

RESPONSE TO THE AIRPORTS COMMISSION DISCUSSION PAPER No.4: AIRPORT OPERATIONAL MODELS 11 July 2013

Introduction

This response is submitted by the statutory Regional Transport Partnerships for Scotland. The seven partnerships each has a Board consisting of Councillor Appointees from its constituent Councils and of non-elected appointees approved by the Scottish Ministers. Our principal function is to develop and implement a regional transport strategy which has Scottish Ministers approval. Air transport is a key component of that. Three of the partnerships are also the statutory public transport authorities for their area.

This note provides evidence to the Airports Commission in accordance with the Commissions guidance.

We welcome the opportunity 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 business and leisure air travel from Scotland 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 Scotland

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 who depend heavily on the air services currently flown by Flybe from Inverness to Gatwick to reach London and from there to destinations elsewhere within Europe and beyond. The period of uncertainty that surrounded the future of this principal direct service to London served to emphasise how tenuous this critical economic lifeline can become under current arrangements. This issue illustrates the impact that Scotland's regional economies fear should other similar services come under threat of withdrawal or a lessening of services. The impact of service withdrawal or reduced frequency on services including those from Aberdeen to London Heathrow, Dundee to London City, Glasgow to London Heathrow and Edinburgh to London Heathrow would have far reaching consequences on the wider regions served from these Airports. The current tenuous arrangements introduce an air of fragility and insecurity around our future connectivity. For the sake of long-term continuity and economic planning something more reliable and permanent needs 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.

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 Scotland's regions; 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 we 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 recent Aviation Policy Framework), to enable regional airports 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 Scottish businesses 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 the market failure that their policies created, and preserve these socially and economically important links that contribute to the overall connectivity and cohesiveness of the UK.

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”;

Our response 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

The RTPs 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 the northern Scottish Regions - served by Aberdeen, Inverness and Dundee airports - which are essentially 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 and City Airports offer a much more limited range of onward (mostly short haul) international services, many of them requiring self rather than online connections.

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

Peripheral regions cannot sustain larger aircraft, a range of international hub connections, and thus are heavily reliant on the connectivity access to London hub offers. The RTPs urge the Commission to recognise the critical importance of frequent and affordable air access to London from Scotland and the peripheral UK regions. We understand the desire to encourage larger aircraft to make better use of limited airport capacity but this should not be at the expense of services to UK peripheral regions who do not have fast land access to the UK hub Airport and in the case of the north of Scotland have no prospect of achieving this through High Speed Rail.

We understand the arguments made by other UK regions particularly those served by Manchester and Birmingham Airports for a move towards less reliance on the main UK hub for access to overseas markets. We appreciate that both Birmingham and Manchester Airports serve large local populations that can support direct access from those airports to a wide range of overseas destinations. For these regions there will be a degree of scope to increase the way they interact with overseas markets through point to point services utilizing new aircraft types such as the Boeing 787. This model will not work for Scotland though. The Scottish population is dispersed over a large geographical area with travel times from the north of Scotland to either central belt airport being long. For example both Aberdeen and Inverness are over three hours travel time to Glasgow Airport and the far north of Scotland would be a further 3 hours away. Even the central belt of Scotland is split

across the catchment of two airports with neither likely to be able to sustain only point to point services so the hub model is still the one that works best for Scotland.

The CAA's unwillingness to act on the issue of regional access to the hub Airport 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 Scotland, 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 and academic institutions 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 Scotland where our strong Energy sector (oil, gas and renewable), food and drink (including whisky) and tourism all have a strongly international market focus.

With the forgoing in mind, we would urge that the Commission seek to ensure that slot allocation regimes at South East airports, and their charging regimes, are supportive of retaining regional access even as pressures on capacity mount. As the Government have recently acknowledged in the Infrastructure Plan the UK's peripheral regions which are not connected to HS2 have a strong claim for a measure of prioritization in terms of access to London's airports and the establishment of the Air Connectivity Fund is a welcome step in recognition of this.

Hub Models

From a Scottish perspective our views on preferred hub models are agnostic in terms of favouring any single solution to the South East Airports capacity constraints. However we do believe a single hub is the best solution and whether the best solution is a Heathrow one or a new Hub we leave to the commission to decide. 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 to airlines. The hub should include within its portfolio a range of domestic airports including the North and Central Belt of Scotland.

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 the 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.

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 PSO's, 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. But the fall back would be to write the provision into the Hybrid Bill which authorises development of new runways and 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. This would be a welcome method of kick starting new services or enhancing frequencies on routes to northern European hubs such as Amsterdam to provide short term relief for those regions with no service to London Heathrow or whose service to the UK hub is in itself insufficient to cope with the entire region's demand.

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.