

# **RESPONSE TO THE AIRPORTS COMMISSION DISCUSSION PAPER No.4: AIRPORT OPERATIONAL MODELS**

By

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

**11 July 2013**

## **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 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.”*

It is in this context that we welcome the opportunity to respond to the Commission’s latest Discussion Paper – No.4 on Airport Operational Models. As in our previous responses to the Commission, our principal focus of interest in relation to the issues raised in the current Paper remains the impact that choices made about overall airport capacity and the configuration of future hub capability in the South East of England could have on a strategically important core interest for HITRANS and our stakeholders in the Highlands and Islands. Namely, regional air access to London itself and the onward connectivity offered by the capital’s principal airport(s) to a range of global destinations.

## **Recent Developments Affecting Air Access to the Highlands & Islands**

The Commission will appreciate that Flybe’s announcement on 22 May of its plans to terminate its operations at Gatwick from March 2014 and sell its slot portfolio there to easyJet for a consideration of £20m, has thrown this issue into sharp repose for communities and businesses in the Highlands and Islands. This region depends heavily on the air services currently operated by Flybe from Inverness to Gatwick to reach London.

The period of uncertainty that surrounded the future of the Regions’ principal direct service to London served to emphasise, if this was needed, how tenuous this critical economic lifeline can become under current arrangements. This inevitably produces an uncertainty and sense of fragility in respect to the Highlands and Islands future connectivity and impacts on economic planning. We recognise that this issue affects other peripheral UK regions and believe that the Airports Commission must consider the need for a more reliable and permanent solution to this uncertainty to be put in place by the UK Government as a consequence of the recommendations the Commission make on Interim Measures and longer term capacity options.

While we very much welcome the agreement that has been reached with easyJet to retain a morning and evening service from Inverness to Gatwick and back we must also recognise

that this is still impacting on the region's connectivity and included the loss of the morning / evening day return from Gatwick to Inverness. Gainsayers would go on to suggest that the fall back option of seeking approval to impose a PSO on the route was still open to the Scottish Government but the reality is that:

- The easyJet service next year will be at a lower frequency than has been enjoyed hitherto – Flybe currently offer three services a day during the working week in addition to easyJet's 9x weekly summer operation, and this will be reduced to twice daily on all but Fridays and Sunday's.
- The reduction in frequency that easyJet will offer (from 4-5 to 2-3 depending on the day of the week), will represent a significant deterioration in the quality of service the Highlands and Islands have enjoyed hitherto.
- easyJet will effectively inherit a monopoly on services from Inverness to London's airports (they also operate a daily Luton service), and in the absence of any realistic surface alternative to access London to provide competition this could impact on fare levels. Between 2011-12 Inverness to Gatwick had seen numbers carried increase from 222,500 to 230,000 against the backdrop of a general downward trend elsewhere in the UK domestic air travel market and in the face of a recession.
- The imposition of a PSO would have been time-consuming and fraught with difficulty given morning slot constraints at Gatwick, the existence of an operator already on the route and the requirement to tender the service on monopoly basis, with the likelihood being that there would have been a break in service even if a PSO had been allowed at all.

HITRANS, its stakeholders and the business community in the Highlands, therefore understand only too well the scale of the calamity for the Highland economy that has narrowly been avoided and are determined to seek every avenue to ensure this possibility does not rise again. By way of context, Appendix A provides for the Commission's convenience a summary setting out the importance of the issue from the perspective of the Highlands and Islands taken from our Interim Measures submission.

Given that the UK Government recognised in the announcement to Parliament on 27 June on "Investing in Britain's Future" that for "..... *the remote parts of the UK that HS2 won't reach. Air connections are crucial to those regional economies*" and announced a new Regional Air Connectivity Fund before welcoming "..... *Howard Davies' report into this .....*", the issue appears to indisputably on the Commission's agenda and we hope you will take up this challenge and address once and for all and issue which successive Governments have failed to properly deal with.

## **The Content of this Response**

It is with this in mind, we put have put forward proposals in the body of this response, setting out:

- the 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;
- our thoughts on hub models as they relate to the long term interests of the Highlands and Islands; and

- the mechanism that we believe is equitable and proportionate for the Commission to recommend is adopted as part of its conclusions on the scope and location of hub capability that should be supported in the London and South East Airport system

We also touch upon the related proposition, that HITRANS and its partner organisations, would like to see the Commission articulate, namely the case for a 'pro-active' (rather than the current passive policy framework set out in the 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. With the announcement of the Regional Air Connectivity Fund Government appear to have willed the 'means'; we hope the Commission will now follow this lead.

