Air Links to London from the North of Scotland

Report for HITRANS and Nestrans

In Association With Northpoint Aviation

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Contents

Tables

Figures

Appendices

Executive Summary

HITRANS and Nestrans have major concerns about the prospects for retaining high quality air links to London in the medium to long term, if the Government maintains its agreed policy stance of not supporting the development of any new runways in the South East of England. In the increasingly constrained capacity environment that would result from this slots at the UK's two most important gateway airports, Heathrow and Gatwick (LHR and LGW), would be at a premium. Those currently used by domestic services would be under severe pressure from airlines seeking slots for new long haul services that offer the prospect of higher margins.

With this in mind, and given the importance of existing air links to LGW and LHR to their respective regional economies, HITRANS and Nestrans commissioned MVA and Northpoint Aviation Services to prepare an 'evidence based' case for the retention, and in HITRANS case expansion, of services to these gateways from Aberdeen and Inverness. Based on detailed analysis of current schedules and markets for air travel between London and the North of Scotland and an assessment of the role of such connectivity for the principal economic sectors in the North of Scotland, this 'Evidence Note' forms HITRANS and Nestrans response to the Department for Transport's consultation on its 'Sustainable Aviation Framework for the UK' to be published in June 2012.

Historic Trends in Regional Air Access to London

The last 20 years has seen:

- A significant reduction to six (around a third of the 1991 network), in the number of regional cities with services to Heathrow;
- The displacement of a significant number of the regional markets formerly served from Heathrow to Gatwick including Inverness;
- The emergence of competitive low cost services, mainly on the large well established London to regional city markets, at Stansted and Luton during the late 1990's and early 2000s. At first this stimulated the overall market size but then these services began to capture some of the point-to-point traffic that had previously used the primary London airports as capacity to Heathrow was priced-off in response to slot shortages;
- The development of a business focused point to point niche market to London City, which again principally drew traffic being displaced from LHR and LGW; and
- And, most recently, a significant reduction in both the range of services on offer between major UK regional cities and London airports (dropping from 43-33 in the period 2001-11), and passenger volumes as a result of the forgoing and the impact of a 260% increase in Air Passenger Duty (APD) on both legs of a return domestic air journey, since 2005.

The evidence of the deleterious impact on regional air services to LHR, and more recently LGW, 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, thereby creating significant distortions in normal market mechanisms is, therefore, hard to dispute.

UK Regional Air Access Policy

Regional access only began to emerge as a significant aviation policy issue in the run up to the 2003 Air Transport White Paper. First raised by the Transport and Regional Select Committee in 1998-99, who noticed an increasing de-coupling of the UK regions from the national hub at Heathrow, it was raised again in the report of the Transport Select Committee in 2002-03, which robustly dismissed CAA and DfT's attempts to downplay the problem in their evidence to the Committee. Despite this, the 2003 White Paper, and subsequent policy 'guidelines'[1], issued in 2005 after a public consultation, which set in place a conservative policy which has done little to stop further regional routes being lost, particularly from Heathrow and Gatwick.

It is unclear whether this was the consequence of the philosophy of non-intervention in the market that dominated DfT and CAA's outlook on the industry at the time, or an excessive reliance on intellectual attractions of 'allocative efficiency' as the optimum method for slot distribution (despite the distortions which Grandfather Rights and capacity constraints themselves create), which led to this laissez-faire approach. The assumption that the two new runways in the South East provided for in the 2003 White Paper would be constructed may also have contributed. That policy and the subsequent attempts of the CAA to defend it in its CAP 754 and 775 reports, has now been shown to reflect a flawed assessment of how the regional aviation market would develop in future years. In reality, the number of new routes to London has not continued to grow as the CAA predicted; instead they have declined materially since their peak in 2006-07.

The evidence of the last few years suggests that there has been a lack of focus on the need to protect these essential transport connections and economic lifelines for regional economies. The current Government's announcement of a "no new runways" policy and the recent sale of bmi to IAG, have both raised concerns about the potential cannibalisation of 'regional' slots at Heathrow and Gatwick and have served to return the issue to public prominence amongst regional businesses and policy makers.

It is interesting, therefore, that in its recent Insight Notes to DfT, which formed part of its response to the Government's 2011 Sustainable Aviation Review consultation, the CAA included the following advice:

CAA Insight Note 1: Consumer Choice

*"… **passengers in the UK regions need to use a transfer airport to access the majority of global destinations** …"*

*"**While Heathrow dominates on long-haul routes to most world regions as a result of its size, its 'comparative advantage' on transatlantic routes to North America is apparen**t"*

[1] DfT: Gudance on the Protection of Regional Air Access to London; Dec 2005

CAA Insight Note 3: Aviation Policy Choice

"For medium and long-haul routes, consumers should have access to direct services from the UK to key global markets. Recognising that some routes may only be commercially viable if operated from a hub airport, the Government should seek to facilitate successful hub operations in the UK. Consumers using other UK airports should have 'single-stopover' transfer access to the same key global markets."

"As a result, passengers in the UK regions will continue to need to use a transfer airport to access the majority of global destinations: either Heathrow, accessed by surface transport or a domestic flight, or a foreign airport."

"Aviation Policy for the Consumer noted that … ***there are likely to be increasing pressures on regional connectivity to London. The provision of additional capacity would be expected to at least partially relieve this pressure, creating slots for commercially viable regional services."***

"… other major hubs in Western Europe and beyond play a positive and important role in providing additional choice and value to UK consumers. However, there may be 'security of supply' risks if foreign hubs also become capacity constrained in the future. Forecasts … predict that by 2030, capacity constraints at airports across Europe could mean … some 10% of predicted demand, will not be accommodated. Under this scenario, it might be expected that connections to UK regional routes would get 'squeezed' as has been the case at Heathrow over recent years".

The strategic policy advice the CAA is now offering to Government, appears to recognise explicitly the need for UK regions such as the North of Scotland, to have access to hub airports to facilitate travel to the wider world. While foreign hubs may offer choice, there are clearly risks in relying solely on non-UK airports to provide such essential connectivity, especially when Heathrow 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 and certain parts of Asia and Africa). The former, in particular, is crucial to the export/tourism markets of both Aberdeen and Inverness, but the other continents Heathrow serves well, are also important to extending the opportunities available to Aberdeen's world leading oil and gas sector.

CAA's revamped policy advice and the forthcoming Sustainable Aviation Framework Consultation would appear, therefore, to provide a perfect platform from which to press DfT to re-visit its overly restrictive, and now clearly out-dated, regional air access policy. This is especially the case, because 'connectivity' has emerged as a key policy issue in the current aviation review. With the UK economy now struggling in a way that it was not between 2003-05, and cross-cutting themes such as re-balancing the economy, encouraging private-led investment and securing access to faster-growing emerging economies to increase export volumes having greater prominence in Government policy, this is not surprising as improved connectivity is a key element in the delivery strategy for each of these growth objectives.

This Evidence Note has focused on improving the transparency of connectivity issues as they relate to the North of Scotland's air services to London, and on improving the understanding of why these links are of such importance to the economy of the region and that of the wider UK as a whole.

Inverness

In the case of Inverness the principal arguments which make retention of the existing core services to London Gatwick essential are:

- The absence of any viable surface transport alternatives (travel times are between eight-10 hours by rail or road) to London, the UK's capital city and global business centre, a problem that will continue to exist even if HS2 is eventually extended to southern Scotland;
- Gatwick dominates the point-to-point aviation market between London and the Highlands, both in terms of the scale and consistency of volumes it attracts and the share of its market (28%), which is business orientated;
- The important, though sub-optimal when compared to Heathrow, opportunity it offers for interlining traffic (which makes up 20% of the total of 220-240,000 passengers pa), despite the relatively poor onward connectivity it offers;
- Gatwick's provision to Highland employers of an air travel gateway to London and wider international markets for outward facing and exporting sectors in the region (eg Whisky, Optical and Medical Equipment Manufacture and the Energy Sector), and also ready access to specialist external expertise which growth sectors such as life sciences need to help grow their businesses;
- 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 Airport's case, the operational restrictions and expensive charges it levies on airlines; and
- The strategic importance of not having to rely solely on foreign hubs for global connectivity and the difficulty of expanding the new Amsterdam link to a sufficient level of frequency to make it a genuine alternative because lacks an underlying point-to-point market on the scale available to the London market.

Notwithstanding which, the case for re-introducing flights to Heathrow in parallel are also strong, not least because of:

- The inconvenience and economic inefficiency of up to 60,000 outbound passengers from the Highlands and Islands, being forced to make surface journeys of 3.0-3.5 hours to a Lowland Scottish airport to secure access to global connectivity via a hub;
- The disincentive too many inbound visitors to the Highlands of having to make similar surface journeys from a Lowland Scottish airport, or travel between London Airports, to access the Highlands, creating significant barriers to attracting additional international tourists and increasing their average length of stay and spend; and
- The fact 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.

The arrival of Inverness's new Amsterdam service, does not solve the ongoing problems of access to global connectivity caused by the lack of air services between Inverness and Heathrow, not least because the single daily frequency it offers remains far from ideal for onward connectivity. Re-introducing morning and evening services to Heathrow would not only capture leaking traffic and stimulate the overall air market between the North of Scotland and London it would also provide far better global connectivity particularly to the North American market that is so important for businesses and the tourism industry within the Highlands.

Aberdeen

In the case of Aberdeen, arguments based on the absence of viable surface alternatives, the inconvenience of the Scottish Lowland airports, the inadequacy of other London and regional airports as hubs and the need for good overseas access for Aberdeen and Grampian Region's principal economic sectors are common to those associated with Inverness and the Highlands. But Aberdeen's case, there is also compelling evidence highlighting the essential role of existing links to Heathrow and the frequency of services to it from Aberdeen. This is not only because of:

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

It is also because of:

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

In many ways, Aberdeen Airport offers an archetypal example of the kind of 'network' solution the CAA is advocating for regional air access, whilst its economy exemplifies the kind of privately driven, high skill, high value and export focused approach which the Government is seeking to foster. With an economy dominated by the oil and gas sector, but seeking to diversify into 'new' sectors such as life sciences, and renewable energy, whilst increasing the international market for its tourism offer, geography makes high quality air 'connectivity' essential to the functioning of what currently is one of the most prosperous part of the UK and a major source of exports and tax revenues for UK plc. This requirement cannot be met adequately by reliance on foreign hubs or regional hubs elsewhere in the UK; continued high frequency access to Heathrow is demonstrably the key to maintaining access both to London, the number one World City, and to the wider global economy.

Analysis of the impact of cannibalisation of Heathrow slots on the point-to-point market to London, demonstrates the material impact continuation of laissez-faire policies will have on Aberdeen's economy. And that is before the deleterious affects reduced hub-connectivity that diminution of access to Heathrow from Aberdeen will have on:

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

A Proportionate Policy Response

There is, therefore, the need for DfT and Whitehall more generally to recognise the importance of maintaining, or even improving either in:

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

Collectively, the regions making up the North of Scotland, alongside their counterparts in the far South West England and Northern Ireland, have a strong claim for a measure of prioritisation within the regional air access component of the Government's forthcoming aviation policy framework. This is 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
- 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.

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 and Nestrans believe the UK Government should be willing to accept a small amount of prioritisation at the UK's hub airport and at Gatwick in order to guarantee fair and equitable treatment in terms of connectivity and market access for those living in more peripheral regions.

Such a policy does not require subsidy; the routes themselves are commercially viable. It therefore provides a well-targeted and low cost solution to the important problem of geographical remoteness, which the population and economies of peripheral regions such Aberdeen and the Highlands face.

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 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 policy intervention for maintaining viable transport connectivity between all parts of the Union and between the UK's peripheral regions and the wider world.

In this context, the Evidence Note also 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.

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 three-four 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.

1 Introduction

1.1 Context for the Study

1.1.1 This Evidence Note has been prepared in response to the on-going concerns of HITRANS and Nestrans as the statutory Regional Transport Partnerships for the North of Scotland about the future prospects for retaining high quality air links to London under an increasingly constrained capacity environment, particularly at the UK's two most important 'international gateway' airports of Heathrow and Gatwick. The policy of not supporting any new runways in the South East announced as part of the UK Government's Coalition Agreement in May 2010 raised the short to medium term prospect of further displacement of regional air services, either wholly or in terms of frequency reduction, from Heathrow and Gatwick, to predominantly low cost airports at Luton, Stansted (or more recently Southend) or to the high cost operating environment of London City, in order to free up slots for more commercially remunerative long-haul routes. This would see an emphasis on short-term gain for airports and airlines at the cost of the significant and wider socio economic benefits that derive to the UK as a whole from offering good access to and from UK regions to the widest range of international markets.

1.1.2 This has been an on-going policy agenda, which has waxed and waned in terms of prominence since 1998-99, when the Transport and Regional Select Committee first examined the issue of regional access to London in detail in response to the loss of a series of routes from UK regions to Heathrow in the late 1980's and early 1990s. It is now firmly back on the agenda as a result of the Government's current review of aviation policy in the wake of its runway announcement and the publication last September of a consultation on a Sustainable Aviation Review for the UK. In addition, the impetus has been heightened by the prospective purchase of British Midland International (bmi) from Lufthansa by IAG, a key element of which is the portfolio of 54 Heathrow slots bmi currently operates at Heathrow, a significant proportion of them to regional airports in Scotland and Northern Ireland. Despite re-assurances from IAG that there is no immediate threat to these services, some cannibalisation of these services in terms of frequency, if not the routes themselves, seems inevitable unless there is robust policy intervention by the UK Government to stop it.

1.1.3 With this in mind HITRANS and Nestrans commissioned MVA, supported by Northpoint Aviation Services, to prepare an evidence-based note to help make the case for the retention and development of air services between London and the North of Scotland, with particular emphasis on the most economically important routes from Heathrow to Aberdeen and from Gatwick to Inverness. Conscious of the UK Government's failure to respond positively to previous representations from Scotland, in the face of what may in Whitehall have been rather too readily dismissed as 'subjective self-interested pleading', they are committed to making sure their concerns, and that of their stakeholders, is properly heard this time. With this in mind, and with the clear imprimatur from DfT about the need for evidence based responses to consultations, the aim has been to develop a very focused analysis which can demonstrate the 'connectivity', as well as wider economic case for retaining these services. In doing so consideration has been given not only to:

- the potential alternatives (eg reliance on surface modes, services to other London or large UK regional airports, and in the case of international destinations, overseas

hubs) so often quoted by London centric interests – most notably the major airports and network carriers/alliances located there; but also to; and

- the UK Government's wider growth agenda, with its focus on exports, emerging markets, high value sectors and private sector lead investment – all of which have an inherent high propensity to fly.

1.1.4 The output makes a coherent case, based on detailed up-to-date analysis of schedules and markets, for:

- the retention and potential enhancement of these existing services to the North of Scotland; and
- the promulgation of a more pro-regional policy during the forthcoming consultation on DfT's Sustainable Aviation Framework to be published in June, by HITRANS, Nestrans and their supporting stakeholder communities and local and national political representatives.

An Overview of Historic Trends in the Pattern of Regional Air Links to London

1.1.5 The Tables overleaf summarise statistically the changes in regional air links to London over the last 20 years. The key features of note are:

- the significant reduction (to around a third of the 1991 network) in the number of regional cities served from Heathrow;
- the displacement of a significant number of the regional markets formerly served from Heathrow to Gatwick;
- the emergence of competitive low cost services, mainly on the large well established regional city pairs from Stansted and Luton during the late 1990's and early 2000s, which at first stimulated the overall market size (particularly from Scotland and Ireland), but then began to substitute some of the point-to-point traffic which had previously used the primary London airports but was now being priced off in response to capacity constraints; and
- the development of a business focused point to point niche market to London City, which again principally drew traffic away from Heathrow and Gatwick.

Table 1.1 Number of UK Regional Cities with Air Links to London (1991-2011)

Airport	1991	2001	2011
Heathrow	17	10	6
Gatwick	7	11	11
Stansted	5	8	5
Luton	3	8	7
London City	0	6	4
Total	32	43	33

1.1.6 Table 1.1 shows that the total numbers of regional cities with air links to London rose during the 1990s, peaking around 2005-06, since when, as Table 1.2 indicates:

- a number of cities have lost their air links altogether (eg Durham Tees Valley, Leeds Bradford, Liverpool, Plymouth and Prestwick);
- others have seen frequencies squeezed (eg Glasgow, Edinburgh, Manchester and Newcastle); while others still have had; and
- their links down-graded by a move from Heathrow to Gatwick (eg Inverness, Newquay Cornwall, the Isle of Man and the Channel Isles).

Table 1.2 Cities with Regional Air Connections to London Airports (1991-2011)

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

1.1.7 What remains is a core of well-served routes to Aberdeen, Belfast and the Scottish Central belt at both the primary and low cost airports, Manchester and Newcastle to Heathrow and Gatwick, although volumes and frequencies have dropped markedly, and to smaller peripheral markets such as the South West, the Isle of Man and Channel Isles at Gatwick.

1.1.8 The explanation for these changes is 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 3.5hrs or less;
- the state of the economy;
- rising fuel prices; and
- increasing London hub airport charges requiring an increase in aircraft size and to retain viability (eg there is no regional link into Heathrow now with less than 350,000 pax pa).

1.1.9 These have all served to squeeze margins and reduce frequency on domestic air links into London, to the benefit of international routes.

Regional Air Links to Heathrow and Gatwick 1991-2011

1.1.10 The following two tables reinforce this analysis based on passenger volumes. Table 1.3 considers the market changes at Heathrow in five-year increments since 1991; Table 1.4 looks at the position at Gatwick in a similar format. Both include summaries of links available from the other for convenience to aid understanding of the overall Heathrow/Gatwick position.

1.1.11 Overall, when taken together, passenger volumes at Heathrow and Gatwick have risen and then fallen, although the latter appears to be 10 years behind the capacity curve when compared with the former. It also shows that the markets among the 'big six' destinations where there have been the most precipitous declines are Manchester and Glasgow. When Heathrow and Gatwick are looked at together, Edinburgh and Aberdeen grew right up until the economic downturn. Meanwhile Inverness has managed to retain its volumes, at between 220-240,000, right across the period.

1.1.12 This suggests a strong correlation with a combination of distance, demography (the catchments of Aberdeen, Edinburgh and Inverness all have growing populations) and economic prosperity. As a result, the same three City's have outperformed their regional peers in terms of passenger demand and yield – the key to maintain capacity and frequency on regional air links to London. The squeeze has therefore fallen thus far on secondary and tertiary regional markets that have less economically prosperous catchment areas and are more vulnerable to improvements in rail line speeds.

Table 1.3 Passenger Volumes on Regional Links to Heathrow (000s)

Airport	1991	1996	2001	2006	2011
Aberdeen	438	516	476	673	652
Belfast	1160	1135	975	665	717
Edinburgh	1278	1595	1577	1495	1271
Glasgow	1277	1517	1388	1284	821
Manchester	888	1083	1284	1089	766
Newcastle	354	440	459	479	473
Sub Total Pax	5395	6286	6159	5685	4700
Birmingham	80	-	-	-	-
DTVA	174	188	156	110	-
East Midlands	66	-	-	-	-
Guernsey	99	98	-	-	-
Inverness	148	212	-	51	-
Isle of Man	105	121	112	-	-
Jersey	304	247	-	-	-
Leeds Bradford	192	194	203	148	-
Liverpool	80	-	-	-	-
Newquay	32	36	-	-	-
Plymouth	40	67	-	-	-
Total Pax	6715	7449	6630	5994	4700
No Destinations from LHR	17	14	9	9	6
No Destinations LHR + LGW	17	14	9	9	6

Table 1.4 Passenger Volumes on Regional Air Links to Gatwick (000s)

Airport	No of Passengers ('000s)				
	1991	1996	2001	2006	2011
Aberdeen	154	175	235	217	178
Belfast	20	224	240	560	590
DTVA	0	0	0	42	0
Edinburgh	181	313	377	754	669
Glasgow	169	255	356	433	566
Guernsey	89	215	308	353	356
Inverness	0	0	151	241	222
IoM	0	0	0	118	127
Jersey	140	350	509	538	574
Manchester	165	375	470	473	233
Newcastle	81	117	200	217	95
Newquay	0	0	59	43	100
Plymouth	0	0	43	69	0
Total	999	2024	2948	4058	3710
Number of LGW Destinations	9	8	11	13	11
LGW Destinations also Linked to LHR	8	8	7	7	6
LGW Destnations Not LHR	0	0	4	5	5

Future Prospects

1.1.13 Looking to the future, in a no new runways scenario, slots at Heathrow and Gatwick will be at an ever-greater premium given the pressure to develop lucrative new routes to emerging market economies. The potential substitution of rail journeys of less than 3 hours as a result of the construction of HS2 (even though this project is still some 10-15 years from realisation), should reduce demand for links to Manchester and Newcastle from London. A further 10 years down the line, if HS2 is extended to the Lowlands of Scotland, there could also be some impact upon air services from Glasgow and Edinburgh, although it is more likely to be in the form of frequency reductions than complete loss of service.

1.1.14 Belfast's 'cross-water' routes and the surface travel times and high value of Aberdeen's traffic would suggest these links should be the most protected, whilst Inverness' market could be vulnerable because of its size and the sensitivity of its low cost service providers to rising airport charges. As a minimum there must be a commercial threat to the frequency of the latter's links to Gatwick, whilst the consolidation of BA and bmi might see IAG look for opportunities for slot cannibalisation associated with up-sizing of aircraft and displacement of lower value leisure traffic to Luton and or Stansted.

1.1.15 A change of the UK Government's policy position and direction on South East runway capacity and usage could ease these pressures on the North of Scotland's air links. Failing that, the Government would need to undertake a substantial shift in its regional air services policy, which has not adjusted to reflect increasing market pressures since the Airport White Paper published in 2003, if the North of Scotland's hard won economic prosperity is not to be threatened by a substantial loss of connectivity to London, and indirectly through its airports

to international markets. These arguments are examined further in the chapters focused specifically on Inverness and Aberdeen.

Government Policy and the Regional Air Access Debate

1.1.16 As indicated above, the issue of regional air access to London was first brought to real prominence in 1998-99 by the Transport and Regional Select Committee who recognised the beginnings of a trend de-coupling the UK regions from its principal hub and urged the Government of the day to consider potential policy measures to tackle the issue. This they have failed to do.

1.2 Select Committee on Transport – Sixth Report 2002-03

1.2.1 In 2002-03 the Select Committee revisited the issue as part of its input to the Government's then on-going White Paper process. A number of its observations then are as pertinent today 10 years on as they were at the time:

"All regional cities have the right to have speedy and efficient access to the capital. For some, this can be provided by rail, but for many, air access is the only practical route to the capital and local markets around the airport (Para 155)"

"We welcome the increase in domestic and international destinations now offered from regional airports. We are concerned, however, that regional services are being squeezed out of Heathrow and Gatwick, which are both important local business markets and key hubs for interlining. Whatever expansion options are proposed, it will be at least 10 years before significant new capacity will be brought on stream that will relieve pressure on these services. (Para 156)"

1.2.2 The Civil Aviation Authority view at that time was that this was not a major issue because many regional airports had access to other major international hubs such as Amsterdam, Paris, Brussels, Frankfurt and Copenhagen, a position it continued to maintain in its own post White Paper reports CAP 754 and 775. The Select Committee chose to take a different stance as indicated in the following statement, which has stood the test of time.

