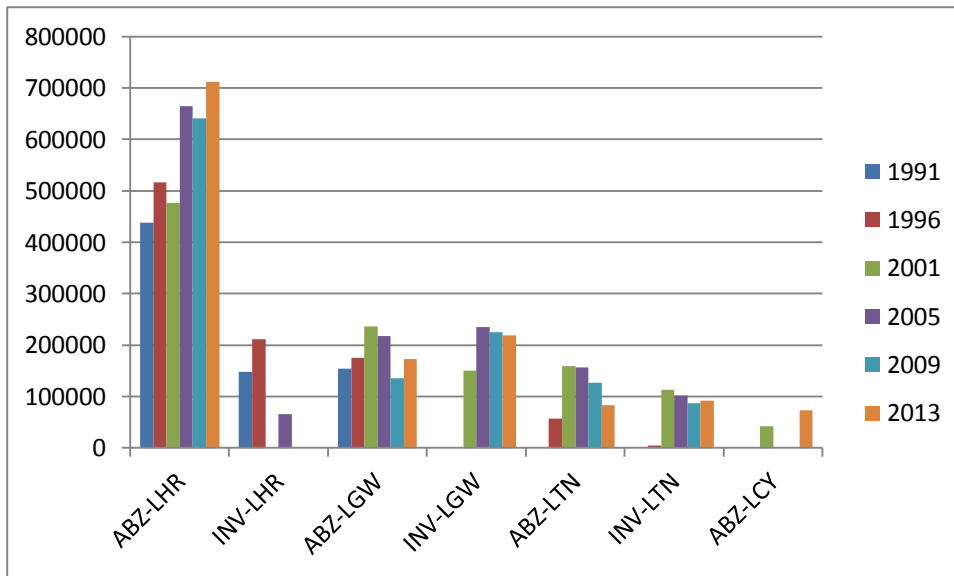**Table 2: Passenger Volumes on UK Regional Links to Heathrow (000s)**

Airport	Pax (000's)					
	1991	1996	2001	2006	2011	2013
Aberdeen	438	516	476	673	652	712
Belfast	1160	1135	975	665	717	672
Edinburgh	1278	1595	1577	1495	1271	1356
Glasgow	1277	1517	1388	1284	821	870
Manchester	888	1083	1284	1089	766	797
Newcastle	354	440	459	479	473	481
Sub Total Pax	**5395**	**6286**	**6159**	**5685**	**4700**	**4888**
Birmingham	80	-	-	-	-	-
DTVA	174	188	156	110		-
East Midlands	66	-	-	-	-	-
Guernsey	99	98	-	-	-	-
Inverness	148	212	-	51	-	-
Isle of Man	105	121	112	-	-	-
Jersey	304	247	-	-	-	-
Leeds Bradford	192	194	203	148	-	119
Liverpool	80	-	-	-	-	-
Newquay	32	36	-	-	-	-
Plymouth	40	67	-	-	-	-
Total Pax	**6715**	**7449**	**6630**	**5994**	**4700**	**5007**
No Destinations from LHR	23	14	9	9	6	7
No Destinations LHR + LGW	23	14	11	12	13	11

Table 3: Passenger Volumes on Regional Air Links to Gatwick (000s)

Airport	Pax (000's)					
	1991	1996	2001	2006	2009	2013
Aberdeen	154	174	235	217	135	173
Belfast	20	224	240	562	525	792
Edinburgh	181	312	376	753	647	694
Glasgow	169	254	356	372	514	606
Manchester	165	374	471	480	288	41
Newcastle	81	116	200	221	110	82
Sub Total Pax	**770**	**1454**	**1878**	**2605**	**2219**	**2388**
Birmingham	-	-	-	-	-	-
DTVA	-	-	-	-	-	-
East Midlands	-	-	-	-	-	-
Guernsey	89	214	308	348	342	345
Inverness	-	-	151	235	225	219
Isle of Man	-	-	-	114	126	184
Jersey	140	350	509	521	556	537
Leeds Bradford	-	41	-	-	30	-
Liverpool	-	-	-	-	-	-
Newquay	-	-	59	40	101	93
Plymouth	-	-	52	66	57	-
Total Pax	**999**	**2059**	**2957**	**3929**	**3656**	**3726**
No Destinations from LGW	8	9	11	12	13	11
No Destinations also links LHR	8	8	5	6	6	6

3.5. In the case of air links from the North of Scotland to London, the latest position is captured in the Figure overleaf, which shows that by 2013 Aberdeen was benefitting from increased average aircraft size on the LHR route as Little Red replaced BMI E145s with A320s, and that this uplift, when set alongside the new services to London City, provides compensation for the withdrawal from the Gatwick route in recent years by BA and Flybe. Meanwhile, volumes to London from Inverness have remained stable across its two current routes, with the prospect of overall sector growth increasing once Flybe services to London City commence.
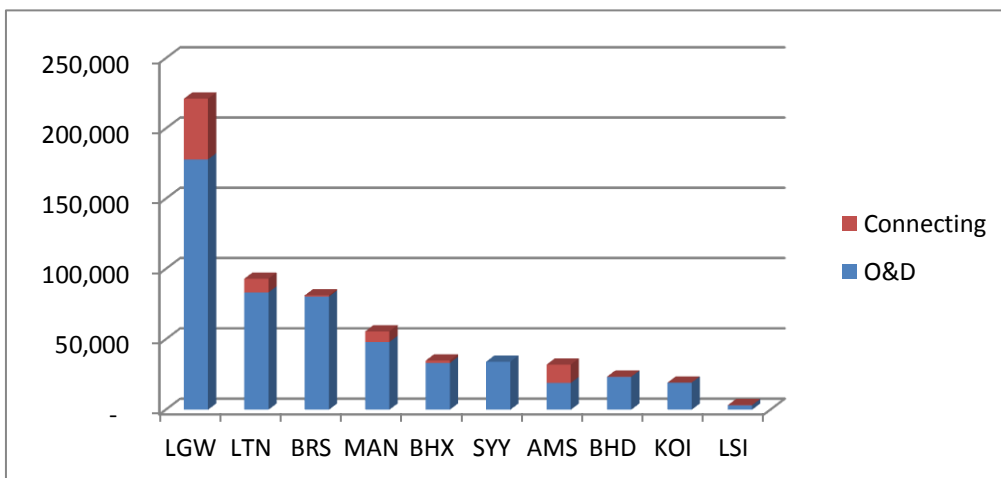
Figure 2: Changing Passenger Volumes on London Routes from Inverness and Aberdeen

Inverness to London Air Market

3.6.   It should be emphasised at the outset that rail times from Inverness to London Euston vary between nine hours and forty nine minutes and eight hours and fifty two minutes with a departure approximately every two hours throughout much of the day. Drive times, according to AA route planner, are ten and one half hours. However rail and road are not a realistic alternative for any time-pressed travellers between the region and the capital. Over the course of the last decade, Inverness has materially increased its range of scheduled services, principally within the UK and Ireland, and year round services to Amsterdam started in September 2011, and there have been experiments with low frequency summer only services to Dusseldorf, Jersey and Zurich. However, as the new 2013 data in Table 5 demonstrates, the dominant market remains London, with around 50% of departing passengers continuing to have this as their destination.

Table 5: Passenger Volumes on Routes from Inverness 2013

3.7. Table 6 below helps to make clear, however, that although the point-to-point market to London dominates and is of major economic significance to the Highlands and Islands in itself, 19.5% of passengers on the Gatwick service are interlining. This is only slightly less than recorded in the 2009 survey (20.9%), but materially less than on the now established Amsterdam route from Inverness (+40%), suggesting that despite the availability of an alternative, Gatwick will continue to remain an important link for onward connectivity to Europe. In addition, Manchester and Luton are showing double figure percentage connections (the former through the Flybe/Loganair partnership, the latter self-interlining passengers), indicating there is a strong and growing market for wider global connections from Inverness.

Table 6: Point-to-Point and Connecting Traffic from Inverness by Airport

Point to point and connecting traffic from INV 2013				
	O&D	Connecting	Percentage connecting	Total
Gatwick	177,991	43,210	19.5%	221,201
Luton	83,297	9,769	10.5%	93,066
Bristol	80,272	920	1.1%	81,192
Manchester	48,063	7,561	13.6%	55,624
Birmingham	33,131	1,730	5.0%	34,861
Stornoway	34,074	-		34,074
Amsterdam	18,994	13,031	40.7%	32,025
Belfast City	23,338	109	0.5%	23,447
Kirkwall	19,204	-		19,204
Sumburgh	3,178	86	2.6%	3,263
Zurich Ch	2,427	-		2,427
Jersey	1,717	-		1,717
Genoa	581	-		581
Verona (Villafranca)	296	-		296
Porto (Pedras Rubras)	293	-		293
Geneva (Cointrin)	209	-		209
London City Airport	42	-		42
Total	**527,106**	**76,416**	**12.7%**	**603,522**

3.8. There can be little doubt, therefore, that both the overall market size, and the proportion of traffic that is connecting, would both be larger if current Gatwick (and prospective London City) services were to transfer to Heathrow, not only as a result of underlying stimulation of demand (both outbound and inbound), but also the wider range of onward destinations it offers. That remains a distant prospect, however, unless or until Heathrow becomes the preferred choice for a new South East runway and identifies a short-term 'fix' in the slot allocation process, giving greater weight to connections to UK regions which have no real surface alternatives, rather than new entrants or established carriers growing frequency or route networks. This would require changes to current EU slot regulations and a seismic shift in the mind set of the Heathrow slot committee's priorities – but as is discussed in the policy section below, this is possible, even if currently unlikely.

3.9.   The other notable feature of air travel from the Highlands and Islands is that, despite its relative isolation - Table 7 summarises drive times to the other principal Scottish Airports - there is still a substantial leakage of traffic from Inverness's core catchment in the Highlands and Moray.
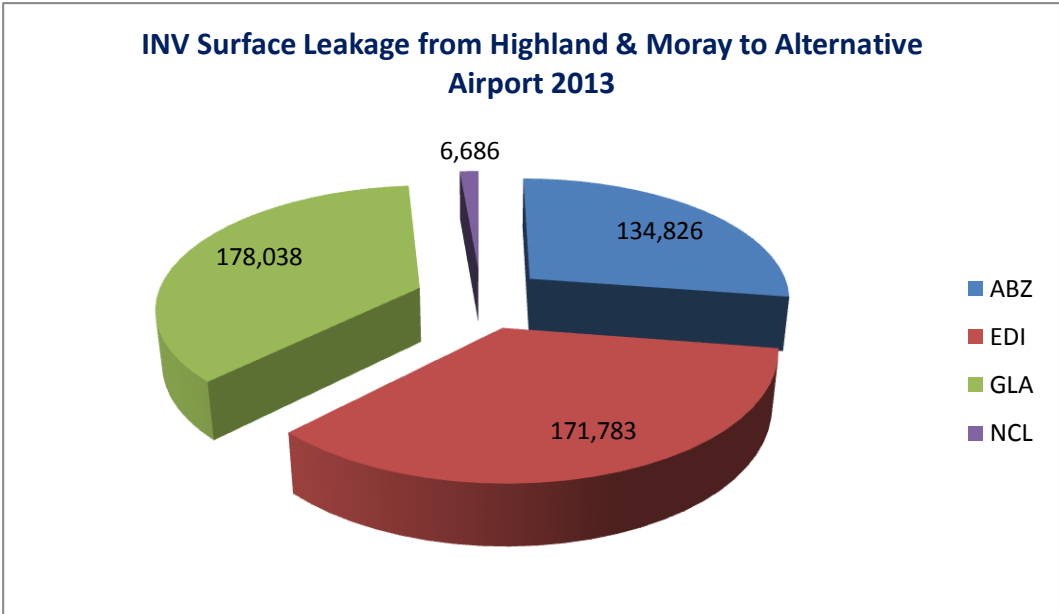
Table 7: Surface Travel Times by Car from INV to Other Scottish Airports

