2nd Floor/Rear
7 Ardross Terrace
Inverness
IV3 5NQ

Tel: 01667 460464

info@hitrans.org.uk
www.hitrans.org.uk

25 July 2014

Airports Commission
6th Floor
Sanctuary Buildings
20 Great Smith Street
London SW1P 3BT

Dear Sir,

HITRANS Response to Discussion Paper No.6: Utilising the UK's Existing Airport Capacity

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 infrastructure network that serve the region. The organisation takes an integrated and inclusive approach by consulting with the local communities, 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*.''

With this in mind, we are grateful for this opportunity to respond to the Commission's 'Discussion Paper No.06: Utilising the UK's Existing Airport Capacity' launched by Sir Howard Davies when he made his enormously welcome visit to Inverness to meet with key stakeholders in the Highlands and Islands at the invitation of SCDI on Monday 9th June.

The enclosed response to the Discussion Paper maintains our focus on making the case – anchored in evidence – for the Highlands and Islands and other Peripheral UK Regions to be included in the slot allocation following increased hub Airport capacity in the South East of England resultant from the final recommendation of the Airports Commission. We have also identified the absolute need for the economy of the Highlands and Islands to have fit for purpose access to an alternative EU hub airport in the short terms and propose a solution to this issue of deploying the Regional Air Connectivity Fund to secure an intra EU PSO from Inverness to Amsterdam on a business focused morning / evening twice daily rotation. For this last we have cited previous examples of intra EU PSOs that we believe offer precedent for this solution to be delivered in the very short term.

Finally I would like to thank Sir Howard for taking the time in his busy schedule to visit the North of Scotland and hear firsthand the critical importance business in the North places on our international air connectivity. I would also like to thank those members of the Commission staff team who subsequent to Sir Howard's visit met with HITRANS, Nestrans, Aberdeen Airport and Inverness Airport. We trust this will help foster a spirit of ongoing cooperation and dialogue.

Yours faithfully,

Ranald Robertson
Partnership Director

HITRANS Response to Discussion Paper No.6: Utilising the UK's Existing Airport Capacity

Introduction

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 our 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.

The full, recently completed, Update document can be found at http://www.hitrans.org.uk/Documents/North_of_Scotland_Air_Links_to_London_-_Update_Report.pdf

Policy Update

2.1 UK Regional aviation policy exhibits welcome signs of recent change:

- 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.

We see that the Airports Commission is playing an important Catalytic Role in all this. We note that 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."[1]

- Transport for London have commissioned two reports [2] [3], 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.

The publishing of Discussion Paper No. 6: The Utilisation of the UK's Existing Airport Capacity this June seems to be all part of this process.

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[1] Heathrow Airport Limited: Taking Britain Further (2014)

[2] York Aviation for TfL: Making Connections - Improving the UK's Domestic Aviation Connectivity with a New Four Runway Hub Airport (June 2014)

[3] The Smith Institute: Making global connections: the potential of the UK's regional airports (July 2014)

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.

It will be noted that Inverness Airport has an important new ambitious Inverness Airport Business Park initiative sitting centrally in regional economic development plans, and this is in addition to the long standing Dalcross Business Park also beside the airport. It is also not a coincidence that the recently opened and award winning Castle Stuart golf course lies within one mile of the airport, in stunning surroundings. Inverness Airport being selected as one of a few national search and rescue centres by Bristow Helicopters, only underlines the catalytic economic development role that regional airports play.

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. 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.

It is noted that 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.

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. However so far 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.

HITRANS is keen to engage with UK parliamentarians who 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. We are hopeful that 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.

Our hope is these efforts will prove facilitative.

A table 1 in our fuller report suggests 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.

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.

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).

