



Submission from Aberdeen & Grampian Chamber of Commerce

Utilisation of the UK's Existing Airport Capacity

1.0 Introduction

Aberdeen & Grampian Chamber of Commerce (AGCC) is North-east Scotland's leading private sector, member-focused, business organisation. The Chamber represents more than 1,300 businesses with 130,000 employees in the region across a variety of businesses sectors including energy, business services, tourism and food and drink.

The Chamber welcomes the opportunity to provide its comments to the Airports Commission following the publication of its discussion paper on the utilisation of the UK's existing airport capacity. Given the significant contribution of the North-east businesses to the UK economy, and its relative peripheral location in the UK, members take a keen interest in aviation issues.

The Chamber and key stakeholders recently held high level meetings with UK and Scottish civil servants and politicians in relation to aviation issues and this response expands on these discussions.

2.0 Context

Aviation plays a vital role in driving the growth of North-east businesses and thus the region's contribution to the UK economy.

In 2011, Aberdeen and Aberdeenshire had a Gross Value Added (GVA) per head of £31,573. This was the second highest figure in the UK, after inner London. Businesses based in the North-east of Scotland are major exporters, with the Chamber processing exports with an invoice value of approximately £500million in 2013. International activity from our main industry, oil and gas, accounts for approximately 50% of the total supply chain sales for the industry.¹

However, although Aberdeen has a buoyant economy, there is currently poor digital connectivity. The Centre for Cities *Cities Outlook 2014* showed that Aberdeen has the third worst penetration of superfast broadband amongst all cities in the UK.

All of these factors means that business travellers from the North-east of Scotland rely on travel to meet with new suppliers and customers in new markets across the UK and abroad. Improved air connectivity from the North-east of Scotland is crucial in order to ensure the future growth of businesses in the region.

¹ Scottish Development International – Survey of International Activity in the Oil & Gas Sector 2012/13

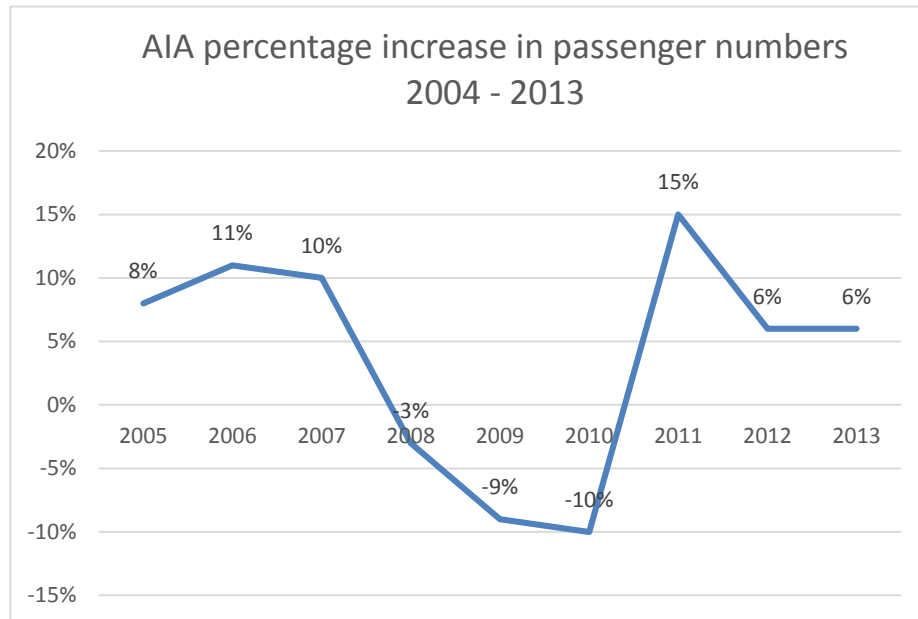


3.0 Making the most of existing air capacity

Aberdeen International Airport

Aberdeen International Airport (AIA) has the highest proportion of passengers travelling for business purposes (54%) of all Scottish airports and has consistently seen larger than average passenger number increases over the last two years, compared to other UK airports.

Chart 1: Average passenger number increases 2004 - 2014



The table below shows passenger numbers since 2004 and while the airport experienced a minor downturn in passengers during the recession, the drop was not as severe as that experienced at many other UK airports.

Table 1: Passenger numbers 2004-2013

Year	Passenger numbers
2004	2.6million
2005	2.8million
2006	3.1million
2007	3.4million
2008	3.3million
2009	3.0million
2010	2.7million
2011	3.1million
2012	3.3million
2013	3.5million

AIA is forecasting an increase in passengers for 2014 which will break the previous record set in 2013 for total passenger numbers. The airport masterplan forecasts passenger numbers will reach 4million by 2020 and 5.09million by 2040.



