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THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP

Report to Partnership Meeting 23 August 2013

CONSULTATION

Airports Commission

Purpose of Report

This report advises Members of the information submitted by HITRANS in response to the Calls for Evidence and Discussion Papers produced by Sir Howard Davies's Airports Commission.

Background

HITRANS have had a long standing concern about the erosion of Inverness's key air links to London. These concerns are shared with our neighbouring RTP for the North East of Scotland (Nestrans) for their region. This shared agenda saw the two RTPs coordinate our efforts in responding to the Department for Transport's earlier Aviation Policy Framework consultation aimed at highlighting our real 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 approach 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.

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' formed HITRANS response to the Department for Transport's consultation on its 'Sustainable Aviation Framework for the UK'.

The recent uncertainty prompted by FlyBe's sale of its slots at London Gatwick Airport including those currently allocated for services inking Inverness to that London Airport highlighted the fragility of our key air route for access to London for business and leisure. That easyJet have committed to maintain the morning and evening services on the route that are so important to Highland passengers who travel to London for a day return for business is very welcome. Nonetheless this does highlight the importance of having a secure position on access from Inverness to the UK's hub airport at London Heathrow or to London Gatwick.

Independent Airports Commission

On 7 September 2012 the UK Government announced its intention to create an independent commission, chaired by Sir Howard Davies, to identify and recommend to government options for maintaining the UK's status as a global aviation hub.

The commission's role is to identify and evaluate how any need for additional capacity should be met in the short, medium and long term whilst maintaining a UK-wide perspective. The Commission will ensure it undertakes a thorough assessment of all the issues by considering all relevant factors including the economic, environmental and social costs and benefits and where necessary, the operational and technical deliverability. The Commission will seek evidence and proposals relevant to its remit through three main channels. These are:

- A guidance document for those intending to make proposals for meeting the UK's international connectivity needs, setting out how and when submissions can be made and the factors that the Commission will wish to take into account in considering them. These could comprise proposals for making best use of existing airport capacity, for new capacity, or for other approaches, and could include short-, medium- and long-term options.
- A series of working papers on thematic issues relevant to the Committee's remit. It is intended that these will summarise the current evidence base and will provide an opportunity for interested parties to make their views known to the Commission and submit additional evidence for consideration. Working papers are expected to cover issues including the economic benefits of aviation, the climate change impacts of aviation, aviation industry operating models, the local environmental effects of aviation including noise and air quality, and aviation technology development.
- Public evidence sessions at which the Commission will take evidence from invited expert witnesses on key issues, informed by the Commission's working papers and evidence provided in response. These hearings will usually be chaired by Sir Howard Davies and reports of each session will be published on the Commission website.

The guidance document 'Submitting evidence and proposals to the Airports Commission' was published on 2 February 2013. The Guidance Document set out the timetable that the Commission intend to follow in gathering evidence for their work. The key dates contained within this were:

- **17 May 2013** - Evidence and ideas on making the best use of existing capacity in the short and medium term to be received.
- **19 July 2013** - Receipt of outline proposals giving an overview of the level of additional capacity that would be provided, along with some of the key economic, social and environmental considerations.
- **December 2013 -** Publication of interim report
- **By Summer 2014** - Each of the listed proposals to be developed into a draft proposal (to include draft impact assessments) which will then be subject to public scrutiny as well as expert analysis to then be developed into final proposals during Q1 2015

The Commission will make its final report in the summer of 2015.

HITRANS Submission of Evidence to the Airports Commission

To help in its assessment of 'need' the Commission will be publishing a series of papers summarising the evidence.

To date HITRANS have submitted three papers to the Airports Commission in response to their calls for evidence. These are included as Annexes to this report and cover the following topics:

Annex 1 – Response to the Commission's Discussion Paper No.2: Aviation and Connectivity
Annex 2 – Response to the Commission's Call For Evidence on Interim Measures

Annex 3 – Response to the Commission's Discussion Paper No.4: Airport Operational Models

The remaining Discussion Paper will look at local Environmental Impacts from Aviation and as such are geared at a more local (South East England) audience. It is not intended to submit a HITRANS response to this. Our case is geared at highlighting the vital importance of a UK hub airport and the role this must play in serving the whole of the UK including the Highlands and Islands rather than making a case for any single option on securing a long term hub Airport in the UK.