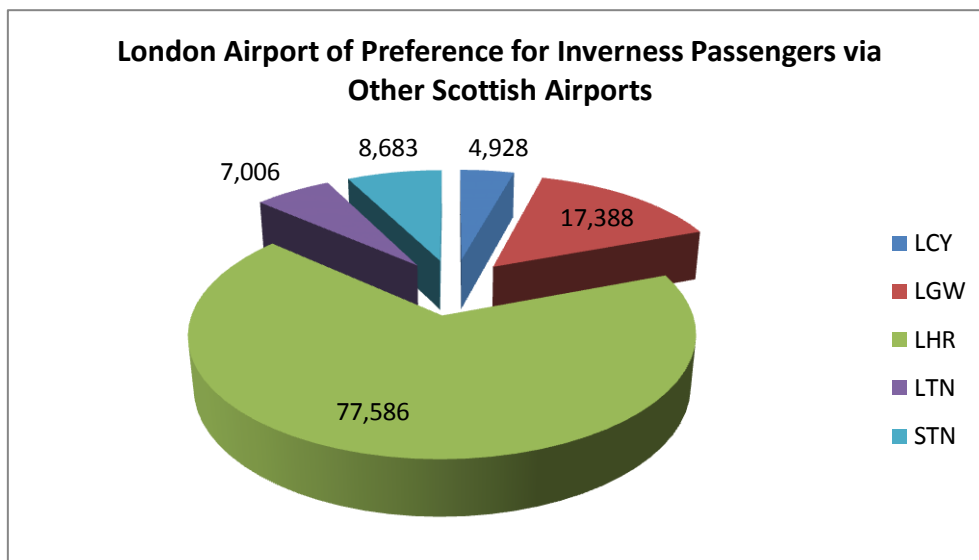| Drive Times (Hrs: Mins)				
	Airport			
City	INV	ABZ	GLA	EDI
Inverness		2.25	3.45	3.25
Aberdeen	2.20		3.15	2.45
Glasgow	3.45	3.15		0.50
Edinburgh	3.40	3.00	1.10	

Source: AA Route Planner

3.10.   Indeed since the 2009 CAA survey, it seems to have grown materially from around 320,000 in total to near enough 500,000 in 2013 (see Figure 3 below), and this excludes data from passengers using Glasgow Prestwick, as they were not surveyed this time around.

Figure 3

INV Surface Leakage from Highland & Moray to Alternative Airport 2013

6,686

178,038

134,826
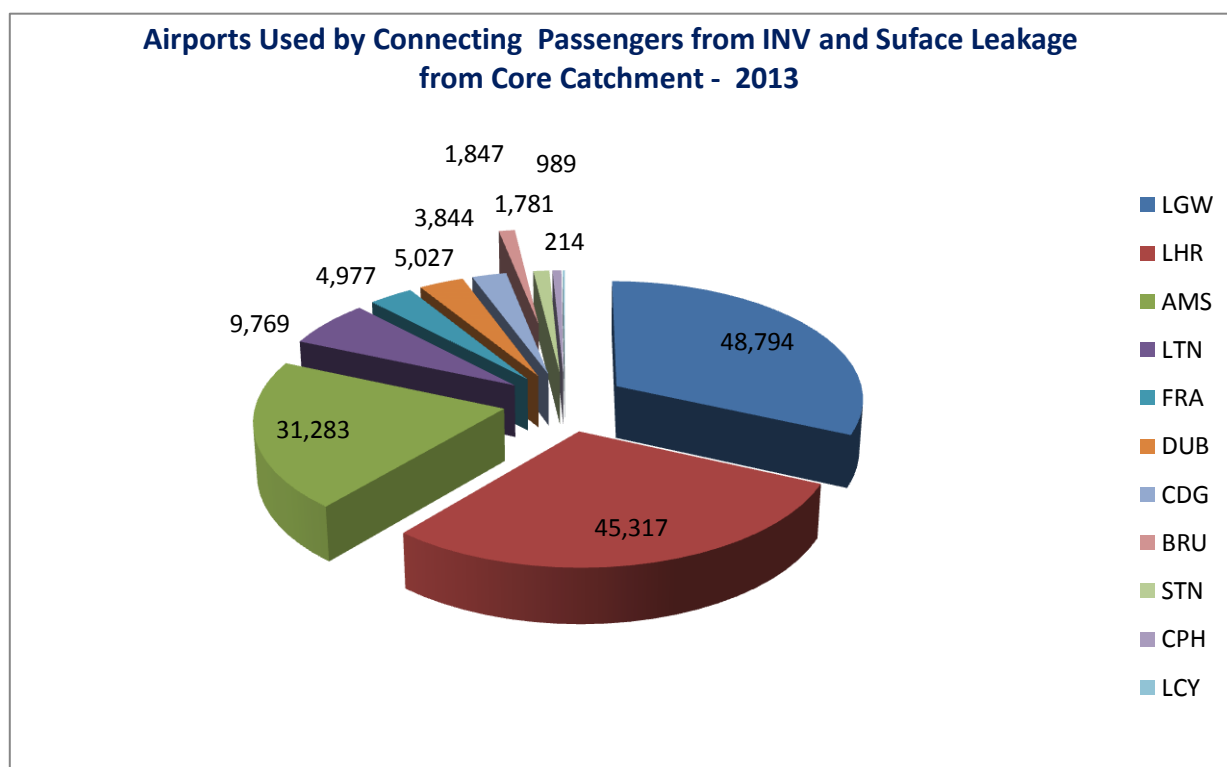
171,783

- ABZ
- EDI
- GLA
- NCL

Source: CAA Scottish Airports 2013 Survey Data

3.11.   At 44% (vs 42% in 2009), this is well above levels at many regional airports and reflects the restricted range of destinations available direct from Inverness and the lack of high quality access (ie better than the once daily frequency to Amsterdam) to a major hub. In this context, it is interesting that of those leaking passengers who flew to London, the percentage flying to Heathrow increased from 62%-77% in the period between surveys.

London Airport of Preference for Inverness Passengers via Other Scottish Airports

■ LCY	
■ LGW	
■ LHR	
■ LTN	
■ STN	

8,683 4,928
7,006
17,388
77,586

Source: CAA Scottish Airports 2013 Survey Data

3.12. If the leakage traffic is considered in terms of hub choice for onward connections (see chart below), Heathrow's dominance amongst leaking traffic has risen from 57% to 64%, but when connecting traffic using Inverness is included, its overall position as a connecting point from the Highlands has been slightly diluted in percentage terms by 12,000 connecting passengers using the new Amsterdam route (see below), but has been increased in absolute terms despite this from 37-45,000 between surveys.
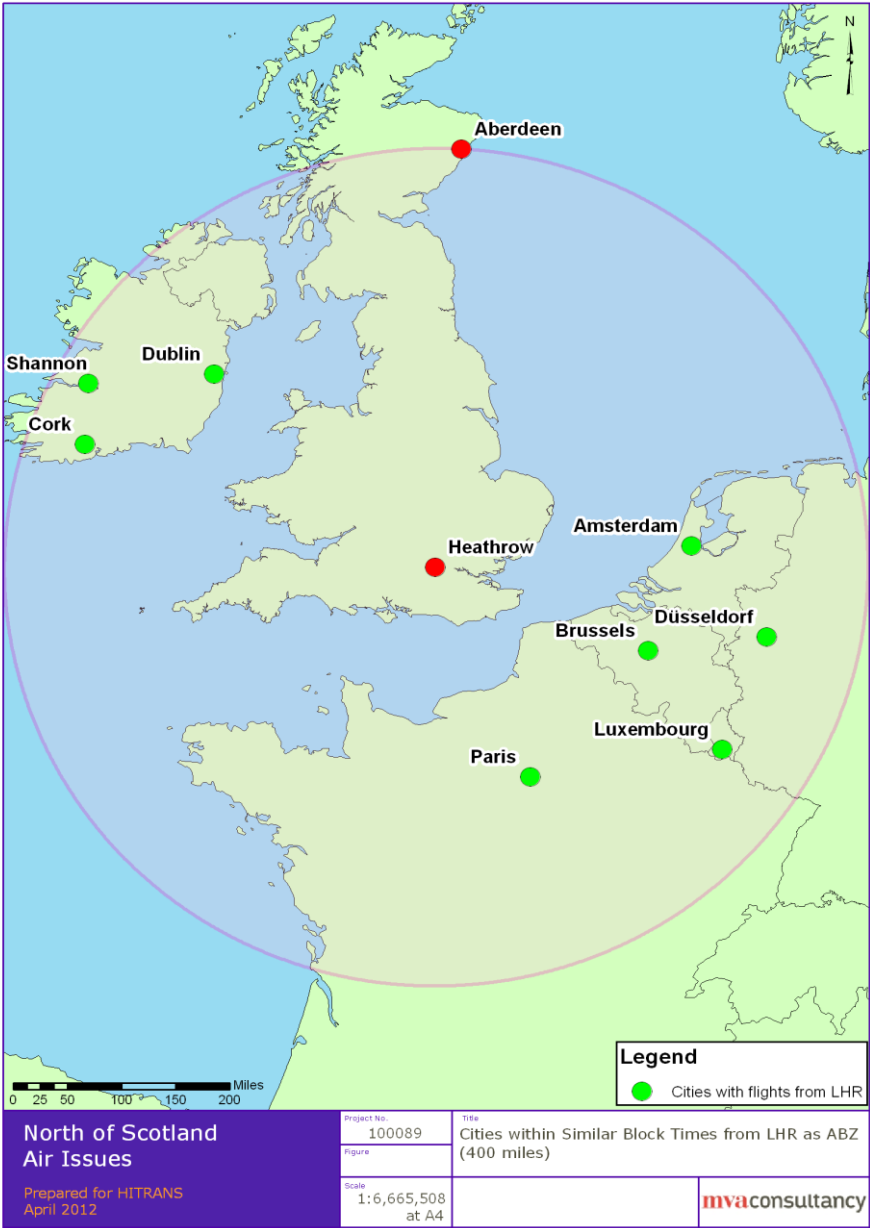
Airports Used by Connecting Passengers from INV and Suface Leakage from Core Catchment - 2013

■ LGW	
■ LHR	
■ AMS	
■ LTN	
■ FRA	
■ DUB	
■ CDG	
■ BRU	
■ STN	
■ CPH	
■ LCY	

1,847 989
3,844 1,781
5,027 214
4,977
9,769
31,283
48,794
45,317

Source: CAA Scottish Airports 2013 Survey Data

Aberdeen To London Air Market

3.13. Aberdeen Airport's core catchment area includes a number of towns and fishing ports such as Fraserburgh, Peterhead, Elgin, Forfar, Montrose and Arbroath, as well as the City of Aberdeen itself. Its peripheral geography is illustrated in the map below.

3.14. Government and Airports Commission need to keep in mind that Aberdeen is broadly similar in terms of latitude to Stavanger, Gothenburg, Moscow and Riga and is as far away from London in distance terms as Bremen, Frankfurt, Basel, Bordeaux and the West of Ireland (see map below). Travel to all of these cities from London is dominated by flying, the use of a combination of road, rail and ferry being a complicated and time-consuming process (see Table 8). Rail times to London are in excess of 7.5 hrs and driving takes over 10 hrs.

Figure 4: Large EU Cities Within the Same Distance and Flight Time from Heathrow as ABZ

North of Scotland Air Issues

Prepared for HITRANS April 2012

Project No. 100089

Title: Cities within Similar Block Times from LHR as ABZ (400 miles)

Scale 1:6,665,508 at A4

mvaconsultancy

Legend: ● Cities with flights from LHR

3.15. As the earlier 2012 version of the Evidence Note set out in some detail, the economy of Aberdeen and its hinterland continues to be dominated by the energy sector, as it has been since UK oil production first came on line in the 1970s. In more recent times, however, the initial focus on oil and gas exploration and production has begun leaning towards the export of related technology and expertise; renewable energy activity is also increasing.

3.16. Like the energy industry, other notable sectors in north east Scotland include financial and professional services, marine industries, life sciences, higher education and tourism, and all have a high propensity to fly; more traditional sectors like agriculture/fisheries, construction and local services less so.   As a result of the strength of the oil and gas market, Aberdeenshire as a whole enjoys a high standard of living. According to recent Eurostat figures, Aberdeen City and Shire have one of the 15 highest GDP/head figures in Europe; indeed they are on a par with Edinburgh and the South East of England.

