

Head Office, Inverness Airport, Inverness IV2 7JB
Telephone: 01667 462445
Fax: 01667 464300
Direct: 01667 464277



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Discussion Paper 02: Connectivity and the Economy

Background

Highlands and Islands Airports Ltd (HIAL) is a publicly owned airport operator. First established in 1986, it is wholly owned by Scottish Ministers and sponsored by Transport Scotland.

HIAL operates 11 regional airports across Scotland at Barra, Benbecula, Campbeltown, Dundee, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick John O'Groats.

The HIAL network stretches across a vast swathe of Scotland, from Shetland in the Northern Isles to Campbeltown in the south west of Scotland, and is perhaps the most diverse of Scotland's airport operators with its mix of remote island and coastal locations, as well as city airports in Inverness and Dundee.

Connecting regional Scotland

The HIAL group connects regional Scotland to a network of more than 30 UK and international destinations, including Aberdeen, Edinburgh, Manchester, Birmingham, Belfast, London, Southampton, Jersey, Amsterdam, Bergen and Zurich. Popular holiday destinations in Portugal, France and Italy are also served from Inverness, the busiest airport in the HIAL network.

Table 1 shows the scheduled services available from each HIAL airport.

Table 1. Scheduled destinations served from HIAL airports	
Barra	Glasgow
Benbecula	Glasgow, Inverness, Stornoway
Campbeltown	Glasgow
Dundee	Jersey, London City
Inverness	Amsterdam, Belfast City, Benbecula, Bristol, Birmingham, Jersey, Kirkwall, London Gatwick, London Luton, Manchester, Southampton, Stornoway, Sumburgh, Zurich
Islay	Colonsay, Glasgow, Oban
Kirkwall	Aberdeen, Bergen, Edinburgh, Glasgow, Inverness, North Ronaldsay, Sanday, Stronsay, Westray, Papa Westray
Wick John O’Groats	Aberdeen, Edinburgh
Stornoway	Aberdeen, Benbecula, Edinburgh, Glasgow, Inverness
Sumburgh	Aberdeen, Bergen, Edinburgh, Glasgow, Inverness, Kirkwall
Tiree	Coll, Glasgow, Oban

In 2012, HIAL’s airports handled 1.28 million passengers.

HIAL’s airports are amongst the most remote of any in the UK. Lerwick, the capital of Shetland is some 350 miles from Edinburgh and 760 miles from London. (The Norwegian capital is considerably closer).

Campbeltown on the Kintyre peninsula is some 130 miles from Glasgow by car, a journey which takes more than three hours. Barra is served by Twin Otter aircraft which operate on the world’s only beach runway for scheduled flights.

For these communities, air travel is not a luxury, it is a necessity of everyday life, providing a vital social and economic lifeline, sustaining local businesses and creating employment in some of the most remote corners of Scotland.

Across many areas of our network, there are few alternative means of surface transport. The rail and road system is slow and even journeys from Inverness, the capital of the Highlands, to the central belt of Scotland can take in excess of three hours. In the islands communities – Western Isles, Orkney and Shetland – the only viable alternative to air travel is a ferry journey to the

mainland; often cheaper than flying but, again, involving long and inconvenient journeys south.

It is absolutely essential that we maintain a diverse network of routes from our airports to the main centres of population across Scotland, the UK and – wherever possible - Europe. In doing so, HIAL's airports play an important role in supporting the socio-economic development of regional Scotland, connecting people and businesses and providing a gateway for inbound tourism.

Supporting the regional economy

HIAL airports support vital social and welfare air links to otherwise remote communities across the Highlands and Islands, including provision of Scottish Air Ambulance and Search and Rescue services.

The airports also serve the economic and commercial interests of regional Scotland, supporting oil and gas helicopter operations at Wick John O'Groats and Sumburgh, lighthouse maintenance and Royal Mail services. By maintaining a strong network of UK and European destinations, HIAL airports also provide vital domestic and international connections for business and inbound tourism.

The company employs more than 500 people across its 11 airports, and at its group headquarters in Inverness. Its staff are employed across a range of professional roles including air traffic control, ground handling, customer service and fire fighting. In addition to those staff directly employed by HIAL, each airport supports additional employment through the large number of airport related companies typically located on the airport campus, and through the wider supply chain.

