



## **RESPONSE TO THE AIRPORTS COMMISSION CALL FOR EVIDENCE ON INTERIM MEASURES**

**By**

**The Highlands & Islands Transport Partnership (HITRANS)**

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### **Introduction**

The Highlands & Islands Transport Partnership (HITRANS) is the statutory Regional Transport Partnership for the Highlands and Islands of Scotland. Working with its five constituent Councils (Highland Council; Moray Council; Orkney Islands Council; Western Isles Council and Argyll and Bute Council) HITRANS is charged with developing and delivering a strategy and promoting improvements to the transport services and networks that serve the region. The organisation takes an integrated and inclusive approach by consulting with partner organisations, stakeholder groups and the business community to achieve its objective of *“enhancing the region’s viability by improving the interconnectivity of the whole region to strategic services and destinations.”*

It is in this context that we welcome the opportunity to contribute to the Commission’s consideration of *Interim Measures* for addressing airport capacity constraints in the South East of England on the grounds that these potentially could have a significant impact, positive or negative on a core strategic issue of concern to HITRANS and its stakeholders in the Highlands and Islands. Namely, regional air access to London itself and the onward connectivity offered by London’s principal airports – Heathrow and Gatwick. With this in mind, we have put forward proposals in the body of this response, supported by analysis in two appendices, covering measures we would like to see the Commission recommend to Government to address this strategic objective over the period until a new runway (or hub airport) is built in the London area.

We also touch upon a second issue related to this core proposition, namely the desire of HITRANS and its partner organisations, to see the Commission articulate the case for a ‘pro-active’ (rather than the essentially passive policy framework set out in the recent Aviation Policy Framework), to enable regional airports such as Inverness to have the means to secure connections to other hub airports outside the UK, or where these already exist, to enhance the frequency of service to levels that support high quality one stop-connectivity to a wide range of global destinations.

This is particularly important in the context of allowing businesses in the Highlands and Islands to compete effectively in European and global markets. We are concerned that if the Commission makes recommendations to Government on Interim Measures that do not explicitly benefit UK

peripheral regions, or worse, that could materially disadvantage them by allowing London's key airports and slot hungry carriers wishing to serve other markets to use slots currently allocated to domestic regional services to be re-deployed for other commercially, but not necessarily economically, lucrative purposes. In the absence of a completely open market where slot availability can increase to match prevailing demand, a position which has been caused by Government indecision over a long period on where to support new runway capacity in the South East, we would argue that there is a requirement for intervention to address market failure and preserve these socially and economically important links that contribute to the overall connectivity, cohesiveness and sustainable economic growth potential of the UK.

With this in mind we also propose to comment on the types of measures that may be advocated by other respondents, having regard to the potential impact they could potentially have on the strategic interests of the Highlands and Islands region covered by HITRANS.

In rehearsing these themes we will cross-reference, or where appropriate reprise, our earlier response to the Commission on Aviation and Connectivity, including key sections of the supporting material submitted with it. Most notably the Evidence Note on access to London from the North of Scotland and our overview of London air access issues affecting the wider community of UK regions which we presented in Powerpoint form. We will also reflect upon some of the issues referred to in paragraph 2.7 of the Commission's Guidance Document No.1, where they are relevant to our interests, by offering some case studies from leading sectors of the Highland economy explaining why air connectivity to London is important to their business and why its loss would materially damage their ability to function effectively in their key markets.

In preparing our response we have reviewed the DfT's summation of submissions to its Draft Aviation Policy Framework, published in July 2012. We think paragraph 35 of this report is particularly pertinent to our primary concerns:

*"A clear majority of respondents said that it was important to maintain domestic services into London airports, particularly Heathrow, in order to: attract foreign investment into the regions; improve local economies; provide vital connectivity to remote regions otherwise unserved, or poorly served by public transport links; and facilitate inbound tourism and visits to friends and relatives. A number commented that Public Service Obligations (PSOs) might be needed to achieve this."*

We welcome the recognition the Government gave to these views in the broadly supportive text contained within the final version of its Aviation Policy Framework. However, we do not agree with the Government's view in paragraph 1.28 that:

*"the current EU slot allocation regime stipulates that PSOs should be justified by economic need, which is more likely to be based around linking cities and regions, rather than specific airports";*

or the comment in paragraph 1.29, which states that:

*"... there is no longer a direct air service between Heathrow and Inverness Airport, but Inverness has direct connections to Gatwick and Luton and has gained connections to Amsterdam Schiphol ...",*

therefore implying that this is a satisfactory level of service to satisfy the global market access needs of the Inverness and wider Highlands and Islands business community. We do not believe this is to be the case for the reasons set out in our Evidence Note document and rehearsed in the body of this submission. Our response highlight this fact and urges the Commission to recognise that there is a

case for positive interventions to ensure that UK peripheral regions are given fair treatment in relation to any benefits that emerge from the Commission's recommendations on Interim Measures.