It is hoped that following representations from the Scottish Government, Danny Alexander MP and the working group established following the sale of FlyBe's Gatwick slots (Chaired by SCDI) that Sir Howard Davies will include Inverness as a location for an evidence session where he will take evidence from invited expert witnesses on key issues so that this critical issue of UK regional access to a UK hub airport can be addressed and our concerns are understood.

Recommendations

Members are asked to:-

1. Note the report.

Risk	Impact	Comment
RTS delivery	√	This work supports RTS objectives.
Policy	√	This work is designed to support delivery of our Aviation policy.
Financial	√	The cost of research to support the response to the Airports Commission is included within the Business Plan.
Equality	-	No impact on Equalities issues.

Report by: Ranald Robertson
Designation: Partnership Director
Date: 24th July 2013

ANNEX 1 - RESPONSE TO THE AIRPORTS COMMISSION'S DISCUSSION PAPER NO.2: AVIATION AND CONNECTIVITY

RESPONSE TO THE AIRPORTS COMMISSION'S DISCUSSION PAPER NO.2: AVIATION AND CONNECTIVITY

19 April 2013

This response to the Airports Commission's Discussion Paper on Aviation and Connectivity has been prepared by HITRANS the statutory Regional Transport Partnership for the Highlands and Islands.

Securing improved connectivity, both within the region and externally, is a key strategic objective of HITRANS and as a result, air transport, which plays a significant role in delivering this, is a frequent and essential focus of our attention.

In our mind, there remains some ambiguity as to the scope of the Commission's remit in relation to the UK's regional airports, save in so far as they relate to its core task of evaluating whether there is a need for additional runway capacity in the South East, and if there is, how this might best be provided. The Aviation and Connectivity Paper is also quite high level and academic in its scope and outlook, but appears to have the underlying rational of trying to work out how best to assess connectivity and its benefits associated with London and South East capacity options, rather than examining the issue in the round by also looking elsewhere. So although there are broader aviation connectivity issues relating to flights within the Highlands and Islands and from the region to other parts of the UK and Europe, we have chosen to focus on the issue of air access to London and its hub airport(s) because this clearly is directly relevant and of critical important to the economy of our region.

If the Commission is interested in our other aviation connectivity issues, perhaps it could let us know and we would be pleased to submit further evidence for its consideration.

The questions in paragraphs 5.4-5.6 of the Discussion Paper provide a framework around which this response is built. Rather than seek to follow these slavishly we flag some key issues under each of the three key chapter headings in the Paper, and support this with two evidence-based documents addressing our core issue:

(a) The first a report entitled "Air Links to London from the North of Scotland" was high-lighted in the original evidence we submitted to the commission on 28 February 2013. The report is available to download at http://www.hitrans.org.uk/Documents/North_of_Scotland_Air_Links_to_London_Evidence_Note.pdf The report specifically looks at the issue from an Inverness per-spective, including its economic importance, in Chapter 2.

(b) And the second, a power point 'deck' entitled "Regional Air Access to London: The Need for a Credible Policy that Recognizes the Core Connectivity Requirements of the UK's Peripheral Regions". This is based on a presentation made by HITRANS to a Waterfront Conference in London in September 2012, but updated to take account of the Aviation Policy Framework published in March 2013.

Definitions of Connectivity

Whilst we are broadly content with your generic definition of aviation connectivity as the "ability and ease with which passengers and/or freight can reach a given destination by air", we think great care needs to be taken with some of the ways you have chosen to assess it. First your analysis is completely London focused; second, a single weekly service threshold is very misleading (a more plausible criteria may change this perspective materially), and of little value in terms of business connectivity; and third you have failed to examine the potential implications one stop connecting journeys or the exodus of passengers from one airports catchment to another's, as part of the material you present.

And so while we believe there is scope to radically change the route network available to Highlands and Islands citizens over the coming years (and we set out how to do this in the main Evidence Note we are annexing), the issue will remain how much weight will be given in the evaluation of South East options in terms of their ability to improve regional access, and is there the committed political will to support this.

How may aviation connectivity contribute to the UK's economy?

The questions relating to the assessment of how aviation connectivity supports (1) trade in goods, (2) trade in services, (3) tourism, (4) business investment and innovation, and (5) productivity are largely dealt with in the economic appraisal sections of the Evidence Note and are touched on in the slide presentation

But it is clear from the trend data in Appendix A that when Inverness has had a Heathrow link it has boosted overall passenger numbers and significantly extended the range of one stop connection options available to the population of the Highlands and Islands.

