



## **Response to the Airports Commission on its Emerging Thinking**

### **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.”*

With this in mind, we are grateful for this opportunity to respond to the Commission’s ‘emerging thinking’ as set out in Sir Howard Davies’ 7 October speech. Our focus remains firmly on the single most important strategic transport problem facing the Highlands and Islands, notably the need to maintain or improve air access to London and London’s hub airports.

### **Previous Submissions and Recent Developments**

The detailed analysis we set out in our previous submissions emphasized just how critical this issue is to a peripherally located region such as ours. This was given sharp focus in the period of uncertainty created in Inverness (and other UK regions) as a result of the commercially driven decision of Flybe to sell their slots at Gatwick. The strength of the Inverness market has seen the welcome development that easyJet will continue Inverness’s hugely important link to Gatwick but at a lower frequency and less well timed than the current service. This episode has thrown into sharp repose just how vulnerable our strategic air links are to decisions which have little relation to the strength or profitability of the underlying market for air services between the North of Scotland and London. Rather they are principally a reflection of capacity constraints in the London system and the impact this policy influenced market failure has had on decisions by airlines facing rising costs and slot shortages at key hub airports.

While we have always been supportive of your core remit:

*“... to make recommendations on how to maintain the UK’s position as a hub for international air traffic”,*

and recognise the importance you appear to be placing on identifying solutions that:

*“respond to the long-term needs of the UK economy, where connectivity by air is a crucial factor”,*

We are also keen to ensure that the way in which you interpret this remit is wide-ranging and encompasses the needs of the whole of the UK, not just the South East of England.

## **The Importance of Aviation**

We believe Sir Howard Davies was right to stress the importance of aviation to the UK and agree entirely with his view that:

*“A trading nation like the UK must maintain strong air links ...”; “In an interconnected world economy, ..... there is no doubt that there is a strong statistical link between the countries we are connected to and the countries we trade with”.*

In the Highlands this is a particularly crucial factor because of the international markets for many of our most important economic sectors (e.g. whisky, the energy sector, life sciences and tourism), and the need for our indigenous business community to secure access to externally sourced innovation and expertise.

*“effective aviation links enable us to travel for business and for leisure ...”.*

This is certainly the case for geographically remote regions such as the Highlands where surface modes do not provide realistic alternatives for most journeys to the southern half of the UK; that is why around 95% of journeys to London from the Highlands are made by air.

## **The Arguments for Opposing New Capacity**

Of the four arguments for opposing new capacity that Sir Howard Davies set out, we do not support, or indeed see any particular merit in any of them, and certainly we do not consider them to offer sufficient justification for new capacity in the South East not to be provided.

### Over-optimistic Forecasts of the Demand for Air Travel

Although only indirectly relevant to the issue of primary concern to us, we cannot help but reflect how quickly those that suggest air traffic forecasts have been ‘systematically over-optimistic’ forget. In the period up to 2006-7 the criticism was usually that the ‘official’ forecasts had consistently ‘under-estimated’ future growth, something which even a cursory review of previous such exercises would demonstrate clearly. In our view, not enough work has been done to understand the effects on underlying demand of (a) the extremely high levels of APD in the UK, (b) the persistent shortage of peak period and now day-long capacity at Heathrow and Gatwick and (c) the likely ‘bounce-back’ effect that has been seen in the aviation sector after most recessions or short-term shocks – which the gainsayers are eager to dismiss on the grounds of ‘market maturity’. We also note that the carbon-price

assumptions used in the latest DfT forecasts seem likely to bear little resemblance to conditions in carbon trading markets for the foreseeable future and that the level on bio-diesel fuel use that has been modelled are significantly out of line with industry expectations.

With this in mind we are encouraged that the Commission appears to be taking an independent approach to the forecasting process, agree that *“considering a greater range of scenarios than the DfT does currently”* is essential, and hope that it will not be distracted by the siren voices whose principal aim is to press for the adoption of a worst case set of assumptions rather than those which are more pragmatic and realistic in the context of long term trends. We certainly believe that the demand for air travel in the Highlands will continue to grow strongly when the economy recovers, and that passenger numbers on the London route would increase substantially if APD were removed altogether, access to Heathrow were possible and there was competition between airlines to service the market, as there has been for the last ten years.