3.17. In addition to supporting this wealthy and outward facing economy, Aberdeen International Airport also offers onward connections to Kirkwall (Orkney Islands), Sumburgh and Scatsca (both Shetland Islands), Stornoway (Western Isles) as well as Wick on the mainland. As with the helicopter-based traffic which also uses Aberdeen Airport as a gateway to offshore oil and gas platforms (over 500,000 passengers in 2013), the volumes on these routes are material in size, growing and extending what would otherwise be a discrete, modest and relatively self-contained core catchment area, as the drive times to other major Scottish cities below highlight.
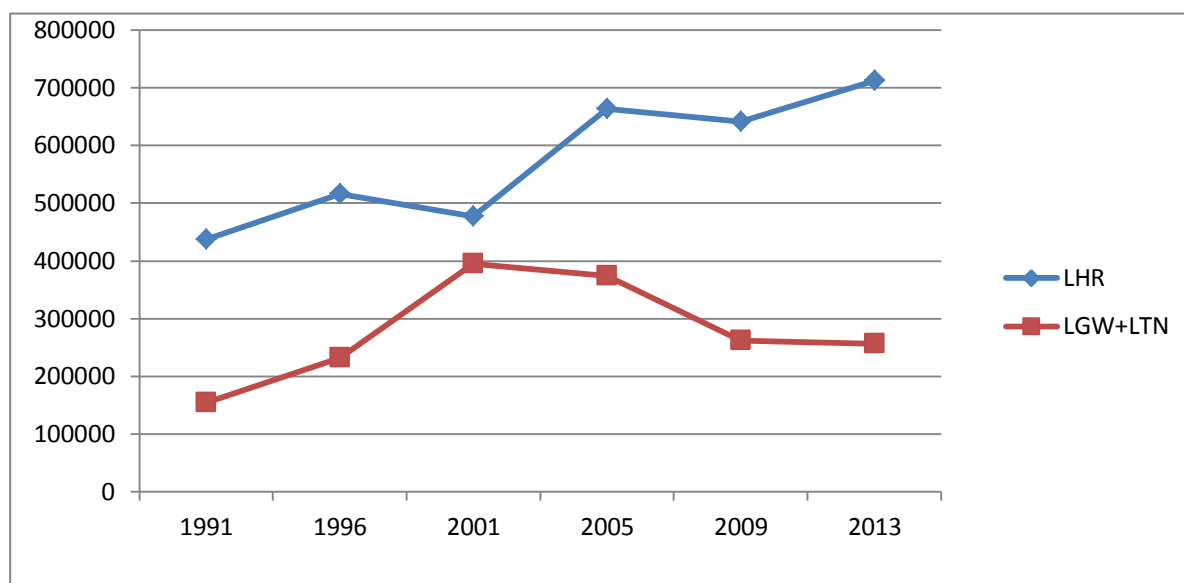
Table 8: Drive Times to other Scottish Cities

Drive Times (Hrs: Mins)				
	Airport			
City	INV	ABZ	GLA	EDI
Inverness		2.25	3.45	3.25
Aberdeen	2.20		3.15	2.45
Glasgow	3.45	3.15		0.50
Edinburgh	3.40	3.00	1.10	

Source: AA Route Planner

3.18. The combination of distance, poor surface alternatives and a strong and internationally focused economy, has historically helped to generate significant demand for air services, and Aberdeen City and Shire has one of the highest propensities to fly in the UK outside central London. Historically, the Aberdeen to London market closely matched Glasgow, and to a lesser extent Edinburgh, in terms of the frequency of services available to Heathrow and Gatwick with up to 14- a-day provided by BA and BMI to Heathrow (depending on the day and season), and three to Gatwick and Luton operated by a combination of BA (then Flybe) and easyJet.

3.19. In the last few years, both of those markets have seen a major restructuring as BMI was sold to BA and then Flybe withdrew from the Gatwick route. Despite BA being forced by the competition authorities to release three of its newly acquired BMI slots to Little Red, frequency has declined to between 11-12 per day, and yet, as the chart overleaf demonstrates, the Heathrow market has continued to grow as larger aircraft sizes have been brought onto the route increasing overall seat capacity. In 2013, it passed 700,000 passengers for the first time.

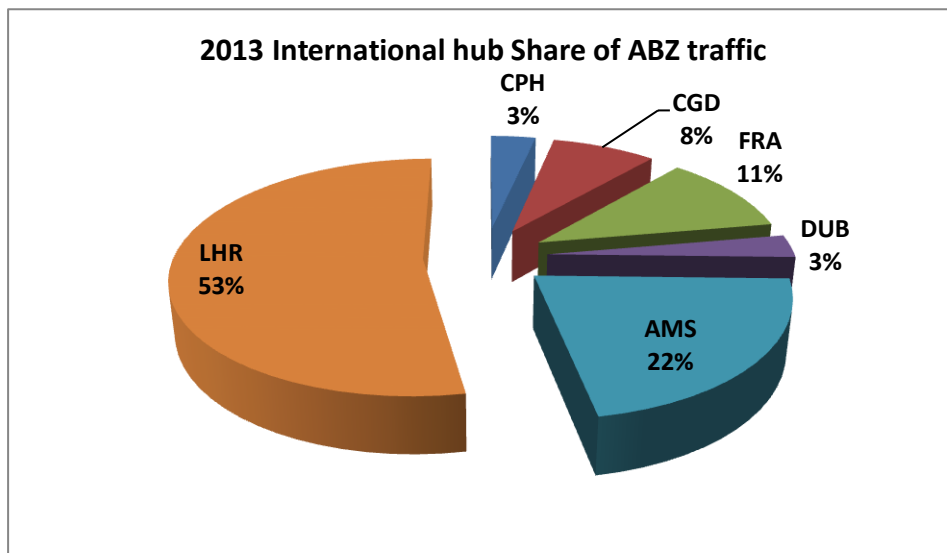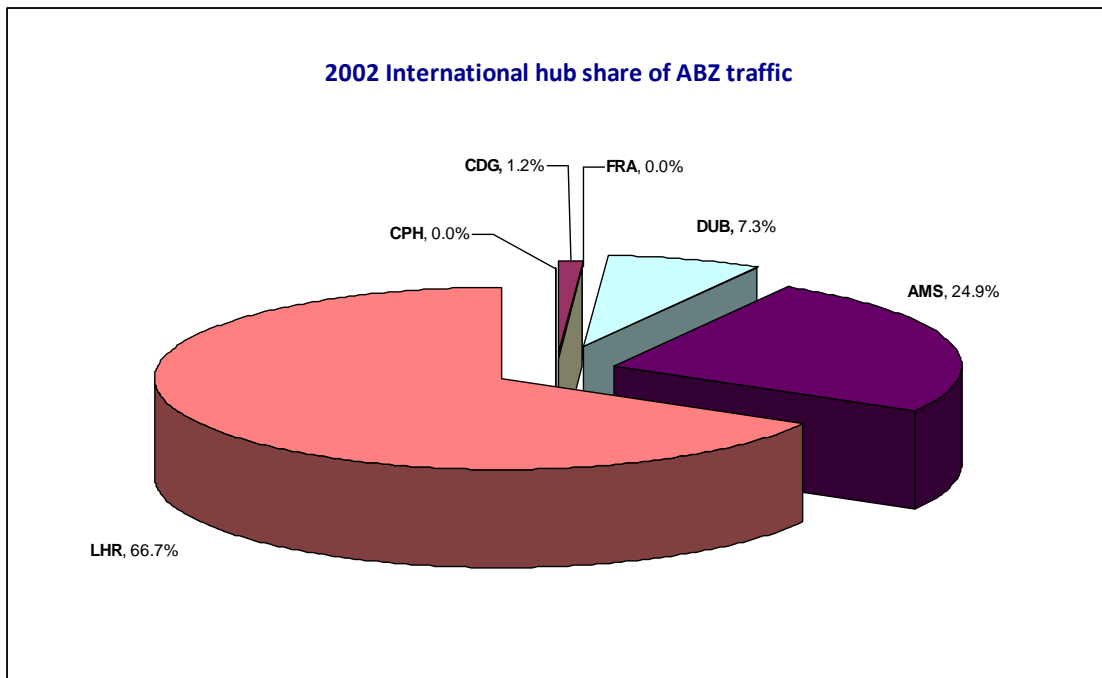**Figure 5: Passenger Volumes on Aberdeen to Heathrow and Gatwick Routes**

CAA Data

3.20. Away from Heathrow, easyJet has remained committed to serving the mainly point-to-point market to Gatwick and Luton. Volumes to Gatwick have declined by around 15% from their 2001 peak, but by 2013 appeared to have stabilised relative to 2009 despite competition on the route disappearing, when BA shifted their operation to London City and Flybe withdrawing from the route altogether. The evidence suggests that this is because it is the connecting market that is growing rather than the point-to-point traffic between London and the South East.

3.21. When we look in more detail the combined market between Aberdeen and the two existing airports forming the principal focus of the Airports Commission's second stage work (ie LHR and LGW), in 2013 it had grown to an all time high of 885,000 pa (or over 1 million p.a. if Luton and London City are included); this despite a series of new hub links having been added to Aberdeen International Airport's portfolio of routes (eg CDG, Copenhagen and Frankfurt) during the last decade, in addition the long-established 5 x daily Amsterdam service (see Table 9 below). Of these, Frankfurt has grown particularly quickly since it opened in 2011 and all are competing with Heathrow to meet the demand for onward connections from Aberdeen, which at over 700,000 in total, is not only substantial in UK regional terms, but more importantly is high value, being heavily business orientated.
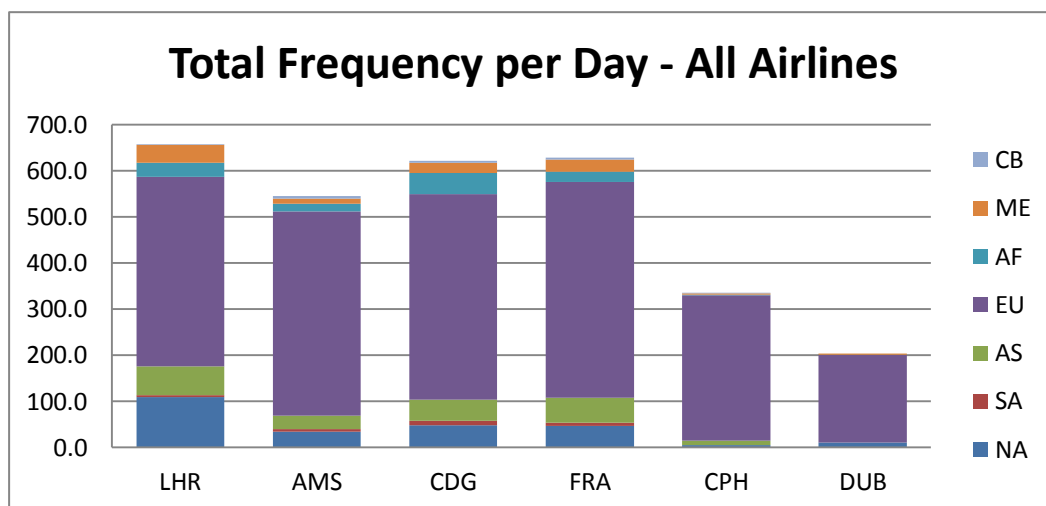
Table 9: ABZ to Hub – Connecting and Business Splits for Principle Routes (CAA data 2013)

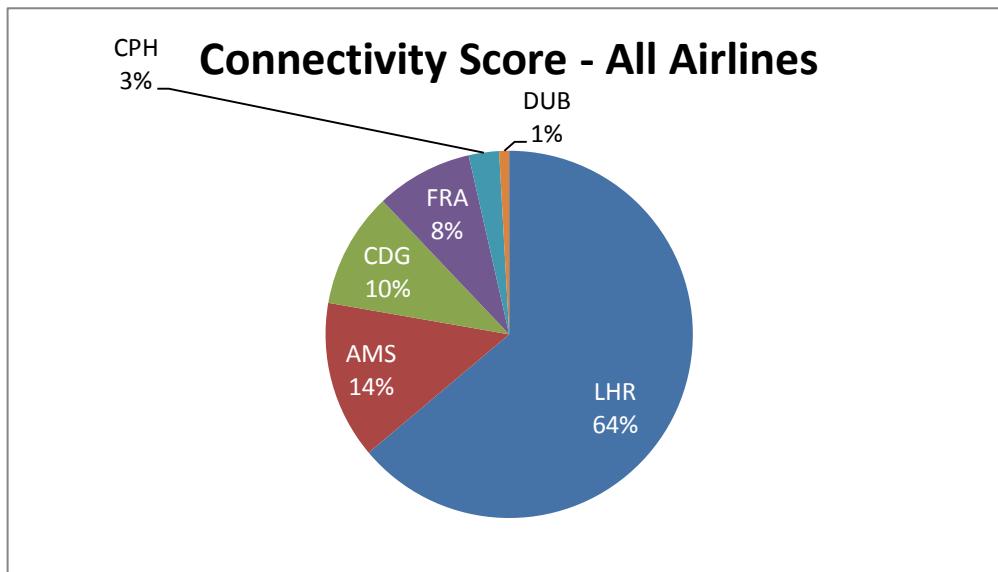| Table 9: ABZ to Hub - Connecting and Business Splits for Principle Routes (CAA data 2013)						
	Total to Hub	**O&D**	**Connecting**	**% Connecting**	**Business**	**% Business**
Heathrow	710,716	408,031	302,685	43	366,346	52
Manchester	203,347	173,042	30,305	15	146,721	72
Gatwick	174,512	159,034	15,478	9	67,362	39
Birmingham	96,789	93,760	3,029	3	64,048	66
Luton	83,831	77,905	5,926	7	31,173	37
London City Airport	73,408	70,772	2,636	4	51,593	70
Amsterdam	291,155	123,458	167,697	58	162,886	56
Frankfurt	146,194	45,868	100,101	68	66,200	45
Paris - CDG	106,937	57,222	49,715	46	57,092	53
Copenhagen	46,007	27,070	18,937	41	35,637	77
Dublin	41,568	41,213	355	1	14,115	34

3.22. As the pie charts for 2002 and 2013 below indicate, although Heathrow remains the largest single hub route by volume, its overall share has fallen from 65% to 53%, with most of that being due to the rapid growth of Frankfurt.