Moreover the top six countries by way of the value of service, are all potentially important markets for the Highlands and Islands in terms of exports and tourism:

- USA
- Germany
- Netherlands
- Swiss
- France

– Ireland

Securing connectivity to them would there for provide a major boost to the region.

Future Aviation Connectivity Objectives

The questions relating to what the UK's objectives for the future aviation seem very technical and procedural in focus rather than visionary. HITRANS believe the in addition to grappling with these issues the Commission should try to secure clarity over structurally and politically important policy matters which could have a big impact on connectivity.

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

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

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

Given the priority the UK Government has given to re-balancing the economy, encouraging private-led investment and securing access to faster-growing emerging economies to increase export volumes, the current dependence on Gatwick and to a lesser extent Amsterdam to provide the connectivity needed to support this is clearly sub optimal.

The arrival of Inverness's new Amsterdam service is very welcome but it should be understood that this does not solve the ongoing problems of access to global connectivity caused by the lack of air services between Inverness and Heathrow. 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 offer the opportunity to capture traffic leaking from the Highlands and Islands and

provide far better global connectivity particularly to the North American market that is so important for businesses and the tourism industry within the Highlands.

A Proportionate Policy Response

It is important, therefore, for the Commission to recognise the importance of maintaining, or even improving, connectivity from the UK's peripheral regions, by either:

– Supporting new runway capacity in the South East – ideally at Heathrow, but failing that at Gatwick or a new Thames hub - 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 prioritization in terms of UK hub slot access because:

– High-speed rail will provide considerably improved access to London, and prospectively Heathrow or a new hub airport in the Thames, for all English regions except the far South West of England;
– HS2 will particularly benefit the Midlands and North of England and electrification of the Great Western Mainline could materially cut journey times from Bristol and South Wales; and
– 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 believe the UK Government should be willing to accept a small amount of prioritization at the UK's hub airport(s) and to guarantee fair and equitable treatment in terms of connectivity and market access for those living in more peripheral regions.

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

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

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

Trend Analysis

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

Figure 1: Pattern of Traffic Growth on Inverness to London Market 1989-2011
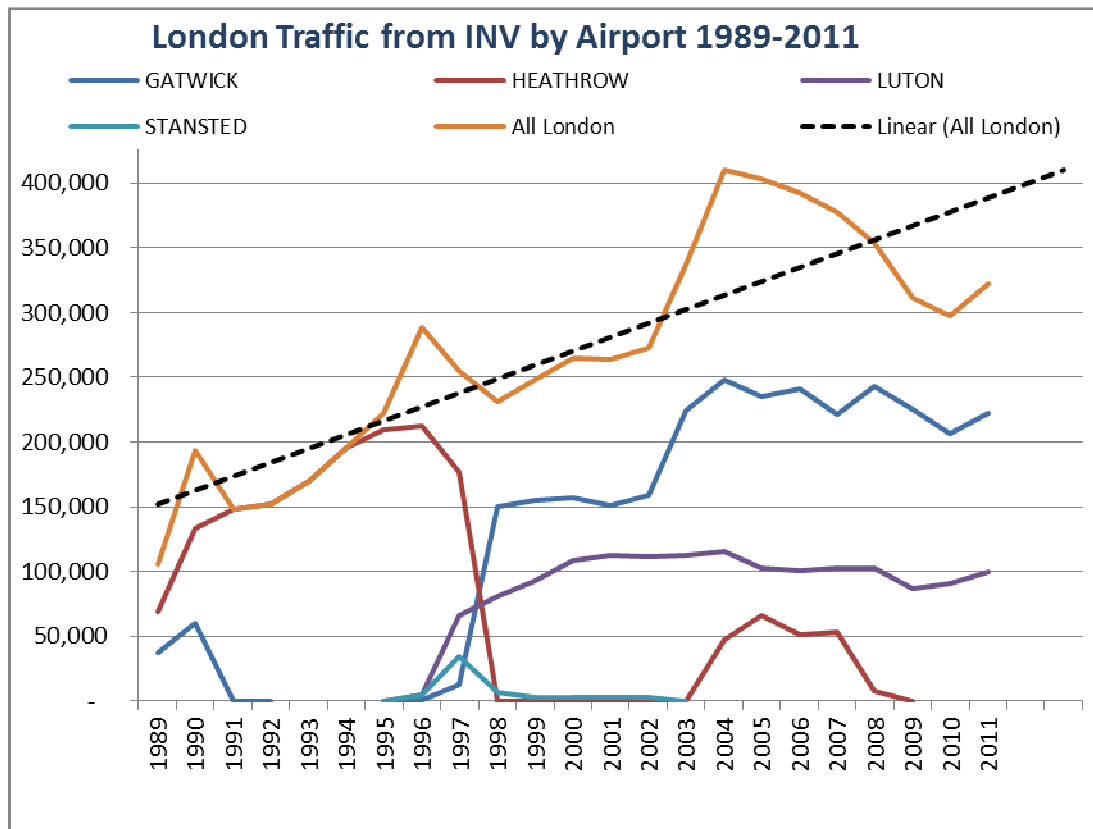
Source: CAA Data