## **Air Access from the Perspective of the Highlands and Islands**

The area HIRANS is responsible for covers just under half of Scotland's land mass and accommodates 410,000 residents – 10% of Scotland's population – including over 80 island communities, of which 20 or so are served by airports and airfields. Air services are fundamental to daily life in the Highlands and Islands. For the island and remote mainland communities, the only alternative to air travel to access major centres offering a range of social, medical and commercial services are infrequent ferry services and long road journeys. Although parts of the region are served by rail and this connects the region to the UK rail network, journey times by this mode are long and frequency is often unsatisfactory. For access to London from Inverness for example, the rail option takes at least 8 hours or requires an overnight journey by Sleeper. Road journeys to the central belt of Scotland from Inverness take 3 hours to Edinburgh or Glasgow while other parts of the mainland Highlands and Islands will take over 5 hours to access Edinburgh or Glasgow. A road journey from Inverness to London will take 9-10 hours and journeys from centres such as Wick and Skye can add a further three hours onto these journeys.

### **Case Study - Tourism**

Tourism remains a key sector to the region and one that can make a significant contribution to sustainable economic growth. Visit Scotland is targeting a 50% growth in the value of the tourism sector which would see its value to the economy within the Highlands and Islands alone grow from the current £1.2Billion per annum to £1.8 Billion per annum.

“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.”

**Scot Armstrong – Regional Director, VisitScotland**

This means the Highlands and Islands are, along with Northern Ireland, the most geographically peripheral parts of the UK. An inevitable consequence of this is Highland companies and communities rely on air access for connectivity to the UK's capital and other major cities to promote and conduct business, visit friends and relatives, access leisure opportunities far more than in other UK regions. A good illustration of this geographical reality is that in 2010, 88% of all non-road journeys between Inverness and London were made by air. If the UK's aviation policy is to be inclusive and relevant to all parts of the United Kingdom, the Commission must explicitly recognise the fundamental significance of this critical dynamic when taking forward its work and that a South East centric 'one size fits all' approach to South East airport capacity issues will not meet the economic needs of all parts of the UK, as we believe its remit calls for.

## The Importance of Hub Access

HITRANS believe that a key characteristic of hub airports across the world is that they are able to serve destinations that other airports are not. This is because a hub airport supplements local demand with transfer passengers, providing traffic volumes which support higher frequencies of services on more popular routes, and enabling services on more marginal routes that would not otherwise have proved viable with fewer passengers. This is particularly important for regions such as the Highlands and Islands, which are essentially one of many spokes supporting the effective functioning of the larger hub 'wheel'.

### Case Study – Life Sciences

Life Sciences are a key growth area for the Highlands & Islands economy with Inverness already home to Scotland's largest life science business. The sector contributes some £3.1 billion to the Scottish economy each year and over 6,000 people work in the industry, with real opportunities to develop and grow the economic contribution of life sciences further.

A major employer in this sector based in the Inverness area which relies on air connectivity booked just over 1200 flights last year but under half were from Inverness Airport due to the difficulty connecting through London to places such as the US. This demonstrates the difficulty businesses can face in accessing global market places.

Currently in the UK, however, access to the country's principal hub for domestic services from the UK regions is heavily constrained by lack of capacity and the priority given to long haul international services by underlying airline and airport economics. This means the regional spokes are slowly being disconnected from the hub and the important onward connectivity it provides. In the case of Gatwick, for example, which provides the Highlands principal air access to London and a range of onward (mostly short haul) international services, even though it offers significantly less global connectivity than Heathrow, it too is becoming increasingly capacity constrained. This is leading to rising airport charges as the operator seeks to maximise revenues by attracting large aircraft in international routes, threatening the future of less profitable, but economically vital, regional domestic routes being flown by smaller regional aircraft.