2002 International hub share of ABZ traffic

- CDG, 1.2%
- FRA, 0.0%
- CPH, 0.0%
- DUB, 7.3%
- AMS, 24.9%
- LHR, 66.7%

2013 International hub Share of ABZ traffic

- CPH 3%
- CGD 8%
- FRA 11%
- DUB 3%
- AMS 22%
- LHR 53%

3.23. However, it is the strongly held view in the region, and particularly in the energy sector (as first hand comments provided to our consultants in Appendix B indicate), that while the other connecting points greatly improve choice and flexibility, it is the Heathrow services that represent the most fundamentally important transport infrastructure serving the Aberdeen economy, an important hot spot in a UK economy, otherwise dominated in terms of growth by London and the South East.

3.24. The 2012 Evidence Note provided important insights as to why this is, in the form of connectivity analysis, which remains valid today. If we recognise that connectivity is not just a function of the number of destinations served by a hub, but more fundamentally is determined by the frequency of service into different markets, then when we look at the chart below, while Heathrow performs less well on total destinations served, it is much better in terms of frequency to key international markets of relevance to Aberdeen, most notably North and South America (NA and AS) and to a lesser extent the Middle East (ME) and Africa (AF).

Total Frequency per Day - All Airlines

3.25. But the best measure of connectivity is one that recognises not just onward frequencies but also inbound frequency from the regional city in question. In Aberdeen's case there are currently 11 services a day to Heathrow, 6 times daily to Amsterdam, 3 times daily to Frankfurt and Paris and twice a day to Copenhagen. By dividing onward frequencies by these inbound we get a connectivity quotient – effectively a measure of the ease of being able to take advantage of the onward services rather than having long connect times or restricted departure times from the originating airport (see overleaf). When looked at in these terms, which is crucial for businesses where time is valuable, Heathrow offers vastly better connectivity than its competitors in terms of all airlines, both of its Alliances and from its principal carrier BA.
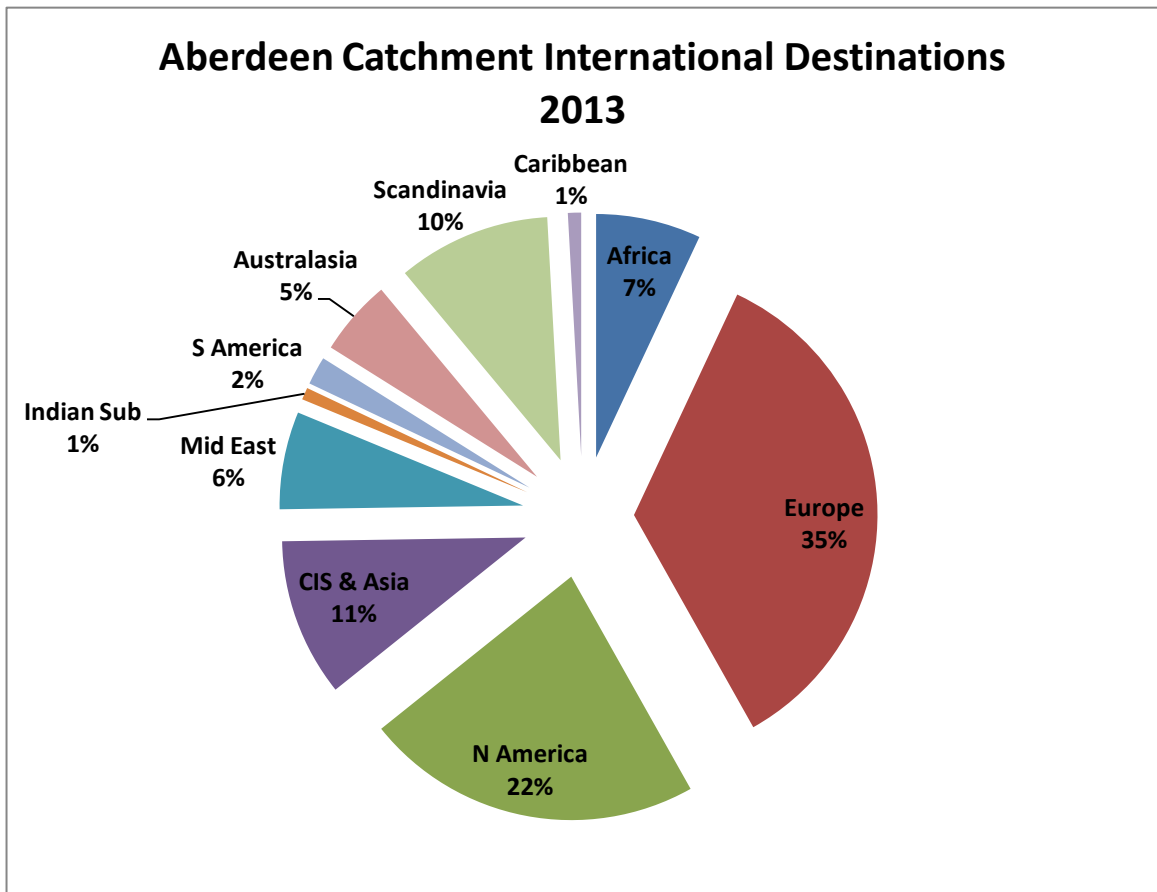
Connectivity Score - All Airlines

CPH 3%
DUB 1%
FRA 8%
CDG 10%
AMS 14%
LHR 64%

3.26.   It is the possibility that this crucially important high level of connectivity could be substantially compromised by any further loss of service frequency between Aberdeen and Heathrow, which is the greatest area of concern in relation to South East capacity issues for strategic authorities in the north east of Scotland.   The commercial viability of the Heathrow route is not in doubt.   Rather it is the opportunity value of the [11-12] pairs of slots that Aberdeen currently enjoys, for use on yielding long-haul services that is the worry.   As repeated Transport Select Committee investigations have highlighted, incumbent carriers currently have complete freedom over how these slots are used.   Wider economic considerations at a regional level play little role in their commercial decisions. Moreover, unlike in the case of Gatwick for Inverness, the London metropolitan, green and long haul airline lobbies could argue that the 'global connectivity' argument for retaining links to Heathrow is less clear-cut given the availability of connections over other European hubs. In our view, the evidence demonstrates this does not stand-up to scrutiny.

3.27.   The riposte to these arguments from the north east of Scotland is that with 61% of passengers using Aberdeen International Airport to travel on business, much the highest of any UK airport (and interestingly is now 7% points higher than in 2009), it has become even more vital to Aberdeen's economy as it moves from a focus on oil and gas production to one of being a technology and expert services supplier to the global energy sector. And because of its prominent position in the energy sector and strong export performance, the fate of north east Scotland's economy is also important for the wider Scottish and UK economies.

3.28.   Table 10 provides us with yet more evidence, if it was needed, that it is the core scheduled services provided from Aberdeen International Airport that are fundamental to its business connectivity. It shows that of the 685,000 passengers from the Airport's core catchment who used other airports in Scotland (and the North of England) to fly from, only 17% were on business (see Table 10). In other words, the vast majority of 'leaking' demand is from leisure passengers looking for cost effective services to sun destinations, which are under-developed and therefore expensive from Aberdeen. Although this figure has grown from 542,000 passengers in 2009 to 685,000 in 2013, at 25% surface leakage, Aberdeen's catchment area remains materially lower than Inverness and less than for many regional airports in the UK (despite Glasgow being three times and Edinburgh four times the size of Aberdeen, if rotary traffic is excluded).

Table10: Passenger Leakage Aberdeen's Catchment to other Scottish Airports (000s)

	Business	%	Leisure	%	Total
EDI	58,087	16.2	300,471	83.8	358,558
GLA	21,134	10.1	187,196	89.9	208,330
INV	34,303	31.0	76,252	69.0	110,555
NCL	1,136	14.5	6,685	85.5	7,821
Total	**114,660**	**16.7**	**570,604**	**83.3**	**685,264**

Source: CAA Scottish Airports 2013 Survey

3.29. When we look at ultimate destinations for onward connecting markets, the data reinforces the 'business lifeline' message yet further. As the figure below shows, North America and Europe are the principal global regions for connecting traffic from Aberdeen, with the Middle East, Far East and Africa also material.
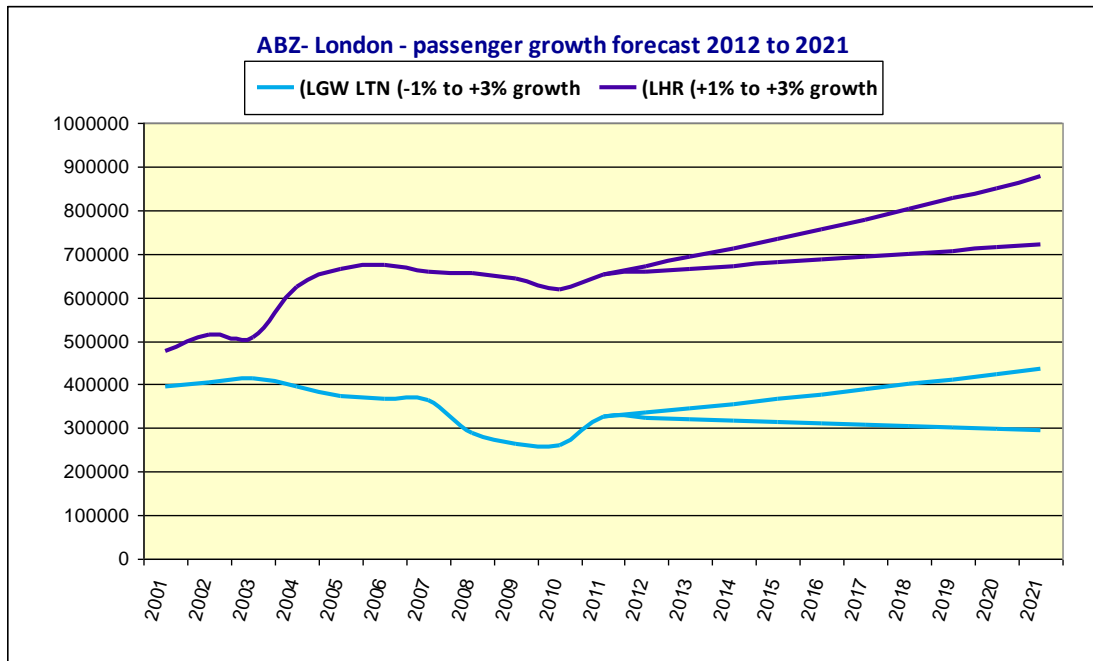

Aberdeen Catchment International Destinations 2013

- Caribbean 1%
- Scandinavia 10%
- Australasia 5%
- S America 2%
- Indian Sub 1%
- Mid East 6%
- CIS & Asia 11%
- N America 22%
- Africa 7%
- Europe 35%

3.30. This is a reflection predominantly of business links associated with the oil industry, (see Table 11), and in the case of Europe the other major sectors under-pinning Aberdeen's internationalised economy. It emphasises again the tremendous importance of businesses in north east Scotland region being able to access these markets easily by air, but also flags that there are very few city pairs that have sufficiently large volumes to merit direct services. So for example, of the oil cities below, demand is highest to Houston, but at 50,000 in 2013 vs 27,000 passengers in 2009, it is getting close to, but is probably not yet quite at, a level to justify a year round direct scheduled operation at a sensible frequency.