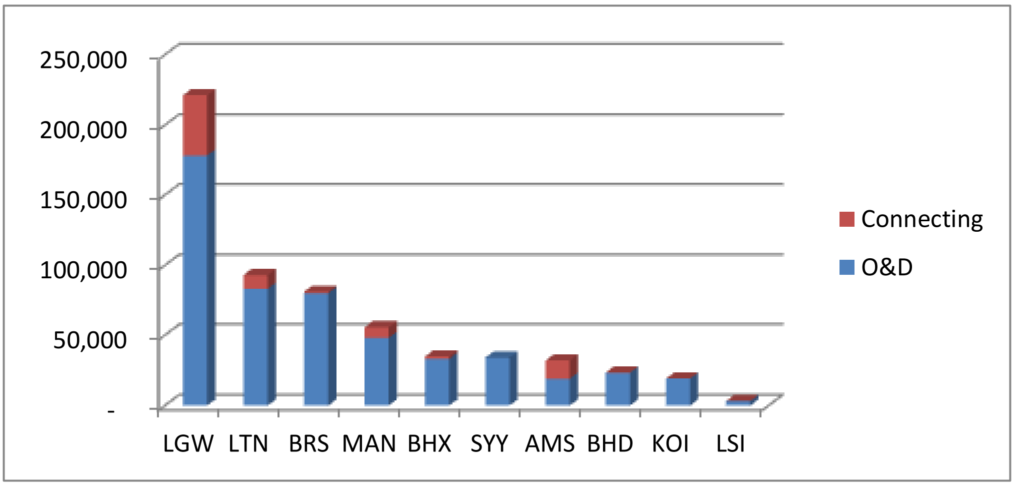
Traffic volumes between London and Inverness have remained stable across its two current routes, with the prospect of overall sector growth increasing once Flybe services to London City commence.

Inverness to London Air Market

It should be emphasised at the outset that rail times from Inverness to London vary between nine hours and forty nine minutes (for the overnight Sleeper service) and eight hours and fifty two minutes (for the only direct daytime service). Drive times, according to AA route planner, are ten and one half hours. Therefore rail and road are not a realistic alternative for any time-pressed travellers between the region and the UK 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 the dominant market remains London, with around 50% of departing passengers continuing to have this as their destination.

Table 1: Passenger Volumes on Routes from Inverness 2013



3.1. Table 2 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 2: Point-to-Point and Connecting Traffic from Inverness by Airport

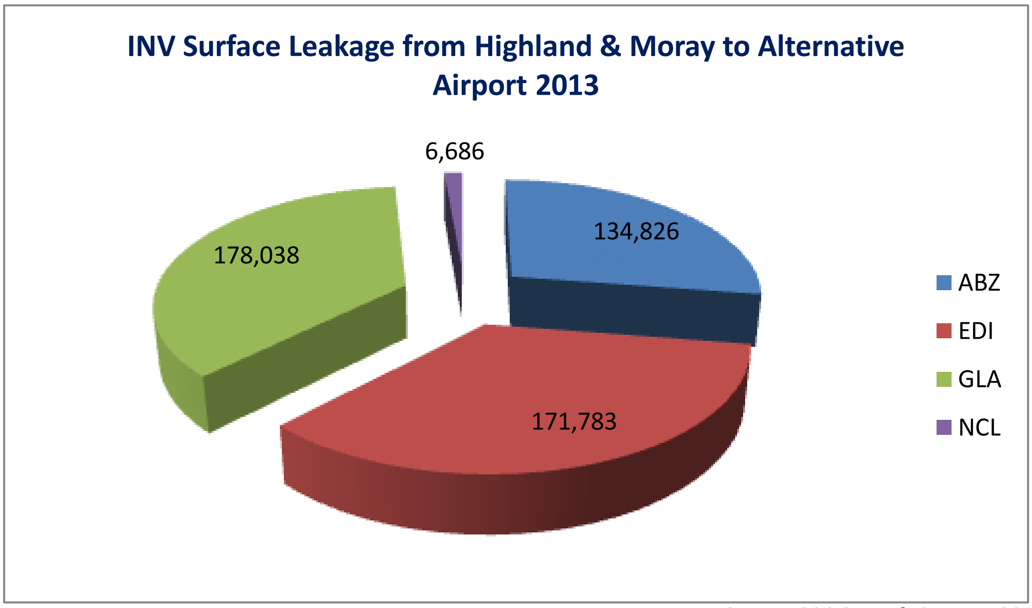
Point to point and connecting traffic from INV 2013				
	O&D	Connecting	Percentage connecting	Total
Gatwick	177,991	43,210	19.5%	221,201
Luton	83,297	9,769	10.5%	93,066
Bristol	80,272	920	1.1%	81,192
Manchester	48,063	7,561	13.6%	55,624
Birmingham	33,131	1,730	5.0%	34,861
Stornoway	34,074	-		34,074
Amsterdam	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**