This is particularly important in the context of allowing businesses in the Highlands and Islands to compete effectively in European and global markets. We and our business community are concerned that if the Commission does not act to make recommendations to Government in its Interim Measures package that explicitly protect the interests of UK peripheral regions, it will by default 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 cannot be increased quickly where it is needed to match prevailing demand as a result of long-standing Government indecision on where to support new runway capacity in the South East, we believe there is an irrefutable argument for Government intervention to address market failure. This would preserve these socially and economically important links that contribute to the overall connectivity and cohesiveness of the UK.

In rehearsing these themes, we will cross-reference, or where appropriate reprise, our earlier responses to the Commission on Aviation and Connectivity and Interim Measures, including key sections of the supporting material submitted with the latter, most notably Appendix B on access to London from the North of Scotland (presented again as Appendix A to this response).

It is our intention to update some of the analysis contained in the Evidence Note we presented with our earlier submission on Aviation and Connectivity once the 2012 CAA survey of Scottish Airports is published, but that is likely to be well beyond the current deadlines.

## **The Airport Policy Framework and Regional Air Access to London**

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 ... ",*

This would imply that this is a satisfactory level of service for Inverness. We do not believe this to be the case for the reasons set out in our original Evidence Note document and rehearsed in the body of this submission. Our response highlights 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.

## **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 cannot. 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. This enables 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'.

Currently in the UK, however, domestic access to the country's principal hub 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. This position is made worse by the fact Gatwick, which by default provides the Highlands and Islands principal air access to London, offers a much more limited and a range of onward (mostly short haul) international services. Many of which require self rather than online connections.

Despite this fact, around 20% of traffic from Inverness connects at Gatwick; but as Flybe's slot sale has shown these connections cannot be guaranteed in the long term. The replacement carrier on the route does not have the code-share arrangements at Gatwick Flybe had and so as from April 2014 Inverness passengers will be required to fend for themselves to make connections at Gatwick. The lack of a route from Inverness to London Heathrow already sees 50,000 passengers from the Inverness area travelling over 2 hours to Aberdeen or 3 hours to Edinburgh to catch flights to Heathrow to take advantage of the

range of onward connections from the Hub and avoid the uncertainty of the M25 connection between London Airports. It is possible the change in carrier on the Inverness to Gatwick service may result in even more traffic from the Highlands choosing use to make long surface journeys (of 3 hours) to other Scottish airports in order that they can interline over Heathrow or other European hubs as single daily flights to Amsterdam, while welcome, do not make such connections easy. The strength in demand for travel to Heathrow from Inverness was evidenced when the previous bmi flight from Inverness to Heathrow was withdrawn with little impact on other flights to London as the passengers transferred to other Scottish flights to Heathrow. Bringing these passengers back to Inverness Airport for travel would remove unnecessary road journeys with the inherent safety risk from drivers being tired after a long flight undertaking a long road journey.

### **Supporting Strategic Connectivity from Peripheral Regions of the UK in Until New Hub Capacity can be Made Available.**

As we indicated in our Interim Measures response, HITRANS recognises that the Highlands and Islands cannot sustain larger aircraft on a range of international hub connections. Thus the region is heavily reliant on the connectivity access to a London hub offers. The viability of this access is built upon the foundation of London being the single most important point to point market for business travellers to and from the Highlands. Importantly this supports a viable frequency of services. A morning and evening flight are a business basic as much for a relatively sparsely populated region like the Highlands and Islands as for more populous regions. With this in mind, HITRANS 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. 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.

The CAA's unwillingness to act on this issue in its regulatory capacity, is counter intuitive to the advice they gave the Government prior to the Airport Policy Framework's publication, which recognised 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. It accepted that 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.

As we noted in our 'Aviation and Connectivity' response, UK businesses and 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.

Given the priority the UK Government has given to re-balancing the economy, encouraging private-led investment and securing access to faster-growing emerging economies to increase export volumes, the prospective dependence on a point to point orientated carrier for access to Gatwick to provide the connectivity needed to support these policy imperatives

is not good enough and will really impact on market performance and will be a constraint to economic growth in the Highlands and Islands.

With the forgoing in mind, we would urge that the Commission 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 increase. As the Government has recognised with the announcement of the Regional Aviation Connectivity Fund the UK's peripheral regions which will not benefit from improved connectivity through HS2 have a strong claim for a measure of prioritization in terms of access to London's airports. This appears to acknowledge our view that the Government has a duty to provide adequate transport access and socio-economic connectivity (both within the UK and internationally) to all its citizens. We would contend this includes slot access at the UK's principal hubs.