Table 11: Passenger Traffic from Aberdeen Airport's Catchment to Oil Cities

ABZ traffic to World Oil Cities			
Country	Total Pax to Oil Country	City	Pax to Oil City
Azerbaijan	5,079	Baku	4,725
Canada	27,714	Calgary	3,980
Canada	27,714	Halifax	190
Saudi Arabia	6,035	Damman	3,278
China	3,995	Dongying	-
China	3,995	Daqing	-
Qatar	4,950	Doha	4,950
USA	157,224	Houston	50,778
Angola	15,759	Luanda	15,536
Equatorial Guinea	2089	Malabo	2,089
Australia	38,197	Perth	12,571
Nigeria	3103	Port Harcourt	916
Trinidad and Tobago	1169	San Fernando	-
Norway	204,215	Stavanger	164,229
Russia	6191	Tomsk	-
Mexico	3655	Villahermosa	244
Totals	**511,083**		**263,486**

3.31.   This means that the use of hubs will continue to have a vital role for many years to come in allowing Aberdeen's businesses and residents to connect to a disparate array of destinations worldwide; and by far the most important of these remains Heathrow. For an insight into why this is, we need to look in more depth into connectivity and its importance for economic activity.

3.32.   A full list of the destinations served from Aberdeen is at Appendix B, which also shows changes in route volumes between the 2009 and 2013 CAA surveys.

3.33.   Having said all of which, it is worth stating clearly amongst all this discussion of global connectivity, that Heathrow does not just act as an important gateway for north east Scotland-based businesses to the wider world, it also has a key role in providing access to the world's leading city, London, and the huge market represented by the South East, one of a number of emerging mega-regions which will dominate global economic activity by 2050. If HAL, for its own commercial reasons, seeks to cannibalise some of the slots portfolio it operates to Aberdeen, or Virgin abandon's its Little Red adventure, total 'capacity' on the north east of Scotland's single biggest and most economically important route, could be quickly and materially compromised. And while further increases in aircraft size could compensate in part, it would not overcome the damage associated with a loss of frequency.

3.34.   The 2012 Evidence Note included some scenario based forecasting, see below.

3.35.   While, currently traffic from Heathrow to Aberdeen is in line with the higher of the two projections, it could quickly fall below the lower forecast if a further 20-25% loss of frequency occurred. This is exactly what has happened at LGW and LUT where a 50% reduction in frequency has seen traffic fall below the lower of the two projections, although if London City traffic were included it would be around the midpoint between them.
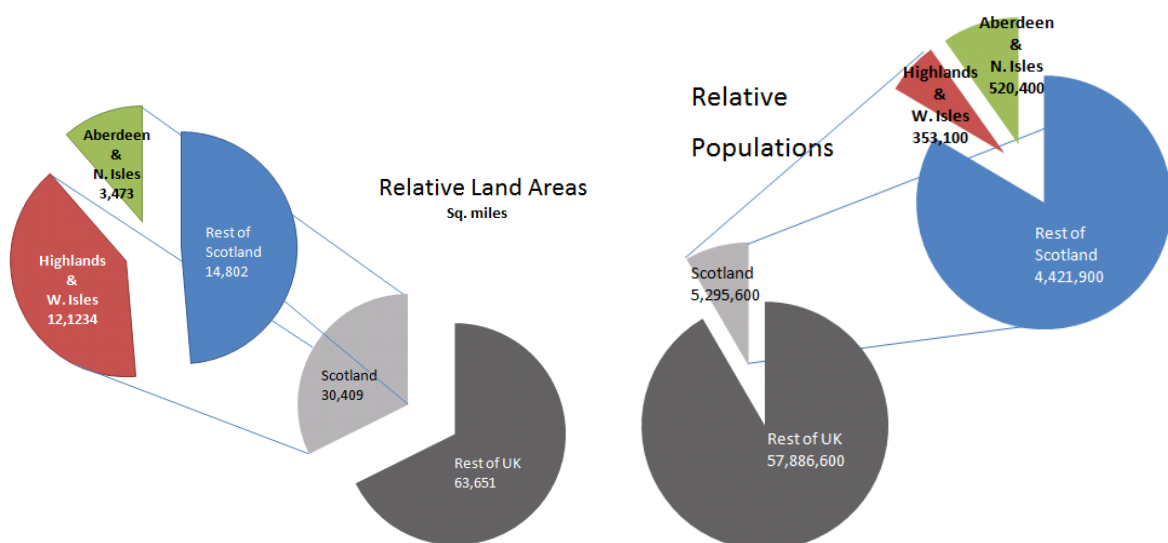

ABZ- London - passenger growth forecast 2012 to 2021

(LGW LTN (-1% to +3% growth   (LHR (+1% to +3% growth

4. Economic Significance of Air Links to London

4.1   The original Evidence Note contained analysis that demonstrated the close relationship between the structural composition of the North of Scotland's economy and its high propensity to fly (see Section 2.4 on Inverness and the Highlands and Sections 3.8-3.18 on Aberdeen and north east Scotland). In essence, because of geography relative to key markets, and the international, export focused, nature of key sectors such as energy, whisky and tourism, there is a high dependency on access to good air links and on connections to London (and for Aberdeen, Heathrow in particular), for their effective operation.

4.2   We believe that analysis stands the test of time and that there have not been any sufficiently large structural changes in the last two years to require re-visiting it. What we have done as part of the update, however, is seek to provide a little more insight to the nature of that dependency by speaking directly with a number of key figures in the business scene across the North of Scotland and asking for their views on the significance of air links to London for their own business or economic sector. When taken together, this provides a compelling mandate for strategic authorities such as Nestrans and HITRANS to remain heavily engaged in ensuring existing air services to London do not deteriorate any further, and that if additional runway capacity is provided at one of the sites short-listed by the Airports Commission, the North of Scotland is high up the list of priorities for access to additional slots - particularly to a national hub airport.

Business in the North of Scotland

4.3   Before considering that feedback, it is worth keeping in mind the context in which businesses in the North of Scotland operate. The regions combined cover a large physical area representing over half of Scotland, which itself is approximately one third of the total UK land mass. It needs to be appreciated that it is as far from the north of Shetland to Berwick upon Tweed, as it is from Berwick to Southampton. And yet in population terms, the Highlands, whilst being the size of Belgium, has a population three-hundredth its size.

Figure 6: The North of Scotland

4.4   North of Scotland, therefore, has:

- a relatively small and widely scattered population limiting the scope for large scale consumer orientated local markets and therefore a limited labour market;
- it is remote by road or rail from the rest of the UK, and even more so from 'core' European markets; and
- has of geographical necessity been forced to focus, in addition to its traditional primary industries (ie fishing, forestry and agriculture), on a small number of high value added sectors that are very international and export orientated.

4.5   As a result, it significantly out performs many other parts of the UK economically relative to its population. However, it is only able to do this and 'punch above its weight' in terms of GDP and exports, because of the access to major UK, European and global markets that aviation facilitates.

The Importance of Air Connectivity – Reflections from Key Figures in the North of Scotland's Economy

4.6   What follows below, therefore are a series of sectoral profiles painting a picture of key economic sectors on the North of Scotland and observations from key figures in each of those sectors on the role of air services and links to London in particular:

<u>Tourism Sector</u>

Scotland attracted 2.2 of the 15.5 million visitors that came to the UK in 2012 and 8% of all visitor spending. London dominates the overseas visitor market in the UK, but Scotland out-performs other UK regions and also has a strong domestic market. As a result 14% of the Scottish workforce is engaged in tourism representing 100,000 FTE jobs and serving 50 million visitors (inbound and UK). The industry contributes £3,000 per head of population for Scotland - 84% of visitors are from the UK and 16% are international but the international visitors represent 35% of the revenue.

Of the international visitors 65% come from Europe, 20% from North America and 15% from Australian and New Zealand. According to the IPS (International Passenger Survey) and the UKTS the total value of tourism to and in Scotland in 2010 was £4.072 billion. Tourism is Scotland's fourth largest export earner attracting inbound visitor spend worth £1.4 billion each year.

VisitScotland places particular focus on the following markets for tourism growth:

- The US and Canada,
- Western Europe (including in particular: Germany, France, Netherlands, Spain, Italy, Scandinavia)
- BRICs (Brazil, Russia, India, China)
- The UAE for high end tourism as well as connectivity to markets including Australia and New Zealand.

In the UK context 72% of overseas visitors arrive by air, while in Scotland 88% of international visitors travel by air and these are the higher spending visitors. The remainder arrive in Scotland by ferry (mainly from Ireland).

Scott Armstrong – Regional Director, VisitScotland

"Tourism is crucial to the economy of the Highlands and Islands supporting accommodation providers; visitor attractions; restaurants, bars and many other leisure businesses. To make the most of the regions potential it is essential that visitors can travel easily and reliably between the main transport gateways of the UK and the H&I region."

Ashe Wyndham – Chairman of The Queen Elizabeth Castle of Mey Trust

'It is not only the casual visitor will suffer from an inability to get up to Inverness by air before 10.55 in the morning, but also our high powered guests, trustees, southern based consultants and contractors. It is now not possible to conduct a day's business in Inverness without resorting to a night's stay or a sleeper train.'

The challenges of running The Castle of Mey, near Thurso, which happens to be the most northerly Visit Scotland 5 Star Visitor attraction on the mainland, are many and varied. 75% of their overseas visitors arrive by car at the Castle, with the majority of these having been hired in Inverness, and 14% of those completing their exit survey were from overseas. They usually undertake the two and a half hour, 90 mile drive from Inverness.

Freda Newton – M.D. Jacobite Cruises Ltd Inverness

"Connectivity is essential to the tourism economy in Northern Scotland. Overseas visitors spend on average £306 million per annum (VisitScotland survey 2011). Increased connectivity and therefore increased passengers even by a small percentage would make a major contribution to the economy of the Highlands."

Jacobite Cruises in Inverness delivers one the iconic experiences for Highland visitors of cruising on the world famous Loch Ness.

Food and Drink Industry

The industry body, Scotland Food and Drink have the realistic aim to position Scotland among the world's top 3 producers of premium food and drink products and generate £16.5 billion per annum by 2017. The strategy intends exploiting the growth markets of premium, health and provenance, and identifies the six priorities to stimulate this growth - primary, productivity, export, environment, innovation and reputation.

Scottish Food and Drink includes alcoholic beverages, bakery and cereals, confectionery, dairy, fish and seafood, food ingredients, fruit and vegetables, meat, game and poultry, non-alcoholic beverages, prepared foods, preserves and sauces. Baxter's Soups, Crawford's Shortbread and Aberdeen Angus beef are all iconic names that spring readily to mind.

The Scottish Seafood Industry is a key element of the foregoing. The industry includes sea fishing, aquaculture and the processing, marketing and sale of shellfish, salmon, demersal and pelagic fish. It is worth over £1 billion to the Scottish economy each year, employs around 14,000 people and accounts for over half of Scotland's food exports. A 2011 Hitrans report discovered that in recent years, Scotland's share of total UK seafood exports, many of them by air, has ranged between 63% and 72%, and the preponderance of this produce comes from the North of Scotland.

Salmon is Scotland's largest food export. The worldwide retail value of Scottish farmed salmon is over £1 billion. Over 60 countries imported fresh Scottish salmon in 2012. USA is the largest export market for Scottish farmed salmon, followed by France, with growing volumes heading to emerging markets such as the Far East and Middle East. Scottish Government estimates that 6,200 jobs are reliant on the aquaculture industry in Scotland[1].