Notable aspects are the abrupt transition from a Heathrow dominated market in the period up to 1997 to one in which Gatwick became the mainstay, with easyJet services making a predominantly VFR and leisure based contribution from Luton post 1997 and the brief re-emergence of Heathrow services courtesy of bmi in the mid-2000's. These are all well known features of an ever-changing picture. But what may be less widely recognised is that, with some peaks and troughs, the overall size of the Inverness to London market has been growing steadily, as shown by the hatched trend-line in Figure 1.

In 2004, total traffic volumes peaked over 400,000, co-incident with the market stimulation provided by the daily Heathrow service re-introduced by bmi. The subsequent drop in passenger numbers in 2008 below the trend-line, is in large part a reflection of the loss of that service in 2008, and at the margins to prevailing economic conditions, although the performance of the Gatwick and Luton routes has been relatively steady during that period and indeed picked up slightly last year as overall volumes climbed back to 325,000, some 50-60,000 ahead of where they had been in 2003.

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

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

ANNEX 2 - RESPONSE TO THE AIRPORTS COMMISSION'S CALL FOR EVIDENCE ON INTERIM MEASURES

RESPONSE TO THE AIRPORTS COMMISSION CALL FOR EVIDENCE ON INTERIM MEASURES

17 May 2013

Introduction

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

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

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

This is particularly important in the context of allowing businesses in the Highlands and Islands to compete effectively in European and global markets. We are concerned that if the Commission

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

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

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

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

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

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

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

or the comment in paragraph 1.29, which states that:

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

therefore implying that this is a satisfactory level of service to satisfy the global market access needs of the Inverness and wider Highlands and Islands business community. We do not believe this is to be the case for the reasons set out in our Evidence Note document and rehearsed in the body of this submission. Our response highlight this fact and urges the Commission to recognise that there is a case for positive interventions to ensure that UK peripheral regions are given fair treatment in relation to any benefits that emerge from the Commission's recommendations on Interim Measures.

Air Access from the Perspective of the Highlands and Islands

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

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

The Importance of Hub Access

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

Currently in the UK, however, access to the country's principal hub for domestic services from the UK regions is heavily constrained by lack of capacity and the priority given to long haul international

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

Supporting Enhanced Strategic Connectivity to Peripheral Regions of the UK

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

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

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

In this context, we draw the Commission's attention to the very relevant strategic policy advice that the CAA offered to the Government prior to the publication of its Aviation Policy Framework, as summarised in the presentation slides on regional access we forwarded with our Aviation and Connectivity response. This appears to recognise explicitly the need for UK regions such as the Highlands and Islands and the North East of Scotland, to have access to hub airports to facilitate travel to the wider world. While foreign hubs may offer choice, relying solely on them for global connections clearly present strategic risks on whether such essential connectivity can be guaranteed in perpetuity. Moreover, as the Evidence Note adduces it also provides sub-optimal access

compared with Heathrow, which is the dominant hub in Western Europe in terms of the access it offers to long-haul markets (eg North America, but also the Middle East, the Indian sub-continent and certain parts of Africa). The former, in particular, is crucial to the export/tourism markets of the Highlands and Islands.