#### Accommodation of Growth Within Current Runway Capacity

We reject entirely the premise that there is no shortage of capacity in the London system. Flybe’s sale of its slots at Gatwick on the grey-market shows the price premium the shortage has created there and slots exchange hands for £15-20m a pair at Heathrow. That these prices are achievable shows the extent of the market failure between supply and demand at these key hub airports, creating a huge barrier to entry for regional services which may be commercially viable in themselves but not if access costs of this order are required. There may be capacity available at Stansted and Luton in the short-medium term, but even here the expectation is that peak and shoulder period slots, without which new business orientated short haul services are difficult to establish, will quickly disappear.

We agree, therefore with Sir Howard’s prognosis that because “airlines will choose to fly from the airports that best meet the needs of their passengers... the persistent and tightening capacity constraints at key airports in the South East indicate that the market alone will not resolve this issue”.

Our only concern is that if regions like the Highlands are forced to wait the minimum 10 or more years it is likely to take to add new runway capacity in the South East, we will long since have fallen victim to the current policy led market failure and that the Commission’s Interim report must address the issue of regional access effectively as well as making commitments to provide improved access in the longer term.

#### Climate Change Commitments

We agree with Sir Howard’s analysis of this issue, particularly his statement that:

*“Our work so far suggests that doing nothing to address the capacity constraints in our current airport system would not be the right approach. Its likely effect would be to restrict passengers’ choices and it could have unintended consequences for the efficiency and*

*resilience of UK airports, as well as possibly leading to some flights and emissions being displaced to other countries.”*

We are particularly keen that the UK Government stops:

- acting unilaterally on aircraft emissions (e.g. through the imposition of APD, Emission Trading and the massive subsidies that are being offered to projects like HS2, which have little benefit for peripheral regions of the country like the North of Scotland, the far South West and Northern Ireland); and
- building policy in this area around large airport markets and long haul flying to the significant disadvantage of small airports and short haul/domestic air services.

But we would be supportive of an approach, which appears to be being floated in the speech, notably supporting a stronger hub and spoke network to reduce the number of “... *point to point flights in smaller aircraft together with long passenger movements to airports remote from*”, provided that a policy of increased reliance on indirect routings through hubs is matched by high and ‘guaranteed’ levels of frequency into the hub from peripheral UK regions.

#### Redistribution of traffic to Airports Outside the South East

Our reading of this section of Sir Howard’s speech, is that one option for addressing capacity shortages in the South East is to re-direct traffic away from London’s main airports to airports in adjacent regions such as Birmingham, Bristol, Southampton or even Manchester where there is spare capacity available. If this is correct, we are quite clear that none of these airports offers an acceptable alternative to a London hub airport for regional access traffic from airports such as Inverness to connect with international markets.

The London point-point and connecting market dominates demand from Inverness and its hinterland. In 2009, 311,450 passengers from Inverness flew to Gatwick or Luton, 54% of the total passenger throughput in that year 50,500 of them connecting; a further 90,000 passengers with an origin or destination in Inverness’ catchment area used other Scottish airports to make the same journey. Traffic to Birmingham and Manchester was 30,000 and 55,000 respectively. Even with seamless connections to a fully functioning HS2 (and that is some 15-20 years away at best) the journey time to London using these airports would more than double. And in the intervening period the timescales would be nearly triple (Manchester and Bristol are not on the existing classic HSR lines) and the flight frequencies would not support return daily journeys because of the small underlying point-to-point market. Put simply, this is a non-starter for passengers from remote regions looking to access London.

There may be some merit in encouraging regional traffic that is currently making long surface journeys to access London’s already over-crowded airports to use their local airports as an alternative. Clawing back regional leakage on routes that can be sustained at regional airports is likely to appeal to passengers’ instinctive preference to use their local airports and will also be more environmentally efficient. It may, in a small way, also have the indirect

benefit of freeing up some capacity at Gatwick and Heathrow either for South East growth or better still for traffic from regions which are too distant for surface alternatives or can't sustain a wide range of destinations locally and need to be connected to these London hubs.