Whisky production is a great Scottish success story. As Billy Walker of BenRiach observed "We really are in an extraordinary period which can definitely be classified as "a golden age". The amazing thing about Scotch whisky is that this little country of some 5.2m people has successfully secured the position of making Scotch whisky the absolute international drink of choice." In addition to the huge market in the United States and France, Scotch has had great success in attracting the fast-growing middle class in emerging markets from South America to Asia and Africa. 93 million cases were exported worldwide. Exports generated £4.3 billion for the UK balance of trade, a record high and contributed about £1 billion to the Exchequer in taxes. Around 10,000 are directly employed in the Scotch Whisky industry[1] - many in economically deprived areas, and over 35,000 jobs across the UK are supported by the industry. Supplies are reckoned to cost the industry around £1.5bn[2], of which 80% goes to Scottish firms, including grain farmers, packaging and haulage[3].

[1]Seafood Scotland
[2]Scotch Whisky Association May 2013;
[3]Analysis by Biggar Economics consultancy, in work commissioned for BBC Scotland

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Michael Urquhart, Managing Director, Gordon & MacPhail

"Gordon & MacPhail is a fourth generation family wine & spirit merchant business which owns the Benromach distillery. It exports around the globe and as such it is vital that we can access current and emerging markets easily by air. The lack of a direct link from Inverness to Heathrow is a real frustration both in terms of getting to market but also in overseas visitors coming to visit distilleries in the area."

The whisky industry is high value and export orientated and therefore a major user of air travel. There are 108 distilleries licensed to produce Scotch Whisky with a preponderance in the North and West of Scotland. Speyside in Morayshire has a powerful cluster of distilleries.

<u>Golf Industry</u>

Grant Sword - Partner at Castle Stuart Golf Course, Inverness

" the loss of the Flybe flights to Inverness are having a detrimental effect on our business at Castle Stuart Golf, in the last few weeks we have seen two large groups cancel their bookings because of the difficulty they experienced when booking their flights. Not only can they not get a through ticket or through baggage, but the timings just don't seem to jive well with incoming or outgoing connections"

In the North of Scotland the recently opened Trump International Golf Links just north of the city and the historic to Royal Aberdeen are two major tourist draws. The Highlands has 44 fine links and inland golf courses with Royal Dornoch, Nairn and the recently opened Castle Stuart near Inverness Airport being collectively the most high profile attractions for golf connoisseurs. Tourism interests in Inverness are particularly vulnerable to the reduction in timetable frequency northbound from London in the light of Flybe's recent changes.

A 2013 'Value of Golf to Scotland's Economy' report finds golf in Scotland is now a £1 billion industry. The industry generates £1.171 billion in revenues, including direct, indirect and induced effects. More than 20,000 people are employed in golf in Scotland – one in every 125 jobs are dependent on golf – creating wage payments of £300 million. Once costs are taken into account, golf directly contributes £496 million to Scotland's gross domestic product (GDP) annually, equivalent to 0.4% of the country's total economic output.

Based on 2011 data golf tourism generated £120 million in revenues for the Scottish economy. (This excludes green fee revenues, which are counted in golf facility operations data. Scottish Enterprise estimates the total economic impact of golf tourism in Scotland to be £220 million annually.)

Approximately 1,480 people were directly employed in golf tourism jobs. Approximately one-third of all green fee payers were from outside Scotland. Of these, 57% were from the rest of the UK, 19% from Europe, 17% from North America and 8% from elsewhere.

The core markets for golf tourism in Scotland are the UK and Ireland at 70 per cent, and three overseas markets at 30 per cent. Of the overseas markets 50 per cent are from US and the remaining 50 per cent are split between Scandinavia and Germany. Although the overseas golf market represents a much smaller number of visitors, it is the market segment that is likely to generate more revenue. This market spends more per head than UK golf visitors and more than the average tourist to Scotland, so they are a particularly lucrative group of visitors.

Energy Sector

Bob Keiller CEO Wood Group

"Aberdeen plays a pivotal role in the global energy industry as the natural location for European energy interests and a fantastic base to service the broader markets. Regular flight connections to hub airports in London, Paris, Amsterdam and Frankfurt make it possible to reach all of the countries where we operate."

Aberdeen is Europe's Energy capital and is home to over 900 energy companies, with over 300 international oil companies resulting in nearly 40,000 related jobs in the region which is some 26% of Aberdeen's workforce, rising to almost 200,000 jobs throughout the whole of Scotland. O & G represents 25% of the UK Treasury's Corporation Tax take.

Even if the government's target to source 15% of our energy from renewables by 2020 is achieved, the UK will still rely on oil and gas for 70% of its needs. Any oil and gas that we do not produce ourselves will be imported, at significant extra cost to the economy. We are fortunate, therefore, that 40% of our oil and gas reserves are still to be extracted; this includes 24 billion barrels of oil with an estimated wholesale value of £1.5 trillion and should sustain production for the next twenty years[1]. There are currently some important new developments in the northern North Sea such as Laggan and Tormore – Rosebank – Clair Ridge – Schiehallion and East of Shetland Bentley – Aragon - Bressay and Mariner – Kraken – Magnus – Brent – Alba and Captain.

Over the last forty years, the North East of Scotland has built up an impressive cluster of O & G expertise and increasingly the sector is seeking overseas work beyond the North Sea. Scottish oilmen can be found all around the world, and their Doric accent can be heard in every oil province and frontier area. Many global oil companies use their UK or Aberdeen offices to oversee oil and gas activity in Europe, Africa and parts of central Asia. Africa in particular is a burgeoning new frontier (17% of total Scottish international sales, second behind the North American market with its 32% share[2]). Around 45% of the turnover is now estimated to be overseas. This figure is increasing. The Scottish Enterprise and Scottish Council for Development and Industry report noted the top five international markets for direct exports in 2011 were Angola, Norway, United States, Nigeria and the United Arab Emirates.

[1]Oil and Gas UK
[2] Scottish Enterprise last oil and gas sector survey 2009/10

SURF City', Westhill, Aberdeen - SURF is an industry term to describe the main components of the subsea industry summarised for the acronym as subsea, umbilicals, risers and flowlines. Westhill is now estimated to be the largest concentration of subsea expertise in the world. Industry body Subsea UK, which represents more than 250 members across the UK, has invested in new state-of-the-art headquarters at the heart of the global subsea sector in Aberdeenshire's 'SURF City', Westhill. One of the secrets of this unlikely modern Aberdeen suburb's success is its uncluttered road proximity to the airport.

We have major players like Technip and Subsea 7 alongside smaller, home grown, entrepreneurial, engineering and technology firms like Tritech International, Forum Subsea Technologies and NCS Survey. There is a real critical mass of subsea excellence here at Westhill which the Council is keen to promote and build on."
    Provost of Aberdeenshire Council, Cllr Jill Webster, May 2012

Europe's leading centre for hyperbaric testing, training and research is located in Aberdeen at the National Hyperbaric Centre (NHC) which is an independent company providing expertise and services to the subsea pressure-related industries.

"With more than 290 subsea companies in Aberdeen City and Shire, including around 3,000 employees based in Westhill with a further 3,000 working offshore, the region has long been recognised as the global centre of subsea excellence. It is home to almost 40% of the UK's subsea industry which generates £6 billion per annum and supports 50,000 jobs. Global subsea growth is projected to double from £20 billion to £40 billion by 2017, with the international market offering a plethora of opportunities. As the recognised test-bed for cutting-edge technologies and a global centre of excellence, Westhill is the prime location for us."
    Subsea UK Neil Gordon, Chief Executive

Dounreay Site Restoration Ltd (DSRL) is funded by the Nuclear Decommissioning Authority to deliver the Dounreay site closure programme. The aim is to become the benchmark in Europe for successful decommissioning of a complex nuclear site. The company employs approximately 800 people (2013), with a similar number working for other companies on site closure sub-contracts.

"Global Energy is not only a leading oil and gas service company but with this experience and our fabrication facilities at Nigg we have a real opportunity to play a leading role in both renewables and the wider energy sector. With over 4000 contractors throughout the world it is vital that we have access to the main international hubs around the globe and that investors can easily access our facilities here."
    Alastair Kennedy, Global Energy Group

The Education Sector

Prof. Albert Rodger Vice-Principal, of Aberdeen University

Views air links with London and the wider world as:

"mission critical for an international university sitting at the European centre of the global oil and gas industry and amongst its 16,000 student body, 120 countries are also represented. The university must be able to both easily access London and the wider world to achieve its full potential."

On a personal level in the last twelve months Prof. Rodger's travel has involved visits to South Korea, China (twice), Hong Kong (twice), Indonesia (twice), Mexico, Colombia, Brazil, USA and Belgium, most of which have involved transits via Heathrow.

The higher education sector in Scotland is diverse. It is made up of 15 universities, the Open University in Scotland, an art school, a conservatoire, and Scotland's Rural College (SRUC). Students are 65% Scottish; 13% rest of the UK; 8% Europe and 13% from rest of the world. With 21% of students from outside the UK Scottish universities are internationally amongst the most internationalised. 162,000 students are undergraduates and one quarter 54,000 are postgraduates.

The economic benefit of attracting international students to Scotland is well documented at an estimated £337 million every year in fees and an estimated £441 million in off-campus expenditure.

Universities Scotland's Director, Alastair Sim says*:*

"Everyone in Scotland can celebrate the fact that we have more universities in the world's top 200 per head of population than any other nation, making us one of the strongest higher education systems in the world. Every Scottish institution is engaged in world leading research, uses innovative learning and teaching methods, and looks to make a strong contribution locally, nationally and internationally. The continued success of our universities - in a fiercely competitive international higher education marketplace - is crucial to Scotland's success. Our universities make an important contribution to Scotland's economy by delivering significant returns on public investment, attracting international students and inward investment, creating and supporting Scottish businesses and jobs, and producing highly-skilled graduates with the best employment prospects in the UK. This is a contribution that has to be protected and grown"

In the North of Scotland the University of Aberdeen is Scotland's third oldest university has a roll exceeding 16,000 students and contributing nearly £400 million every year to the local economy. University of Aberdeen has a student community representing 120 nationalities

- The University of Aberdeen is regarded as Scotland's top university for research and study of law.
- The Suttie Centre for Teaching and Learning is a recognised centre of excellence, ensuring that the region remains at the forefront of medical teaching.
- The University of Aberdeen's Oceanlab is the first purpose-built ocean LANDER laboratory in the world.

4.7 Further evidence of our central thesis is provided by comments sourced from an Inverness passenger survey last year below and from an SCDI survey in 2011 in Appendix B.

Inverness Airport: Survey of Business Air Travel Needs April 2013

"There is strong demand for an Inverness-Heathrow service. The core requirement is a double daily service arriving at Heathrow before 0900 and after 1700. However, some existing users of Aberdeen-Heathrow would require a higher frequency if they are to switch their flights to Inverness."

"Gatwick connections work reasonably well for some European destinations. However, for others Inner Moray Firth companies travel from Gatwick to Heathrow and then fly on to their European destination. One of the effects of these issues is to suppress inbound trips by European business visitors. The consequent reduction in business contact means that some companies feel that they face a competitive disadvantage."

"In many cases Inner Moray Firth companies have to stay overnight away from home before leaving the UK on an intercontinental trip. However, routings are chosen to minimise the number of overnight stays, the number of legs flown and travel or waiting time during working hours. Value is placed on through ticketing/code-share in case of delays."

"The total travel time required by inbound business visitors to reach the region is an issue. As a result, a number of companies have to travel to elsewhere in Scotland or the UK to meet up with inbound customers and suppliers from outside the UK."

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5. Proposed Policy Interventions

Promoting the Antithetical

5.1.   The original Evidence Note was concerned to counter the various justifications made at a national level for UK aviation policy that was having a material negative impact on regions such as the North of Scotland, namely:

- A laissez-faire 'let the market decide' policy, when the failure to approve and drive through the creation of new runway capacity in the South East was causing the most significant market distortions of all in the form of severe supply side slot shortages.
- The application of 'allocative efficiency' as a theory to resultant slot distribution and airport charges, inherently disadvantaging thinner domestic and short haul routes using smaller aircraft, relative to their more remunerative counterparts on long haul routes – this without any assessment of the associated local and regional economic impacts.
- Failure to use the compensatory mechanisms allowed under EU treaties to protect intra-national and EU connectivity (eg PSOs and ring fencing/priority in local rules of regional slots)
- Insistence that airports should cover regulatory costs that should lie with the state (eg Border controls, security and safety), and typically do, elsewhere in Europe.
- Passenger departure taxes materially higher than anywhere else in Europe and continuing to rise, when in other countries they are being reduced or dismantled

5.2.   Whilst it is accepted that even a perfect market, ideal in delivering rational optimal solutions, is complicated within aviation because of its international nature in which state interests and airline grandfather rights play a substantive role, every EU country has come up with its own response to these constraints – some more interventionist that others - the UK with no PSOs to its capital (until this year), no regional slot protection at its main international hub and high regulatory cost and tax imposition, stands out in Europe for a fiscal environment that is markedly anti-regional, having been designed apparently to optimise use of scare capacity to maximise global connectivity from London.