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

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

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

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

— High-speed rail will provide considerably improved access to London, and prospectively Heathrow or a new hub airport in the Thames, for all English regions except the far South West of England;
— HS2 will particularly benefit the Midlands and North of England and electrification of the Great Western Mainline could materially cut journey times from Bristol and South Wales; and
— the Highlands and Islands will never receive any real benefit from High Speed 2, yet these schemes, will draw heavily on the Exchequer for their funding and therefore will be contributed to by taxpayers across the UK, including those in peripheral regions such as the North of Scotland for whom there will be little or no benefit.
— for economic sectors (ie Whisky, offshore energy, environmental technologies, life sciences and tourism) and markets (North America, Europe and the Middle East) that are important to the Highlands, Heathrow is a far superior hub than Gatwick or indeed any other in Europe;

- there is significant scope for freeing up landing slots at Heathrow by reducing those used to operate air services to cities such as Paris, Brussels, Amsterdam and Dusseldorf that already enjoy high levels of frequency while also already having high speed rail links to London (see Appendix B).

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

Improving Access to Other Hubs

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

Interim Measures We would Not Wish to See.

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

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

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

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

Conclusion

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

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

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

Figure 1: Pattern of Traffic Growth on Inverness to London Market 1989-2011
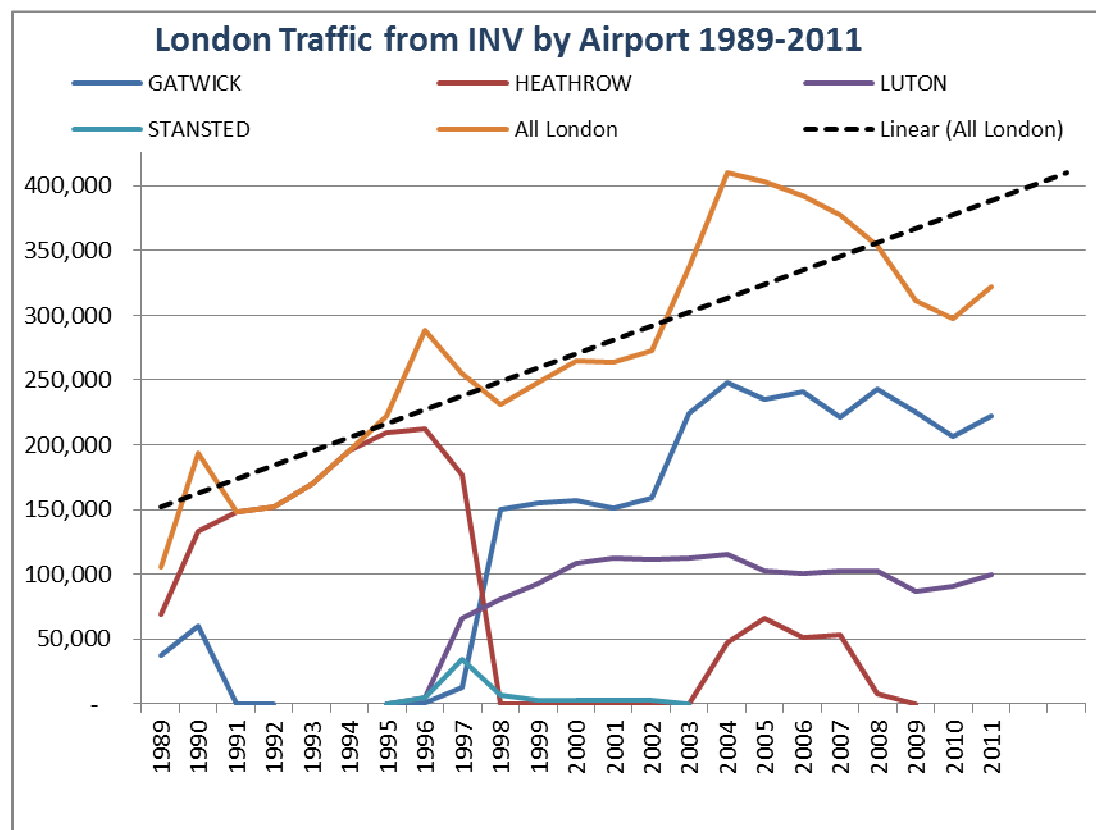
Source: CAA Data

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

slightly in 2011 and last year as overall volumes climbed back to 325,000, some 50-60,000 ahead of where they had been in 2003.