"…it also serves to underline how poorly United Kingdom regional airports are served by the main London hubs. A strategy that allows regional access to international air networks to depend on policies at other international hubs is flawed. It also sets an appalling image of the quality of infrastucture provision in the United Kingdom. ***The provision of high quality air access to main London airports is essential. The regions must have guaranteed access to international routes that will support continued inward investment …."*** *(Para 157)*

1.2.3 It is notable that the CAA has since reviewed its position in its recent Insight Notes to Government, published as part of the response to Sustainable Aviation Review consultation. In these it notes the potential value of links to other hubs but explicitly recognising the importance of assured regional links to London as part of its support for additional capacity in the London system. This is quite a profound policy shift and it is to be hoped the UK Government has recognised this.

1.3 The Future of Air Transport White Paper - 2003

1.3.1 Paragraph 4.39 of the 2003 White Paper published shortly after the Select Committee gave considerable space over to regional air access, and even recognized that:

"the availability of landing and take-off 'slots' at other airports, particularly the major London airports" was "a key issue for Scotland, Northern Ireland, the North of England and parts of South West England".

1.3.2 However, the Government of the time did not reach the same conclusion as the Select Committee, giving greater weight to the pressure on slots in London and the associated need to give airlines "*commercial flexibility*" in order to see "*a slot allocation system that encourages the more efficient use of scarce capacity*".

1.3.3 There was recognition in the White Paper that:

"airlines will not take into account all the wider economic and other benefits that domestic air services to London may bring to other parts of the UK".

1.3.4 But this was not followed-up other than through vague references to Route Developments Funds that were not directly relevant to the issue and its policy to build new runways at Stansted and Heathrow to address the capacity shortage creating the problem in the first place.

1.3.5 In the interim, it introduced a very restricted PSO policy in the form of Guidelines published in December 2005, that remain in place today and introduced rules that require a particularly narrow interpretation of the EU Public Service Obligations (PSOs) which saw any one of five London airports as being a suitable host for a City Pair, eschewed the potential to designate specific airports under the EU rules, allowed only two services a day and set a series of threshold tests to be passed. These PSO rules, which run contrary to the EC current view, totally ignore the economic necessity for UK Regions to maintain connectivity with their markets through the key London hub airports.

1.3.6 Its one concession was to ask airlines operating services to London airports:

"to provide the Government with at least four months notice of their intention to withdraw from a route or reduce frequencies if, as a consequence of such withdrawal or reduction in service, the overall level of service went below an adequate level".

1.3.7 Whilst the latter provision certainly helped prevent the loss of the Newquay/ Plymouth and Inverness to Gatwick services, it has not prevented other services being lost in significant numbers, including the bmi service from Inverness to Heathrow in 2008.

1.4 CAP775 Regional Air Services at UK Airports - CAA

1.4.1 In 2005 and 2007, the CAA revisited the regional air access issue as part of two wider reports on regional air services - CAP 754 and 775 respectively. The former recognized the importance of an air link to London for any region where surface modes would involve a significantly longer journey to the capital noting that:

"…access to Heathrow for domestic services is seen by some regions as particularly desirable, because of the potential economic benefits from connections to the global air network."

1.4.2 In line with the earlier analysis in this Evidence Note, CAP775 recognized that traffic growth between UK regional airports and London began to decline after 2006, following a period of strong growth between 2000 and 2005. CAA considered the contributory factors to this to be:

"the downturn in traffic could include improved rail services; the deterrent effect of airport security restrictions; fewer passengers to/from regional airports using Heathrow as a connecting point; and the doubling of Air Passenger Duty".

1.4.3 It went on to say; "… despite the downturn in traffic to London, there has been little change in the number of routes and frequencies to London since CAP 754 was published". This is patently not now true as evidenced above.

1.4.4 CAP 775 noted that congestion has created a scarcity of suitable take-off and landing slots at Heathrow, and that:

"…congestion has made these slots more valuable and therefore at risk of being switched if there is another service that may yield higher profits than a domestic service."

1.4.5 It goes on to reference CAP 754 conclusions, that:

"the introduction of a formalised market in slots seemed the best way of dealing with the problem of allocating scarce capacity at congested airports such as Heathrow and could make it easier for UK-based airlines to expand their portfolios, thus reducing the pressure on regional services "

1.4.6 Before recognising that even under the updated 2004 slot Regulations, "…the impact of this change is unlikely to have, or to have had, any effect at London airports, because so few slots at suitable times are available for allocation, at least at Heathrow".

1.4.7 The subsequent EU-US Open Skies Agreement resulted in several carriers, including BA switching major international services from Gatwick to Heathrow; CAP 775 comments that:

"with Heathrow slots were scarce and demand far outstripping supply"

"incumbent carriers could (subject to the necessary approvals) transfer their existing slots to transatlantic services or exchange them, one for one, with other carriers through the secondary market. Slots currently used by regional services may therefore be in demand."

1.4.8 Although the CAA notes a spree of new regional routes to Heathrow being added in 2004 (bmi to Aberdeen and Inverness, Jersey in 2007 and Aer Lingus a three-daily service between Belfast International and Heathrow) only the Aberdeen service lasted the course. Meanwhile the increasing pressure on slots at Heathrow and now once again at Gatwick remains unabated, despite the current downturn in economic activity; this has coincided with the policy environment on capacity (at least for now) and also slot regulations (with EU research led by British consultants favouring 'allocative efficiency' over regional access) worsening.

1.5 Transport Committee - First Report: The Future of Aviation (Dec 2009)

1.5.1 In 2009 the policy debate came full circle as the Transport Select Committee once again returned to the issue, observing:

"…one airport could not necessarily be substituted for capacity at another, particularly as regards Heathrow". (Para 88)

"Heathrow has a unique role. It is a major European hub airport, competing with Paris, Frankfurt and Schiphol airports …" However, "Heathrow is no longer a significant hub airport for UK domestic flights. As a result of runway capacity constraints, economic factors, including the high value of landing slots and competition from rail, the number of UK cities with flights to Heathrow has reduced to six". (Para 89)

"Long-haul carriers get higher yields at Heathrow while, in turn, low-cost carriers get higher yields at Gatwick than they do at Stansted, a situation which would not change even with additional runways. Stansted is dominated by Ryanair and easyJet (more than 80% of all traffic), and neither appears committed to paying the additional charges necessary to raise capital for a second runway. Both airlines are also threatening to reduce capacity at Luton because of what they regard as unduly high landing charges". (Para 91)

"It seems unlikely that Gatwick, Stansted and Luton will ever be anything other than low-cost carrier-dominated leisure airports. They provide predominantly point-to-point services although, especially at Stansted, the density of services has allowed the development of 'self-connecting'. Whereas about 35% of passengers at Heathrow are connecting, Gatwick has only about 12% connecting passengers with fewer still at Manchester". (Para 93)

1.5.2 This provides an endorsement of the analysis set out at the beginning of this 'Introduction to the Evidence Note' and sets the context for the Airport specific analyses that follow.

1.6 The Sustainable Aviation Consultation – DfT (2011)

1.6.1 The final word in this policy arena rests again with the UK Government, which in its recent consultation chose not to tackle the issue of regional access head-on, possibly because of the juxtaposition this would provide with its no runways stance, but instead touched upon it tangentially in number of apparently conflicting comments:

"It is also clear that some parts of the country, such as Northern Ireland, will always be heavily dependent on air links. Regional connectivity throughout the UK is a very important issue for overall transport strategy to address."

"… we want to explore further how much and in what ways a UK hub meets the nation's connectivity needs and hear views on future hub models".

"Although air transport will continue to provide essential links to more remote parts of the UK and areas not served by rail, the Government expects that, in the longer term, demand for domestic aviation and much of that for near-European short-haul aviation could be met by high-speed rail."

1.6.2 And then did so again on two questions to which it invited responses:

5.25 *Could resilience become an issue at regional airports? If so, how might this be avoided?*

5.26 *Could existing airport capacity be more efficiently used by changing the slot allocation process, for example, if the European Commission were to alter grandfather rights? If so, what process of slot allocation should replace it?*

1.6.3 Recent news reports indicate a possible shift in Government thinking on elements of the South East capacity issue but there is as yet no attempt at resolution of the regional access issue under the review. The opportunity remains open, therefore to make further representations in June 2012 to seek a more favourable policy environment than currently and this note seeks to evidence those avowals/declarations.

2 Air Links to London from Inverness

2.1 Regional Context

2.1.1 As the largest centre of population in the Highlands and Islands, Inverness has traditionally acted as the commercial centre and tourism gateway for much of the region. With a catchment extending north into Sutherland and Caithness, across to the west coast down the Great Glen across much of Morayshire and well down the A9 towards Perth, Inverness Airport draws from a wide geographical area, including by air from the island airports of Kirkwall (Orkney), Sumburgh (Shetland) and Stornoway (Western Isles), and has become by some way the largest facility operated by the publicly owned Highlands and Islands Airports Limited, with circa 540,000 passengers in 2007 and 607,500 today.

2.1.2 Given its peripheral location relative to much of the UK and within the EU single market (London is over 550 miles and nearly 10 hours drive or over eight hours by rail away), the Airport has become an increasingly important infrastructure asset facilitating journeys essential for the region's economy, political representation and social and cultural links. Traditionally a primary economy focused on agriculture, fishing and forestry, with a substantial military, public sector and small business sector, the new higher value industries which are driving the increases in population and prosperity, which the Highlands have witnessed in recent years, require good access to external EU and world markets. These include the renewable energy, creative industries, energy, food and drink, sustainable tourism, life sciences and Universities, all of which are far more UK-wide or international in character and many of which tend to be associated with high propensities to fly.

2.1.3 The map below is intended to illustrate the peripheral geography of Inverness. The inner circle shows places that are an equal straight-line distance from Heathrow. The outer circle reflects those areas can be reached in the equivalent block-time as flying time from Inverness to Heathrow.

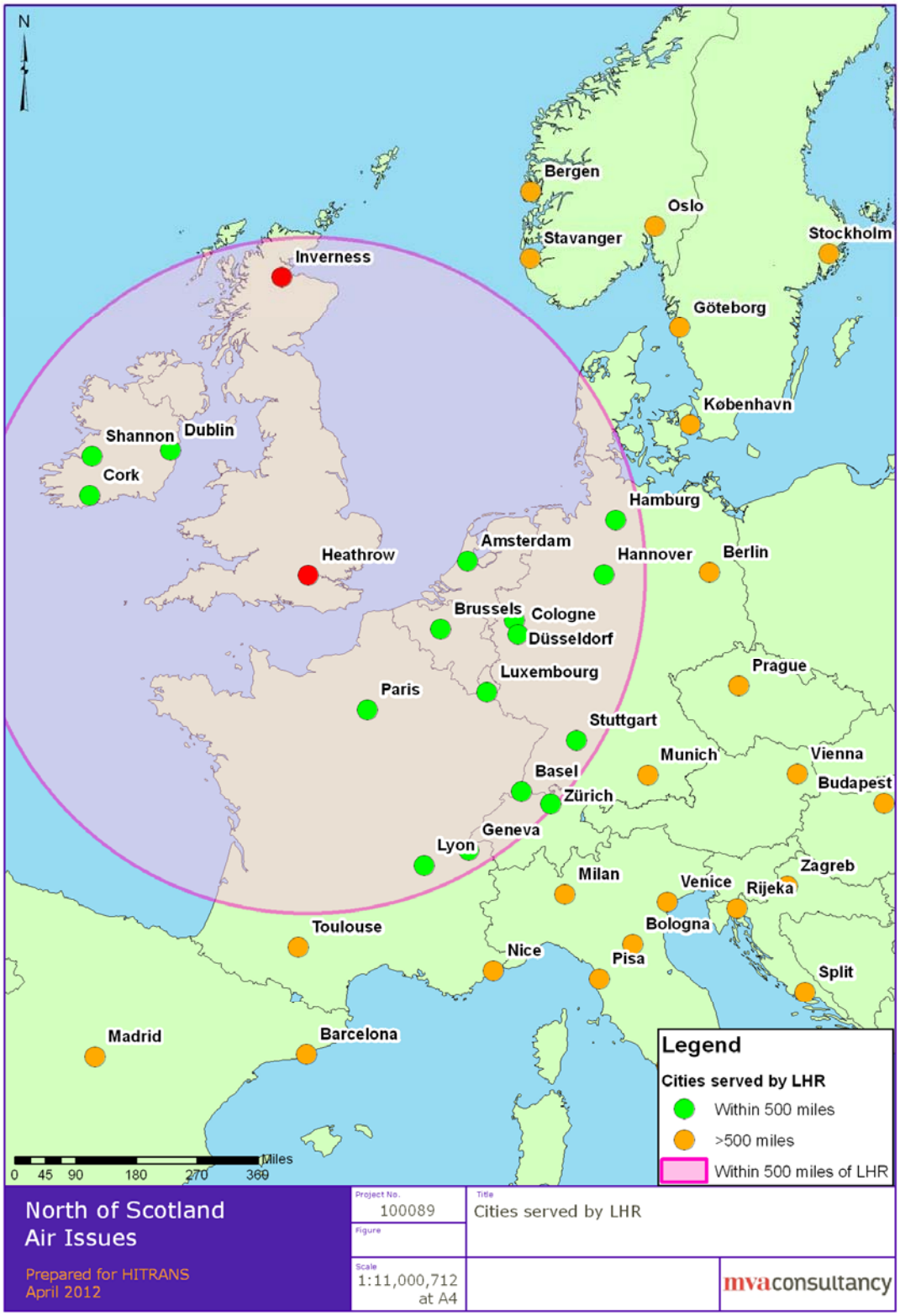

Figure 2.1 Cities with Similar Distance and Flight Times Between Inverness and Heathrow

2.1.4 Travel times by surface modes, to major regional cities in the UK (Manchester is seven hours drive away, Birmingham +eight hours), let alone London (+ 10 hours), do not permit 'doing a day business' in the UK's biggest markets or European capitals without an overnight stop. As the charts for London below demonstrate, travel times by road and rail simply

cannot compete with air journey times of two and a half hours (inclusive of check-in and security processing). This puts a particular premium on air services as the facilitators of time sensitive journeys outside Scotland for both businesses and residents of the Highlands and Islands as well as for visitors to the region.

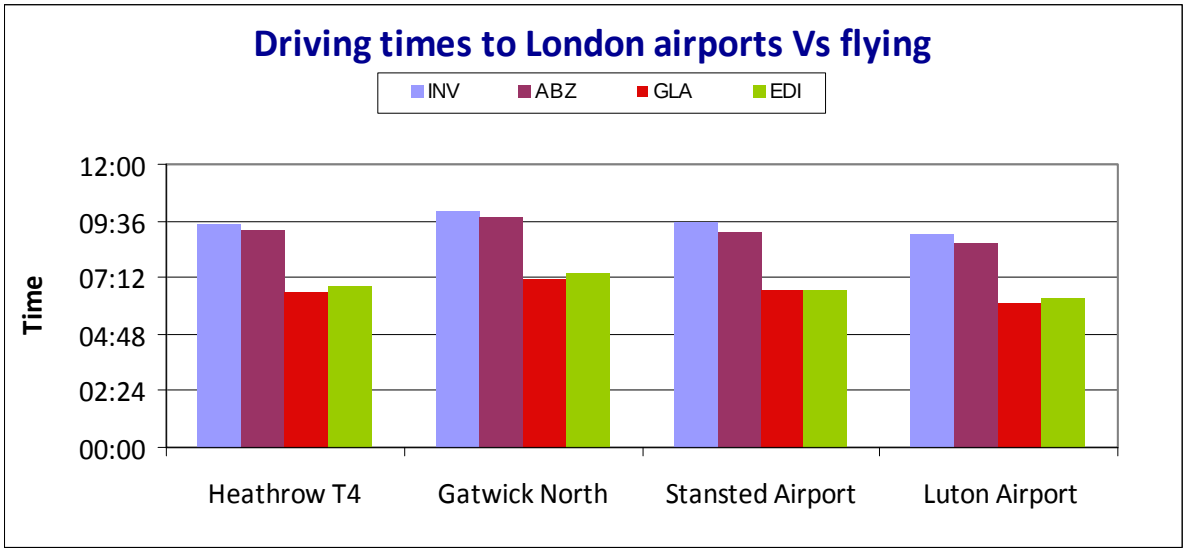

Figure 2.2 Travel Time Comparisons Inverness to London – Car vs Air

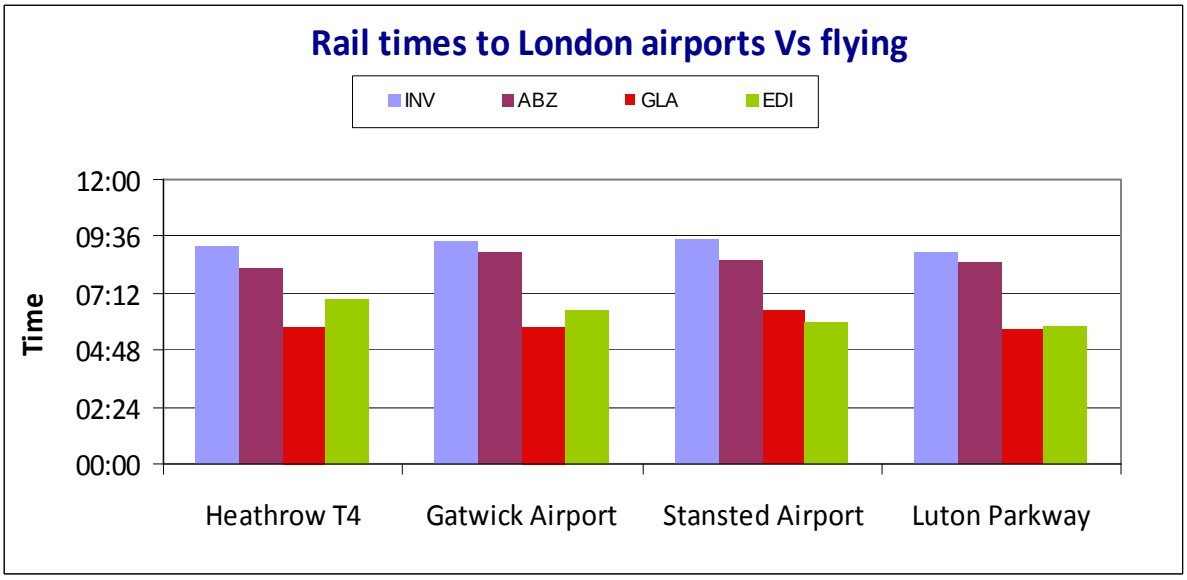

Figure 2.3 Travel Time Comparisons Inverness to London – Rail vs Air

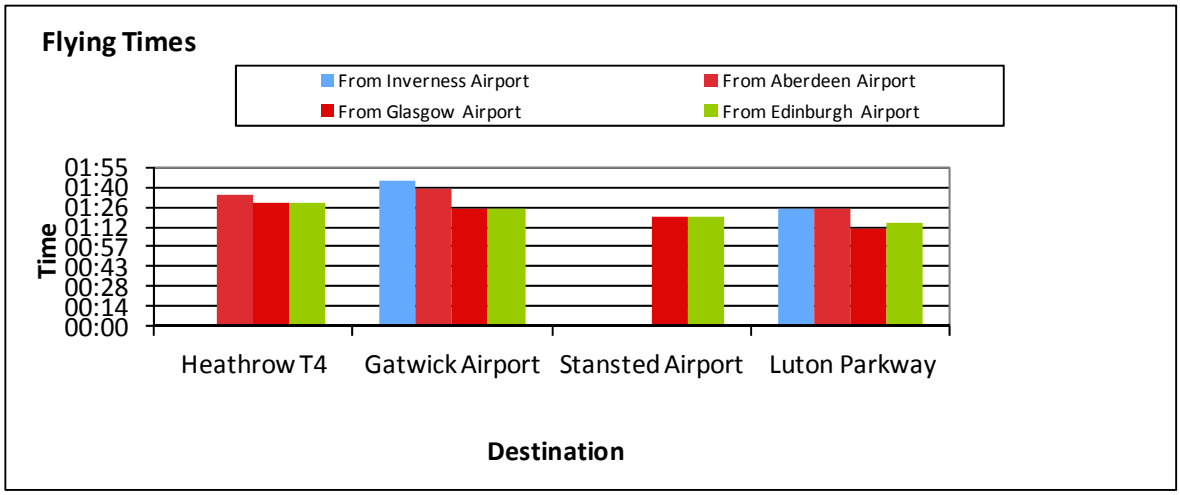

Figure 2.4 Flight Times to London Airports

2.2 Historic Context

2.2.1 However, as the historic trend analysis in the Introduction to this note serve to illustrate, regional air links to London both for point-to-point journeys to the UK's principal economic hub and capital city and for connecting journeys to Europe's and the world's major business centres, have come under increasing pressure during the last two decades. In Inverness's case this has resulted:

- firstly the loss of access to the UK's global hub when the service was removed from Heathrow;
- then to online connections with the major national carrier when the new LGW route was taken over by Flybe; and
- finally, to a loss of capacity on the daily LGW route associated with the switch to Q400 aircraft from AvroRJ's by Flybe in the face of competition from easyJet, who fly to both LTN and LGW but at less convenient times, which do not facilitate effective business travel either within the UK or critically to international air services.

2.2.2 Whilst arguably the point to point market to London remains well serviced in terms of frequency, with four-five services a day to Gatwick and one a day to Luton, the Gatwick services are likely to come under increasing threat in the medium term. Contributing to this are:

- the loss of connecting traffic from non-aligned carriers forcing passengers to rely on self-interlining;
- changes to Gatwick's charging regime, which in response to commercial imperatives driven by capacity constraints, is increasingly favouring larger aircraft flying internationally over smaller ones on domestic routes; and
- rising APD, although only payable in one direction on domestic journeys from Inverness, increasing costs for passengers and putting pressure on yields for airlines.

2.2.3 The data which follows, seeks to provide support for this overview and demonstrates that while the route recently commenced by Flybe to Amsterdam is a welcome addition to the airports portfolio, it will not replace London (and Gatwick in particular) as Inverness's key air service link. Principally because of its limited frequency that does not provide the kind of onward connectivity offered by the more frequent services to Gatwick, even with its limited onward connectivity capabilities.

2.3 Current Position

2.3.1 Over the course of the last decade Inverness has materially increased its range of scheduled services, principally within the UK and Ireland, although year round services to Amsterdam started in December 2011 and there are low frequency summer only services to Dusseldorf, Jersey and Zurich. However, the dominant market remains London, with around 50% of departing passengers having this as their destination. In 2011 the number of passengers flying on the Gatwick route from Inverness, climbed back to the 2009 level shown in the chart below, but below the peak of +240,000 in 2006 and 2007. Statistics on the Luton route show passenger volumes varying between 88-102,000 over the same six years.