5.3.   In our view this cannot go on, as both Inverness and Aberdeen have witnessed marginal declines in connectivity; the former in the switch of London services from Heathrow to Gatwick and from BA, then BMI, Flybe and now easyJet; the latter in the loss of frequency to Heathrow and BA's recent withdrawal of its Aberdeen route from London City. The resulting reductions in onward connectivity have been material and go some way to explaining what the 2012 Evidence Note and this update spell out, therefore:

- Why access to a UK national hub is of such strategic importance to more peripheral and less densely populated regions such as the North of Scotland
- Why being forced to rely on links to Luton, Stansted, London City, Southend and even Gatwick are far less satisfactory
- And why those parts of the UK that are forced to rely on a foreign hub for onward connectivity, do not regard this option as strategically secure or satisfactory and would prefer that they did not have to.

5.4. It is not surprising therefore, that leading businesses and strategic authorities in the North of Scotland, like other more remote parts of the UK, regard the possibility of a new runway (as supported by the Airports Commission in its Interim report), as a major opportunity to materially improve their regions connectivity and are advocating the runway be accompanied by a pro-regional access policy that offers the prospect of optimising links to the capital by offering hub access, better frequency and route competition to maintain downward pressure on fares.

5.5. For the North of Scotland, geography pre-determines that HS2 is not the answer, even if it were directly connected to the national hub, which also seems unlikely. Distance and time make air access to London essential both for point-to-point travel and onward connectivity. Moreover, recent TfL funded work in connected with the Thames Hub project[11], also highlight the economic opportunity costs of Inverness not being connected to a future national hub and Aberdeen losing frequency.

5.6. The report assumes that by 2050, if a new hub airport is built, there would be 4 flights/day to that hub from Inverness, providing a GVA increase relative to today of £79m pa and 810 additional jobs. The report claims this would be lost under a third runway solution where it assumes that Inverness would not get a slot, an unwelcome outcome which HITRANS of course will be contesting.

5.7. In relation to Aberdeen the report makes the assumption that without airport expansion in the South East, Aberdeen's frequency to London will drop from 11 to 7 per day. Conversely, if LHR gets a third runway, then 12 per day will be possible whilst a fourth runway will deliver 14 flights per day. This allows the report to suggest prospective benefits to the local economy by 2050, £346m GVA and 2,810 additional jobs.

5.8. While the underlying assumptions are debatable, the analysis is useful in providing estimates of the broad quantum of impact that loss of connectivity or failure to benefit from additional South East runway capacity would give rise to. It adds to the sectoral appraisals provided in the previous version of this Evidence Note to make a compelling case as to why air links to London are so important to the economy of the North of Scotland and that of the wider UK and consequently why ring-fencing of new capacity for such links should form part of the Airports Commission's final recommendations to Government. Those core generic arguments bear repeating here.

Inverness

5.9. In the case of Inverness they are:

- the absence of viable surface alternatives to London, which will remain even if HS2 is eventually extended to Scotland, although that currently appears uncertain and as a minimum is likely to be 15-20 years away;
- the inconvenience and economic disadvantage of up to 60,000 outbound passengers being forced to rely on road journeys of 3.0-3.5 hours to Scottish Lowland Airports to act as gateways to global connectivity;
- the disincentive to many inbound visitors to the Highlands of having to make those same surface journeys to a Lowland airport, or a connection between London Airports to access the Highlands direct, creating significant barriers to attracting additional international tourists and increasing their average length of stay and spend;

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[11] York Aviation June 2014 - Making Connections - Improving the UK's Domestic Aviation Connectivity with a New Four Runway Hub Airport

- the dominance of Gatwick in serving the point to point market between London and the Highlands, the substantive and consistent volumes it caters for, including 20% interlining traffic despite the relatively lower onward connectivity it offers;
- the material share of the Gatwick market which is business orientated, enabling external expertise to be accessed by Highland firms and providing access to both London and wider international markets for outward facing and exporting sectors in the region (eg Whisky Industry, Optical and Medical Equipment Manufacture and the Energy Sector);
- the need for these sectors and other the new growth sectors of the Highland economy (eg life sciences) to have access to both well-established and emerging foreign markets if they are to prosper;
- the inadequacy of other London airports (such as Stansted, Luton and London City) as an alternative to Gatwick because of their more limited and leisure orientated connectivity, longer access into the heart of London and in City's case, the operational restrictions and expensive charges it levies on airlines;
- the far poorer connectivity that Gatwick, or other major UK airports to which Inverness is connected (eg Manchester and Birmingham), offer compared to Heathrow, particularly to the North American market, which is important for Highland businesses and the tourism industry;
- the strategic importance of not being forced to rely on foreign hubs for global connectivity in line with recent CAA advice, and the difficulty of expanding the new Amsterdam link to a sufficient level of frequency to justify such reliance because of the absence of an underlying point-to-point market on the scale available on the London market; and
- the fact that Heathrow continues to dominate airfreight exports from the UK, making access to this form of distribution system sub-optimal for Highland based firms in the absence of service to the UK's primary air cargo hub. This is particularly significant for the high value seafood export markets that local firms would like to access, because in 2011 Heathrow accounted for 95% of UK long haul seafood exports by air.

Aberdeen

5.10.   In the case of Aberdeen, arguments based on the absence of viable surface alternatives, the inconvenience of the Scottish Lowland airports, the inadequacy of other London and regional airports as hubs and the need for good overseas access for Aberdeen and the north east of Scotland Region's principal economic sectors are common to those associated with Inverness and the Highlands. But the policy focus in this case, needs to be rather more on the compelling evidence highlighting the essential role of Heathrow and the frequency of services to it from Aberdeen. This is not only because of:

- the very high proportion of business traffic (around 55%) that Aberdeen to Heathrow services cater for, more than double that of other Scottish Airports; and
- the overall connectivity quotient it offers.

5.11.   But also because of:

- its primacy in the high value North American long-haul market; and
- its ability to offer good quality access to several major oil producing regions, more than any of its competitor hubs in Europe to which Aberdeen is already, though much less well, linked.

5.12.   In many ways, Aberdeen International Airport offers an archetypal example of the kind of 'network' solution the CAA is advocating for regional air access, whilst its economy exemplifies the kind of privately driven, high skill, high value and export focused approach which the Government is seeking to foster. With an economy dominated by the oil and gas

sector, but seeking to diversify into 'new' sectors such as life sciences, and renewable energy, whilst increasing the international market for its tourism offer, geography makes high quality air 'connectivity' essential to the functioning of what currently is one of the most prosperous part of the UK and a major source of exports and tax revenues for UK plc. This requirement cannot be met adequately by reliance on foreign hubs or regional hubs elsewhere in the UK; continued high frequency access to Heathrow is demonstrably the key to maintaining access both to London, the number one World City, and to the wider global economy.

5.13. The analysis of the impact of cannibalisation of Heathrow slots in Section 3 of this Note on the point-to-point market to London, demonstrates the real impact continuation of laissez-faire policies will have on Aberdeen's economy. And that is before the deleterious affects reduced hub-connectivity that diminution of access to Heathrow from Aberdeen will have on:

- access to global markets for one of the UK's most important economic sectors;
- one of the few regional economic hotspots outside the South East of England; and
- on the Government's own future revenue streams, given that according to Oil and Gas UK, production from the UKCS in 2008 contributed £12.9 billion in corporate taxes, 28% of total corporation taxes received by the Exchequer.

5.14. There is, therefore, real resonance to the need for government to recognise the importance either in:

- supporting new runway capacity in the South East – ideally at Heathrow, but failing that at Gatwick or a new Thames hub airport and of facilitating regional access to it; or
- if no new runways are permitted – by pro-actively intervening in the existing slot market to iron out market distortions its own policies have potentially created for crucial regional air links to London such as those to Aberdeen.

A Proportionate Policy Response for the North of Scotland

5.15. Collectively, the two regions making up the North of Scotland must have a strong claim for some measure of prioritisation within any regional air access component to transport policy. This is because:

5.16. High-speed rail will provide considerably improved access to London, and prospectively Heathrow or new runway capacity at Gatwick or in the Thames, for all English regions except the far South West of England. HS2 will particularly benefit the Midlands and North of England and electrification of the Great Western Mainline could materially cut journey times from Bristol and South Wales. These schemes, will draw heavily on the Central Exchequer for their funding, and therefore will be contributed to by taxpayers across the UK, including those in peripheral regions such as the North of Scotland for whom there will be little or no benefit and into which it is not practical or sensible to extend them.

5.17. In recognition of this and its duty to provide adequate transport access and socio-economic connectivity to all its citizens in return for taxing them, not just those living in the national capital and major regional centres, but also those occupying more peripheral regions, HITRANS and Nestrans are strongly placed to argue that in return the UK Government should be willing to accept a small amount of prioritisation at the UK's hub airport and at Gatwick, as the price for providing some equity of treatment and market access. Such a policy requires no subsidy; the routes themselves are commercially viable. It therefore provides a very low cost solution, mainly in the form of opportunity costs, to a very specific but important problem, which is of wider UK as well as regional, significance, namely the

loss of trade that Aberdeen and the Highlands generate. If lost to those regions, in some cases it would be lost to the UK as well, as it would in all likelihood move overseas, as some of the quotes in Appendix B make clear.

5.18.   Daily Pairs of Slot Reservations for the UK's Most Peripheral Regions

Airport	Heathrow		Gatwick	
	Current	Proposed	Current	Proposed
Aberdeen	11	11	4-5	5
Inverness	0	2	4-5	5
Belfast	9-10	10	9	10
Newquay Cornwall	0	2	3	3
Total	20-21	25	20-22	23

5.19.   If for example, the slot reservations set out in the Table 4.1 above, were to be made at Heathrow and Gatwick, for the UK's four most peripheral regions, the total claim on the slot portfolio at the two airports would be:

- Heathrow: 9,125 pairs of slots per annum, or 3.8-3.9% of currently available annual capacity (470,000 ATMs); and
- Gatwick: 8,395 pairs of slots per annum, or 6.3% of currently available annual capacity (265,000 ATM's).

5.20.   The North of Scotland's share of that would be around half (ie 1.9% and 3% respectively). This amounts to a very small cost for maintaining links between, and providing connectivity to, the wider world for all parts of the Union. And as Appendix B makes clear, these links are vital to real businesses, employing a lot of people and generating wealth and tax receipts for UK plc.

5.21.   In the context of an international short-haul portfolio of routes at Heathrow, it is worth noting that there are:

- A number on which there are up to three competitors;
- others where point-to-point passengers might be served equally as well by High Speed Rail connections, given they are physically closer to London than Aberdeen;
- and others still, which serve outbound leisure destinations and are therefore a questionable use of valuable Heathrow slots.

5.22.   Considering Paris and Brussels for example, there are already high frequency High Speed train (HST) services to both cities that offer attractive travel times for point-to-point journeys to and from London. Yet air services on these routes still absorb 372 slots per week (that is over 19,000 per year or 25 slot pairs per day at Heathrow alone). Moreover, Eurostar have announced plans to run other HST services to the Netherlands (Amsterdam), Germany (Cologne and Frankfurt), southern France (Lyons and Marseille) and Switzerland (Geneva), and there is also interest from other HST operators in these countries in doing the same.

5.23.   Imposing some form of route based frequency cap on these routes would therefore seem a readily achievable way of generating the supply of additional slots required. With surface travel times from Aberdeen and Inverness to London and its airports of between 8-10 hours, passengers need to fly. With rail access times of 2.0-4.5 hours on many of these routes, there will be less need for high frequency air services from Heathrow and/or Gatwick to these cities than there is to the North of Scotland.