## Supporting Enhanced Strategic Connectivity to Peripheral Regions of the UK

HITRANS recognises that our region cannot sustain larger aircraft, or a range of international hub connections, and thus is heavily reliant on the connectivity that access to the London hub offers. In addition to which a London hub is the single most important point to point market for business travellers to and from the Highlands. This supports a viable frequency of services, which is also important. A morning and evening flight are a business basic. With this in mind, HITRANS would urge the Commission to recognise the critical importance of frequent and affordable air access to London from the Highlands and Islands and other UK peripheral regions. And while we understand the desire to encourage larger aircraft to make better use of limited airport capacity, this should not be at the expense of services to UK peripheral regions.

As we noted in our 'Aviation and Connectivity' response UK businesses, especially those in the Highlands and Islands, value aviation connectivity because it provides them with convenient access to foreign markets that otherwise would be very difficult to serve so that they can sell their products, interact with other companies or secure investment. International markets also provide opportunities for our firms to be involved in the exchange of knowledge, technology, innovation and labour. This requirement is particularly important for the outward facing business community in the Highlands and Islands where our strong Energy sector (oil, gas and renewable), food and drink (including whisky) and tourism all have a strongly international market focus.

#### **Case Study – Energy**

The Energy sector in the North of Scotland is booming with the possibility of another 24 billion barrels of oil left to be extracted and another 40 years of activity. In the Highlands and Islands we are not only well placed to take advantage of this opportunity but with almost 25% of Europe's tidal resource around our shores and 25% of it wind we can harness the regions renewable potential.

"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 Evidence Note provides an in depth analysis of the deleterious impact on regional air services to London Heathrow, and more recently London Gatwick and the associated loss of onward connectivity to a range of global destinations arising from the consistent failure of Government policy to address capacity pressures in the South East's airport system over the last two decades. That this has caused significant distortions to occur in normal market mechanisms is, therefore, hard to dispute. The trends specifically relating to Inverness services to London Airports are summarised in Appendix A.

In this context, we draw the Commission's attention to the very relevant strategic policy advice that the CAA offered to the Government prior to the publication of its Aviation Policy Framework, as summarised in the presentation slides on regional access we forwarded with our Aviation and Connectivity response. This appears to recognise explicitly the need for UK regions such as the Highlands and Islands and the North East of Scotland, to have access to hub airports to facilitate travel to the wider world. While foreign hubs may offer choice, relying solely on them for global connections clearly present strategic risks on whether such essential connectivity can be guaranteed in perpetuity. Moreover, as the Evidence Note adduces it also provides sub-optimal access compared with Heathrow, which is the dominant hub in Western Europe in terms of the access it offers to long-haul markets (eg North America, but also the Middle East, the Indian sub-continent and certain parts of Africa). The former, in particular, is crucial to the export/tourism markets of the Highlands and Islands.

### Case Study - Whisky

The Scotch Whisky industry directly employs over 10,000 people with 85% of single malt whisky's produced in the Highlands & Islands. It is Scotland's largest food and drink export shipping 40 bottles and earning £134 every second. It operates in 200 markets around the globe and as such international air connectivity is key.

"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."

**Michael Urquhart, Managing Director, Gordon & MacPhail**

Given the priority the UK Government has give to re-balancing the economy, encouraging private-led investment and securing access to faster-growing emerging economies to increase export volumes, the current dependence on Gatwick and to a lesser extent Amsterdam to provide the connectivity needed to support this is simply not serving the region and our business community effectively.

With the forgoing in mind, the Commission should seek to ensure that slot allocation regimes at these airports, and their charging regimes, are supportive of retaining regional access even as pressures on capacity mount, and moreover, ascribe a measure of priority to improving current peripheral regional connectivity, particularly to Heathrow, if interim measures such as increased use of mixed mode, next generation air traffic management technology or even acceptance of longer delays make additional slots available.

The arrival of Inverness's new Amsterdam service is of course very welcome but it should be understood that this does not solve the ongoing problems of access to global connectivity caused by the lack of air services between Inverness and Heathrow. This is because the single daily middle of the day frequency it offers remains unattractive for onward connectivity. Re-introducing morning and evening services to Heathrow would offer the opportunity to capture traffic leaking from the Highlands and Islands to other Airports (involving long road / rail journeys) and provide far better global connectivity particularly to the North American market that is so important for businesses and the tourism industry within the Highlands.