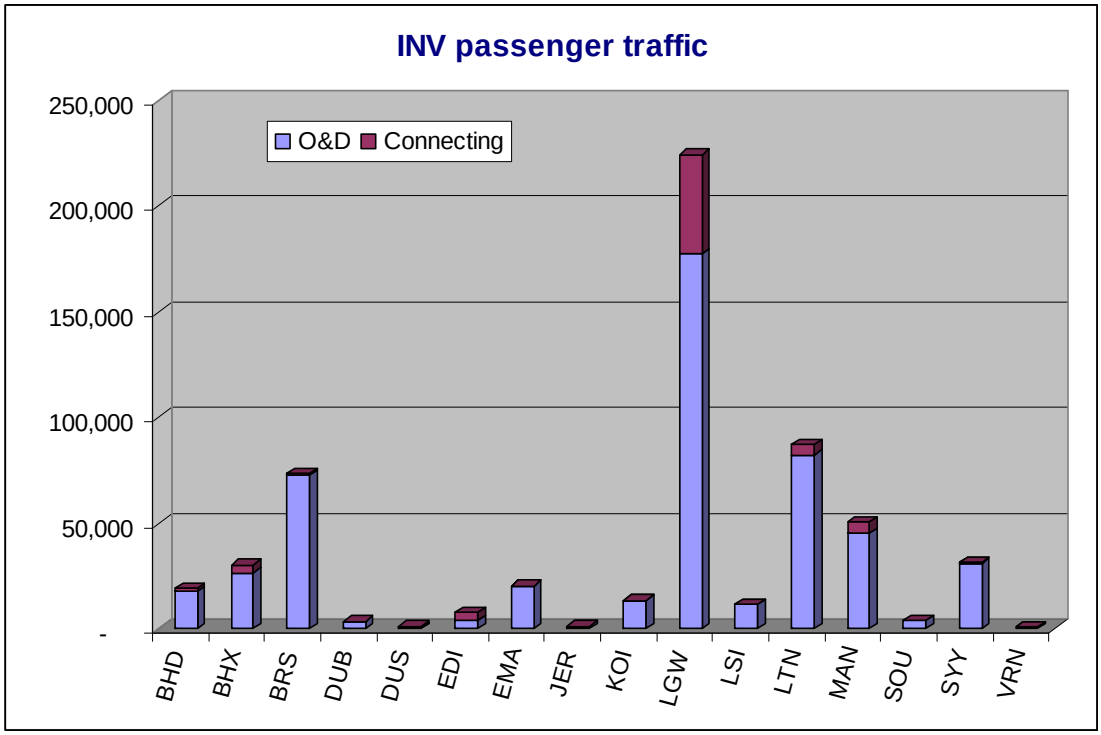

Figure 2.5 Passenger Volumes on Routes from Inverness

2.3.2 As the Table below helps to make clear, although the point-to-point market to London is dominant, and of major economic significance to the Highlands and Islands in itself, 20% of passengers on the Gatwick service are interlining. This is a significant number and suggests that even with the arrival of Amsterdam, Gatwick will remain a vital link for onward connectivity to Europe and with the arrival of Asian carriers, to points further a field. Luton by comparison attracts only 5% of connecting traffic, less than Birmingham, Manchester and Dublin, with the single service a day being a major deterrent for this kind of traffic.

2.3.3 There can be little doubt, that both the overall market size, and the proportion of traffic that is connecting, would both be larger if the Gatwick services were to transfer back to Heathrow as a result of underlying stimulation of demand (both outbound and inbound) and the wider range of onward destinations it offers. But that scenario seems unlikely unless the Government gives greater weight to connections to regions which have no real surface alternative in terms of the slot regime at Heathrow or supports the provision of enhanced capacity there.

Table 2.1 Point-to-Point and Connecting Traffic from Inverness by Airport

Inverness passenger traffic 2009					
		O&D	Connecting	% Connecting	Total
Belfast City	BHD	17,575	1,594	8.3%	19,169
Birmingham	BHX	26,563	3,608	12.0%	30,171
Bristol	BRS	72,481	939	1.3%	73,420
Dublin	DUB	3,288	306	8.5%	3,594
Dusseldorf	DUS	873	291	25.0%	1,164
Edinburgh	EDI	3,754	3,859	50.7%	7,613
East Mindlands	EMA	20,077	-	0.0%	20,077
Jersey	JER	1,232	-	0.0%	1,232
Kirkwall	KOI	13,570	-	0.0%	13,570
London Gatwick	**LGW**	**177,359**	**46,881**	20.9%	**224,240**
Sumburgh	LSI	11,321	-	0.0%	11,321
Luton	LTN	82,300	4,911	5.6%	87,211
Manchester	MAN	45,030	5,350	10.6%	50,380
Southampton	SOU	3,778	125	3.2%	3,903
Stornoway	SYY	30,994	258	0.8%	31,252
Verona (Villafranca)	VRN	827	-	0.0%	827
Totals		**511,022**	**68,122**	**11.8%**	**579,144**

2.3.4 The key to Gatwick's currently substantive interline market is the frequency of service it enjoys, something which is underpinned by the large point-to-point market between Inverness and London. For a regional airport dependent on onward connections to a wide variety of destinations, slot times and frequency are crucial. As the charts below, which are based on 2012 OAG schedules, demonstrate, it is not the range of onward connecting points which facilitate good connectivity scores – Amsterdam and Dusseldorf both have far more of these than Gatwick. Rather it is the ability to access those onward destinations effectively as a result of good supporting frequency on the regional airport to hub leg that is crucial.

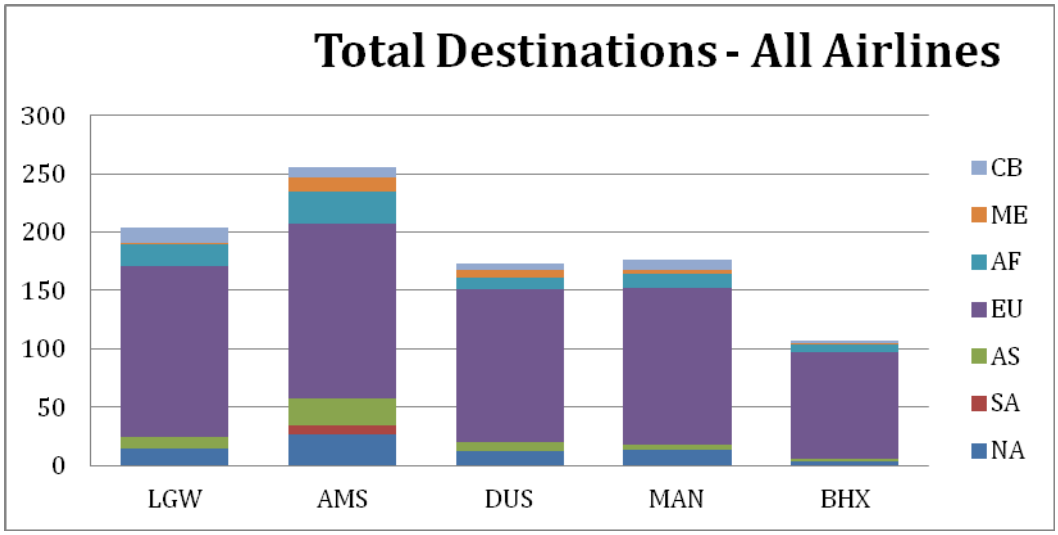

Figure 2.6 Number of Onward Destinations Available by Continent from Each of the Major Airports to which Inverness is Connected

2.3.5 Amsterdam has the biggest range of destinations served and Manchester and Dusseldorf are almost on a par with Gatwick. The position is broadly similar in terms of the number of services operating daily, with Europe being the dominant market in all cases – see Figure 2.5.

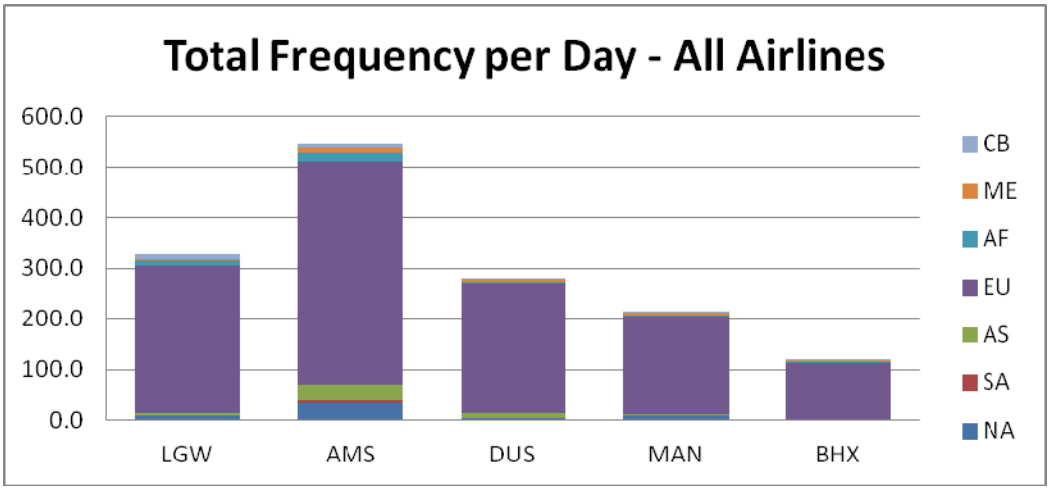

Figure 2.7 Frequency of Onward Connections by Continent Available from Each Major Airport to which Inverness is Connected

2.3.6 But when the frequency of service from Inverness to each major airport/hub is factored into an overall connectivity rating, then Gatwick with its four-five services a day, compared to one a day to Amsterdam, two times daily to Manchester, one times daily to Birmingham and a weekend service to Dusseldorf, substantially outperforms the other airports in terms of connectivity and therefore its attractiveness for interlining traffic – see below.

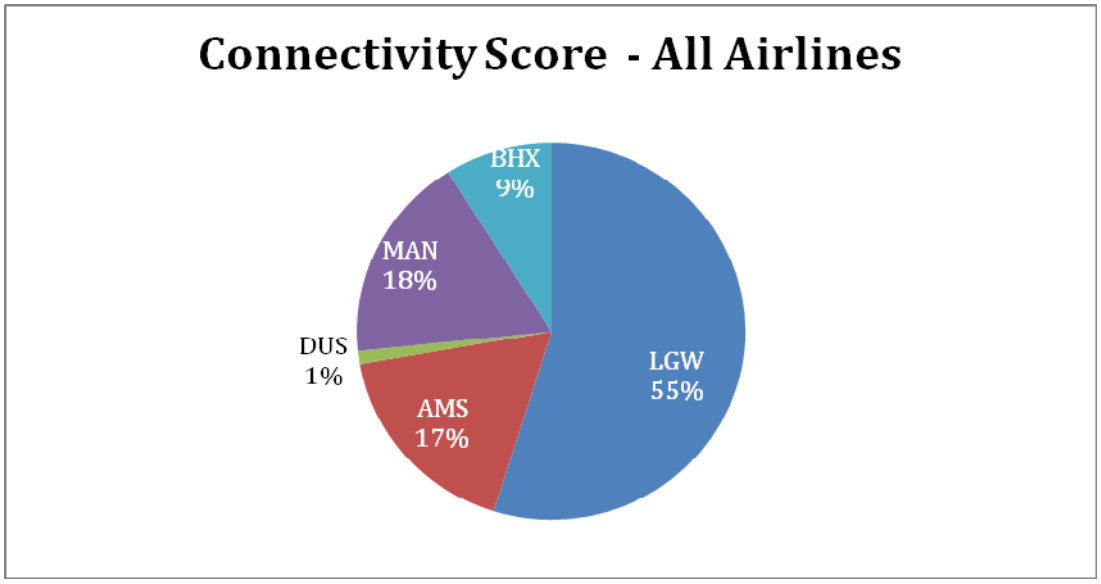

Figure 2.8 Connectivity Quotient for Major Airports to which Inverness is Connected

2.3.7 As the analysis of onward connecting destinations of Inverness originating traffic (derived from 2009 CAA survey data) and set out in Appendix 1a shows, Gatwick provides a significant range of ultimate destinations for travellers heading to and from the Highlands. In all cases these onward markets are too small to support a direct service alone, and the role of Gatwick as a hub is therefore critical for European and global access.

Table 2.2 Surface Travel Times by Car to Other Scottish Airports

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

Source: AA Route Planner

2.3.8 The other notable feature of air travel from the Highlands and Islands is that, despite its relative isolation - the Table above summarises drive times to the other principal Scottish Airports - there is still a substantial leakage of traffic from Inverness's core catchment in the Highlands and Moray.

Table 2.3 Passenger Leakage from Inverness Airport's Catchment Area to other Scottish Airports

Inverness passenger leakage					
Inverness Core Catchment	INV passengers		Leakage		Total from core catchment
	Scheduled	Charter	Scheduled	Charter	
INV core and outer catchme	441	0	249	33	723
Highland	91	1	97	8	197
	531	**1**	**346**	**41**	**920**
% of total	58%	0%	38%	4%	

2.3.9 At 42% 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 to a major hub such as Heathrow, although the new Amsterdam link may begin to make inroads into the leakage associated with the longer distance leisure markets.

2.3.10 The chart below shows that in 2009 air passengers from the core Inverness catchment area who travelled by surface mode to other Scottish airports (and this makes up the vast majority of the leakage), were relatively evenly split between the airports they used.

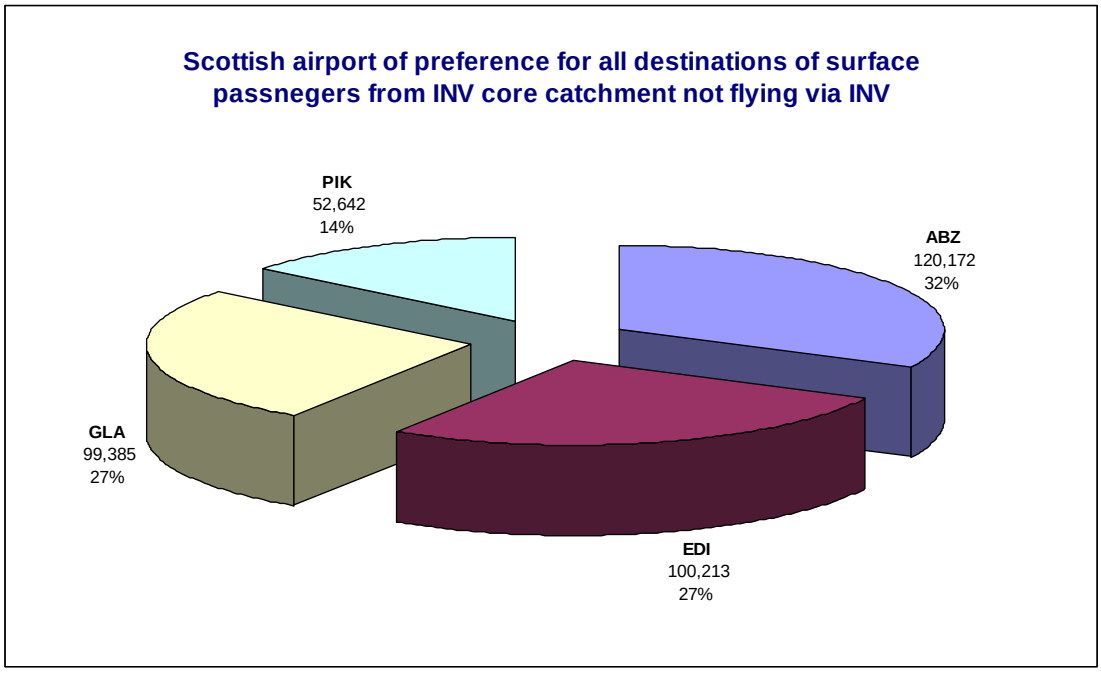

Figure 2.9 Scottish Airport of Preference of Surface Passengers from Inverness

2.3.11 Amongst passengers using an alternative airport to get to London, 60% (or over 60,000 passengers) flew to Heathrow – see below; this equates to 20% of the total London market flown direct from Inverness and a large proportion of the onward connecting traffic, despite the long surface journey involved. This reflects the desirability of Heathrow as a hub and the service frequencies available to it from Aberdeen, Edinburgh and Glasgow and emphasises:

- the significant loss of connectivity and loss of economic advantage to the Highlands and Islands suffered when BA moved their Inverness to London route from Heathrow to Gatwick; and
- the substantial extra traffic volumes it would support as a result of 'clawback' and stimulation if re-introduced.

2.3.12 The rest of the London bound traffic was split relatively evenly between Gatwick, Luton and Stansted, which each catered for over 10,000 leakage passengers, with low cost operators likely to be the principal attraction in these cases. There does not seem to be any obvious reason why this overall pattern will have changed materially since 2009.

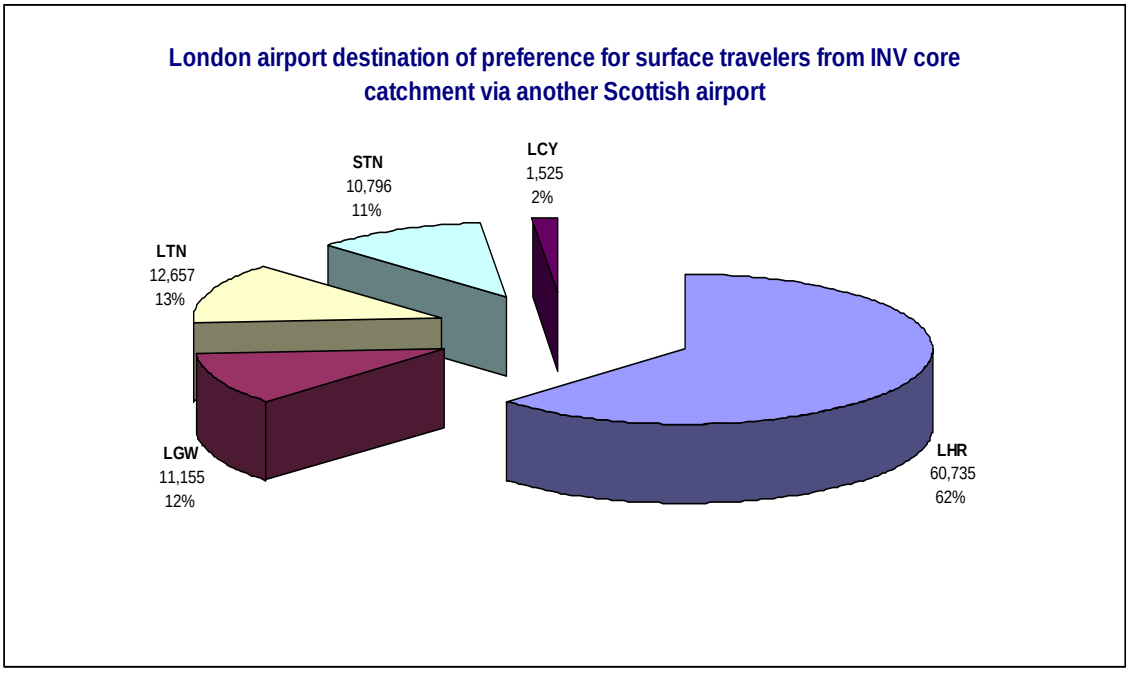

Figure 2.10 London Airport of Preference for Inverness Passengers via Other Scottish Airport

2.3.13 If the leakage traffic is considered in terms of hub choice for onward connections (see chart below), Heathrow's dominance again stands out, but Amsterdam comes a notable second, again reflecting a strong connectivity co-efficient based on service frequency from the larger Scottish airports and the range of onward destinations offered at Schiphol.

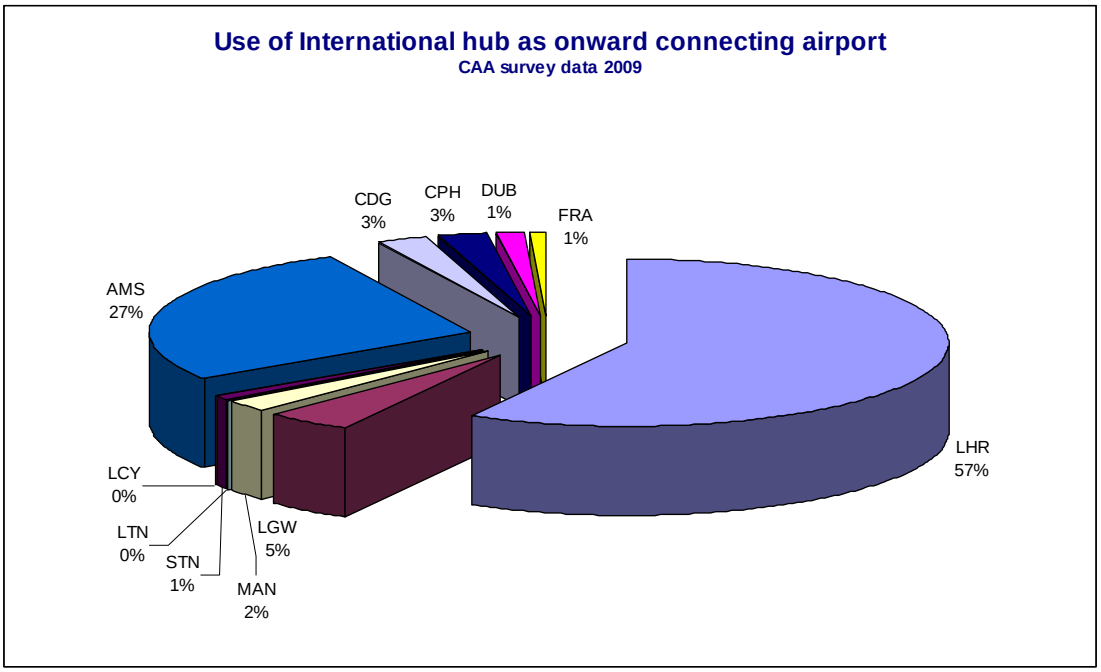

Figure 2.11 Use of International Hub as Onward Connecting Airport

2.3.14 In terms of market segmentation, the table below demonstrates that Inverness is catering primarily for a UK market – a function of the size of its catchment and the limited route network it can support with direct services. At 64% the leisure market dominates, but 36% of its traffic is business orientated and the importance of London as a financial and business destination means that this will be heavily focused on the London routes via Luton and particularly Gatwick. But outbound international traffic and inbound foreign business and leisure traffic are primarily coming through the other Scottish airports, either directly as a function of their wider range of destinations or indirectly through Heathrow. Such indirect access is time-consuming and far less attractive in facilitating outbound connectivity for Highland based businesses or for inbound tourism and inward investment, making the development of export markets and attraction of inward investment more difficult than if Inverness were connected directly to Heathrow. However, it also serves to emphasise the difficulties Inverness would have in serving even its core UK business markets were the Gatwick service to be downgraded or lost.