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

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

| Hub Airport | Highland & Moray | | | | Total |
| | Via surface to hub: | | | | |
	ABZ	EDI	GLA	PIK	
LHR	39,064	9,381	12,090	0	60,535
O&D	16,184	2,568	4,296	0	23,048
Connecting	22,880	6,813	7,794	0	37,487
LGW	3,344	4,022	3,789	0	11,155
O&D	3,344	1,599	3,275	0	8,217
Connecting	0	2,424	514	0	2,938
MAN	2,378	608	1,701	0	4,687
O&D	2,052	608	540	0	3,200
Connecting	326	0	1,161	0	1,487
LTN	4,898	6,601	1,158	0	12,657
O&D	4,898	6,601	1,158	0	12,656
Connecting	0	0	0	0	0
STN	0	3,670	2,710	4,929	11,308
O&D	0	3,670	2,710	4,417	10,796
Connecting	0	0	0	512	512
LCY	0	1,099	426	0	1,525
O&D	0	1,099	426	0	1,525
Connecting	0	0	0	0	0
AMS	8,090	13,944	4,374	0	26,408
O&D	1,644	5,472	1,687	0	8,803
Connecting	6,446	8,472	2,687	0	17,605
CDG	1,835	1,021	385	0	3,241
O&D	718	488	385	0	1,590
Connecting	1,118	533	0	0	1,650
CPH	3,242	0	94	0	3,336
O&D	1,608		94	0	1,702
Connecting	1,635		0	0	1,635
DUB	2,153	841	2,040	2,065	7,100
O&D	1,701	841	1,661	2,065	6,269
Connecting	452		379	0	831
FRA	0	5,283	0	0	5,283
O&D		4,747		0	4,747
Connecting		536		0	536

O&D to Hub Airports	32,148	27,691	16,231	6,482	82,533
Connecting at Hubs	32,856	18,776	12,535	512	64,680
Sub Total Hub Airports	65,004	46,467	28,766	6,482	147,233
Other Airports Direct	55,168	58,513	7,354	45,648	225,179
Total Traffic Using Other Scottish Airports	120,172	100,213	99,385	52,642	372,411

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

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

Proposed Slot Reservations for the UK's Most Peripheral Regions

Airport	Heathrow		Gatwick	
	Current	Proposed	Current	Proposed
Aberdeen	11	11	4-5	5
Inverness	0	2	4-5	5
Belfast	9-10	10	9	10
Total	20-21	23	17-19	20

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

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

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

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

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

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

11 July 2013

Introduction

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

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

Recent Developments Affecting Air Access to the Highlands & Islands

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

The period of uncertainty that surrounded the future of the Regions' principal direct service to London served to emphasise, if this was needed, how tenuous this critical economic lifeline can become under current arrangements. This inevitably produces an uncertainty and sense of fragility in respect to the Highlands and Islands future connectivity and impacts on economic planning. We recognise that this issue affects other peripheral UK regions and believe that the

Airports Commission must consider the need for a more reliable and permanent solution to this uncertainty to be put in place by the UK Government as a consequence of the recommendations the Commission make on Interim Measures and longer term capacity options.

While we very much welcome the agreement that has been reached with easyJet to retain a morning and evening service from Inverness to Gatwick and back we must also recognise that this is still impacting on the region's connectivity and included the loss of the morning / evening day return from Gatwick to Inverness. Gainsayers would go on to suggest that the fall back option of seeking approval to impose a PSO on the route was still open to the Scottish Government but the reality is that:

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

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

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

The Content of this Response

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

- the measures we would like to see the Commission recommend to Government to address this strategic objective over the period until a new runway (or hub airport) is built in the London area;
- our thoughts on hub models as they relate to the long term interests of the Highlands and Islands; and
- the mechanism that we believe is equitable and proportionate for the Commission to recommend is adopted as part of its conclusions on the scope and location of hub capability that should be supported in the London and South East Airport system

We also touch upon the related proposition, that HITRANS and its partner organisations, would like to see the Commission articulate, namely the case for a 'pro-active' (rather than the current passive policy framework set out in the Aviation Policy Framework), to enable regional airports such as Inverness to have the means to secure connections to other hub airports outside the UK, or where these already exist, to enhance the frequency of service to levels that support high quality one stop-connectivity to a wide range of global destinations. With the announcement of the Regional Air Connectivity Fund Government appear to have willed the 'means'; we hope the Commission will now follow this lead.

This is particularly important in the context of allowing businesses in the Highlands and Islands to compete effectively in European and global markets. We and our business community are concerned that if the Commission does not act to make recommendations to Government in its Interim Measures package that explicitly protect the interests of UK peripheral regions, it will by default materially disadvantage them by allowing London's key airports and slot hungry carriers wishing to serve other markets to use slots currently allocated to domestic regional services to be re-deployed for other commercially, but not necessarily economically, lucrative purposes.