Businesses and communities thrive on connectivity. The availability of modern, convenient transport options is key to attracting inward investment to a region.

The growth of Inverness, the administrative and financial centre of the Highlands, is a case in point.

Inverness is today one of the UK's most dynamic and fast growing cities, home to a diverse range of businesses, including traditional industries (engineering, fishing etc), renewables, finance and life sciences. The availability of fast, convenient air links to the main centres of the UK has undoubtedly been a factor in its growth as a business and commercial centre.

A number of major international brands have established a presence in Inverness in recent years, including Cap Gemini, Ernst & Young and Lifescan, a medical research and development centre which is part of the Johnson & Johnson family of companies. Lifescan supports more than 1200 jobs in the

local economy. Lifescan attributes its growth to a variety of factors, including transport links:

“We believe that Inverness is the perfect location for our Development Organisation, the part of our business that conducts the R&D that's so vital to our work. As the capital of the Highlands this relatively small city, with a population of 65,000, offers an outstanding quality of life, excellent schools and colleges and good transport links – including an airport...”¹

The region is also a major energy sector hub, with Global Energy Group and Orion Group, based in Inverness. Nearby Moray is home to some of Scotland's leading food and drink exporters, including Baxters, Walkers and Gordon & MacPhail, luxury clothing brands such as Johnstons of Elgin and, of course, many of Scotland's most famous whisky brands.

With business interests in Europe, the US, the Gulf and emerging markets in India, the Far East, South America and elsewhere, the ability to travel quickly and seamlessly from the Highlands to destinations across the world is of vital importance for these businesses.

In addition, the city also hosts the headquarters of the University of the Highlands and Islands, and Inverness College, the region's largest college. The college welcomes students from all over the world, including North America, Europe, the Indian sub continent and the Far East. These organisations rely heavily on air services to enable the movement of students and academics to and from the Highlands.

Inverness: regional hub

Inverness acts as a regional hub, connecting airports in Shetland, Orkney and Lewis with destinations across the UK and, more recently, Amsterdam.

Inverness Airport has grown significantly over the past 20 years. In 1992, the airport handled almost 230,000 passengers. By 2002, passenger numbers had grown to almost 390,000. Since then, growth has been even more marked, notwithstanding the impact of the global downturn.

By 2012, passenger numbers had increased to 614,000 – an increase of 57% over ten years.

This growth can largely be attributed to the presence of low cost carriers, such as easyJet, which have made Inverness and the Highlands more accessible and opened up the region for business and tourism. easyJet marked its 10th anniversary at Inverness last year.

As a consequence of this growth, the airport has itself become a magnet for business growth. The Inverness Airport Business Park aims to create between 700 and 1200 jobs on a 250 hectare site zoned for hotel, office and

¹ [LifeScan Careers Scotland website](#)

commercial developments. Bond Helicopters have already established a presence, and Bristow Helicopters Ltd have announced an intention on the site, the former providing an Air Ambulance service, the latter to build a Search and Rescue services base. As well as providing lifeline services for the north of Scotland, both companies will also create employment in the region.

The tourism dividend

The Highlands of Scotland is amongst the most beautiful and iconic regions of Europe, with natural attractions such as Loch Ness, Ben Nevis and Cairngorm attracting visitors from across the globe.

In addition, the Inverness area hosts a number of major cultural festivals, including Rock Ness and Blas, and is now home to a championship links course, Castle Stuart, which has hosted the Scottish and British Golf Opens.

As a result, Inverness and the Highland region are popular stops on the tourist trail.

In 2011, VisitScotland estimates that UK residents took 1.86 million trips to the Highlands, spending £485 million. Overseas visitors made 0.39 million trips, spending £129 million in the local economy. The tourism dividend is considerably higher in the Highlands than in nearby Aberdeen and Grampian, which attracted 1.62 million UK and overseas visitors, spending a combined £359 million in the local economy.

UK visitors to the Highlands also tend to spend longer in the region than they do elsewhere in Scotland.

In the Highlands, tourism accounts for 13,400 jobs, many of them in small towns and villages, working in shops, hotels and restaurants.

Tourism is heavily dependent on air travel. Around 80% of international visitors to the region arrive in Scotland by air, the majority via London or the larger Scottish airports, with a small number arriving direct from Zurich and Amsterdam.