Table 2.4 Business/Leisure Split of Air Passengers in Inverness Airport's Catchment

Business Leisure Split																	
Airport	International Business				International Leisure				Domestic Business				Domestic Leisure				Total
	UK		Foreign		UK		Foreign		UK		Foreign		UK		Foreign		
	000's	%	000's	%	000's	%	000's	%	000's	%	000's	%	000's	%	000's	%	000's
Aberdeen	222	9.7%	176	7.7%	298	13.0%	84	3.7%	774	33.9%	66	2.9%	590	25.8%	75	3.3%	2,285
Edinburgh	269	3.0%	265	3.0%	1,871	21.2%	1,655	18.7%	1,945	22.0%	138	1.6%	2,123	24.0%	566	6.4%	8,830
Glasgow	152	2.2%	86	1.2%	2,642	37.7%	426	6.1%	1,698	24.2%	98	1.4%	1,663	23.7%	249	3.6%	7,014
Inverness	**0**	**0.0%**	**0**	**0.0%**	**2**	**0.4%**	**3**	**0.6%**	**145**	**25.9%**	**12**	**2.1%**	**362**	**64.7%**	**35**	**6.2%**	**560**
Prestwick	41	2.3%	49	2.7%	770	42.8%	481	26.8%	50	2.8%	6	0.3%	340	18.9%	60	3.3%	1,798
Total	683	3.3%	575	2.8%	5,583	27.3%	2,649	12.9%	4,613	22.5%	319	1.6%	5,078	24.8%	985	4.8%	20,487

2.4 Economic Appraisal

The Economic Importance of Current Air Links to London from Inverness

2.4.1 In order to understand the economic contribution of the present Gatwick services, it helps to examine the 2009 CAA data on the traffic using Inverness Airport in more detail:

- most trips (72%) are for non-business purposes, but the 28% business share is still significant;
- the share on the flybe service alone (39%) is relatively large;
- most Inverness-Gatwick business trips (64%) are outbound from the Highlands & Islands, allowing access to markets, suppliers and other business opportunities;
- most are to destinations in the UK, however, over one in five outbound business trips involve interlining; and
- the main overseas destinations are the United States and Netherlands.

2.4.2 CAA survey data identifies Highlands & Islands business passengers flying to Gatwick on domestic business as most commonly working in insurance and pension funding; the public sector or construction. Passengers working in the high value sectors of oil and gas extraction and the manufacture/servicing of optical instruments and medical equipment are those who most commonly make journeys that involve interlining.

2.4.3 Two major energy sector service companies (Global Energy Group and Orion Group) are based in the Inverness area. They have a combined annual turnover of £500m and currently supply around 7,000 skilled personnel from the UK (with a significant proportion from the north of Scotland) to the global marketplace. Optical instruments and medical equipment include elements of the high value added life sciences sector. This has grown strongly in the region in recent years. It directly supports around 1,800 FTE jobs and £131 million of GVA.

2.4.4 Business trips inbound into the region via Inverness airport also tend to be in high value sectors. The Gatwick link provides access to a range of skills and specialisms that may not be available in the Highlands & Islands. These trips are largely point-to-point from London, although around one in seven inbound business trips involve interlining through Gatwick. The most common sectors in which passengers that are UK resident work are - Business Management, Legal and Financial, Computer Consultancy and the Repair of Office Equipment.

2.4.5 A key point to note about non-business trips on the Gatwick to Inverness route is that a majority (62%) are inbound to the region. Thus, Inverness-Gatwick air services support a net inflow of visitors to the Highlands & Islands. Indeed, this is true of **all** traffic between Inverness and Gatwick (both business and non-business), 55% of which is inbound. Most inbound non-business visitors (90%) are UK residents. Of the 10% who are interlining over Gatwick most are from the United States or Belgium.

2.4.6 Direct air access between London airports and Inverness remains economically significant. HIE estimate that these flights (including both Gatwick and Luton services) bring a gross £55 million of spend per annum into the region. In 2010, 88% of all Inverness-London rail/air journeys were made by air, despite the significant disruption of air services by volcanic ash and winter weather during the year.

The Added Economic Value of a Heathrow Link

2.4.7 Nevertheless, a restored link between Inverness and Heathrow would have clear benefits in providing access to business centres and tourism markets destinations worldwide. This is evident in the make up of the existing Highlands & Islands-Heathrow traffic that uses Scottish airports other than Inverness.

2.4.8 A majority of this leakage (62%), is international interlining traffic rather than point-to-point domestic trips. This figure is similar for business and non-business trips. Overall around one in four (28%) interlining trips is for business purposes. Most (48%) journeys are to/from business centres in Europe. However, there are also trips linking with the Middle East (12%), Asia (10%) and North America (9%).

2.4.9 In contrast, a clear majority of non-business interlining trips using Heathrow are to/from long haul destinations. The main one is North America (30%). The United States is one of the most significant Highlands tourism markets in terms of spend. In addition, 18% of international non-business trips via Heathrow are to/from Asia, with a further 16% to/from Australasia.

2.4.10 The most common other trip ends are in Europe (23%). European trips include those to/from the key destinations of Germany and Switzerland, and to/from France and Sweden, which also have strong markets for visiting the Highlands & Islands. France and Germany are among the most significant Highlands tourism market in.

2.4.11 Heathrow also continues to dominate airfreight exports from the UK. In 2011, it accounted for 95% of UK long haul seafood exports by air. Much of this will have originated in the Highlands & Islands.

2.5 Conclusions and Key Issues

2.5.1 London is the bedrock of Inverness Airport's market, with route stability and passenger volumes being much more variable to the other destinations offered outside the Highlands and Islands (ie Kirkwall, Sumburgh and Stornaway). Government Policy and commercial developments that affect this are, therefore, of crucial importance to the air service connectivity of not just Inverness but to the wider region.

2.5.2 The preceding analysis has demonstrated that surface travel is not a viable option to domestic destinations south of the border, other than for non-time critical leisure (or slow) travel. Other Scottish airports have a wider range of destinations, including hubs that they serve direct, but the surface journey times to these airports are substantial, inconvenient and expensive both in terms of direct costs and time. As a result they are sub-optimal relative to the existing Gatwick service for access to Europe and to a direct service to a major hub for longer sectors.

2.5.3 Amsterdam may be convenient for some longer distance connections, but the current service frequency limits its value compared say to Heathrow, where frequency would be supported by the large point-to-point London market. It is also questionable whether a UK Government should be reliant upon access to hubs in other countries, which they do not control, as the sole means of connecting devolved areas and peripheral UK regions to the wider world. This is recognised as becoming an increasing issue as capacity at Amsterdam and other EU international hubs come under similar pressure to that currently experienced by Heathrow.

2.5.4 What this assessment does serve to highlight, is the pivotal role that Gatwick air services now play in offering the region any kind of passable convenient, if far from ideal, international connectivity. If it were to be lost, as a result of increasing pressures on capacity and rising charges, international air services would firstly, be a minimum of 2.5 hours away, making the Highlands one of the most difficult places to access in the UK and secondly, relying on the other London airports (eg Stansted, Luton or London City) would not provide any kind of acceptable alternative, given the very limited frequency and connectivity they could offer.

2.5.5 Notwithstanding which, a restored link to Heathrow quite demonstrably remains the best long term option for global access to and from the Highlands and Islands. Failing this, reserved slots at a fully functional and well-connected new hub airport in the Thames if this is to materialise. The policy arguments and mechanisms for this are explored further in the final section of this Evidence Note.

3 Air Links from Aberdeen to London

3.1 Geography and Travel Times

3.1.1 Located in the North East of Scotland, some 500 miles distant from the Centre of London, Aberdeen Airport's catchment area encompasses the City of Aberdeen, Aberdeenshire, Angus to the south and the eastern side of Moray – broadly reflecting the geographical scope of Grampian Region. In total some 550-600,000 people live in this core catchment area, mainly along the eastern and northern coastal strips of a landmass with the Cairngorm Mountains at its heart. The principal population centres are towns and fishing ports such as Fraserburgh, Peterhead, Elgin, Forfar, Montrose and Arbroath, as well as the City of Aberdeen itself.

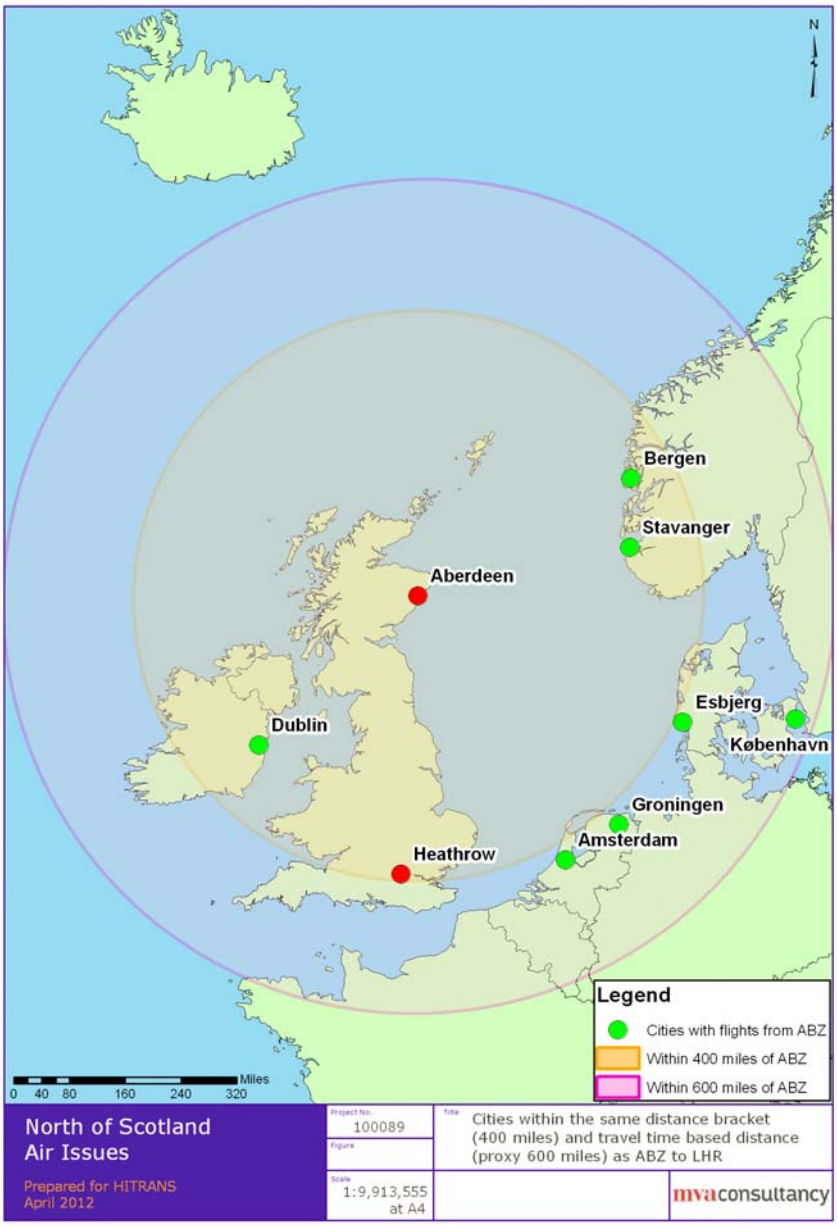

Figure 3.1 Aberdeen's Peripheral Geography

3.1.2 Its peripheral geography is illustrated in the map above, where the inner circle is based on the straight-line equivalent distance as Aberdeen to London/Heathrow and the outer circle reflects equivalent block-times as flying to Heathrow, but with reduced taxiing and climb-out/approach times because of greater delays associated with ground movements and the London TMA respectively.

3.1.3 The substantive distances involved and resultant extended surface travel times that are a material factor behind the importance of the aviation sector to supporting the economy of North East Scotland. Those from Aberdeen to London (see Figs 3.2, 3.3 and 3.4 below), are almost as long as those to Inverness by road and rail, in the preceding section of this report, and compare very poorly with flight times. Undertaking a day's business in London or the UK's other major regional cities outside Scotland would be impossible without access to high frequency air services.

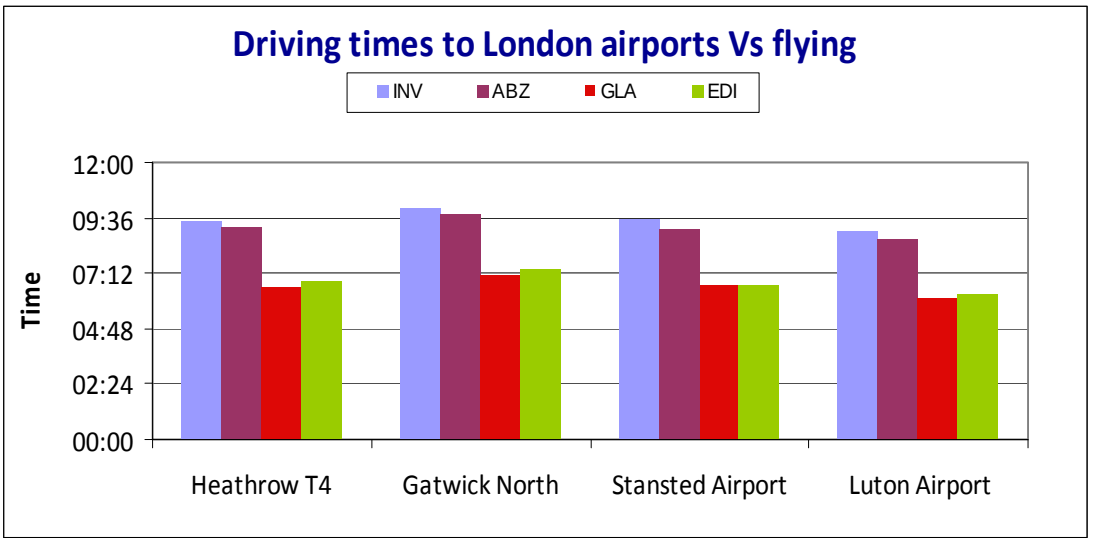

Figure 3.2 Comparison of Travel Times to London by Road and Air

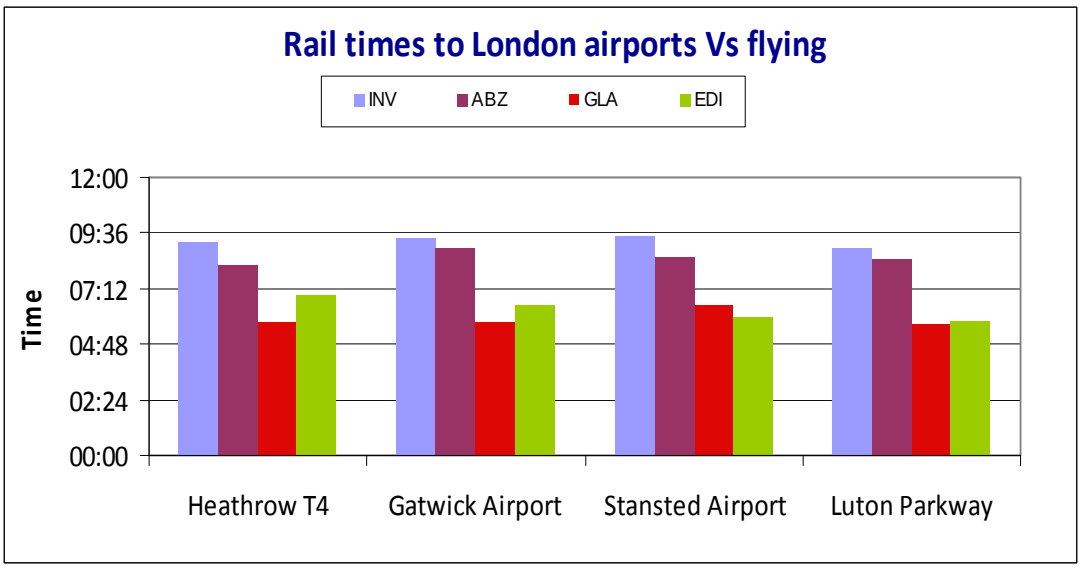

Figure 3.3 Cities with Similar Distances and Flight Times Between Aberdeen and Heathrow

3.1.4 It is worth keeping in mind that Aberdeen is broadly similar in terms of latitude to Stavangar, Gothenburg, Moscow and Riga and is as far away from London in distance terms as Bremen, Frankfurt, Basel, Bordeaux and the West of Ireland (see map below). Travel to all of these cities from London is dominated by flying, the use of road and rail being a complicated and time-consuming process, which rules it out for most journeys.

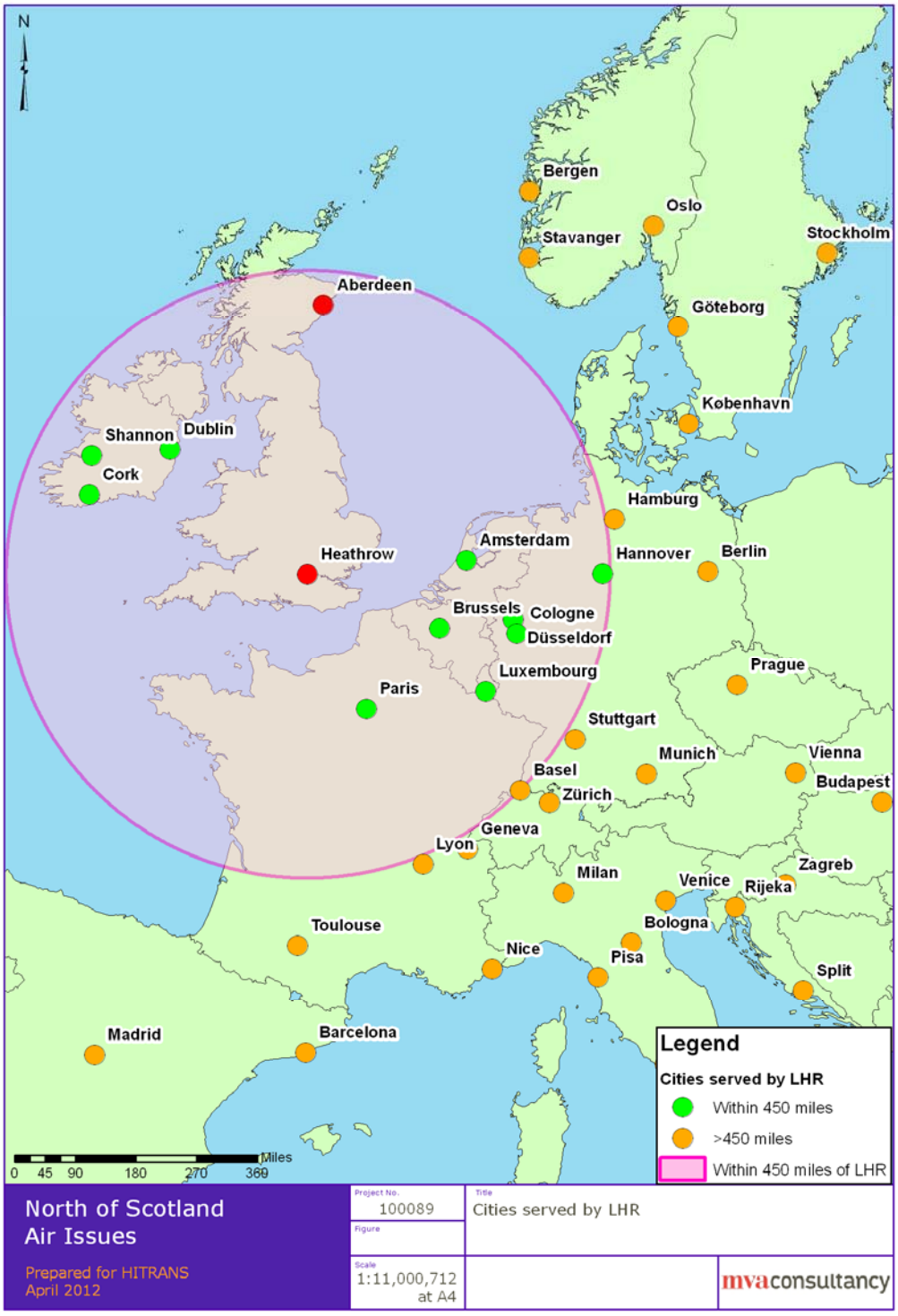

Figure 3.4 Cities at a Similar Distance and Flight Time from London

3.1.5 Aberdeen Airport offers onward connections to Kirkwall (Orkney Islands), Sumburgh and Scatsca (both Shetland Islands), Stornoway (Western Isles) as well as Wick on the mainland. As with the helicopter-based traffic to offshore oil and gas platforms, which also uses Aberdeen Airport as a connecting point, the volumes on these routes are material and extend what would otherwise be a discrete and self-contained core catchment area, as the drive times to other major Scottish cities below highlight.

Table 3.1 Drive Times to other Scottish Cities

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

Source: AA Route Planner

The Regional Economy

3.1.6 The economy of Aberdeen and its hinterland is dominated by the energy sector – initially oil and gas exploration and production, currently the export of technology and expertise in these sectors - and prospectively in renewable energy. It also encompasses financial and professional services, marine industries, life sciences, tourism (all of which have a high propensity to fly), as well as the more traditional agriculture/fisheries, construction and service sectors. As a result much of the population of Aberdeenshire, in which Aberdeen is located, enjoys a high standard of living. According to the latest Eurostat figures, Aberdeen City and Shire have one of the 15 highest GDP/head figures in Europe and is on a par with Edinburgh and the South East of England. Moreover, the size and importance of the energy sector seems to have allowed much of the region, but Aberdeen in particular, to weather the recent downturn in economic activity better than anywhere else in the UK - recent rises in the Airport's passenger throughput seem to reflect this.

3.2 Air Links from Aberdeen to London – An Overview

3.2.1 Fortunately for the whole of the wider Grampian region, the combination of distance, poor surface alternatives and a strong internationally focused economy, has historically helped to generate significant demand for air services; Aberdeen City and Shire has one of the highest propensities to fly in the UK outside central London.

3.2.2 On the core London market Aberdeen closely matches Glasgow, and to a lesser extent Edinburgh, in terms of the frequency of services available to Heathrow and Gatwick – as the chart below illustrates.

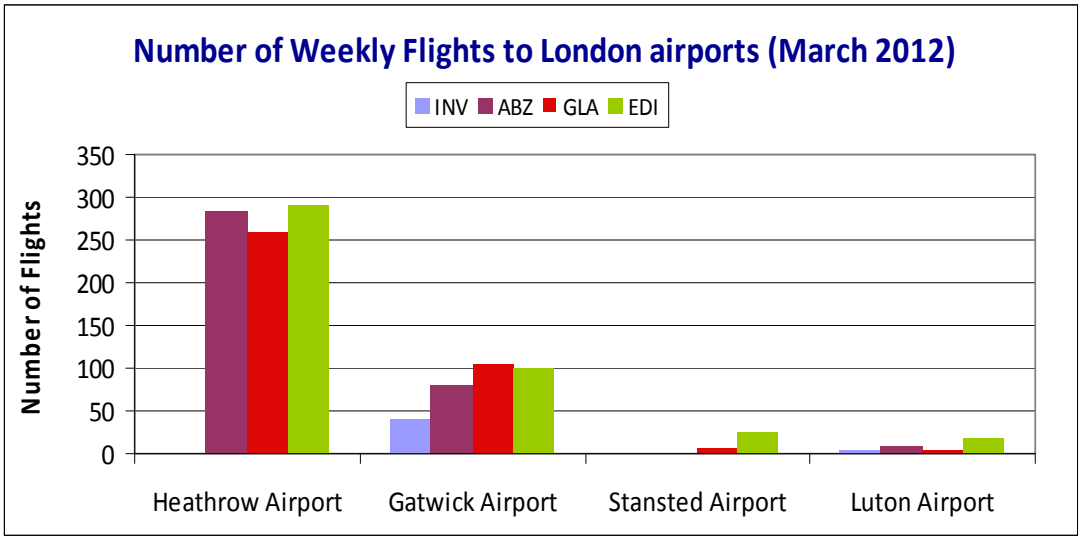

Figure 3.5 Weekly Flights to London Airports from Scotland

3.2.3 As indicated in the introductory chapter to this note, the London market from Aberdeen has remained relatively robust over the last 10 years, with bmi having come on to the Aberdeen route in 2004 in competition with BA, whilst easyjet has continued to serve the mainly point to point market via Gatwick and Luton. Although volumes to Gatwick have declined by around 15% from their 1996 peak, the Heathrow route has increased by around 200,000 passengers since bmi's arrival brought some price competition and enhanced frequency. This route now dominates the London market, which totals c900,000 passengers per annum.

