



AVIATION The Catalyst for Economic Development

A PROPOSAL FOR AN IMPROVED AIR NETWORK FOR THE HIGHLANDS AND ISLANDS

INTRODUCTION

A short section on HITRANS objectives and partners and why we are promoting action on air services.

KEY ISSUES

- ?? **High price of fares** – with the exception of the routes from Inverness to Gatwick and Luton there is a very limited availability of discount air fares for passengers using the Highland and Islands Air Network. The carriers claim, with some justification, that fares must be high if they are to avoid making a loss on the routes. Small numbers of potential passengers; the use of small turbo prop aircraft which are relatively expensive to operate; and the low levels of aircraft utilisation; all conspire to keep costs high.
- ?? **Subsidy** – at present only a small number of routes are subsidised by Public Service Obligation. These are the internal island flights in Orkney and the Western Isles and three routes from Glasgow to Barra, Tiree and Campbeltown. There is also significant subsidy to HIAL particularly for capital expenditure in infrastructure. However in comparison to ferry and rail services in Scotland, the air carriers are expected to provide the service without financial assistance, and consequently fares reflect this. (Slide24)
- ?? **Inconvenient Frequency** – although there has been some recent improvement with the introduction of Sunday services from Kirkwall and Stornoway, it is mostly very difficult to conduct a day's business without an expensive overnight stay. This applies both to H & I businesses visiting the main Scottish cities, and external business people visiting the region. This additional expense is a negative factor in the campaign to increase the economic activity of the region.
- ?? **Unsatisfied demand** – there is evidence to show that costly fares and inconvenient service is acting as a brake on demand. A recent survey in Shetland revealed that a reduction in fares by about one third would almost double the number of trips people would be prepared to make by air.
- ?? **Low growth** – with the exception of Dalcross, growth of passenger traffic at HIAL airports has been almost static between 1992 and 2001, whilst growth at the main Scottish airports has been 7% per annum. In 2002/3 there has been

some encouraging growth at Kirkwall and Stornoway with the introduction of new services, and this confirms the substantial unsatisfied propensity to travel by air.

- ?? **Infrastructure limitations** – there has been substantial investment in infrastructure improvement over recent years with the development of new terminals at Dalcross, Stornoway and Kirkwall; the introduction of more comfortable and reliable pressurised aircraft; and investment to meet safety and security requirements. However there are still delays caused by lack of instrument landing aids in periods of poor visibility; limits on early morning or late evening services because of short airport operating hours; and limits on aircraft type because of short runways in key airports like Sumburgh. New infrastructure is required to secure the air service to Barra, and to provide first time scheduled service to Skye, Colonsay and Oban.

Our air services are not a luxury but are a vital part of the Highlands and Islands life line transport system. They are vitally important for the economic and social development of our communities, and they must be made more affordable and convenient. HITRANS is encouraged to note that the new Scottish Executive's Coalition Agreement contains a high level commitment to reduce the cost of lifeline air links, to increase frequency, and to fully evaluate the proposals detailed below.

THE PROPOSED IMPROVED AIR NETWORK

HITRANS commissioned consultants in the summer of 2002 to assess the costs involved in running air services in the region; to identify opportunities for improving scheduled services, whilst at the same time minimising both fares and subsidies; and to suggest the possibilities for a new network. This new network should meet the following criteria:

- ?? The network must provide a sector time of no more than one hour between the region's communities and key service centres, both in the region and elsewhere in Scotland.
- ?? The business time at both ends of these routes to be maximised to no less than six hours to avoid the need for overnight stays.
- ?? The service on these routes to operate three times per day including weekends with early morning and late evening rotations.
- ?? Oban and Skye to be brought within the network.
- ?? Fares to be reduced by at least 30% from current averages.

The consultants (The Aviation and Travel Consultancy) have reached the following conclusions regarding improvements to the network. Direct daily round trips can be increased from the 2001 schedules. The two plans (Slides 6 and 9 of Laurie's presentation) compare the summer 2001 route network with the consultant's proposal. Examples of the improved service are:

- ?? From Sumburgh to Aberdeen(5); to Edinburgh(2); to Kirkwall and Glasgow(2); to Inverness(2); to Wick(1).