Access to the Highlands from destinations across the UK and – increasingly – Europe supports the growth of inbound tourism, and sustains the many local businesses that rely on tourism, one of Scotland's most important industries.

The connectivity challenge

The HIAL network of airports cover a vast area of Scotland. The Highlands & Islands region – which accounts for 10 of HIAL's 11 airports – covers half of the Scottish landmass but is home to just 10% of the Scottish population. In UK terms, the region covers one sixth of the landmass but accounts for just 0.6% of the population, making it the most sparsely located region in the country.

The Commission will hear from many regional airports in the UK; arguably, none are quite as remote as those operated by HIAL.

In many parts of the UK, the ability to reach the south-east by road or rail is largely taken for granted. For many parts of the Highlands, neither offer a practical and convenient means of travel, even from cities like Inverness.

As indicated previously, a car or rail journey from Inverness to either Edinburgh or Glasgow would take around three hours. The fastest rail journey to Glasgow takes 3hrs 15mins, and 3hrs 12mins to Edinburgh.

A road trip from Inverness to London would take more than 9 hours, while a rail journey to London's Kings Cross typically takes around eight hours, making it impossible for business travellers to reach London and return in a working day. The only viable way to reach London in time for an early morning business meeting is to take the overnight Caledonia Sleeper service, with a journey time of more than 11 hours. Clearly, the rail and road networks are practical alternatives to air travel.

However, such is the size of the region that even a journey by air can involve many hours of travel and a connecting flight.

For example, a business passenger flying from Sumburgh (Shetland) to Heathrow would leave Sumburgh at 07.40, connect via Edinburgh and ultimately arrive in Heathrow at 11.35am (a total journey time of almost 4 hours).

The last available return flight from Heathrow would require the traveller to depart London at 14.30, connect via Aberdeen and ultimately arrive in Sumburgh at 19.20 (almost 5hrs).

Alternatively, the passenger could return from London City at 15.25, connect via Aberdeen and again arrive in Sumburgh at 19.20 (again almost 4 hours).

The cost of such a journey, however, would be prohibitive – in some cases almost twice the price of an economy flight from Heathrow to New York.

Access to London

Access to a major hub is absolutely key to small regional airports, which typically lack the population base to support year round international destinations. Only two of HIAL's airports, Inverness and Sumburgh, serve international destinations. Only Inverness has access to a major international hub, Amsterdam.

Although Inverness has been successful in gaining new international services, including a recently announced winter service to Geneva, an airport of its size cannot realistically expect to secure the range of international services offered from Aberdeen, Edinburgh or Glasgow, for example. Therefore access to a major hub is essential for business and tourism connectivity.

Currently, only two HIAL airports - Dundee and Inverness - offer direct services to London though, crucially, not to Heathrow. Dundee is connected to London City Airport. Inverness is connected to London Gatwick and London Luton. It lost its Heathrow service in 2008, when bmi withdrew the link.

Inverness is not alone. In 2009, bmi withdrew its Heathrow link from Durham Tees Valley Airport, followed by Glasgow Airport in 2011. Partly this reflects the particular financial challenges facing bmi at the time, but it also highlights a wider trend. Over the past 20 years, the number of regional UK airports with links to Heathrow has reduced substantially, from 18 in 1990 to just eight today (Aberdeen, Edinburgh, Glasgow, Belfast City, Belfast International, Leeds/Bradford, Manchester and Newcastle).

During this period, the number of passengers using Heathrow has grown from 45.2 million in 1992 to 69.9 million in 2012. Over the same period, the number of flight movements has increased from 388,000 to 469,000. Quite simply, Heathrow is full, and regional airports have paid the price for its chronic lack of capacity, forcing airports like Inverness to utilise alternative London airports such as Gatwick and Luton.

Although these airports provide vital connectivity between the Highlands and London, neither can realistically offer the range of worldwide destinations available from the nation's hub airport. The fact that Heathrow is the single most popular destination from Aberdeen, Edinburgh and Glasgow airports illustrates the point - Heathrow is the airport of choice for Scottish based business and leisure passengers.

In the absence of a Heathrow link, HIAL has worked hard to gain access to alternative hubs such as Amsterdam. Daily flights now operate between Inverness and Schiphol and a codeshare agreement between flybe and KLM means that Highland based passengers can now fly from Inverness to around 150 worldwide destinations via Amsterdam.