3.2.4 The air links to Heathrow offer a fundamental piece of infrastructure serving Aberdeen's economy, which is currently one of the few bright spots in an otherwise recession hit UK, mainly due to oil prices continuing their upward trend and stimulating activity in the energy sector. Indeed, whereas many other regional city pairs have seen material declines in volumes as a result of factors identified in Chapter 1, since the start of the economic downturn in 2007/08 only 20,000 passengers have been lost from the 2006 peak figures on the Heathrow route. This is despite a series of new hub links having been added to the Airport's portfolio of routes, offering choice for onward connections which is an important element of the traffic.

3.2.5 It is not, therefore, the commercial viability of the Heathrow route which is the concern for strategic authorities in the North East of Scotland, but the opportunity value of the [13] pairs of slots that it currently enjoys for use on other higher yielding long-haul services for which there is a critical shortage of available new capacity. And as the repeated Transport Select Committee investigations have highlighted, incumbent carriers have complete freedom over how these slots are used and have no consideration in their decision-making for wider economic considerations at a regional, or indeed, even a national level. Moreover, unlike in the case of Gatwick for Inverness, the availability of connections over other European hubs – Amsterdam, Paris CDG, Copenhagen and most recently Frankfurt – could be used to argue that the 'global connectivity' argument for retaining links to Heathrow is less clear-cut. But when the evidence is examined more closely, this does not stand-up to scrutiny.

3.3 Historic Trends

3.3.1 The graph below (Figure 3.6) shows the pattern of growth on the Aberdeen to London Heathrow (ie network carrier served routes), compared to the low cost services provided by easyjet to Gatwick and Luton. As the trend lines indicate whereas the former has maintained volumes following the jump in traffic when bmi came on the route in 2004, the latter progressively declined until last year's up-turn.

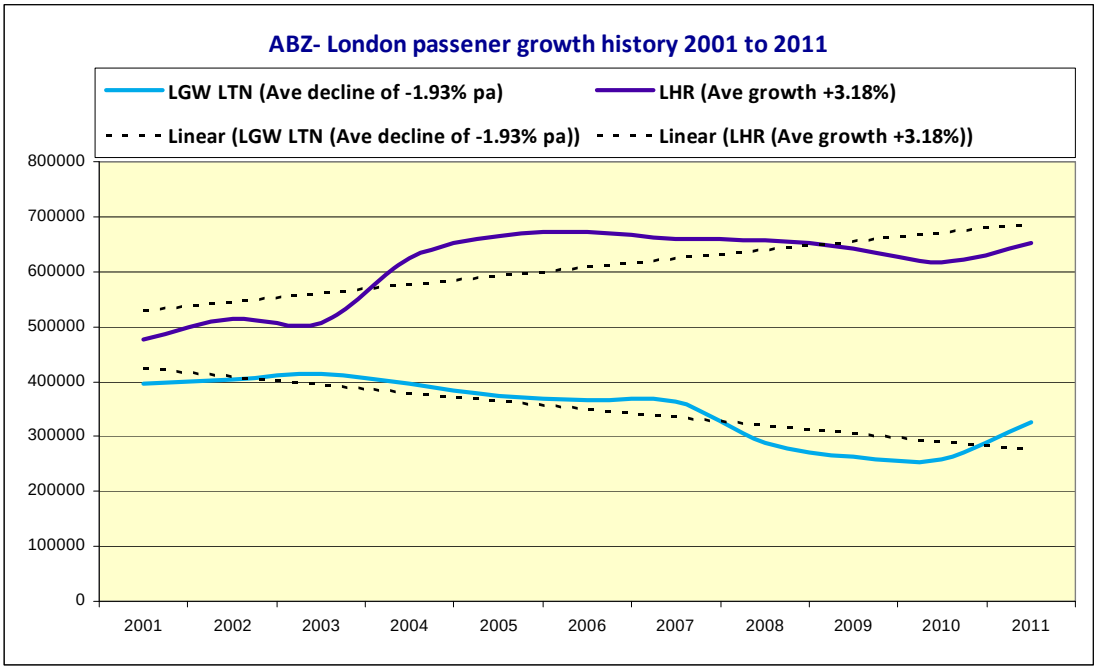

Figure 3.6 Pattern of Growth on the Aberdeen to London Market

3.3.2 As Table 3.2 below shows the majority of Aberdeen Airport's traffic is business orientated, with a material portion of it originating overseas.

3.4 Traffic Characteristics

Table 3.2 Business/Leisure Split of Passengers Using Aberdeen Airport

ABZ Business Leisure Split							
	Total Business	UK Business	Foreign Business	Total Leisure	UK Leisure	Foreign Leisure	Total
Aberdeen	**1,238**	**996**	**242**	**1,048**	**889**	**159**	**2,286**
Percentage of totals	54%	80%	20%	46%	85%	15%	

3.4.1 The business split of 54% is unusually high for most airports and more than double that of regional peers such as its Scottish competitors. This demonstrates the crucial value of air services to business in the North East of Scotland and the international nature of the traffic. Aberdeen has the highest proportion of domestic business passengers of any of the Scottish Airports – see Table 3.3 below.

Table 3.3 Comparison of Business/Leisure Split at Scotland's Major Airports

Business Leisure Splits of Scottish airports																	
Airport	International Business				International Leisure				Domestic Business				Domestic Leisure				Total
	UK		Foreign		UK		Foreign		UK		Foreign		UK		Foreign		
	000's	%	000's	%	000's	%	000's	%	000's	%	000's	%	000's	%	000's	%	000's
Aberdeen	**222**	**9.7%**	**176**	**7.7%**	**298**	**13.0%**	**84**	**3.7%**	**774**	**33.9%**	**66**	**2.9%**	**590**	**25.8%**	**75**	**3.3%**	**2,286**
Edinburgh	269	3.0%	265	3.0%	1,871	21.2%	1,655	18.7%	1,945	22.0%	138	1.6%	2,123	24.0%	566	6.4%	8,830
Glasgow	152	2.2%	86	1.2%	2,642	37.7%	426	6.1%	1,698	24.2%	98	1.4%	1,663	23.7%	249	3.6%	7,014
Inverness	0	0.0%	0	0.0%	2	0.4%	3	0.6%	145	25.9%	12	2.1%	362	64.7%	35	6.2%	560
Prestwick	41	2.3%	49	2.7%	770	42.8%	481	26.8%	50	2.8%	6	0.3%	340	18.9%	60	3.3%	1,798
Total	683	3.3%	575	2.8%	5,583	27.3%	2,649	12.9%	4,613	22.5%	319	1.6%	5,078	24.8%	985	4.8%	20,487

3.4.2 Based on the same CAA 2009 survey data, it is also notable how, when compared to Inverness, that at 25% surface leakage from Aberdeen's catchment area, is materially lower than Inverness and less than for many regional airports in the UK, despite Glasgow being three times and Edinburgh four times the size on Aberdeen if rotary traffic is excluded.

Table 3.4 Passenger Leakage Aberdeen's Catchment to other Scottish Airports (000s)

ABZ leakage from Core & Outer catchments														
Aberdeen Core & Outer Catchments		ABZ		EDI		GLA		INV		PIK		Total Sch leakage	Total Charter leakage	Total leakage
		Sch	Chart	Sch	Chart	Sch	Chart	Sch	Chart	Sch	Chart			
Aberdeen City	Core	1,384	60	86	5	44	32	4	0	43	0	178	37	215
Aberdeenshire	Core	538	26	29	0	20	21	10	0	8	0	66	21	87
Angus	Core	51	0	54	2	31	22	0	0	11	0	97	24	120
Moray	Core	76	2	8	0	8	6	91	1	5	0	112	7	119
Totals		**2,048**	**88**	**178**	**7**	**103**	**81**	**105**	**1**	**67**	**0**	**453**	**89**	**542**
Highland	Outer	38	4	90	2	73	27	441	0	48	0	651	29	680
Dundee City	Fringe	17	3	204	5	45	38	0	0	31	0	280	43	323
Totals		**56**	**7**	**294**	**7**	**117**	**64**	**441**	**0**	**79**	**0**	**932**	**72**	**1,003**

3.5 Connecting Traffic

3.5.1 The second largest component of Aberdeen's traffic is provided by services to other European hub airports – included in which are Amsterdam, Copenhagen, Dublin, Paris and Frankfurt (see Table 3.5), although the latter only started at the end of 2011.

Table 3.5 Connecting Traffic Originating in Aberdeen

ABZ hub and connecting traffic							
Source: CAA Survey data 2009		Total to hub	O&D	Total Connecting	% of Pax connecting via hub	Connecting Business	Connecting Leisure
UK	**LGW**	135,545	104,851	30,694	23%	11,192	19,501
UK	**LHR**	641,294	379,706	261,588	41%	101,907	159,681
UK	**LTN**	126,877	119,449	7,428	6%	2,495	4,933
UK	**MAN**	104,620	94,796	9,824	9%	3,839	5,986
NETHERLANDS	**AMS**	254,067	105,440	148,627	58%	73,234	75,394
DENMARK	**CPH**	46,238	27,516	18,722	40%	9,884	8,839
IRISH REPUBLIC	**DUB**	52,266	46,684	5,582	11%	618	4,965
GERMANY	**FRA**		-				
FRANCE	**CDG**	110,536	42,773	67,763	61%	27,856	39,908
Total		1,471,443	921,214	550,229	37%		

3.5.2 Based on analysis of the most recent CAA survey data, connecting passengers make up 550,000 of the overall scheduled traffic passing through Aberdeen Airport, making it third only to the London point-to-point market and rotary operations in Aberdeen's traffic mix - charter and domestic scheduled making up the rest. As the Table above indicates Amsterdam and Paris are the principal non-UK hub routes, although with three services a day but Frankfurt can be expected to be competing closely shortly.

Figure 3.7 Hub Traffic Growth from Aberdeen Airport

3.5.3 But the growth in the non-London hub markets has not been at the expense of Heathrow as Figure 3.7 makes clear.

3.5.4 What is interesting, however, is the very high proportion of connecting traffic on these routes, higher than to Heathrow and Gatwick. Indeed, taken together 230,000 passengers connect to onward destinations at foreign hubs compared with 290,000 at Heathrow and Gatwick, and now that Frankfurt is on line the gap between those figures can be expected to close to approximate parity. But as a single connecting point as well as the largest single hub route, Heathrow remains dominant as the pie charts for 2002 and 2012 (estimated) below indicate.

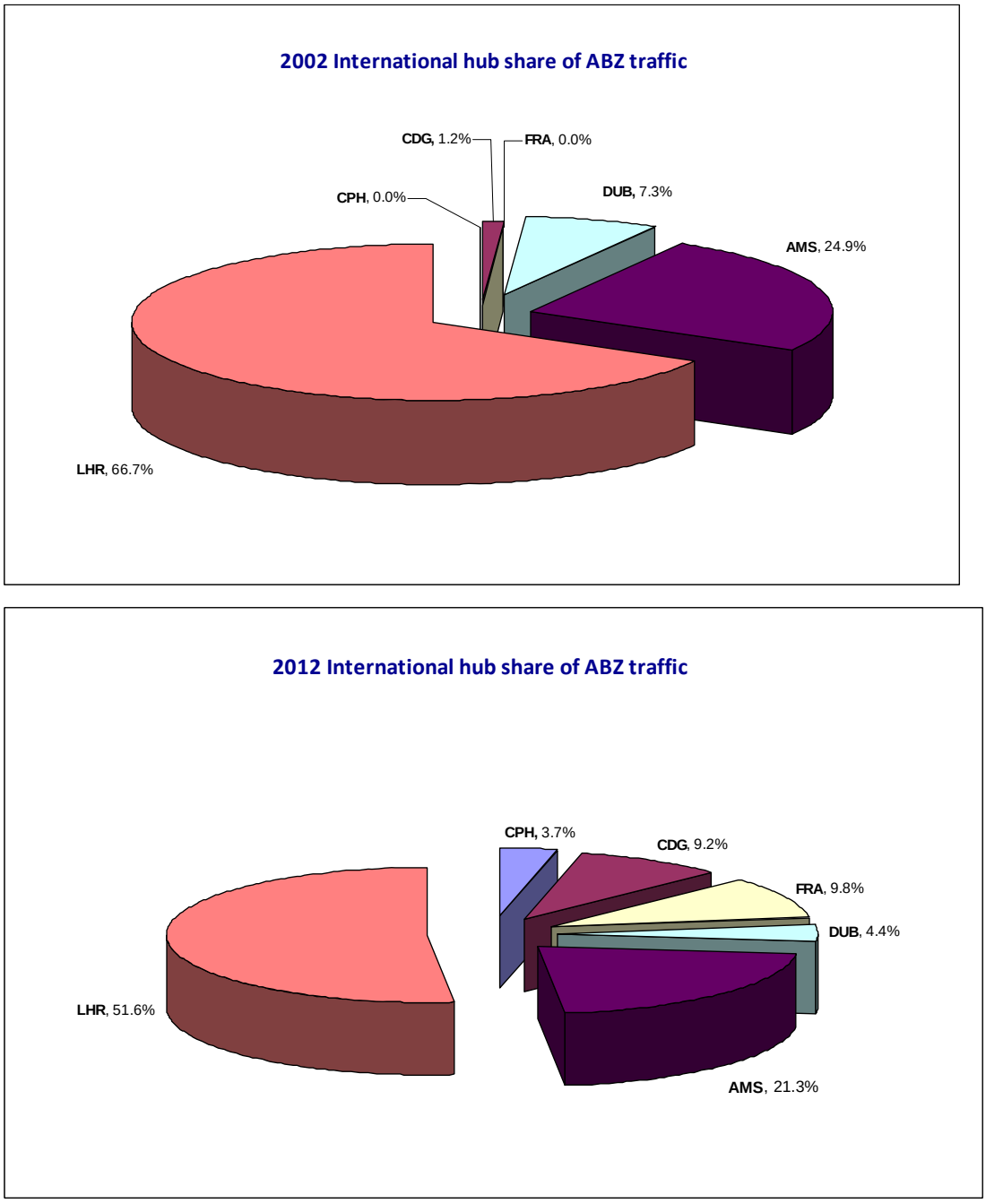

Figure 3.8 Share of Aberdeen International Hub Traffic – 2002 and 2012

3.5.5 In terms of ultimate destinations for onward connecting markets, the Table below is revealing. North America and Europe are the principal global regions for connecting traffic, with the Middle East, Far East and Africa also material.

Table 3.6 Ultimate Destinations of Connecting Passengers

ABZ passenger World regional destinations and international hub									
Region	Total	AMS	CDG	CPH	DUB	LHR	LGW	MAN	LTN
Africa	42,273	5,428	13,582	-	-	22,239	606	418	-
Australasia	22,719	843	1,145	-	-	19,882	408	441	-
Caribbean	1,425	-	-	-	-	-	1,425	-	-
Europe	157,642	41,349	19,884	9,437	4,409	60,356	12,083	3,132	6,991
Far East	52,149	22,390	4,384	-	-	23,853	1,254	268	-
Indian Sub Cont	12,877	4,612	-	-	-	8,266	-	-	-
Mid East	52,503	21,941	2,475	-	-	27,820	-	268	-
North America	122,349	31,194	10,285	-	-	71,383	7,805	1,681	-
Scandinavia	25,590	13,733	-	8,662	-	3,023	-	173	-
South America	13,181	3,886	6,270	-	-	3,025	-	-	-
	502,708	**145,376**	**58,024**	**18,099**	**4,409**	**239,847**	**23,581**	**6,381**	**6,991**

3.5.6 This is a reflection predominantly of business links associated with the oil industry, (see Table 3.7) and in the case of Europe the other major sectors under-pinning Aberdeen's internationalised economy. It emphasises again the tremendous importance of businesses in the Grampian region being able to access these markets easily by air, but also flags that there are very few city pairs that have sufficiently large volumes to merit direct services. So for example, of the oil cities below, demand is highest to Houston, but at 27,000 passengers in 2009 it is not yet quite at a level to justify a year round direct scheduled operation at a sensible frequency.

Table 3.7 Passenger Traffic from Aberdeen Airport's Catchment to Oil Cities

ABZ traffic to World Oil Cities			
Country	total pax to Oil country	Oil city	Pax to Oil city
Kazakhstan	2,387	Atyrau	929
Canada	20,424	Calgary	7,721
Saudi Arabia	1,264	Damman	1,020
China	10,332	Daqing	-
Qatar	2,109	Doha	2,109
China	10,332	Dongying	-
Canada	20,424	Halifax	2,409
USA	100,691	Houston	27,438
Angola	10,277	Luanda	10,277
Equatorial Guinea	1,730	Malabo	1,730
Australia	19,616	Perth	6,826
Nigeria	4,355	Port Harcourt	635
Trinidad & Tobago	1,425	San Fernando	-
Canada	20,424		2,701
Norway	188,963	Stavangar	129,816
Russia	3,559	Tomsk	-
Mexico	1,233	Villahermosa	-
Total	**419,546**		**193,609**

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

3.6 Quality of Hub Connectivity Considerations

3.6.1 What follows are a series of graphics based on an in-depth analysis of March 2012 OAG schedules, which seek to present the relative connectivity of the principal hubs to which Aberdeen Airport provides connections. The first three (Figs 3.7-3.9), examine the total number of onward destinations available from:

- all airlines;
- the principal Alliances; and
- individual network carriers at those hubs.

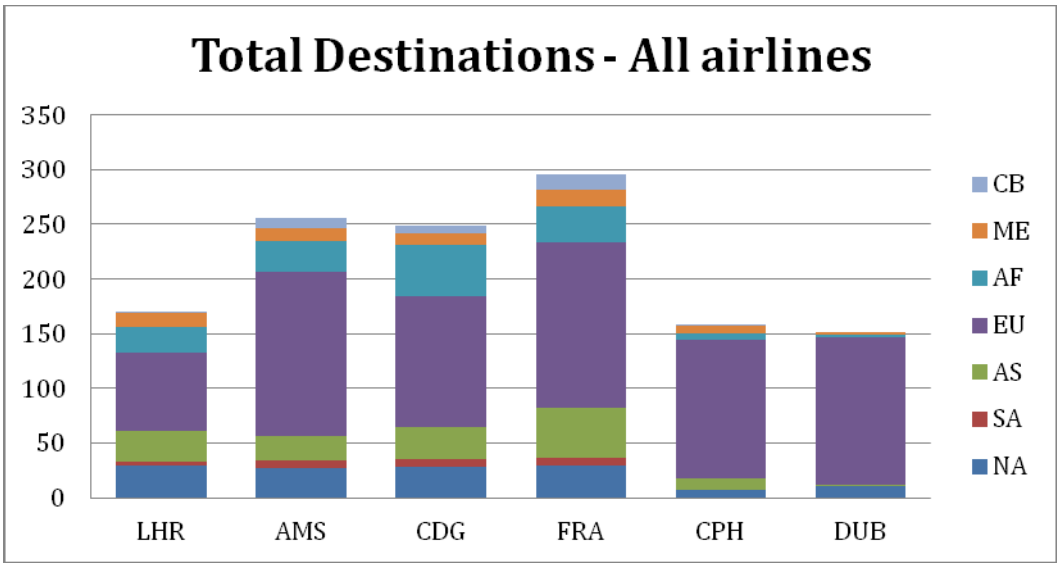

Figure 3.9 Number of Onward Destinations from All Airlines

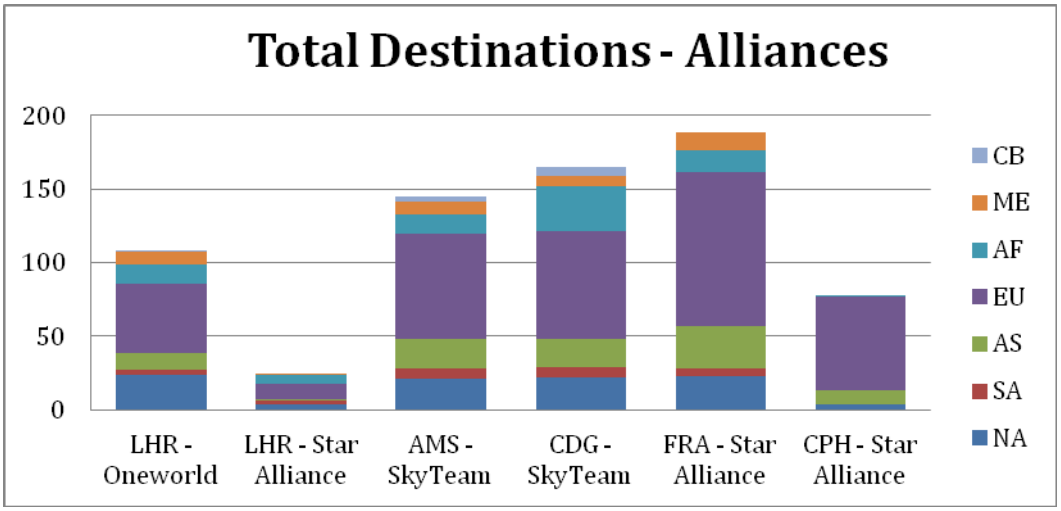

Figure 3.10 Number of Onward Destinations Available from Principal Alliances

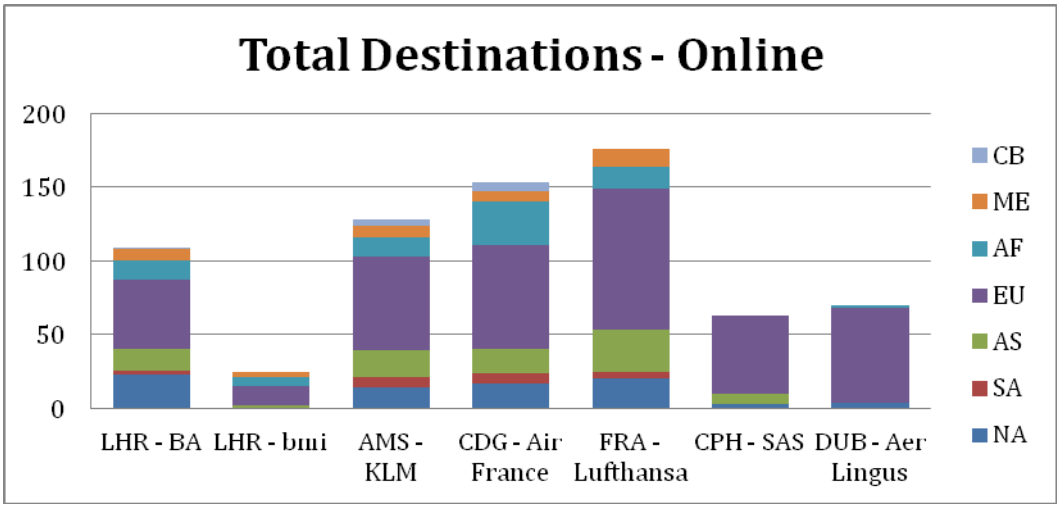

Figure 3.11 Number of Online Airline Connections from Hub Network Carriers

3.6.2 The Figures above illustrate the widely recognised position that the range of destinations available from Paris, Amsterdam and Frankfurt, is significantly greater than from Heathrow. And with Heathrow running at 99% of available capacity and new runways coming on stream at each of these competitors this disparity seems only likely to increase. So do they not offer better long-term options for the North East of Scotland's needs, reducing the reliance on Heathrow?