3.2. 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.

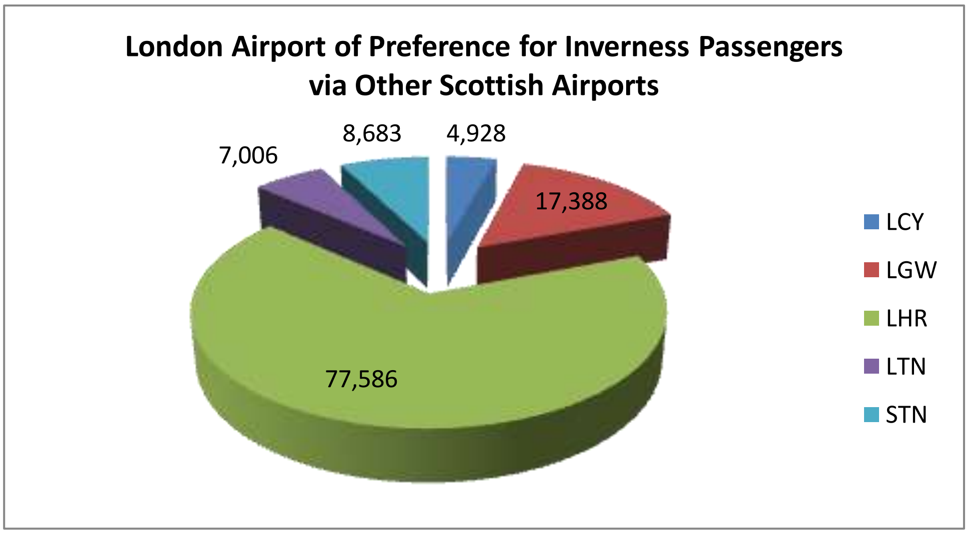
3.3. Indeed since the 2009 CAA survey, it seems to have grown materially from around 320,000 in total to near enough 500,000 in 2013 (see Figure 3 below), and this excludes data from passengers using Glasgow Prestwick, as they were not surveyed this time around.