This new service has proved extremely popular with outbound passengers and overseas visitors, and has delivered an important economic boost for the region.

A report commissioned by HIAL shows that the route has generated some £2.1 million in additional visitor spend, creating 61 FTE jobs and generating around £1.7 million GVA for the local economy. Efforts to secure additional capacity on the route are ongoing.

Nevertheless, Heathrow remains a missing link for the Highlands. Efforts by local politicians and business groups to urge the Government to support regional airports by ring fencing slots at Heathrow for domestic services have so far been unsuccessful. The issue is fraught with legal difficulty; however, it seems self evident that without some form of Government intervention, the trend outlined above will continue.

The arrival of Virgin Atlantic into the Scottish domestic market is a welcome move. However, even larger Scottish airports cannot take their access to Heathrow for granted, given the continuing pressures on airlines to maximise their returns. Aircraft are essentially mobile assets; if they do not make a profit on one route, they can easily be transferred to a more profitable route.

In the context of a small regional airport, the loss of a particular service or route can have serious implications for the local economy, damaging the region's employment, investment and tourism potential.

Regional airports are also at the mercy of disputes between airlines and larger airports, particularly over price issues. Heathrow has already announced significant price rises in order to pay for a £3bn investment plan. While this investment is, of course, welcome, there is a real risk that it will further reduce the viability of domestic air services into the hub. The decision by flybe to withdraw services into Gatwick – again, as a result of a price dispute – further illustrates this point.

The cost of connectivity

As we have discussed, the cost of flying from the Highlands to London can sometimes be prohibitively expensive and places additional financial burdens on local businesses and leisure passengers, including overseas visitors to the region. The Scottish Government operates an Air Discount Scheme (ADS) which aims to tackle the problem of high air fares by providing a 40% discount on core air fares for residents in some of the most remote locations of the Highlands and Islands.

The Scottish Government also subsidises certain lifeline services by means of a Public Service Obligation (PSO). This subsidy supports links to Scotland's remote Highland and Island locations which would not otherwise be commercially viable.

In addition, departing flights from the Highlands and Islands are exempt from Air Passenger Duty (APD). Nevertheless, passengers flying to the region are subject to APD and, of course, the duty is also levied on passengers connecting via Gatwick or Luton to international destinations. However, a passenger flying long haul from Inverness via Amsterdam will pay no APD on their outbound journey since no duty applies in the Netherlands (aviation duties were withdrawn in 2009 because of the damaging impact on tourism).

HIAL, in partnership with organisations such as Highlands and Islands Enterprise, has voiced concern about the impact of APD on inbound tourism, and on the commercial viability of domestic and short haul air services. It already costs airlines more to fly to the Highlands and Islands because of our location; APD is a further financial burden for airlines serving the region.

The Commission will be aware of the strength of feeling in the aviation industry regarding APD. Studies have confirmed that the UK has the highest

rates of APD of any major economy and the latest increase in duty is a further blow to the industry, and the UK's hopes of economic recovery.

Ultimately, this situation will lead to jobs and investment being lost from the UK to other European countries unless the UK Government takes action to redress this imbalance.

Abolishing APD on inbound flights to the Highlands and Islands would be a powerful incentive for new and existing airlines. However, the Government has shown little willingness to engage with the industry.

For that reason, HIAL, in common with other Scottish airport operators, and business organisations including Scottish Chambers of Commerce, believes that APD should be devolved to the Scottish Government – as it has to the Northern Ireland Assembly – so that measures can be put in place to reduce the burden of APD on airports in Scotland.

Conclusion

HIAL serves a unique area of Scotland and faces distinct challenges quite unlike those of other UK airports. Connectivity is absolutely essential to the socio-economic development of regional Scotland, particularly in remote areas where transport options are few and far between. While many regions of the UK take air travel for granted, it provides an essential lifeline for large parts of Scotland. Despite ongoing efforts to expand the range of international services available from our airports, small regional airports simply do not have the local population base to sustain a large network of year round international routes; therefore access to hub airports – and the UK hub, in particular – is critically important. It is vital that those interests are not ignored in the ongoing debate about the future of air capacity in the UK. Decisions made in the south-east will have repercussions far beyond London.