3.6.3 The answer of course is more complicated than that, because connectivity is not just a function of the number of destinations, but also of their frequency in different markets. So that when we look at the comparative position in terms of frequency, the charts below (Figures 3.10 - 3.12), indicate that Heathrow begins to perform much better. Indeed, when all airlines are taken together it outperforms its competitors and this is particularly noticeable on routes to North and South America (NA and AS) and to a lesser extent the Middle East (ME) and Africa (AF).

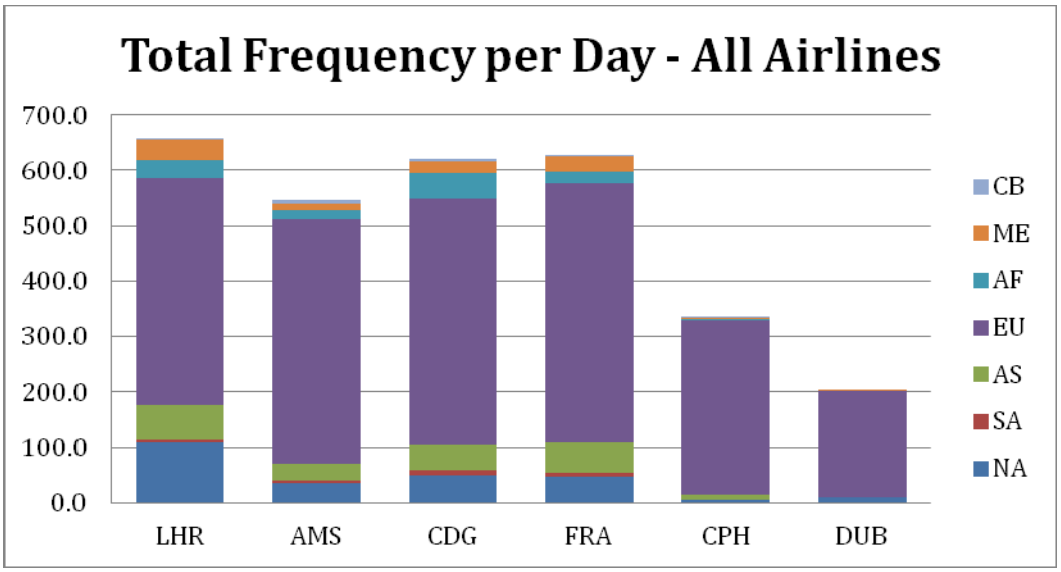

Figure 3.12 Frequency from All Airlines at Each Hub

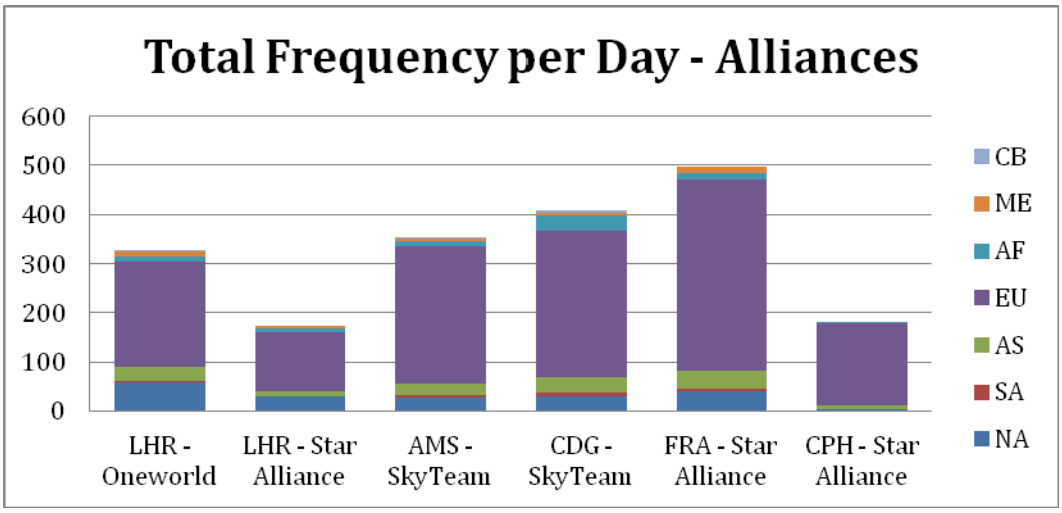

Figure 3.13 Frequency Available from Principal Alliance at Each Hub

3.6.4 In terms of a single connecting point for an Airline Alliance, Amsterdam CDG and Frankfurt are better in terms of frequency than Heathrow, but uniquely in Europe Heathrow has a major presence from two of the three main Alliances operating at the same airport. In terms of online frequency for through traffic with a single carrier, Heathrow matches Amsterdam and outperforms all other hubs for onward connections to North America, but is not as strong as Paris and Frankfurt in other markets or overall.

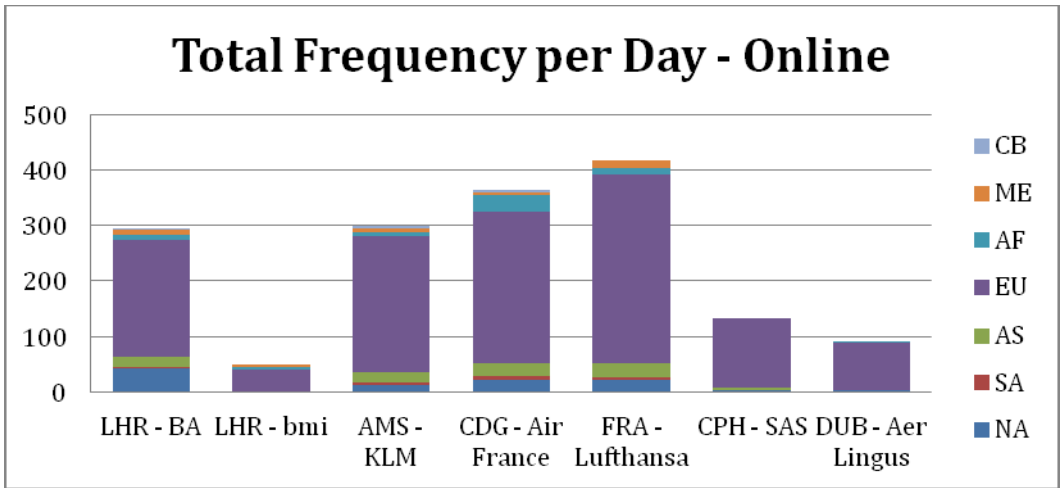

Figure 3.14 Online Frequency Available from Network Carriers

3.6.5 But the best measure of connectivity is one that recognises not just onward frequencies but also inbound frequency from the regional city in question. In Aberdeen's case there are currently 11 services a day to Heathrow, six times daily to Amsterdam, three times daily to Frankfurt and Paris and twice a day to Copenhagen. By dividing onward frequencies by these inbound we get a connectivity quotient – effectively a measure of the ease of being able to take advantage of the onward services rather than having long connect times or restricted departure times from the originating airport (see Figures 3.13 - 3.15).

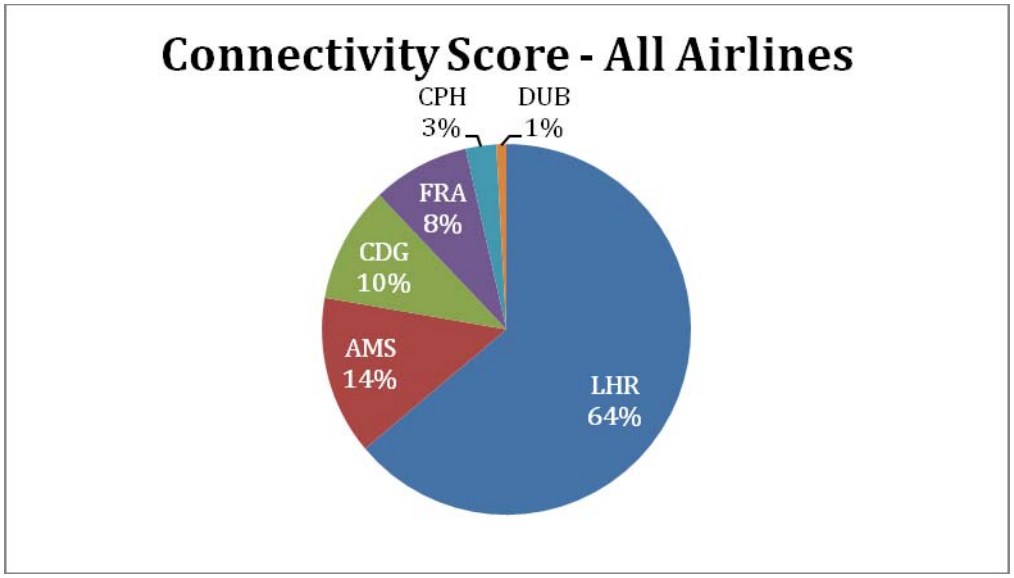

Figure 3.15 Hub Connectivity from All Airlines

3.6.6 When looked at in these terms, which is crucial for businesses where time is valuable, Heathrow offers vastly better connectivity than its competitors in terms of all airlines, both of its Alliances and from its principal carrier BA.

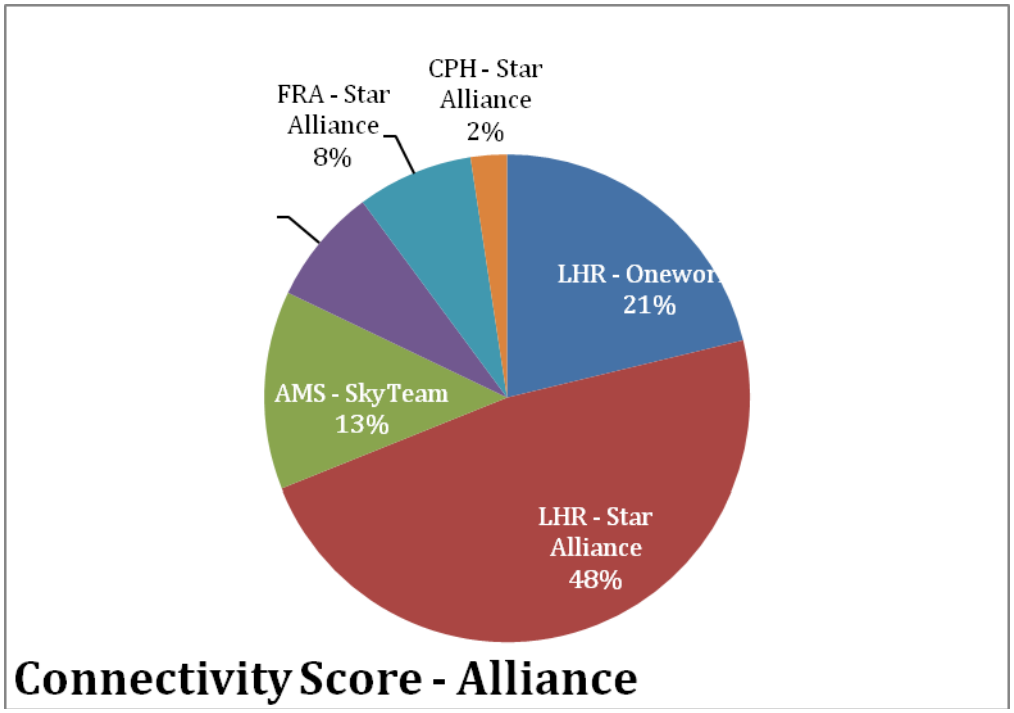

Figure 3.16 Connectivity Associated with Different Alliances

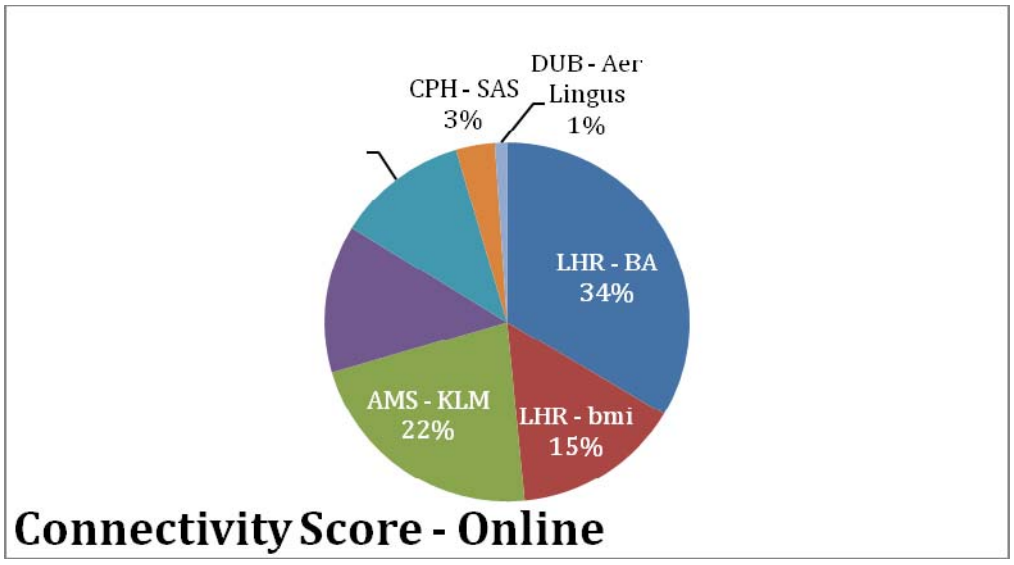

Figure 3.17 Connectivity Available from Different Network Carriers

3.6.7 It is this enhanced connectivity, which could quickly be down-graded by loss of service frequency between Aberdeen and Heathrow, which is so vital to Aberdeen's economy as it moves from a focus on oil and gas production to one of being a technology and expert services supplier to the global energy sector. And because of its prominent position in the energy sector and strong export performance, the fate of North East Scotland's economy is also important for the wider Scottish and UK economies.

3.7 The Importance of Heathrow as a Point-to-Point Market

3.7.1 But Heathrow does not just act as an important gateway for Grampian-based businesses to the wider world, it also has a key role in providing access to the World's leading city, London, and the huge market represented by the South East, one of a number of emerging mega-regions which will dominate global economic activity by 2050. Around 60% of ABZ-LHR traffic is point-to-point and as indicated earlier, other than in the recent downturn it has continued to grow. The question that needs to be asked, therefore, is if IAG for its own commercial reasons seeks to cannibalise some of the slots portfolio bmi operates to Aberdeen, will this potentially adversely constrain total 'capacity' on the North East of Scotland's single biggest and most economically important route as well as having a deleterious affect on global connectivity?

Figure 3.18 Future Demand Scenarios for Heathrow

3.7.2 To examine this issue, we have extrapolated likely future demand forward over the next 10 years and then used the results to consider a range of scenarios in terms of capacity availability on the Heathrow route. This analysis is presented in the six tables at Appendix 2a.

3.7.3 What they indicate is that:

- loss of the bmi slots would severely constrain available capacity on the route as load factors are already fairly high; and
- this might be compensated for in part by increasing the size of the aircraft on the route, but since BA's and bmi's slot portfolio there is a lack of large aircraft available for domestic usage.

3.7.4 Using A321 equipment, which is potentially available, would leave little or no room for growth and very high load factors that will drive up prices if 50% of bmi slots were cannibalised. If all the bmi slots were used in this way, there would continue to be some capacity shortages on peak services. There may also be a question mark over whether this kind of aircraft can use Aberdeen's runway in all conditions, even with the current extension, at maximum take-off weight.

3.7.5 In conclusion, there is a real threat to capacity on the route even if only 50% of bmi's slots are used for other purposes and this will have material economic effects, completely independent of any consideration of those arising from loss of onward connectivity at Heathrow.

3.8 Economic Significance of Air Links to London

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

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

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

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

3.8.1 As these statements from Scottish Enterprise's current Business Plan[2] make clear, good air links to a wide range of potential markets is a very important factor in facilitating future export-led growth for the Scottish economy.

Scottish Exports

3.8.2 For an economy the size of Scotland's, as for many other small European countries, securing export growth at levels above of GDP growth, is recognised as being critical in delivering the Scottish Government's objective of creating positive and sustainable long-term economic performance, an aim now also shared by the UK Government, especially with imports and balance of trade deficits continuing to rise.

[2] Scottish Enterprise Business Plan 2012-15

3.8.3 Following a period of low export growth in the early 2000s associated with the contraction of the electronics sector, Scotland successfully achieved this ambition between 2007-09 as Figure 3.19 below shows. But with domestic demand subdued since 2009 as a result of the economic downturn, continued strong export performance is considered crucial to Scotland's economic recovery.

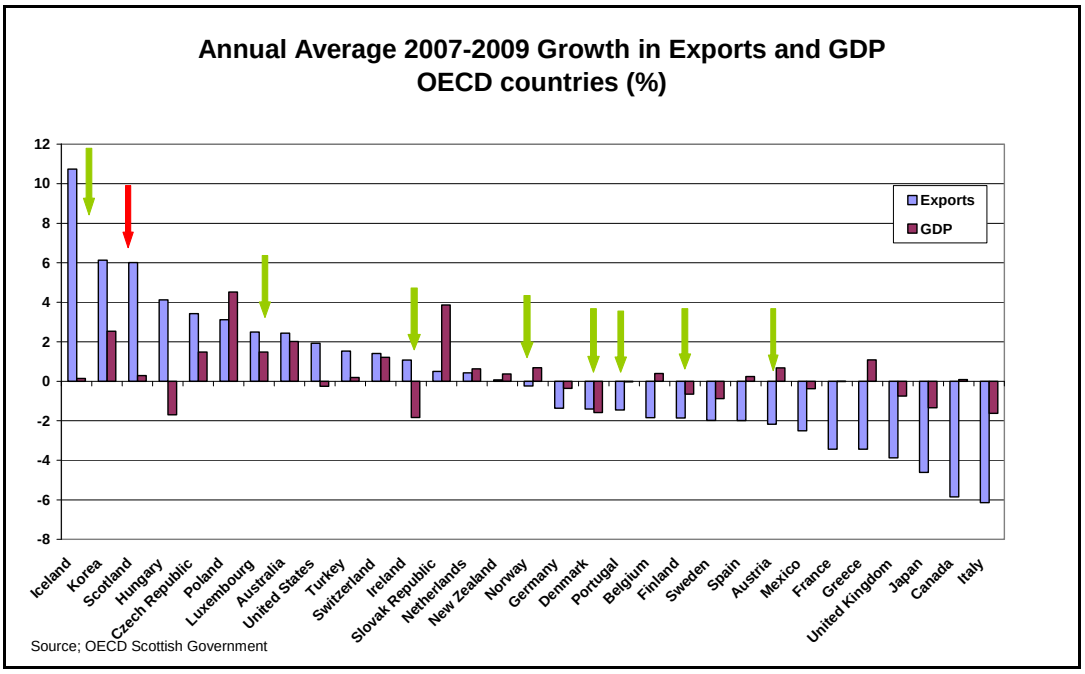

Figure 3.19 OECD Countries GDP and Export Growth

3.8.4 Current problems in the Eurozone are suppressing potential markets within Scotland's largest trading zone, the EU, which is estimated to be the recipient of around £9.5bn (or 45%) of Scottish exports. This makes greater internationalisation, to facilitate increased trading in markets such USA, at £3.1bn in 2008, Scotland's largest single overseas export destination, and faster growing emerging economies, an even more important target. The retention of hub connections via major airports such as Heathrow, which can provide quality access to many of these markets in a way that the range of direct services likely to be available from Scotland cannot compete with, therefore becomes a critical factor in the achievement of this objective.

Table 3.8 Principal Scottish Overseas Trading Partners 2008

Rank	Destination	Total Scottish Export Value (£m)	Share of Scottish exports	Share of UK exports
1	USA	3,100	15%	15%
2	Netherlands	1,635	8%	8%
3	France	1,535	7%	8%
4	Germany	1,300	6%	11%
5	Spain	995	5%	4%
6	Eire	960	5%	7%
7	Norway	610	3%	1%
8	Italy	540	3%	4%
9	Sweden	520	3%	2%
10	Belgium	495	2%	5%

Source: Global Connections Survey 2008

3.8.5 When the distribution of Scottish exports is estimated at the global geographic region scale, there is a very high correlation (R2 of +0.9) with the frequency of service to those destination from Heathrow and the Connectivity Coefficient of hub connections over Heathrow from Aberdeen.

Table 3.9 Scottish Overseas Exports by Global Geographic Region

Destination	£ million	% of total
European Union	9,525	46
Rest of Europe	1,635	8
North America	3,330	16
Central and South America	665	3
Middle East	970	5
Asia	1,775	9
Africa	790	4
Australasia	280	1
Unallocated	1,690	8
Total	20,660	100

Note: The estimates for regions exclude exports from SICs 61, 62, 65, 66 and 90

Source: Global Connections Survey, 2008

3.8.6 If 'future' pattern export markets are considered, as in Figure 3.20, the need for access to a global hub airport in London to reach countries that will never be served direct from Scotland becomes, if anything, even more significant.

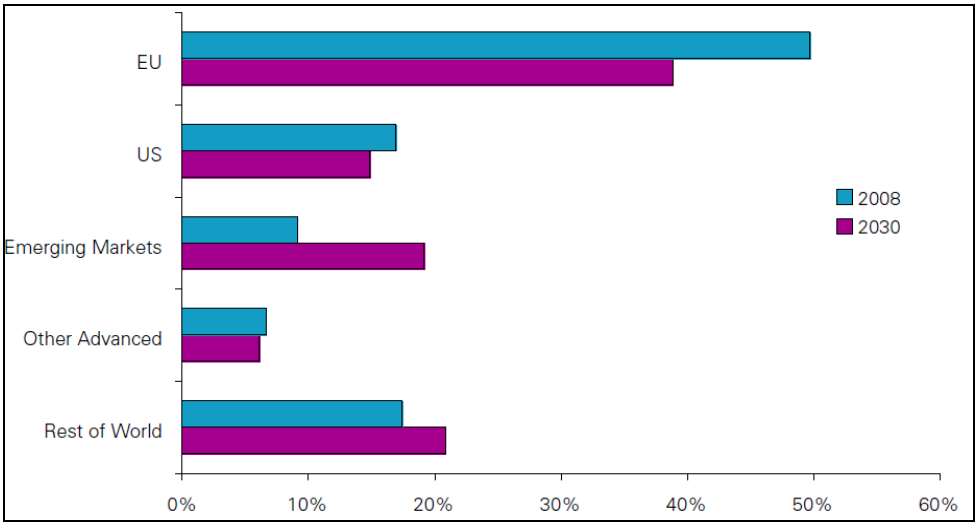

Figure 3.20 Share of UK Exports of Goods and Services3
Source: BIS

[3] New Industry, New Jobs – one year on (March 2010), based on extrapolation of current trends

3.9 The North East of Scotland's Role

3.9.1 As one of the beacons of both the Scottish and UK economies, dominated by an export focused sector in oil and gas sector, Aberdeen and its hinterland are one of the key places being looked at to lead Scotland's and the wider UK's export focused economic strategy. It is estimated that there are about 4,000 exporting businesses and 1,500 service sector exporters in Scotland, giving a total exporter base of around 5,500. But GCS data suggests that the largest 60 exporting companies account for 50% of Scotland's exports with the top 400 companies accounting for 80% of exports. When compared to its population (around 10% of the Scottish total) a good proportion of these are located in Grampian, which provides the home to 28% of the Top 100 Scottish owned businesses (see Appendix 2b), and 34% of the Top 50 businesses (including those with overseas ownership) based in Scotland[4] - most of them in the energy sector.