- ?? From Kirkwall to Aberdeen(5); to Inverness(4); to Edinburgh(2); to Glasgow(2); to Sumburgh(2); to Wick(1).
- ?? From Stornoway to Inverness(5); to Glasgow(4); to Edinburgh(2); to Aberdeen(1).
- ?? From Wick to Aberdeen(3); to Inverness(2); to Edinburgh(2); to Kirkwall(1); to Sumburgh(1).

A further significant benefit of the proposed network is the creation of a mid day hub at Dalcross allowing cross connections between all the main airports of the Highlands and Islands, and linking in to the low cost Luton flight. (Slide 13 of the presentation)

In order to achieve this network the consultants propose that we continue to use turbo prop aircraft which are much less costly to operate than regional jets. Also the operating hours at HIAL airports will need to be extended. Dalcross will shortly become a 24 hour operation but overall, including the new airports at Oban and Skye, the HIAL system will need to provide an extra 320 hours per week, or a 50% greater opening period. Capital investment will be required at Sumburgh with an extended runway; upgrades at Barra, Oban and Skye; and ILS at the four main airports.

The proposed network will double the number of annual sectors and seat capacity. The consultants estimate that a fare reduction of one third on average will increase traffic by 29%. This is based on standard airline demand elasticity calculations and is borne out by what happens in the current network when fares are reduced and the unsatisfied demand is released. In addition the consultants believe that improving the network with better frequencies, and interlining opportunities through the Inverness hub, will lead to a further traffic increase of 44%. Over the years from the 2001 base the new network will increase traffic from 0.45 to 1.0 million passengers per annum by 2008, which is the comfortable capacity of the new network. (Slide 11 of the presentation).

WILL THE PROPOSED NETWORK ADDRESS THE ISSUES

- ?? **Fare reduction** – yes, average fare is reduced by one third, but this will require subsidy.
- ?? **Better frequency** – yes, sectors and seat capacity is doubled, sector time is one hour net with three rotations per day, and there is less need for overnight stays.
- ?? **Low growth and unsatisfied demand** – yes, traffic is projected to double over 7 years.
- ?? **Infrastructure limitations** – yes, these will be overcome if capital expenditure by HIAL is continued at current levels.

THE COSTS AND BENEFITS OF THIS NEW NETWORK

The economic benefits to the Highlands and Islands provided by the proposed network will need to be calculated in detail in order to justify the investment required. HITRANS will commission this work soon in close consultation with the Scottish Executive, as part of the proposed evaluation process in the Coalition Agreement.

The costs of operating the new network empty are estimated at £44 million per annum. The net revenue, allowing for airport charges and other passenger costs, at a reduced average fare of 33%, would rise from £29 million in 2001 to £35 million by 2008. Thus the requirement for subsidy will reduce as the network traffic grows (Slide 18 of the presentation).

The additional costs to HIAL arising from longer opening hours have not been calculated, but the doubling of income from landing charges with passenger growth will cover these costs.

HITRANS is working with both HIAL and the carriers to prepare more detailed cost estimates as a basis for a better calculation of the subsidy required.

PUBLIC SERVICE OBLIGATION

The Coalition Agreement contains a high level commitment to improve access to rural communities by suitable use of PSO to reduce the cost of lifeline air links and improve service. HITRANS has already studied the use of PSO by other countries in Europe to achieve these aims.

A study by Cranfield University for HITRANS in 2002 revealed that use of PSO to secure regional air services at affordable fares and regular frequency is common in France, Norway, Portugal and Spain. France has 18 routes from Corsica to the French mainland (Marseille, Nice, Lyons, Paris) secured by PSO. The service from Ajaccio to Marseille, a similar distance as Kirkwall to Edinburgh has a maximum return fare of £90. At present Kirkwall to Edinburgh will cost over £250 return.

HITRANS is in discussion with EU officials to confirm that the use of PSO on the proposed network fits with the Regulations liberalising air transport and the State Aid Rules. The principle of PSO is supported by the Scottish Executive, but the decision to apply to the EU to impose PSO on the network rests with the UK Government and the Department for Transport. Therefore it is important to have support in London for this action.

The cost of the PSO subsidy, if it were applied now, would be in the order of £12 to £13 million per annum. We will have a better calculation of this when our more detailed cost estimates are prepared. However growth in the system will quickly reduce this level of subsidy to £7 million by 2009 and £5 million by 2011. The existing air service PSOs cost £1 million, and there will be significant savings to Health Boards and Government Agencies who already make extensive use of air services paid from public funds.

CONCLUSION

Five or six Bullet points.(slide26)