Figure 1



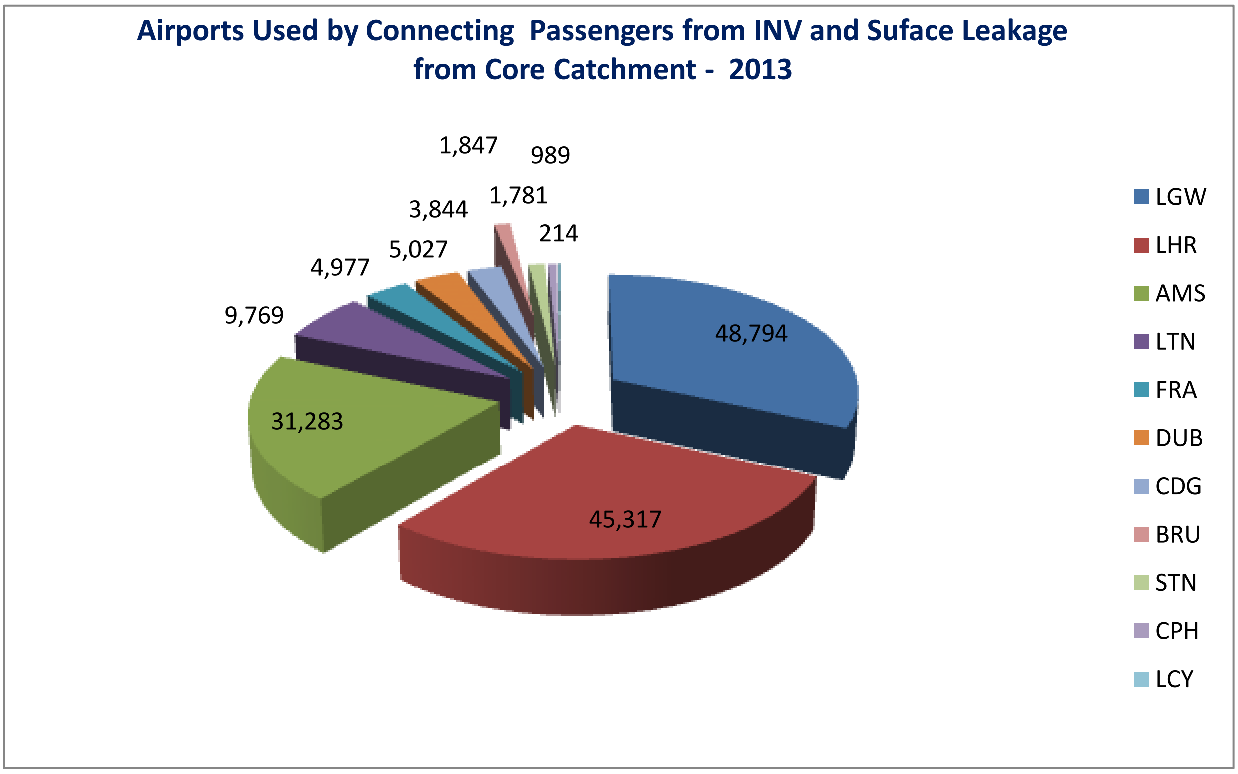
Source: CAA Scottish Airports 2013 Survey Data

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.



Source: CAA Scottish Airports 2013 Survey Data

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.



Source: CAA Scottish Airports 2013 Survey Data

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. 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, for their effective operation.

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. These comments and sector surveys can be seen in the Update document.

The 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.

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.

Some comments from an Inverness passenger survey last year below are retained in this submission.

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."

We also wanted to highlight one comment from a local partner of previously mentioned Castle Stuart golf course. This relates to the new easyjet timetable dispensation with London, post Flybe's withdrawal from Gatwick, whereby northbound visitors have to catch the early morning flight from Luton (arriving late morning) and if they wish to return the same day they have to catch the southbound flight to Gatwick mid afternoon - hardly a sastisfactory day's work.

" 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" Grant Sword - Partner at Castle Stuart Golf Course, Inverness

Proposed Policy Interventions

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 Inverness has witnessed 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 the recent 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 than 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.

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.

For the Highlands and Islands, 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 connection with the Thames Hub project[4], also highlight the economic opportunity costs of Inverness not being connected to a future national hub and Aberdeen losing frequency.

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.

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.

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;
- 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 historically has levied 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;

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

- 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.

A Proportionate Policy Response for the North of Scotland

5.4. Collectively, the 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:

5.5. 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.

5.6. 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 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.

5.7. 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 the Highlands generate. If lost to our region, 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.

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

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).

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.

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.

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.

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.

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.

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

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.

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.

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.

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.

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.

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.

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.

We will work hard to ensure that the Highlands and Islands does not become increasingly excluded from these other hubs, in a way we have experienced with London. We intend, therefore, to 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.

Conclusions

- 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.

- 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.

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