3.9.2 When the future plans of the several hundred companies in both the energy and non-energy sectors in Aberdeen City and Shire area that are involved in exporting are examined[5], the outlook appears positive, with:

- 55% having seen international business increase in the previous two years; and
- 80% of energy companies and 60% of non-energy companies anticipating increasing their international activity over the next two years.

3.9.3 Current and prospective target markets, again split between energy and non-energy focused companies, were also examined. A summary of the findings is provided in Appendix 2c.

3.9.4 Although a number of EU countries with a strong presence in the tables (eg Norway, Germany, Netherlands and France) either have direct air services from Aberdeen or offer a hub which can connect to other parts of that country or elsewhere in the EU (eg Frankfurt, Amsterdam and Paris), many of the most prominent countries lie further afield.

- in the case of the energy sector it is the Middle East (UAE, Kazakhstan and Azerbaijan) Asia/Oceania (Malaysia, Australia), Africa (Egypt, Nigeria and Angola) and South America (Brazil); and
- for non-energy sector companies, it is North America (USA and Canada), Australia, UAE, Brazil and China.

3.9.5 For these target markets, as the connectivity analysis above showed, Heathrow is by far and away the best option for Aberdeen City and Shire based companies to reach most of them, with the other hubs offering a choice, but one which offers materially poorer connectivity.

3.10 Oil and Gas Sector

3.10.1 Over the past 35 years, the Aberdeen City and Shire area has played a key role in the emergence and development of a dynamic energy (oil and gas) sector, predominantly based around North Sea oil and gas. Since the mid 1970s, around 38 billion barrels of oil equivalent (boe) have been produced from the UK Continental Shelf (UKCS) with the prospect of a further 15-25 billion boe still to be extracted.

[4] Importance of the Energy Sector: Scottish Enterprise Report (2010)

[5] Aberdeen City and Shire Business Survey 2010

3.11 Number of Companies

3.11.1 It is estimated that there are well in excess of 1,000 companies in Aberdeen City and Shire that operate wholly or predominantly in the energy sector. The spectrum of companies ranges from exploration and production (E&P) multi-nationals to smaller, specialist enterprises that play a supporting role to the sector. As well as being the main centre for UKCS activities, Aberdeen is also an important hub for international companies to base their operations; they include:

- Central Aberdeen: ExxonMobil, Talisman, Petrofac, Transocean;
- Rubislaw: Chevron, Marathon, ConocoPhillips;
- Westhill: Subsea7, Technip, Acergy, TAQA Brantani;
- Altens & Tullos: Shell, AMEC, Wood Group, Maersk Oil, KCA Deutag; and
- Dyce and North: BP, Aker, PSN, Halliburton.

3.11.2 As has been described above, and is illustrated by Appendix 2c, many of these companies are highly international in their activities and therefore require swift and convenient air access to the markets they operate in to be effective. At the moment this is in the main provided by Heathrow, which is also well placed to offer connections to the new markets that are being targeted. Were the quality of the links to deteriorate or in a worst case scenario disappear, it would have a material impact on the ability of the industry to function competitively from Aberdeen, and the likelihood is much of it would, over time, relocate overseas. The losses to the Scottish and UK economies consequent upon this would be significant as the overview of the economic value of the sector below demonstrates.

3.12 Taxation Revenue

3.12.1 In total, oil and gas production from the UKCS has contributed significantly to tax revenues for the Government, with £271 billion over the last 40 years (2008 prices).

3.12.2 According to the Oil & Gas UK 2009 Economic Report, production from the UKCS in 2008 contributed £12.9 billion in corporate taxes, 28% of the total corporation taxes received by the Exchequer. In 2009, production from the UKCS provided more than 20% of total corporation taxes despite the fall in oil price. The wider supply chain is estimated to have contributed a further £5-6 billion in corporation and payroll taxes.

3.12.3 While there are no regional contribution figures towards the Government “tax-take”, clearly, with a substantial proportion of the UK’s industry based in Aberdeen City & Shire it is obvious that the region makes a hugely significant contribution to Government tax revenues. This reflected in the export sales figures outlined below.

3.13 Export Sales

3.13.1 The annual SE/SCDI survey of the oil and gas sector values both:

- direct exports from Scottish based operations (ie production and services that are supplied and managed from Scotland); and
- international sales that were generated via overseas subsidiaries with Scottish based headquarters.

3.13.2 From a total sales figure of £6.6bn in 2008 (35-40% from Scottish based operations the rest from international subsidiaries), this figure has risen during the recession to £7.2bn last year, an extraordinary figure for a place the size of Aberdeen.

3.14 Gross Value Added

3.14.1 The industry's contribution to the economy is reflected in its share of Gross Value Added (GVA). At the UK level, National Statistics estimates that in 2007 the oil and gas industry contribution was £25 billion, the largest contributor to the UK's GVA at 13%. However, this figure excludes the whole supply chain value added and is likely to underestimate the contribution of the industry as a whole. As the primary production and operating base for the UK oil and gas industry, Aberdeen City and Shire contributes significantly to Scotland's and indeed the UK's oil and gas GVA. It is estimated that around 75-80% of Scotland's oil and gas GVA is generated in Aberdeen City and Shire.

3.15 Employment

3.15.1 Oil & Gas UK estimate total employment (direct, indirect and induced) provided by the oil and gas sector in the UK in 2008 to be approximately 450,000. These are jobs supported by the servicing of activity on the UKCS and in the export of oil and gas related goods and services around the world. Whilst the industry provides work across the UK, Scotland benefits the most, with around 195,000 jobs, or 44% of the total.

3.16 Tourism Sector

3.16.1 The tourist industry is another important sector of the North East of Scotland's economy that has an international focus. It also sustains a substantive accommodation and service industry. Although the domestic tourism market in Aberdeen and Grampian is much larger than the overseas market (see Tables below), but spend per head by domestic tourists is around half that of foreign visitors; only 7% (mostly from the South East) fly, whereas 97% of overseas tourists do and most of those from the important North American market will come via Heathrow.

3.16.2 Retaining international connectivity, in which the links to Heathrow play an important role, while expanding the range of markets where tourist traffic is drawn from – and emerging economies are likely to be an important component of this in the medium to long term, again makes access to hub connectivity crucial, and Heathrow is clearly the best of those on offer for Aberdeen.

Table 3.10 Tourism Data for Aberdeen and Grampian

Table 2: UK Tourists by Country of Residence

	Trips (%)		Expenditure (%)	
	A&G	Scotland	A&G	Scotland
England	38	45	46	56
Scotland	58	51	50	38
Northern Ireland	-	2	-	4
Wales	4	2	4	2
Total UK (m)	1.12	12.37	£202	£2,628

Table 3: Overseas Tourism by Country of Residence

	Trips (%)			Expenditure (%)		
	Aberdeen	A&G	Scotland	Aberdeen	A&G	Scotland
Norway	14	13	3	9	8	5
USA	10	10	12	12	13	13
France	8	7	8	6	8	8
Italy	7	6	5	6	4	5
Australia	6	6	6	8	6	7
Netherlands	6	8	6	6	9	4
Germany	5	8	11	6	8	9
Spain	5	4	6	5	5	5
Austria	5	3	1	2	-	2
Rest of the World	34	35	42	40	39	42
Total (m)	0.17	0.25	2.35	£65	£94	£1,455

3.17 Future Economic Strategy

3.17.1 There are two major strands to the strategy for development by Aberdeen City and Shire Economic Future (ACSEF), the public-private sector partnership leading economic development in the region.

3.17.2 The first is to gradually diversify Aberdeen's economy away from its dependence on oil and gas with renewable energy, life sciences and tourism all target sectors. The second is to further internationalise the area's economy, with the oil and gas industry taking the lead by making Aberdeen City and Shire as a global centre of excellence in the World energy market.

3.17.3 In the latter case three priority actions have been identified:

- encourage the international expansion of the oil and gas supply chain through direct company support and networking;
- establish Aberdeen City and Shire as an innovation hub by building on the region's reputation as a subsea centre of excellence and encouraging similar development of other niche markets; and
- accelerate investment by business into all-energy development, particularly embracing renewables.

3.17.4 Although actual North Sea production has been gradually declining, the UKCS remains an important province, and energy-related activity will continue to be a key component of the Aberdeen City and Shire economy for many years. As the upstream energy sector diversifies and responds to changing conditions, Aberdeen City and Shire remains well-placed to benefit from the development of unconventional oil and gas technologies. These technologies use techniques other than the traditional 'oil well' method, and encompass oil shale/sands, coal bed methane, heavy oil and tight gas. The region has the potential to become a centre of excellence for unconventional oil and gas technology as the area is already home to a critical mass of companies that can meet the challenges that will be faced.

3.17.5 In terms of the non-energy sectors, tourism and high value industries such as life sciences, Universities and business service sectors such as finance, consultancy and the professions are all external looking and have high propensities to fly. Access to good air connections will therefore also be important to Aberdeen City and Shire's economic diversification plans.

3.18 Conclusions and Key Issues

3.18.1 Heathrow service is therefore the single most important component of Aberdeen Airport's market. Service frequency from Aberdeen itself and access to the high frequency long-haul connectivity that LHR offers (particularly to the important North American and Middle East markets, and to a lesser extent to Commonwealth countries in Africa and Asia/Oceania), make it by far the most effective hub for Aberdeen's economic needs. Government Policy and commercial developments that could adversely affect those links, are therefore of crucial importance not just to retaining air service connectivity to Aberdeen, but because of the dynamism and prosperity if the City's economy, also to the economic performance of Scotland and arguably even that of the UK.

3.18.2 The preceding analysis has demonstrated that surface travel is not a viable option to domestic destinations south of the border, other than for non-time critical leisure (or slow) travel. Other Scottish airports (notably Edinburgh and Glasgow), have serve more destinations direct, but Aberdeen has reasonable access to a number of European hubs allowing a wide range of one-stop connections. However, the connectivity quotient for these hubs is substantially inferior to Heathrow implying reliance upon them would impose inconvenience and time delays which are expensive for the many time critical businesses in the sectors which Aberdeen excels. As the 2002/03 Transport Select Committee Report expressed so forcefully, it is also questionable whether a UK Government should be reliant upon access to hubs in other countries, which they do not control, as the sole means of connecting devolved areas and peripheral UK regions to the wider world.

3.18.3 Heathrow also has by far the largest point-to-point market for London; with a substantial business component it alone serves one of the most important markets for companies based in North East, notably London and the South East. According to our analysis, there is a danger that even if only a small number of bmi slots were cannibalised for long haul services as capacity pressure become ever greater at Heathrow, this traffic may get squeezed and not all of it may be willing to transfer to less frequent and convenient low cost services to Gatwick and Luton.

3.18.4 What this assessment does serve to highlight, is the pivotal role that the Heathrow air services now play in providing the North East of Scotland with essential international connectivity. If it were to be lost as a result of increasing pressures on capacity and rising charges in London, the alternative hub services would be less efficient and vulnerable to the policy decisions of other Government's as they too slowly begin to fill up, and capacity in the London market would be materially impacted as frequencies diminish and sub-optimal arrival points in the South East take greater prominence. Taking the most extreme case, if all slots to Heathrow from Aberdeen were to be re-allocated to other routings, it is clear that this would have a substantial impact on one of the UK's most important industrial sectors. It would also be extremely damaging for Aberdeen's economy and would put a major dent in the potential export led growth and private sector investment which the Government is seeking not only for Scotland but the UK more generally.

4 Conclusions and Recommendations

4.1 Introduction

4.1.1 The preceding sections of this Evidence Note have:

- reviewed historic trends related to regional air access to London airports in the context of the on-going policy debate on this issue, which has been active since well before the last Air Transport White Paper published in 2003;
- the connectivity issues and associated economic, social and political importance of the current air services linking Inverness to London and Gatwick in particular and the substantial added value a restored link to Heathrow would provide; and
- the connectivity and associated economic importance of air services from North East Scotland to Heathrow in the context of the other hub connections available from Aberdeen to access a range of global destinations conveniently and efficiently.

4.1.2 This section of the report seeks to:

- draw together the conclusions of this analysis;
- articulate the key arguments and evidence that are likely to have material weight in influencing the UK Government's current comprehensive review of national aviation policy; and
- make recommendations on how it can be best used to secure a favourable outcome for the North of Scotland.

4.2 Historic Trends and Policy Dynamics

4.2.1 The evidence of the deleterious impact capacity pressures in the airport system serving the South East are having on regional air services to London is substantial and hard to dispute. CAA's attempts to do so to the Transport Select Committee in 2002-03 were robustly dismissed and its representation of these arguments in its own CAP 754 and 775 Reports now looks to have been short-sighted if not evidence of a flawed assessment of how the regional aviation market would develop. The reality is the number of new routes to London has not continued to grow as the CAA predicted. Instead they have declined materially since their peak in 2006-07.

4.2.2 It is not clear whether these CAA reports have resulted in the eye being taken of the ball in Government about regional air links to London, or a pervading philosophy of non-intervention in the market, based on the premise in the 2003 White Paper that two new runways would soon be constructed in the South East (which in hindsight looks to have been optimistic), that has caused this. Or it could be over-reliance on 'allocative efficiency' as the optimum method for slot distribution, even when this takes no account of many policy driven distortions of the market at London's principal airports such a Grandfather Rights, constraints on capacity and the impact of APD on the economics of domestic flying. However, the evidence of the last few years suggests that there has certainly been a lack of focus on the need to protect these essential transport connections and economic lifelines for regional economies. This has been brought into sharp repose by the current Government's announcement of a "no new runways" policy in its 2010 Coalition Agreement, and the sale of

bmi to IAG, both of which have raised major concerns about the future use of slots at Heathrow and Gatwick presently used for regional services.

4.2.3 It is interesting, therefore, that in its recent Insight Notes to DfT, which formed part of its response to the Governments 2011 Sustainable Aviation Review consultation, the CAA seems to have reflected on its position, as signalled by the following advice:

4.3 Insight Note 1: Consumer Choice

*"… **passengers in the UK regions need to use a transfer airport to access the majority of global destinations** … there is evidence of airlines and alliances at some of the major European transfer airports, including Heathrow, specialising their networks to focus on particular world regions. This specialisation tends to be driven by geographical advantage, as well as economic, historic and cultural links".*

*"**While Heathrow dominates on long-haul routes to most world regions as a result of its size, its 'comparative advantage' on transatlantic routes to North America is apparen**t. Similarly, Madrid is the leading airport for connections to Latin America and Charles de Gaulle has the greatest number of flights serving Africa".*

4.4 Insight Note 3: Aviation Policy Choice

"For medium and long-haul routes, consumers should have access to direct services from the UK to key global markets. Recognising that some routes may only be commercially viable if operated from a hub airport, the Government should seek to facilitate successful hub operations in the UK. Consumers using other UK airports should have 'single-stopover' transfer access to the same key global markets."

"As a result, passengers in the UK regions will continue to need to use a transfer airport to access the majority of global destinations: either Heathrow, accessed by surface transport or a domestic flight, or a foreign airport."

*"Aviation Policy for the Consumer noted that as a result of forecast demand growth and capacity constraints in the South-East, **there are likely to be increasing pressures on regional connectivity to London. The provision of additional capacity would be expected to at least partially relieve this pressure, creating slots for commercially viable regional services."***

"The UK's geographical position on the North-West of Europe means that airlines operating out of London can offer competitive journey times for connections to North America compared to other European hubs. Geography, and other factors such as economic, historical and cultural links, would suggest that other European airports might represent more convenient transfer points for routes to other world regions such as Asia, Africa and South America."

*"Accordingly, the other major hubs in Western Europe and beyond play a positive and important role in providing additional choice and value to UK consumers**. However, there may be 'security of supply' risks if foreign hubs also become capacity constrained***

***in the future**. Forecasts published by Euro-control VI predict that by 2030, capacity constraints at airports across Europe could mean as many as two million flights, some 10% of predicted demand, will not be accommodated. Under this scenario, it might be expected that connections to UK regional routes would get 'squeezed' as has been the case at Heathrow over recent years".*

*"**There may therefore be merit in considering a network approach in order to ensure connections for UK regional consumers to a variety of hubs**. Such an approach would better take account of the cross-border nature of some of the challenges facing UK aviation in meeting the needs of consumers and would also be consistent with the joined-up approach taken with the Single European Sky airspace initiative."*

4.4.1 The emboldened sections have been highlighted for emphasis, but are entirely consistent with the analysis from the two preceding sections of this Report. The strategic approach the CAA is now advocating also bears a striking resemblance to the policy advocated by the Transport Select Committee in its 2002-03 report, which was not supported by DfT in its 2003 White Paper, in that it explicitly recognises the important role of Heathrow for the UK regions, as well as London and the South East, because of the quality of access it offers to certain long-haul markets – particularly North America, but also the Middle East and certain parts of Asia and Africa. The first of these is crucial to the export/tourism markets of both Aberdeen and Inverness, but the other continents are also important to extending the opportunities available to Aberdeen's world leading and highly remunerative oil and gas sector.

4.5 PSO Policy

4.5.1 CAA's policy advice would appear to provide a useful platform for re-engaging with DfT about its policy on regional air links to London, and for seeking a fundamental overhaul of the extremely restrictive PSO policy which it put in place after the 2003 White Paper and currently remains in force. Although there are a wide range of criteria that DfT has set-up in its Guidance Note, these are self-imposed and can be challenged. Perhaps the crucial issue for the North of Scotland, which meets the majority of these, is that of whether a PSO needs to be defined in terms of 'city' pairs or can imposed between two airports. In a recent letter from Siim Kallas, Vice-President of the European Commission to a North of Scotland MP[6], he quotes Article 16 of Regulation 1008/2008, which states that:

*"a Member State ….. may impose a public service obligation in respect of scheduled air services **between an airport in the Community and an airport serving a peripheral or development region in its territory** or on a thin route to any airport in its territory, any such route being considered vital for the economic and social development of the airport it serves."*

[6] Letter from Siim Kallas to Sir Robert Smith MP, 30 August 2011

4.5.2 It makes no reference to 'city pairs', although for many PSOs where there is only one airport at either end of the route, the terms of the PSO often cites the city or region concerned. DfT's Guidance picks-up on this convention by indicating in the case of London the PSO cannot be 'airport specific'. This raises the question of whether an inadequate provision of external connectivity through the London Airports is a basis for imposition of a PSO through Heathrow, in terms of proportionality. In other words does the North of Scotland warrant Heathrow links.

4.5.3 The evidence in this Note relating to the importance of the existing links between Heathrow and Aberdeen, and the 60,000 passengers from within the Highlands & Islands region who commit to travelling from airports elsewhere in Scotland, despite the significant and inconvenient surface journeys this entails rather than transfer in London, suggests clearly that it does.

4.6 The Forthcoming Sustainable Aviation Framework Consultation

4.6.1 In the event that the UK Government sticks to the current Coalition Agreement policy of no new South East runways, it will be essential to make this argument, but given current pressures it is also relevant now, even if the Government, as has been widely trailed, decides to change its 2010 policy position and supports new runway capacity in the South East, as no significant new capacity is likely to be forthcoming for a minimum of 10 years.

4.6.2 DfT has promised that options to achieve this will be included in the consultation it will commence in June 2012. The evidence base in this report provides a sound platform upon which to seek to argue for and formalise a coherent policy on this issue as it relates to the North of Scotland, in line with CAA's whilst simultaneously requiring a re-framing of slot access/PSO rules to facilitate retention of the regions existing slot portfolio under whichever option, runways or no new runways, is preferred.

4.7 The Key Evidence and Policy Arguments

4.7.1 'Connectivity' has emerged as the 'hot' policy issue in the current aviation review, displacing the rather more arcane cost benefit assessments based on less than reliable demand forecasts that under-pin many of the policy decisions made for the 2003 White Paper, because it has real resonance for businesses. With the UK economy now struggling and cross-cutting themes such as re-balancing the economy, private-led investment and access to faster-growing emerging economies to increase export volumes dominating Government thinking, this is not surprising. As the quotes from businesses in the North of Scotland in Appendix 4a illustrate, connectivity is a crucial component of the delivery strategy that each of these policy areas requires. This is reinforced in a global context by Oxford Economics 2009 Report: "Aviation the Real World-wide Web".

4.7.2 This Evidence Note has focused, therefore, on 'connectivity' issues as they relate to the North of Scotland's air links to London and has sought to make transparent why these are important to the economy of the region and that of the wider UK and consequently must be adequately addressed in the Government's final national aviation policy framework.

4.8 Inverness

4.8.1 In the case of Inverness the core arguments that need to be put forward 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 poor onward connectivity it offers;
- the material share of the Gatwick market (28%) which is business orientated, enabling external expertise to be accessed by Highland firms and providing access to both London and wider international markets for outward facing and exporting sectors in the region (eg Whisky Industry, Optical and Medical Equipment Manufacture and the Energy Sector);
- the need for these sectors and other the new growth sectors of the Highland economy (eg life sciences) to have access to both well-established and emerging foreign markets if they are to prosper;
- the inadequacy of other London airports (such as Stansted, Luton and London City) as an alternative to Gatwick because of their more limited and leisure orientated connectivity, longer access into the heart of London and in City's case, the operational restrictions and expensive charges it levies on airlines;
- the far poorer connectivity that Gatwick, or other major UK airports to which Inverness is connected (eg Manchester and Birmingham), offer compared to Heathrow, particularly to the North American market, which is important for Highland businesses and the tourism industry;
- the strategic importance of not being forced to rely on foreign hubs for global connectivity in line with recent CAA advice, and the difficulty of expanding the new Amsterdam link to a sufficient level of frequency to justify such reliance because of the absence of an underlying point-to-point market on the scale available on the London market; and
- the fact that Heathrow continues to dominate airfreight exports from the UK, making access to this form of distribution system sub-optimal for Highland based firms in the absence of service to the UK's primary air cargo hub. This is particularly significant for the high value seafood export markets that local firms would like to access, because in 2011 Heathrow accounted for 95% of UK long haul seafood exports by air.

4.9 Aberdeen

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

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

4.9.2 But also because of:

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

4.9.3 In many ways, Aberdeen Airport offers an archetypal example of the kind of 'network' solution the CAA is advocating for regional air access, whilst its economy exemplifies the kind of privately driven, high skill, high value and export focused approach which the Government is seeking to foster. With an economy dominated by the oil and gas sector, but seeking to diversify into 'new' sectors such as life sciences, and renewable energy, whilst increasing the international market for its tourism offer, geography makes high quality air 'connectivity' essential to the functioning of what currently is one of the most prosperous part of the UK and a major source of exports and tax revenues for UK plc. This requirement cannot be met adequately be reliance on foreign hubs or regional hubs elsewhere in the UK; continued high frequency access to Heathrow is demonstrably the key to maintaining access both to London, the number one World City, and to the wider global economy.