In the absence of a completely open market where slot availability cannot be increased quickly where it is needed to match prevailing demand as a result of long-standing Government indecision on where to support new runway capacity in the South East, we believe there is an irrefutable argument for Government intervention to address market failure. This would preserve these socially and economically important links that contribute to the overall connectivity and cohesiveness of the UK.

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

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

The Airport Policy Framework and Regional Air Access to London

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

"A clear majority of respondents said that it was important to maintain domestic services into London airports, particularly Heathrow, in order to: attract foreign investment into the regions; improve local economies; provide vital connectivity to remote regions otherwise unserved, or poorly served by public transport links; and facilitate inbound tourism and visits to friends and

relatives. A number commented that Public Service Obligations (PSOs) might be needed to achieve this."

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

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

or the comment in paragraph 1.29, which states that:

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

This would imply that this is a satisfactory level of service for Inverness. We do not believe this to be the case for the reasons set out in our original Evidence Note document and rehearsed in the body of this submission. Our response highlights this fact and urges the Commission to recognise that there is a case for positive interventions to ensure that UK peripheral regions are given fair treatment in relation to any benefits that emerge from the Commission's recommendations on Interim Measures.

The Importance of Hub Access

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

Currently in the UK, however, domestic access to the country's principal hub is heavily constrained by lack of capacity and the priority given to long haul international services by underlying airline and airport economics. This means the regional spokes are slowly being disconnected from the hub and the important onward connectivity it provides. This position is made worse by the fact Gatwick, which by default provides the Highlands and Islands principal air access to London, offers a much more limited and a range of onward (mostly short haul) international services. Many of which require self rather than online connections.

Despite this fact, around 20% of traffic from Inverness connects at Gatwick; but as Flybe's slot sale has shown these connections cannot be guaranteed in the long term. The replacement carrier on the route does not have the code-share arrangements at Gatwick Flybe had and so as from April 2014 Inverness passengers will be required to fend for themselves to make connections at Gatwick. The lack of a route from Inverness to London Heathrow already sees 50,000 passengers from the Inverness area travelling over 2 hours to Aberdeen or 3 hours to Edinburgh to catch flights to Heathrow to take advantage of the range of onward connections from the Hub and avoid the uncertainty of the M25 connection between London Airports. It is possible the change in carrier on the Inverness to Gatwick service may result in even more traffic from the Highlands choosing use to make long surface journeys (of 3 hours) to other Scottish airports in order that they can interline over Heathrow or other European hubs as single daily flights to Amsterdam, while welcome, do not make such connections easy. The

strength in demand for travel to Heathrow from Inverness was evidenced when the previous bmi flight from Inverness to Heathrow was withdrawn with little impact on other flights to London as the passengers transferred to other Scottish flights to Heathrow. Bringing these passengers back to Inverness Airport for travel would remove unnecessary road journeys with the inherent safety risk from drivers being tired after a long flight undertaking a long road journey.

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

As we indicated in our Interim Measures response, HITRANS recognises that the Highlands and Islands cannot sustain larger aircraft on a range of international hub connections. Thus the region is heavily reliant on the connectivity access to a London hub offers. The viability of this access is built upon the foundation of London being the single most important point to point market for business travellers to and from the Highlands. Importantly this supports a viable frequency of services. A morning and evening flight are a business basic as much for a relatively sparsely populated region like the Highlands and Islands as for more populous regions. With this in mind, HITRANS urge the Commission to recognise the critical importance of frequent and affordable air access to London from the Highlands and Islands and other UK peripheral regions. While we understand the desire to encourage larger aircraft to make better use of limited airport capacity this should not be at the expense of services to UK peripheral regions.

The CAA's unwillingness to act on this issue in its regulatory capacity, is counter intuitive to the advice they gave the Government prior to the Airport Policy Framework's publication, which recognised explicitly the need for UK regions such as the Highlands and Islands and the North East of Scotland, to have access to hub airports to facilitate travel to the wider world. It accepted that while foreign hubs may offer choice, relying solely on them for global connections clearly present strategic risks on whether such essential connectivity can be guaranteed in perpetuity.