As Appendix B demonstrates 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 enjoy high levels of frequency while also already having high speed rail links to London (see Appendix B).

In the short term consideration should also be given to investigating the use of RAF Northolt to afford regions without services at London Heathrow to utilise this facility that is only some six miles north of Heathrow. The 7,000 movements a year permitted for General Aviation at Northolt could be brought into play as a short term option for improving connectivity to London from the peripheral regions until such time as a long term solution can be found to the South East Airport capacity constraint. For this option to be useful there would need to be consideration of investing in rail/Underground links to Northolt to allow faster transfer to London Heathrow.

## **Hub Models**

From a Highlands and Islands perspective our views on preferred hub models are focussed on finding a solution that meets our need to have guaranteed access to a UK national hub or hubs. Put simply HITRANS would vote for the model that is most likely to deliver this outcome. At face value, a single large hub looks the most promising in this regard because it appears most likely to:

- Have significant spare capacity that would be accessible to domestic services;
- Offer the widest range of onward connections; and
- Optimise hub frequency by avoiding the need to split underlying point-to-point traffic.

On balance, therefore, we would lend our weight to a system based solution for South East airports that includes a single large hub alongside a range of other airports that could be used to provide point-to-point competition. This also resonates with our view that while any air service is better than none, it is airline competition rather than airport competition that has the greatest benefits for passengers in terms of service quality and fares levels.

In terms of our views on what is the best location for a major hub, while Heathrow is currently the best option by some considerable distance when the existing network of routes that serve Heathrow are factored in, we will withhold our opinion on which is the best long term hub option for our region's needs, until we have seen all those that are short-listed by the Commission in December. We do believe that a single main hub is the only sustainable model for the long term though.

## **Mechanism's for Guaranteeing Access for Peripheral Regions to the UK's Long Term Hub**

If following receipt of the Commission's report, the next Government is 'courageous' enough to back its recommendations and these include development of a fit for purpose hub in the South East of England, then if it is to be a truly 'national' hub which benefits all parts of the UK, not just London and the South East, mechanism's need to be put in place that "*guarantee in perpetuity*" slots for access from all the UK regions that need them. We believe that around 100 pairs of slots (which since it would include cities with existing access to Heathrow represents roughly 40 pairs more than now), or 36,500 slots a year would be needed to achieve this. Out of a total of some 700-800,000 that a fully functioning hub with four runways could be expected to offer this is prospectively less than 5% of the total and amounts to a small price to connect those towns and cities outside the HS2 corridors to the UK's principal gateway to the rest of the World.

The exact mechanism for achieving what effectively is a slot reservation strategy will need careful thought to ensure that it is compatible with relevant European regulations but does not require a panoply of PSOs which would need to be updated every 3-5 years. Some form of changes to the slot distribution rules implemented by ACL, together with allowing the airports/cities or regions concerned to have shared ownership of the grandfather rights with the incumbent airlines might be one way of achieving this without requiring legislation. The fall back would be to write the provision into the Hybrid Bill which authorises development of new runways at a UK national hub facility.

## **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 the 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).

In this regard it is important that the Commission presses the UK Government to fight the proposed tightening of state aid rules for regional airports as set out in the European Commission's recently published draft revision to the regional airport state aid guidelines, and having committed to finding £10M per year for a Regional Air Connectivity Fund it is important that there remains flexibility within state aid requirements to permit route development support in the future.

## **Appendix A: Air Access from the Perspective of the Highlands & Islands**

The area HITRANS 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.

This means the Highlands and Islands are, along with Northern Ireland and the far South West of England, the most geographically peripheral parts of the UK. An inevitable consequence of this is Highland communities and companies rely on air access for connectivity to the UK's capital and other major cities to visit friends and relatives, access leisure opportunities and promote and conduct business for 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-London journeys 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.



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

The North of Scotland Evidence Note, commissioned by HITRANS and Nestrans, indicate that if a small number of the slot reservations 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 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 until new runway and hub capacity can be provided in the South East of England.

### 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 based on summer 2012 schedules 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 are capable of being reached from London by HST within 3-4 hours, in conjunction with most forms of Business Aviation and dedicated cargo flights from Heathrow and Gatwick, would allow this to be easily achieved and represent the 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 the needs of these regions.