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

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

4.9.5 There is, therefore, real resonance to the need for DfT and Whitehall more generally, to recognise the importance either in:

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

4.10 The North of Scotland

4.10.1 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 the Government's forthcoming aviation policy framework. This is because:

4.10.2 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. 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.

4.10.3 In recognition of this and its duty to provide adequate transport access and socio-economic connectivity to all its citizens in return for taxing them, not just those living in the national capital and major regional centres, but also those occupying more peripheral regions, HITRANS and Nestrans are strongly placed to argue that in return the UK Government should be willing to accept a small amount of prioritisation at the UK's hub airport and at Gatwick, as the price for providing some equity of treatment and market access.

4.10.4 Such a policy requires no subsidy; the routes themselves are commercially viable. It therefore provides a very low cost solution, mainly in the form of opportunity costs, to a very specific but important problem, which is of wider UK as well as regional, significance, namely the loss of trade that Aberdeen and the Highlands generate. If lost to those regions, in some cases it would be lost to the UK as well, as it would in all likelihood move overseas, as some of the quotes in Appendix 4a make clear.

Table 4.1 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
Total	20-21	23	17-19	20

4.10.5 If for example, the slot reservations set out in the Table 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).

4.10.6 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. As Appendix 4a makes clear, these links are vital to real businesses, employing a lot of people and generating wealth and tax receipts for UK plc.

4.10.7 In the context of an international short-haul portfolio routes at Heathrow, as set out at Appendix 4b, 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 closed to London than Aberdeen; and
- and others still, which are serve outbound leisure destinations and are therefore a questionable use of valuable Heathrow slots.

4.10.8 Considering Paris and Brussels for example, there are already high frequency High Speed train (HST) services to both cities which 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.

4.10.9 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.

4.10.10 We estimate that if the number of services to Amsterdam, Brussels, Paris and Dusseldorf alone from Heathrow were reduced by 25% (Cologne has only three 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, more than sufficient to meet the needs of the UK's peripheral regions, without having to cannibalise slots to other parts of the UK.

Table 4.2 Distance from London Heathrow

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

City	Distance in Miles	Slots Per Week #
Dublin †	280	[246]
Dusseldorf	315	138
Cologne	330	40
Dortmund *	340	0
Total †		*820 [1066]*
Major Nr European Cities – Within 500 Mile Radius		
Frankfurt	405	256
Hannover	435	38
Bordeaux *	450	0
Hamburg	460	112
Lyons	460	42
Stuttgart	465	68
Geneva	470	192
Zurich	490	180
Total		*888*

Based on 10-16 June, 2012; source BAA Heathrow Website

† Figures in brackets include Dublin slots

* Not served from LHR – Summer 2012

4.10.11 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.

4.11 Presentation and Utilisation of the Report

4.11.1 It is unlikely that DfT's focus is currently on the regional access issue and it is therefore for consideration what is the best timing for publication and advocacy method for the key themes in this Evidence Note. Certainly, they should form part of the formal response of HITRANS and Nestrans and their business and political stakeholders to the June consultation, but it might also be useful in advance to use the Note:

- as the basis for discussions with DfT officials and other Government departments;
- to arrange a meeting with CAA to discuss its views and raise the concerns of peripheral regional connectivity;

- to secure third party advocacy from key figures in the principal sectors of the North of Scotland's economy and amongst EU, UK, Scottish and local Government politicians;
- to ensure spokesmen for the local airports and airlines, are on-board and delivering a consistent message;
- to influence wider national industry bodies and professional associations to use Inverness and Aberdeen as examples of why certain key policies must be adopted in the final Aviation Policy Framework; and
- brief the local, Scottish and UK national media, so that they drive public support in a groundswell of support in the direction that is needed.

4.11.2 It may even be useful to seek backing from overseas partners and Governments in the form of representations to the UK Government, because of the importance of the economic and cultural ties between the North of Scotland and their regions.

4.11.3 All of the above will probably require a simplification of the complex analysis and messages emerging from the Evidence Note in the form of:

- a standardised Powerpoint presentation for professional and business audiences; and
- a two-page summary to accompany briefing for non-experts such as the media and politicians.

These will be the final outputs of the study once the Evidence Note has been signed off by the client group.

Appendix 1a

Connecting passengers from INV using LGW as a hub airport

Afghanistan Unspecified	Afghanistan	219	Denver(Stapleton Int)	United States	1,052	Lanzarote Arecife	Spain	311	Portugal Unspecified	Portugal & Made	365
Ajaccio (Campodell'Oro)	France	181	Doha	Qatar	181	Larnaca	Cyprus	1,962	Prague	Czech Republic	1,145
Algeria Unspecified	Algeria	143	Dominican Republic Uns	Dominican Repu	582	Las Vegas	United States	739	Puerto Plata	Dominican Repu	151
Alicante	Spain	123	Douala	Cameroon	64	Lima	Peru	143	Puerto Rico	Bolivia	134
Almaty Kz	Kazakhstan	143	Dubai	United Arab Emi	134	Lisbon	Portugal & Made	533	Qatar Unspecified	Qatar	299
Amsterdam-Schiphol	Netherlands	2,146	Durban Virginia	South Africa	353	Los Angeles Internationa	United States	353	Richmond In Us	United States	123
Antigua (V.C. Bird Intl)	Antigua & Barbuda	368	Exeter	United Kingdom	181	Lusaka International	Zambia	181	Riga	Latvia	299
Athens Gr	Greece	181	Faro Pt	Portugal & Made	529	Luxor	Egypt	368	Rome (Fiumicino)	Italy	1,218
Atlanta	United States	365	Florence It	Italy	151	Madrid (Barajas)	Spain	143	Salzburg	Austria	181
Auckland International	New Zealand	64	Fort Myers	United States	368	Mahon, Minorca	Spain	223	San Francisco Internatio	United States	522
Bangkok	Thailand	916	Freeport	Bahamas	541	Malaga	Spain	365	Shanghai	China	353
Banjul(Yundum Internat	Gambia	123	Funchal	Portugal & Made	143	Malta Unspecified	Malta	219	Sharm El Sheikh Eg	Egypt	219
Barbados Unspecified	Barbados	284	Geneva (Cointrin)	Switzerland	370	Manila	Philippines	283	Siena	Italy	573
Barcelona	Spain	788	Gibraltar	Gibraltar	123	Marrakesh(Menara)	Morocco	134	Sierra Leone Unspecified	Sierra Leone	151
Basle (Mulhouse)	Switzerland	64	Greece Unspecified	Greece	181	Marseille	France	299	Singapore(Changi Intern	Singapore	143
Belgium Unspecified	Belgium	353	Guadalajara	Mexico	64	Mexico City	Mexico	219	Sri Lanka Unspecified	Sri Lanka	353
Berlin - Tegel	Germany	625	Guayaquil	Ecuador	151	Milan (Malpensa)	Italy	299	Svalbard, Spitsberg	Norway	443
Bishkek	Kyrgyzstan	219	Guernsey	United Kingdom	324	Montpellier (Frejorgues)	France	151	Sydney(Kingsford Smith)	Australia	533
Boston(Logan Internatio	United States	353	Hamburg (Fuhlsbuttel)	Germany	353	Montreal (Dorval)	Canada	143	Tel Aviv	Israel	443
Brussels (National)	Belgium	1,206	Hassi Messaoud(Oued Ir	Algeria	443	Munich	Germany	134	Tenerife Sur Reina Sofia	Spain	223
Cagliari (Elmas)Sardinia	Italy	151	Havana	Cuba	143	Murcia San Javier	Spain	286	Thessaloniki/Salonika	Greece	181
Calgary	Canada	304	Heathrow	United Kingdom	123	Naples	Italy	304	Toulouse (Blagnac)	France	605
California Unspecified	United States	353	Heraklion	Greece	151	New Orleans Internation	United States	299	Tunisia Unspecified	Tunisia	143
Cancun	Mexico	193	Hong Kong(Kai Tak)	Hong Kong	284	New York	United States	219	Turin (Caselle)	Italy	134
Cape Town(Df Malan)	South Africa	1,962	Iceland Unspecified	Iceland	365	New York(Newark)	United States	64	Turkey Unspecified	Turkey	614
Catania (Sigonella)	Italy	151	Jamaica Unspecified	Jamaica	151	Newquay	United Kingdom	143	Valladolid	Spain	143
Christchurch Internation	New Zealand	181	Jersey	United Kingdom	620	Nice	France	286	Vancouver	Canada	134
Corfu	Greece	81	Johannesburg(Jan Smuts	South Africa	353	Orlando (International)	United States	588	Venice (Marco Polo)	Italy	533
Costa Rica Unspecified	Costa Rica	299	Kefallinia(Argostolion)	Greece	181	Ottawa International	Canada	219	Vienna (Schwechat)	Austria	272
Cuba Unspecified	Cuba	1,125	Kochi	Japan	573	Paphos	Cyprus	764	Walvis Bay	South Africa	181
Cyprus Unspecified	Cyprus	219	Krakow	Poland	143	Perth	Australia	418	Washington(Dulles Inter	United States	168
Dallas(Fort Worth)	United States	324	Kuala Lumpur Internatio	Malaysia	504	Phnom Penh	Cambodia	134	Zurich Ch	Switzerland	219
Damascus	Syrian Arab Repub	353	Kuwait	Kuwait	143	Port Of Spain	Trinidad & Tobag	181	Total Connecting	21%	46,881
Source CAA survey data 2009									Total LGW Pax		224,240

Appendix 1b

INV core and outer catchment - showing County and which airport they fly from.

Inverness Core Catchment	ABZ		EDI		GLA		INV		PIK		Total Schedule	Total Charter	Total
	Scheduled	Charter	Scheduled	Charter	Scheduled	Charter	Scheduled	Charter	Scheduled	Charter			
Highland	38	4	90	2	73	27	441	0	48	0	690	33	723
Moray	76	2	8	0	8	6	91	1	5	0	188	9	197
Sub totals	**114**	**6**	**98**	**2**	**81**	**33**	**531**	**1**	**53**	**0**	**878**	**42**	**920**

INV outer catchment	ABZ		EDI		GLA		INV		PIK		Total Schedule	Total Charter	Total
	Scheduled	Charter	Scheduled	Charter	Scheduled	Charter	Scheduled	Charter	Scheduled	Charter			
Aberdeen City	1,384	60	86	5	44	32	4	0	43	0	1,561	97	1,658
Aberdeenshire	538	26	29	0	20	21	10	0	8	0	604	47	651
Orkney Islands	0	0	1	0	2	0	2	0	0	0	5	0	5
Shetland Islands	4	0	2	0	1	2	0	0	0	0	7	2	9
Sub totals	**1,926**	**86**	**118**	**5**	**66**	**55**	**16**	**0**	**51**	**0**	**2,177**	**146**	**2,324**

											Scotland Schedule	Scotland Charter	Scotland total
Totals	**2,134**	**146**	**8,574**	**184**	**5,592**	**1,369**	**559**	**1**	**1,749**	**4**			
Airport totals	**2,280**		**8,758**		**6,961**		**560**		**1,753**		**18,608**	**1,703**	**20,312**

Appendix 1c

To country	Pax from regions to Country via ABZ EDI GLA or PIK	Total pax final destination inc connecting other UK airports
Netherlands end	8,955	11,740
AMS connecting	17,605	
USA	12,536	19,354
France end	8,432	12,619
CDG connecting	1,650	
Ireland end	7,897	11,185
DUB connecting	379	
Denmark end	2,991	3,064
CPH connecting	1,635	
UAE	7,873	8,006
Spain	50,038	53,118
Germany	23,986	30,781
Italy	8,840	14,206
Canada	4,828	6,976
Australia	6,282	7,326
India	1,928	1,928
Switzerland	5,866	7,089
China	0	353
Angola	698	698
Belgium	4,683	6,831
Thailand	2,386	3,302
Singapore	823	1,893
South Africa	0	3,038
Poland	13,101	13,244
Norway	12,223	12,666
Sweden	3,148	3,148
Latvia	1,490	1,490
Iceland	1,066	1,432
Portugal	5,929	7,675
Turkey	8,801	9,415
Greece	1,303	2,559
Cyprus	1,712	4,850
Croatia	0	0
Czech Republic	1,639	2,784
Egypt	2,874	5,249
Tunisia	1,447	1,591
Bulgaria	3,248	3,248
Brazil	354	721
Russia	318	463
UK - O&D	513,899	513,899
sub total	**752,865**	**787,941**
connecting via LGW	51,232	
Total from region	**804,098**	

Appendix 2a

1 Heathrow Capacity Scenarios

Status Quo			
	2011	**2016**	**2021**
BA seats available	606,944	606,944	606,944
slots	2,392	2,392	2,392
BD seats available	193,648	193,648	193,648
slots	1,976	1,976	1,976
Total	**800,592**	**800,592**	**800,592**
PAX High forecast 3%	652,287	756,179	876,619
Load factor	**81%**	**94%**	**109%**
Spare capacity / Shortfall	**148,305**	**44,413**	**-76,027**
Pax Low forecast 1%	652,287	685,560	720,531
Load factor	**81%**	**86%**	**90%**
Spare capacity / Shortfall	**148,305**	**115,032**	**80,061**

Lose all BD slots			
	2011	**2016**	**2021**
BA seats available	606,944	606,944	606,944
BD seats available	193,648	-	-
Total	**606,944**	**606,944**	**606,944**
PAX High forecast 3%	652,287	756,179	876,619
Load factor	**107%**	**125%**	**144%**
Spare capacity / Shortfall	**-45,343**	**-149,235**	**-269,675**
Pax Low forecast 1%	652,287	685,560	720,531
Load factor	**107%**	**113%**	**119%**
Spare capacity / Shortfall	**-45,343**	**-78,616**	**-113,587**

Upscale all BA current equipment to A321 with Ave 153 seats but lose BD slots			
	2011	**2016**	**2021**
BA seats available	606,944	731,952	731,952
New BA seats available	193,648	-	-
Total	**800,592**	**731,952**	**731,952**
PAX High forecast 3%	652,287	756,179	876,619
Load factor	**81%**	**103%**	**120%**
Spare capacity / Shortfall	**148,305**	**-24,227**	**-144,667**
Pax Low forecast 1%	652,287	685,560	720,531
Load factor	**81%**	**94%**	**98%**
Spare capacity / Shortfall	**148,305**	**46,392**	**11,421**

Utlise 50% of BD slots with BA current equipment - Ave 127 seats			
	2011	**2016**	**2021**
BA seats available	606,944	606,944	606,944
New BA seats available	193,648	250,952	250,952
Total	**800,592**	**857,896**	**857,896**
PAX High forecast 3%	652,287	756,179	876,619
Load factor	**81%**	**88%**	**102%**
Spare capacity / Shortfall	**148,305**	**101,717**	**-18,723**
Pax Low forecast 1%	652,287	685,560	720,531
Load factor	81%	80%	84%

Upscale all BA current equipment to A321 with Ave 153 seats and utilise 50% of BD slots			
	2011	**2016**	**2021**
BA seats available	606,944	731,952	731,952
New BA seats available	193,648	302,328	302,328
Total	**800,592**	**1,034,280**	**1,034,280**
PAX High forecast 3%	652,287	756,179	876,619
Load factor	81%	73%	85%
Pax Low forecast 1%	652,287	685,560	720,531
Load factor	81%	66%	70%

Utilise 100% of BD slots with BA current equipment - Ave 127 seats			
	2011	**2016**	**2021**
BA seats available	606,944	606,944	606,944
New BA seats available	193,648	501,904	501,904
Total	**800,592**	**1,108,848**	**1,108,848**
PAX High forecast 3%	652,287	756,179	876,619
Load factor	81%	68%	79%
Pax Low forecast 1%	652,287	685,560	720,531
Load factor	81%	62%	65%

Appendix 2b

Scottish Top 100 Companies in Aberdeen[1]

Rank	Company	Turnover £m	Profit £m
3	Total Upstream UK (Scotland)	3,252.98	2,014.85
4	First Group	6,187.30	200.00
5	John Wood Group	3,584.78	262.61
6	Chevron North Sea	1,656.40	1,046.40
7	Petro-Canada UK	1,404.49	1,069.28
8	Apache North Sea	1,430.80	724.78
12	CNR International (UK)	831.24	425.25
16	Maersk Oil North Sea UK	792.56	277.45
19	New Subsea 7	732.40	99.23
20	Dana Petroleum	517.98	191.41
23	Venture Production	494.88	184.19
24	Expro International Group	609.73	74.31
26	Technip UK	743.37	60.32
37	M-I Drilling Fluids UK	288.34	38.26
39	BJ Services Co	259.06	31.65
44	Petrofac Scotland	426.80	15.19
46	Lundin Heather	177.96	71.01
50	BIS Industrial Services	232.10	18.40
51	Aberdeen Asset Management	421.90	10.47
57	New RBG (Holdings)	311.46	9.86
61	New Transocean Drilling UK	630.86	6.75
63	Craig Group	113.03	74.08
70	Acergy UK	165.29	12.61
73	Stena Drilling (Holdings)	109.80	34.64
79	Oceaneering International Service	168.20	8.70
81	Gulf Offshore NS	89.56	45.52
85	Dril-Quip (Europe)	105.50	19.51
100	ASCO Group	451.85	3.26

Source: Scottish Business Insider Magazine

[1] Behind The Granite- Aberdeen Key Facts 2011: Aberdeen City Council (2011)

Appendix 2c

Survey of Exporting Companies in Aberdeen City and Shire

1.1 Energy Sector

(i) Countries Where Energy Sector Exporting Companies are Most Active

Country	2010 Rank	Movement	2010 %
Norway	1	→	64%
USA	2	→	46%
Australia	3	↑	41%
UAE	4	→	37%
Angola	5	↑	36%
Netherlands	5	↓	36%
Nigeria	7	↑	31%
Singapore	8	↓	29%
Brazil	9	↑	28%
Azerbaijan	10	↑	28%

(ii) New Countries Which Energy Sector Companies are Planning to Target

Country	2010 Rank	Movement	2010 %
Brazil	1	↑	34%
Australia	2	↑	27%
Norway	3	↑	26%
Angola	4	↑	21%
Egypt	4	↑	21%
Kazakhstan	4	↑	21%
UAE	4	↑	21%
Malaysia	8	↓	20%
Nigeria	9	↑	19%
Azerbaijan	10	↑	18%
USA	10	↓	18%

1.2 Non-Energy Sector

(iii) Countries Where Non-Energy Exporters are Currently Active

Country	2010 Rank	Movement	2010 %
USA	1	→	45%
Norway	2	↑	39%
France	3	↓	27%
Netherlands	3	↑	27%
UAE	5	↑	25%
Australia	6	↑	23%
Germany	7	↓	22%
China	8	↑	21%
Italy	9	↓	20%
Canada	10	→	19%

(Iv) Markets Non-Energy Exporters Plan to Target

Country	2010 Rank	Movement	2010 %
USA	1	↑	21%
Brazil	2	↑	15%
Australia	3	↑	14%
China	4	↓	13%
Germany*	5	↑	12%
Nigeria*	5	↑	12%
Norway*	5	↑	12%
UAE*	5	↑	12%
France	9	↓	11%
Malaysia	9	↓	11%

Appendix 4a - Business Views on the Importance of Air Links to London

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

Importance of Air Services to Your Current Business

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

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

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

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

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

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

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

Where do you Use Air Travel to Access

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

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

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

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

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

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

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

Likely Growth in Air Travel

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

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

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

"Massive".

"Harder to bring global management meetings to Inverness."

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

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

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

“We would close our office and move overseas.”

Impact of Having to Rely Surface Transport Within the UK

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

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

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

Appendix 4b - European Airports Served from Heathrow

Country	City	Airline(s)	Pax No's in 2011
Austria	Vienna	Austrian Airlines, British Airways	778,612
Belgium	Brussels * **	British Airways, Brussels Airlines	516,626
Cyprus	Larnaca	Aegean Airlines, British Airways, Cyprus Airways	444,757
Denmark	Copenhagen	SAS	939,197
Finland	Helsinki	Blue1, British Airways, Finnair	591,919
France	Lyons * Nice Paris CDG * ** Paris Orly * ** Toulouse	British Airways British Airways, Bmi Air France, British Airways N/A British Airways	216,368 537,300 1,272,349 162,170 208,911
Germany	Berlin Tegel Cologne * ** Dresden Dusseldorf * Frankfurt * Hamburg * Hannover * Munich Stuttgart *	British Airways, Lufthansa German Wings Lufthansa British Airways, Lufthansa British Airways, Lufthansa British Airways, Lufthansa British Airways, Bmi British Airways, Lufthansa German Wings, British Airways	694,503 147,005 41,291 603,881 1,469,904 504,691 67,271 1,090,279 257,237
Gibraltar	Gibraltar	British Airways	87,164
Greece	Athens	British Airways, Aegean Airlines	735,354
Republic of	Cork *	Aer Lingus	396,660

Country	City	Airline(s)	Pax No's in 2011
Ireland	Dublin * Shannon *	Aer Lingus, Bmi Aer Lingus	1,556,102 274,671
Italy	Milan (Linate) Milan (Malpensa) Pisa ** Rome Venice **	Alitalia, British Airways British Airways, Lufthansa British Airways Alitalia, British Airways Bmi	733,761 438,652 91,809 1,052,936 84,104
Luxemburg	Luxemburg City*	N/A	81,151
Malta	Malta	Air Malta	203,141
Netherlands	Amsterdam* **	British Airways, KLM, Bmi	1,407,083
Portugal	Lisbon	British Airways, TAP	745,611
Spain	Barcelona Bilbao *** La Coruna Madrid Malaga ** Seville *** Vigo	British Airways, Iberia Vueling Vueling British Airways, Iberia N/A Vueling Vueling	710,101 101,425 84,956 1,191,170 34,107 57 090 17,627
Sweden	Gothenburg Stockholm	SAS British Airways, SAS	255,754 889,631
Croatia	Zagreb	British Airways, Croatia Airways	82,239
Iceland	Reykjavik	Iceland Air	207,192
Norway	Bergen Oslo Stavanger	British Airways, Bmi British Airways, SAS British Airways, SAS	30,251 626,860 129,786
Serbia	Belgrade	British Airways, JAT Airways	80,087
Switzerland	Basle-Mulhouse *	British Airways British Airways, Swiss, Bmi	297 464 977,606

Country	City	Airline(s)	Pax No's in 2011
	Geneva * Zurich *	British Airways, Swiss	958,247
Turkey	Istanbul	British Airways, Turkish Airlines	847,936
Bulgaria	Sofia	British Airways, Bulgarian Air	156,365
Czech Republic	Prague	British Airways	337,597
Hungary	Budapest	British Airways	245,358
Poland	Warsaw	British Airways, LOT	423,520
Romania	Bucharest	British Airways, Tarom	223,600

Notes:

- N/A are routes that are not being flown in 2012 although they were in 2011
- * Denotes routes not significantly more distant than Inverness/Aberdeen from London
- ** Denotes routes with high frequencies which are readily accessible by train or other surface modes
- *** Denotes principally leisure routes, with limited business/interlining traffic

New Routes for 2012, not flown in 2011: Eindhoven (KLM), Palma (Bmi) **, Porto (TAP), Rotterdam (KLM), Salzburg (Bmi) **

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