5.24.   We estimate that if the number of services to Amsterdam, Brussels, Paris and Dusseldorf alone from Heathrow were reduced by 25% (Cologne has only 3 flights in each direction per day and is therefore excluded) and some of this lost seat capacity could be replaced by up-sizing the types of aircraft used on the route), nearly 200 slots would be released. If Frankfurt and Geneva were also included, that figure would rise to over 250, which is more than sufficient to meet the needs of the UK's peripheral regions, without having to cannibalise slots to other parts of the UK.

Distance from London Heathrow

City	Distance in Miles	Slots Per Week #
Within UK		
Manchester	150	190
Leeds *	170	0
Newquay *	215	0
Newcastle	245	68
Belfast	315	126
Edinburgh	331	216
Glasgow	345	118
Inverness *	450	0
Aberdeen	400	168
Total		886
Major Nr European Cities – Within 400 Mile Radius		
Rotterdam *	215	0
Paris	215	238
Brussels	220	134
Amsterdam	240	270

5.25.   The foregoing is not dependent on any SE airports solution - it can be used under any scenario. As such, it represents in our view a proportionate policy response to what for the regions concerned is a critical issue, but also of material importance to UK plc.

Delivery Mechanisms

5.26.   We are aware that both the Commission and DfT have said that they have legal advice – probably from the same source – that EU regulations do not allow such preferential slot allocation, let alone slot retention in perpetuity. This does not accord with legal advice from other sources, practice in other Member States, nor from discussions a number of parties have had with the responsible EU officials, who for example evidence precedent elsewhere of slots being allocated for specific purposes, and PSOs being drawn up on the basis of airport specific, not city or regional, pairs.

5.27. It would appear the Commission takes the pragmatic view that matters such as the detailed specification of a PSO are for individual member states to interpret; the regulations allow subsidiarity to apply in this area. In other words, how DfT chooses to interpret the EU slot and PSO regulations is a matter of policy not law, and as such is open to being amended were the UK Government to be so minded to deliver on regional connectivity promises associated with a new South East runway.

5.28. The need for such an approach, is likely to be given greater force by prospective changes to the Slot Regulation recommended by the EU Parliament, which will give regional air access to hubs greater priority and ensure that slot allocation committees (who devise local slot allocation rules) are not dominated by vested interests.

5.29. If the UK hub is full and its regions are now adapting and seeking to achieve their international connectivity via other hubs like Amsterdam and Dublin, then it may be appropriate for the Government to facilitate the establishment of intra-EU PSOs from the North of Scotland to facilitate a suitable level of connectivity to an alternative hub to support continued economic growth and protect the vital strategic interests of this and other peripheral UK regions.

The three main criteria under which PSOs may be considered are:

1. The route is vital for the economic and social development of the region;
2. It is a 'thin route'; and
3. It is necessary to ensure the "minimum" provision of scheduled air services are the others.

The "minimum" provision referred to here, is usually interpreted to mean accomplishing a full day's work at either end of the route.

5.30. We believe that international PSOs may offer common trans-national ways of dealing with European slot capacity crunches. We are aware, for instance, that like London, Amsterdam also has a looming slot capacity crunch and that the Dutch are developing proposals to shift some of their services to nearby Lelystad Airport, probably using Traffic Distribution Rules – as happened in Milan, and all legally.

5.31. There already are, or have been, instances of intra EU PSOs.

• There was one between City of Derry in Northern Ireland (UK) and Dublin in the Republic of Ireland. This PSO was financed by Eire until 2010, when it was cancelled as part of Ireland's austerity drive.

• The Åland islands in Finland have a PSO link with Stockholm in Sweden.

• The Czech Republic also had approved three links between Ostravia and London, Brussels and Amsterdam, but none were taken up, as the tender process was unsuccessful.

We understand that there is also support within the European Commission for allowing small countries, such as the Baltic States, to have international PSOs to a suitable hub that gives them satisfactory world access.

There are other international PSOs, but they are largely concerned with linking Strasbourg with Amsterdam, Copenhagen, Madrid, Prague, but Strasbourg to Milan, Rome, Vienna and Warsaw have since lapsed as approved PSO through non

operation. These do not require public subsidy, but facilitate EU business in Strasbourg.

5.32. We understand a region must build the case for such interventions in terms of economic and tourism development and the demands these place on better international connectivity and business friendly frequencies (i.e. twice daily at appropriate times). For this, a minimum requirement is likely to be a regional socio economic study(ies) demonstrating the 'vitalness' of such an intervention.

5.33. We will work hard to ensure that the north of Scotland does not become increasingly excluded from these other hubs, in a way they have experienced with London. We intend, therefore, explore the business cases for intervention in the case of the Highlands and Islands, based on the need to access vital world links and facilitate access from rapidly growing international tourism markets until appropriately connected new runway capacity can be supplied within the UK.

6. Conclusions and Recommendations

6.1. Nestrans and HITRANS are happy, and keen to, engage in detail in face-to-face meetings with the Airports Commission and DfT officials on these issues. A set piece question and answer session, or written correspondence based on a consultation document like Discussion Paper 6, are unlikely to get to the heart of complicated legal and policy arguments.

6.2. Nestrans and HITRANS wish to explore every avenue in this regard with the Airports Commission. We acknowledge a shared interest to build a political consensus around a preferred runway solution, and that it must have to benefit the whole of the UK, not just London and the South East.

6.3. As indicated above, HITRANS wish to explore the possible application of Intra EU PSOs to help address regional connectivity challenges.

6.4. With that in mind it is perhaps helpful to finish with the statements from Scottish Enterprise's current Business Plan12 that are particularly apposite:

"Scotland needs a thriving private sector to help drive our economic recovery. We need more companies creating and sustaining new jobs, investing and participating in innovation and operating internationally".

"Evidence shows that companies which operate internationally are both more productive and more innovative, as they are exposed to new ideas and business models." ….. " We will continue to exploit our traditional export markets in Europe and North America (as this is particularly important for new exporters), while focusing additional efforts on emerging opportunities in fast-growing economies such as China, India, the Middle East and Brazil."

"Doing more business overseas is vital to the recovery and growth of Scotland's economy and sectors." …. "This requires Scotland to have air links that provide good access to major growth markets."

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12 Scottish Enterprise Business Plan 2012-15

"Recent benchmarking of Scotland's current international [air] services against competitor locations highlights the need to attract more long-haul connections" …. "We will work with partners to establish an aviation framework to facilitate the further development of Scotland's international air links."

Appendix A: Route Passenger Volumes from Aberdeen 2009-13

ABZ Route Growth 2009 vs 2013			
Destination	**2009**	**2013**	
Heathrow	641,294	710,716	11%
Amsterdam	254,067	291,155	15%
Stavanger	129,816	164,229	27%
Scatsta	145,094	164,040	13%
Luton	126,877	83,831	-34%
Paris CDG	110,536	106,937	-3%
Gatwick	135,545	174,512	29%
Manchester	104,620	203,347	94%
Frankfurt	-	146,194	-
Birmingham	111,134	96,789	-13%
Dublin	52,266	41,568	-20%
Sumburgh	63,831	115,234	81%
Norwich	60,852	61,986	2%
Bergen	49,540	54,424	10%
Copenhagen	46,238	46,007	0%
Kirkwall	39,518	48,609	23%
London City	31,949	73,408	130%
Humberside	31,993	35,588	11%
Southampton	45,174	-	-100%
Bristol	23,229	31,486	36%
Tenerife	20,374	26,890	32%
Newcastle	18,451	43,659	137%
Palma De Mallorca	37,703	23,411	-38%
Exeter	28,127	-	-100%
Tees-Side	-	35,144	-
East Midlands	19,455	18,253	-6%
Belfast City	24,237	30,205	25%
Wick	14,497	13,849	-4%
Malaga	24,388	4,116	-83%
Leeds/Bradford	15,481	15,624	1%
Dalaman	8,064	13,086	62%

Source: CAAs Passenger Statistics and Scottish Airports Survey (2013)

Appendix B: Business Views on the Importance of Air Links to London

The following are a selection of quotes taken from a survey of businesses in the North of Scotland in 2011 as part of SCDI's response to DfT Sustainable Aviation Consultation. The quotes are anonymous, but all come from major businesses operating within and outside the UK, with significant workforces in the region.

Importance of Air Services to Your Current Business

"Very important. We operate internationally with the O&G sector and without connectivity to London Heathrow, we would not be able to operate."

"Aviation is very important to Media Support – most of our business is abroad in Afghanistan and Africa – though meetings in Europe and Scandinavia are not uncommon".

"… aviation connectivity is vital to our business. … Our hired out contractors depart from almost all UK locations so we are totally dependent on air travel in that regard."

"Our business has grown dramatically in the last 5 years and air travel has become more important to us as we develop our business overseas. … We are a service company serving various energy industries so the above … can be for white collar business trips or blue collar workers going on sites to deliver on contracts"

"It is very important. As a company who has exported for over 90 years, this is an important part of our business and continues to grow. In addition we have a UK distribution business, which entails us having to attending meetings in England. … We also have a number of overseas customers come to visit us from Europe and throughout the world … Lastly, the Speyside and greater Highland area depends on tourism and the air infrastructure means that visitors can get to the area with ease."

"Good aviation connectivity to Aberdeen is hugely significant to the oil and gas industry and to our company. Over the next 5 years we are planning a multi-billion dollar investment programme. If Aberdeen's connectivity to London/SE England and the wider international market was reduced significantly, it would both reduce our ability to execute our investment programme effectively, and threaten the competitiveness of further investment opportunities in future years."

"Consistently reliable flights to Heathrow are the cornerstone of our reasoning to keep our business based in the north east of Scotland. "

Where do you Use Air Travel to Access

"Aberdeen, via LHR to Middle East, Asia and USA."

"Abu Dhabi (for Pakistan and Afghanistan) and Johannesburg for Southern Africa. Jo'burg usually via Heathrow which has several flights (a pain from Inverness!) and sometimes Glasgow to Abu D. Use flights to London regularly – Gatwick usually because it's the most frequent … "

"Our staff fly between head office, regional offices and London and Manchester regularly. We also use London hub airports, mainly Gatwick, and Amsterdam."

"With bases in Aberdeen and Inverness, we now travel regularly to Norway, France, Holland, Egypt, Malaysia, UAE, India, West Africa and recently added Australia and Brazil to this list. We also require to travel to cities in England and therefore regularly fly, as opposed to using the train, to London, Manchester and Newcastle or Durham."

"Throughout Europe, North America and the Far East, including China, Taiwan and China connecting through either Heathrow or Amsterdam. New emerging markets in South America, especially Brazil are destinations we see for the future."

"Stavanger, Oslo, Brussels, Houston, Washington, New York, Moscow, Brazil. Of these only Stavanger can currently be accessed directly from Aberdeen. Heathrow and Gatwick are the most commonly used connection airports for the other destinations"

"Transiting through Heathrow offers a greater selection of airlines for onward flights."

Likely Growth in Your Businesses Air Travel

"International air travel demand will grow in upcoming years due to growth of our business and stronger technical networking with other sites".

"Centralise more of R&D in Inverness. More flying and from. Reorganising operational side, more integration, more inter-UK and global travel."

Impact on the Business of the Loss of Heathrow or Gatwick Routes from Aberdeen and Inverness

"Massive".

"Harder to bring global management meetings to Inverness."

"We would have problems if any of the Gatwick or Heathrow routes were binned. We are growing again as a business both in the UK and internationally and rely heavily on air travel."

"It would make travel very difficult and would have an impact on our business, not just for visiting customers and suppliers, but also for tourists visiting Speyside and the greater Highland area."

"With difficulty. Aberdeen needs excellent air services and strong UK/international links if it is to retain its place as a major international oil and gas hub."

"We would close our office and move overseas."

Impact of Having to Rely Surface Transport Within the UK

Impossible. Aberdeen is cut off from rest of UK, by a very poor train service (too slow) and road network

"… with the length of train journeys from Elgin to main rail hubs for onward connection to the likes of London, air travel is the only viable option. … It will make it more difficult to visit markets to promote our products."

"Rail from Aberdeen to London is not a viable alternative at all. Journey times are far too long. The impact of this change would be hugely negative for our business. It is critical that intra-UK and international air travel to Aberdeen be maintained and enhanced."