The airport has now begun development to the terminal building in order to facilitate that expected growth in passenger numbers. The improvements at the airport will include a terminal extension, a new purpose-built security area and additional capacity in arrivals.

While this capacity improvements will help, most of the future growth of the airport will rely on the airport being served by routes which meet passenger demand. The airport to date has been very successful in establishing new routes to key business locations of importance to the energy industry. These routes include services to Stavanger, Esbjerg and Copenhagen. Over recent years the airport has also expanded its leisure destinations.

It should also be noted, however, that AIA serves a relatively small market compared to other regional airports in the UK. Approximately 333,000 people live within one hour of Aberdeen airport, compared to over 2million for Glasgow Airport and Edinburgh Airport.

The fact that AIA serves such a small market, makes it at risk of losing vital links to key airports, so airlines can concentrate on larger markets at home and abroad which are more profitable. This issue is explored further in the next section.

Any future interventions and reviews must recognise that AIA faces different opportunities and challenges than other airports in Scotland and in the wider UK, given the different reasons for passenger travel, the economic conditions in the region and the relatively small market it serves.

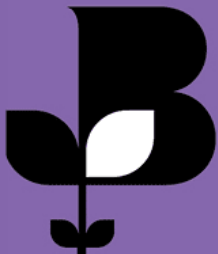
Regional Connectivity

The discussion paper outlines the level of connectivity between regional airports and London airports and the Chamber accepts that Aberdeen could be considered to have good connectivity to London airports compared to other regional airports that are more than 8 hours drive from London.

Current levels of access reflect the fact that AIA has a strong demand for flights to London, with many passengers using onward connections. However, the fact that Aberdeen has such a small market means that it can lose out to larger markets where flights can carry more passengers.

This concern became a reality recently, with the recent announcement from British Airways that it would stop its service between London City and Aberdeen in October. There was widespread concern from the business community in the North-east as this was a very well-used service and one that was extremely useful for undertaking short visits to London.

The management team at AIA have been very proactive in maximising the number of routes on offer at the airport and following the announcement by British Airways, they quickly entered into discussions with other operators about running a new service. On July 23 it was announced that Flybe would begin a new service in October, ensuring continuity of service.



According to British Airways, they had made decision to cancel their service due to commercial reasons (including the impact of Air Passenger Duty). Of course, commercial decisions are up to the operator, but given the fact that British Airways is the carrier for most flights between Aberdeen and the London, there is concern from Chamber members that British Airways is trying to consolidate all of their traffic from Aberdeen into Heathrow.

The fact that Flybe were very quick to announce that they would operate a service to London City demonstrates that in their assessment the route is economic viable. However, even though an alternative operator has taken over the route, it seems unreasonable that airlines can make unilateral decisions about whether there is a need for specific routes, without any input or guidance from government. The Chamber, therefore, would welcome further investigation from the Airports Commission about whether there is a need to protect specific regional airports access to London airports.

Given the relatively peripheral location of North-east Scotland when compared to other centres of population in the UK, it is absolutely essential that the business community in Aberdeen have regular access to London via a number of different airports. The distance between Aberdeen and London means it is unlikely that there will ever be a mode shift to other transportation methods for accessing London.

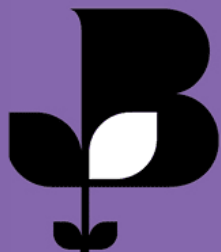
In addition, It should be recognised that a mode shift would be easier to achieve in other parts of the UK with existing infrastructure improvement commitments, and Chamber members believe that potentially difficult questions should be asked about whether it is essential that regions within five hours of London should be a priority for gaining access to London airports if London is that passengers final destination.

The Chamber believes that people within close proximity of London must be encouraged to make use of the good quality rail connections which already exist in England and will be delivered in the future when they are travelling to the South-east of England. Realistically passengers from the North-east of Scotland will never directly benefit from investment in the mainlines and any investment in High Speed Rail.

The connectivity of the North-east of Scotland to the rest of the UK is also an important issue to consider. Considering the size of population in the North-east of Scotland, it is relatively well connected to the rest of the UK, with 16 services (excluding the London routes) to places including Manchester, Shetland, Cardiff and Durham. The good connections to other parts of the UK reflects the buoyant economy in North-east Scotland. It should also be pointed out that access into Aberdeen from other parts of the UK is just as important as access to the rest of the UK from Aberdeen.