It is important, therefore, that the Commission recognise the importance of maintaining, or even improving, connectivity from the UK's peripheral regions in the short to medium term and the strong claim for priority from regions making up the North of Scotland, alongside their counterparts in the far South West England and Northern Ireland for a measure of prioritisation in terms of UK hub slot access because:

- High-speed rail will provide considerably improved access to London, and prospectively Heathrow or a new hub airport 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; and
- the Highlands and Islands will never receive any real benefit from High Speed 2, yet these schemes, will draw heavily on the 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.

- for economic sectors (ie Whisky, offshore energy, environmental technologies, life sciences and tourism) and markets (North America, Europe and the Middle East) that are important to the Highlands, Heathrow is a far superior hub than Gatwick or indeed any other in Europe;
- there is significant scope for freeing up landing slots at Heathrow by reducing those used to operate air services to cities such as Paris, Brussels, Amsterdam and Dusseldorf that already enjoy high levels of frequency while also already having high speed rail links to London (see Appendix B).

In recognition of this and the duty Government has to provide adequate transport access and socio-economic connectivity, both within the UK and internationally, to all its citizens. HITRANS believe the UK Government should be willing to promote a small amount of prioritisation at the UK's hub airport(s) and to guarantee fair and equitable treatment in terms of connectivity and market access for those living in more peripheral UK regions. Such an approach would not require on-going subsidy; the routes themselves are commercially viable. It therefore provides a well-targeted and low cost solution to the important problem of geographical remoteness and poor surface connectivity which the population and economies of peripheral regions such as the Highlands face.

## **Improving Access to Other Hubs**

The Aviation Policy Framework recognises the potential value of measures such as Route Development Funds in potentially helping to stimulate new routes from regional airports. In the case of Inverness, the priority would undoubtedly be to support enhanced frequencies to Amsterdam as a fall back in case better connectivity to London (and Heathrow) is not forthcoming in the short or medium term. It is important that the Commission presses the UK Government to fight proposed tightening of state aid rules for regional airports and seeks to agree a revised protocol, similar to that which was negotiated after the last White Paper to allow marketing support for new routes and enhanced frequencies. The Scottish Route Development Fund was particularly successful and we would like the Commission to recommend it is revived alongside devolution of APD. We believe the combination of these two measures would not only make an enhanced level of service to Amsterdam more likely, but would also benefit prospective passenger volumes on existing or new routes to London Airports. All would be beneficial to the regional economy and from that the UK economy.

## **Interim Measures We would Not Wish to See.**

What we do not wish to see are measures focused purely on optimising allocative efficiency at Heathrow and Gatwick unless that is there is a regional exemption, as these would inevitably damage regional air links to these airports. This might mean a more liberal approach to the use of PSOs than the Government seems committed to given its ambiguous policy on the subject in the Aviation Policy Framework. We have legal advice and access to precedent, which shows that PSOs can be airport specific. HITRANS would be willing to promote such a PSO for Heathrow were the Commission to support such a notion. The DfT's argument about links between cities being most likely to provide a credible economic case, is a little presumptuous and also suggests that they are endeavouring to undermine any such applications before they even begin.

Other measures we would not support include any that would favour larger aircraft over smaller aircraft in terms of slot priority of charges (eg weight based landing fees) as these would threaten

the viability of more marginal regional routes. However, we would support dedicated freighters and business jets being banned from Heathrow (and at a later stage Gatwick) in order to free up more capacity for scheduled services and temporary frequency capping on certain over-served routes (see Appendix B) until new runway capacity can be brought on line.

HITRANS have deliberately stopped short of recommending the physical infrastructure provision that would release fit for purpose hub capacity in the South East to allow the UK and the UK regions to be served by a UK global hub airport that would allow the economy of the UK as a whole to develop and grow. Our focus is on the need for the most peripheral UK regions to be given priority access at the primary UK Hub Airport. We have detailed a number of measures that would allow this access to be provided within the existing airport capacity. This proportionate policy response should be looked at seriously whatever recommendation the Airports Commission makes.