Differential APD may well be a powerful tool to achieve this, and unless some additional modelling has been done over and above that published earlier in the year by HMT, which related to the devolution of APD to devolved administrations, there is no evidence that we are aware of that *"even with a significant differential the effects would not necessarily be substantial, and there could be perverse consequences"*.

### **Other Observations on the Commission's 'Emerging Thinking'**

We do not agree with the notion expressed towards the end of the speech, that there are no tools available to Government to favour certain types of service at London airports: PSO's allow this, as do Route Development funds; TDRs can be used to prevent Business Aviation and dedicated cargo flights using congested airports freeing up small but useful numbers of slots at LGW and LHR; and there is scope within both EU slot regulations and the criteria under which new entrants are prioritised, to improve the opportunities for access (e.g. for UK regional services to London). This is not a case of there being an insurmountable legal barrier; it is a policy issue created by out-dated institutionalized thinking and it can be changed. It simply requires an incumbent Government, perhaps taking its lead from the recommendations of an independent Commission, to use the tools already available to it in a pro-active way.

In view of the endorsement given in the Commission's Terms of Reference that its recommendations should reflect the needs of the whole UK not just the South East, we hope the Commission will take the opportunity available to them to make recommendations with regard to regional air access to London that will allow the policy stalemate that has been in place for 15 years to be broken and advocate the use of existing intervention tools. In the short to medium term this would be to preserve existing regional connections, in the longer term to enhance and widen the scope of them.

We also must take issue with the statement that:

*"the highest propensity to fly are in the south east of England"*. Whilst it may be true that *"on average, a resident of Greater London takes 2.5 flights a year, compared to just over 1.5 for the country as a whole"*,

It is also true that the propensity to fly in Scotland and Northern Ireland is particularly high.

For example, based on 2009 CAA survey data, pro-rated to take account of the growth of Inverness Airport since then, the propensity to fly in the Highlands and Moray is 3.0 flights per resident per year. Rather than seek to draw the sole conclusion that this makes the case for more South East capacity, we also hope the Commission will recognize that it illustrates once again the importance of air links to mobility and connectivity in peripheral regions, and that this is why the Commission has been:

*“... given a clear message from many regional stakeholders that while their local airports are important to their economies, so is access to the international connectivity available in London and the south east”.*

We hope they will heed this and continue to maintain their position that relying on “Links to other European hubs from regional airports ... is not always the best solution either for passengers or for the environment.”

Similarly that:

*“Distributing demand to some destinations across a number of airports could see a higher number of smaller flights being needed to achieve the same degree of national connectivity”; and*

*“An attempt to rely only on runways currently in operation would be likely to produce a distinctly sub-optimal solution for passengers, connectivity and the economy”.*

## **Conclusions**

So while there is much in Sir Howard Davies’s speech that we agree with and support, we also detect in the ‘emerging thinking’ a tendency to become overly South East airport focused and metropolitan in outlook. If the Commission is to secure the broader political and public consensus it is seeking, it needs to set out a strategy that encompasses the needs of the whole of the UK, not just London and the other major cities, or the South East to the detriment of other parts of the UK. From the perspective of the North of Scotland and other similarly remote parts of the UK that derive little or no benefit from the much heralded HS2, put bluntly, if we do not benefit from improved access as a result of the Commission’s deliberations, what value will this 2 year process have produced? The answer, in the case of our regions, will be none.

Conversely, if the Commission is enlightened enough to make provision in its recommendations to Government for the development of a truly ‘national’ hub which benefits all parts of the UK, not just London and the South East, with mechanisms put in place that “guarantee in perpetuity” slots for access from all the UK regions that need them, then the Commission’s work will be much lauded in those same peripheral regions.

As we indicated in our response to Discussion Paper 4, 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 are all that would be needed to achieve this. Out of a total of some 700-800,000 that a fully functioning hub with three or four runways could be expected to offer this is prospectively less than 5% of the total and amounts to a small price to connect UK cities and regions outside the HS2 corridors to the UK’s principal gateway to the rest of the world.