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

Given the priority the UK Government has given to re-balancing the economy, encouraging private-led investment and securing access to faster-growing emerging economies to increase export volumes, the prospective dependence on a point to point orientated carrier for access to Gatwick to provide the connectivity needed to support these policy imperatives is not good enough and will really impact on market performance and will be a constraint to economic growth in the Highlands and Islands.

With the forgoing in mind, we would urge that the Commission seek to ensure that slot allocation regimes at these airports, and their charging regimes, are supportive of retaining regional access even as pressures on capacity increase. As the Government has recognised with the announcement of the Regional Aviation Connectivity Fund the UK's peripheral regions which will not benefit from improved connectivity through HS2 have a strong claim for a measure of prioritization in terms of access to London's airports. This appears to acknowledge

our view that the Government has a duty to provide adequate transport access and socio-economic connectivity (both within the UK and internationally) to all its citizens. We would contend this includes slot access at the UK's principal hubs.

As Appendix B demonstrates there is significant scope for freeing up landing slots at Heathrow by reducing those used to operate air services to cities such as Paris, Brussels, Amsterdam and Dusseldorf that enjoy high levels of frequency while also already having high speed rail links to London (see Appendix B).

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

Hub Models

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

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

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

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

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

If following receipt of the Commission's report, the next Government is 'courageous' enough to back its recommendations and these include development of a fit for purpose hub in the South East of England, then if it is to be a truly 'national' hub which benefits all parts of the UK, not just London and the South East, mechanism's need to be put in place that "*guarantee in perpetuity*" slots for access from all the UK regions that need them. We believe that around 100 pairs of

slots (which since it would include cities with existing access to Heathrow represents roughly 40 pairs more than now), or 36,500 slots a year would be needed to achieve this. Out of a total of some 700-800,000 that a fully functioning hub with four runways could be expected to offer this is prospectively less than 5% of the total and amounts to a small price to connect those towns and cities outside the HS2 corridors to the UK's principal gateway to the rest of the World.

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

Improving Access to Other Hubs

The Aviation Policy Framework recognises the potential value of measures such as Route Development Funds, in potentially helping to stimulate new routes from regional airports. In the case of the Inverness, the priority would undoubtedly be to support enhanced frequencies to Amsterdam as a fall back in case better connectivity to London (and Heathrow is not forthcoming in the short or medium term.

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

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

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

This means the Highlands and Islands are, along with Northern Ireland and the far South West of England, the most geographically peripheral parts of the UK. An inevitable consequence of this is Highland communities and companies rely on air access for connectivity to the UK's capital and other major cities to visit friends and relatives, access leisure opportunities and promote and conduct business for more than in other UK regions. A good illustration of this geographical reality is that in 2010, 88% of all non-road journeys between Inverness-London journeys were made by air.

If the UK's aviation policy is to be inclusive and relevant to all parts of the United Kingdom, the Commission must explicitly recognise the fundamental significance of this critical dynamic when taking forward its work, and that a South East centric 'one size fits all' approach to South East airport capacity issues will not meet the economic needs of all parts of the UK, as we believe its remit calls for.

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

The North of Scotland Evidence Note, commissioned by HITRANS and Nestrans, indicate that if a small number of the slot reservations were to be made at Heathrow and Gatwick for the UK's four most peripheral regions, the total claim on the slot portfolio at the two airports would be extremely modest. This in our view amounts to a very small policy intervention for maintaining viable transport connectivity between all parts of the Union and between the UK's peripheral regions and the wider world until new runway and hub capacity can be provided in the South East of England.

Proposed Slot Reservations for the UK's Most Peripheral Regions

Airport	Heathrow		Gatwick	
	Current	Proposed	Current	Proposed
Aberdeen	11	11	4-5	5
Inverness	0	2	4-5	5
Belfast	9-10	10	9	10
Total	20-21	23	17-19	20

If for example, the slot reservations set out in the Table above, were to be made at Heathrow and Gatwick, the total claim on the slot portfolio at the two airports based on summer 2012 schedules would be:

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

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

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

Imposing some form of modest route based frequency cap on these routes, or others such as Amsterdam and Dusseldorf which are capable of being reached from London by HST within 3-4 hours, in conjunction with most forms of Business Aviation and dedicated cargo flights from Heathrow and Gatwick, would allow this to be easily achieved and represent the least disruptive way of generating the small supply of additional slots required to meet the needs of the UK's most peripheral regions, while protecting those which already exist. As such, it represents in our view a proportionate policy response to the needs of these regions.