The North-east of Scotland is not well connected to other parts of the UK via other transport means and due to the distance from these important locations, air travel is the only viable mode of transportation. It should be recognised that a mode shift to other means would be very difficult to achieve without billions of pounds of investment in additional infrastructure, so for the North-east of Scotland it is crucial that air links between AIA and other regions in the UK are preserved.





In the medium term, Chamber members believe that peripheral region's such as the North-east of Scotland should have protected access to key airports in the UK through the use of landing slots appropriate to the needs of the peripheral region. For the London airports in particular, regions more than five hours away from London should be given secured access.

Connectivity to the rest of the world

The UK Government's Oil and Gas Strategy and the Scottish Government's strategy both call for an increasing internationalisation of the Oil and Gas supply chain sector. This market is currently valued at £17.2 Billion/ annum in total with just under 50% currently international trade with a target set of reaching £30 Billion/ annum with 60% being international trade by 2020.

The UK hub airport, Heathrow, plays a vital role in developing that international market and figures show that businesses already utilise Heathrow significantly to access foreign markets. Aberdeen city and Aberdeenshire represents just under 10% of Scotland's population. However, a study commissioned by the region's transport partnership NESTRANS, found that under a quarter of all Scotland to Heathrow traffic is from Aberdeen.

The same study published by NESTRANS also found that over 40% of travellers from Aberdeen to Heathrow were interlining, which shows that passenger rely on Heathrow to access foreign markets. It is crucial, therefore, that the routes offered to foreign countries meet the needs of business travellers.

The most recent Scottish Enterprise Survey of International Activity in the Oil and Gas Sector, published in May 2014, asked respondents to identify which markets would likely be important to their business over the next five years. The table below shows which markets were identified, and the number of services which are currently offered to these countries at Heathrow.

Table 2: Key growth markets and level of service from Heathrow

Market identified	Number of routes from Heathrow
USA	51
Angola	1
Norway	5
Canada	13
Nigeria	4
Australia	5
UAE	7
Malaysia	1
Saudi Arabia	4
Brazil	4



A number of other markets were also identified as having potential growth prospects. The chart below identifies these markets and the current level of service from Heathrow.

Chart 3: Additional growth markets and level of service from Heathrow

Market identified	Number of routes from Heathrow
Singapore	2
Mexico	2
Indonesia	0
Khazakhstan	3
Azerbaijan	2
Russia	4
Ghana	2
China	10

AIA currently offers direct services to one of the key countries. The airport offers 4 flights to Norway, to Oslo, Kristiansund, Bergen and Stavanger, reflecting the important links between the Scotland and Norway due to the oil and gas industry. Therefore, hub airports play a crucial role in connecting the North-east of Scotland to other key markets abroad given the fact that the small market serving Aberdeen International Airport will never be large enough to make direct services to most of these countries commercially viable.

Air Passenger Duty

As outlined above, British Airways recently announced its decision to stop its daily flights between AIA and London City Airport, and the Chairman of British Airways has cited air passenger duty as a key factor in their decision to cancel the service.

In media reports, Keith Williams has stated that; “air passenger duty has played a significant part in this route failing to reach commercial viability.”

Air Passenger Duty is a punitive tax which puts airports, and particularly regional airports, at a competitive disadvantage. It is clear that air passenger duty continues to be a major barrier to sustaining the commercial viability to key routes, and the Chamber would urge the commission to recommend that the UK Government take action, either by reforming the duty paid for flights to and from regional airports or devolving air passenger duty to Scotland.

4.0 Next Steps

In order to drive the aspirations of businesses in the North-east of Scotland, the Chamber believes that the following issues need to be considered by the commission in order to ensure the capacity of the UK’s regional airports is maximised for the benefit of the UK economy:



1. Recognise that regional airports, particularly Aberdeen International Airport, face different opportunities and challenges to other regional UK airports in the UK because of its economic profile and market size
2. Assess the influence of carrier loyalty on passenger numbers for key routes, and how carriers manage that loyalty.
3. Investigate how regional airports more than five hours from London can gain secured access to London airports.
4. Encourage mode shift for people living within five hours of London when accessing London airports.
5. Investigate how additional routes to key foreign locations can be developed while protecting access
6. Undertake further investigation of how air passenger duty could be reformed to ensure the commercial viability of routes is not negatively affected by the duty.

Chamber would be happy to discuss this submission in more detail with the Commission. If you wish to take up this offer, please contact the policy team.