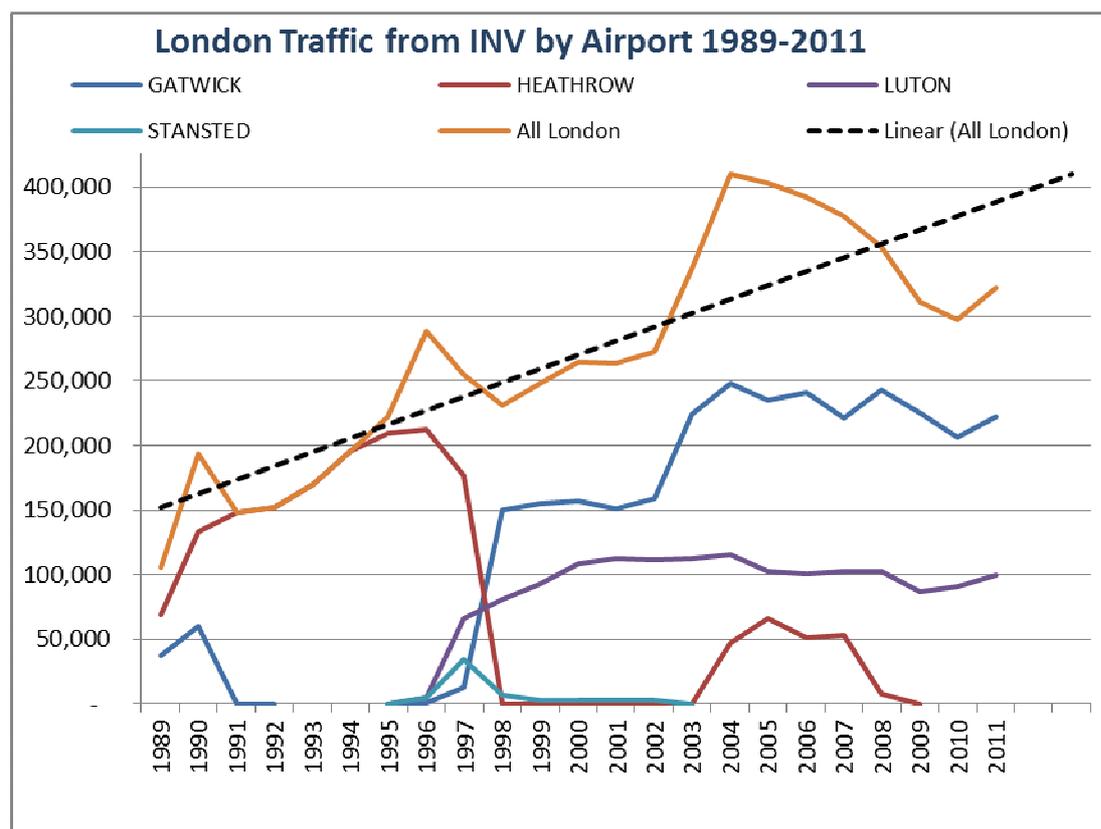
## **Conclusion**

In conclusion, we would like to thank the Commission for the opportunity to respond to its call for evidence, and would request again, the opportunity to discuss some of the issues raised in this submission with Commission officials, before any final conclusions are reached on this potentially critically important issue for the Highlands and Islands of Scotland.

## Appendix A: Summary Analysis of the Key Trends and Features of the Inverness to London Market

Figure 1 below summarises the development of traffic on the Inverness to London air market between 1989 and 2011.

**Figure 1: Pattern of Traffic Growth on Inverness to London Market 1989-2011**



Source: CAA Data

Features to note are the abrupt transition from a Heathrow dominated market in the period up to 1997 to one in which Gatwick became the mainstay, with easyJet services making a predominantly VFR and leisure based contribution from Luton post 1997. Heathrow services make a brief re-appearance courtesy of bmi in the mid-2000's. However, these prominent features of what has been a highly dynamic picture over the last 20 years, could easily disguise what, with some peaks and troughs, is a long run picture of material growth in the overall size of the Inverness to London market as shown in Figure 1. Total traffic volumes peaked at over 400,000 in 2004, co-incident with the market stimulation provided by the return of a daily Heathrow service. The subsequent drop in passenger numbers below the trend-line in 2008, is in large part a reflection of the loss of that service in 2008 and the commercial margins airlines were able to achieve in the prevailing economic conditions, given rising fuel prices and Air Passenger Duty on domestic routes. The performance of the Gatwick and Luton routes was nevertheless relatively steady during that period and picked up slightly in 2011 and last year as overall volumes climbed back to 325,000, some 50-60,000 ahead of where they had been in 2003.

The other material feature of the London air access market from the Highlands and Islands is captured in Table 1. This indicates the substantial extent of leakage from the Inverness catchment area to other Scottish airports to catch flights to London and particularly Heathrow, which is not served direct from Inverness.

**Table 1: Traffic to Hub Airports from Inverness' Catchment, Leaking Via Other Scottish Airports**

Hub Airport	Highland & Moray				Total
	Via surface to hub:				
	ABZ	EDI	GLA	PIK	
LHR	39,064	9,381	12,090	0	60,535
O&D	16,184	2,568	4,296	0	23,048
Connecting	22,880	6,813	7,794	0	37,487
LGW	3,344	4,022	3,789	0	11,155
O&D	3,344	1,599	3,275	0	8,217
Connecting	0	2,424	514	0	2,938
MAN	2,378	608	1,701	0	4,687
O&D	2,052	608	540	0	3,200
Connecting	326	0	1,161	0	1,487
LTN	4,898	6,601	1,158	0	12,657
O&D	4,898	6,601	1,158	0	12,656
Connecting	0	0	0	0	0
STN	0	3,670	2,710	4,929	11,308
O&D	0	3,670	2,710	4,417	10,796
Connecting	0	0	0	512	512
LCY	0	1,099	426	0	1,525
O&D	0	1,099	426	0	1,525
Connecting	0	0	0	0	0
AMS	8,090	13,944	4,374	0	26,408
O&D	1,644	5,472	1,687	0	8,803
Connecting	6,446	8,472	2,687	0	17,605
CDG	1,835	1,021	385	0	3,241
O&D	718	488	385	0	1,590
Connecting	1,118	533	0	0	1,650
CPH	3,242	0	94	0	3,336
O&D	1,608		94	0	1,702
Connecting	1,635		0	0	1,635
DUB	2,153	841	2,040	2,065	7,100
O&D	1,701	841	1,661	2,065	6,269
Connecting	452		379	0	831
FRA	0	5,283	0	0	5,283
O&D		4,747		0	4,747
Connecting		536		0	536
O&D to Hub Airports	32,148	27,691	16,231	6,482	82,533
Connecting at Hubs	32,856	18,776	12,535	512	64,680
Sub Total Hub Airports	65,004	46,467	28,766	6,482	147,233
Other Airports Direct	55,168	58,513	7,354	45,648	225,179
Total Traffic Using Other Scottish Airports	120,172	100,213	99,385	52,642	372,411

## Appendix B: Proposed Slot Reservations for the UK’s Most Peripheral Regions

The North of Scotland Air Issues Evidence Note, commissioned by HITRANS and Nestrans, indicates that if a small number of slot reservations were to be made at Heathrow and Gatwick for the UK’s three most peripheral regions, the total claim on the slot portfolio at the two airports would be extremely modest. This in our view amounts to a very small policy intervention for maintaining viable transport connectivity between all parts of the Union and between the UK’s peripheral regions and the wider world.

### Proposed 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
Total	20-21	23	17-19	20

If for example, the slot reservations set out in the Table above, were to be made at Heathrow and Gatwick, the total claim on the slot portfolio at the two airports would be:

- Heathrow: 8,395 pairs of slots per annum, or 3.6% of currently available annual capacity (470,000 ATMs); and
- Gatwick: 7,300 pairs of slots per annum, or 5.5% of currently available annual capacity (265,000 ATM’s).

The North of Scotland’s share of that would be around half (ie. 1.9% and 3% respectively). This amounts to a carefully targeted but very minor policy intervention designed to maintain the core principle that there should be viable transport links between all parts of the UK and between all UK regions, including the peripheral ones, and the wider world.

In this context, the Evidence Note highlights that even though there are already high frequency High Speed Train (HST) services to Brussels and Paris from London offering attractive travel times for point-to-point journeys between these cities, air services on these routes still absorb 372 slots per week (or over 50 per day) at Heathrow alone, 10 times more than the extra slots needed to meet the service levels for UK peripheral regions proposed above. Can this really be justified when slot capacity at Heathrow is so heavily constrained and regional access is now so much more limited than it was in the past.

Imposing some form of modest route based frequency cap on these routes, or others such as Amsterdam and Dusseldorf which should be reachable from London by HST within 3-4 hours, in conjunction with appropriate changes to the Government’s regional air access guidelines and the slot allocation rules appertaining at Heathrow and Gatwick, would seem the most easily achievable, and least disruptive way of generating the small supply of additional slots required to meet the needs of the UK’s most peripheral regions, while protecting those which already exist. As such, it represents in our view a proportionate policy response to what for the regions concerned is a critical infrastructural and economic issue and one which should also be of strategic importance to the UK as a whole.