



July 2014

Submission by Highlands and Islands Airports Limited to the Airports Commission

Discussion Paper 06: Utilisation of the UK's Existing Airports

Introduction

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 but this response focuses on the connections from our largest airport – Inverness - and its connecting routes.

Highland based businesses thrive on connectivity, and the availability of modern convenient transport options is key to attracting inward investment to a region.

Our response highlights paragraphs in the report where we have identified differences (thus the format of numbering) which we have backed with evidence, using up to date data.

Chapter 1 – How do non-London airports currently provide connectivity & utility to the UK

Domestic connectivity

1.5

Domestic air routes play a crucial role in connecting the Highland and Moray areas and parts of the wider Highlands & Islands region via Inverness Airport. On cross-border routes in 2013, 94% of passengers were flying to/from other airports in the UK. The other 6% were on the sole scheduled international service (Amsterdam). The domestic share at Inverness is clearly much higher than the 30% average for all UK regional airports. This illustrates how broad brush statistics mask considerable variations and important issues within the broadly termed “regional airports”.

1.6

Safeguarding our area's domestic links with London is of vital importance. Inverness has two links to the capital: Gatwick and Luton. They are important in many respects; not least that they account for a majority (58%) of cross-border traffic at Inverness. Gatwick alone

has a more than 40% share of passengers with a mix of point-to-point and connecting traffic. It is important that the term “domestic” is not confused with “point-to-point” given the importance of onward connections at the airports served by Inverness.

It is worth emphasising that “a link” is in itself insufficient to maximise the economic benefits from a connection via London. The benefits of such a link depend on which London airport is served and the frequency and timings of flights.

1.10

Inverness has retained flights to Gatwick. However, in recent years the frequency of flights has dropped, there is now one rather than two carriers on the route (although a larger aircraft now operates on all flights) and the timings are less business-friendly for inbound passengers. In particular, a day trip from Gatwick to Inverness is no longer viable due to the limited time available at the Inverness end.

This is a particular issue for companies based in south east England which have business units in Highland and/or Moray that they visit. This is especially the case for those whose sites are more distant from Inverness.

Inverness airport has a large hinterland. It includes the Isle of Skye to the west and Caithness to the north. Highland Council is the largest local authority in the UK by area. It is around 25% bigger than Wales. The area includes some of the most remote communities in the UK and, thus, companies that are very distant from their markets, suppliers and networking opportunities. Hence the crucial role played by air services to connect with wider business world. No other time efficient source of transport exists.

The new Inverness-London City service will provide day trip opportunities in both directions from October 2014. However, City does not offer the range of connections provided by Gatwick. Outbound business travellers from the Highlands & Islands are generally seeking to use London as a means of accessing long-haul business connections-at both Gatwick and Heathrow. London City’s connections are very largely to short-haul destinations.

1.21

Reduced demand

Again, the generic analysis masks what can be quite a different picture at each airport. Cross-border domestic traffic at Inverness grew by around 45,000 passengers between 2010 and 2012; an increase of 10%. Traffic grew on five of Inverness’ six domestic cross-border routes over this period. Overall, most Inverness cross-border routes saw carryings increase between 2008 and 2013. These include Manchester (up 30%) and Birmingham (up 40%).

1.26

Here and at a number of other points the reference to surface access is not relevant to Inverness airport’s catchment. For Highland and Moray-and areas further afield-air is very

clearly the choice for cross-border business travel and for much leisure travel. For example, Inverness is around 560 miles by road from London. Recent surveys of Highlands & Islands' businesses point to very limited use of either sleeper or daytime trains for business trips outside Scotland.

Transferring elsewhere

1.30

On Inverness-Gatwick the proportion of passengers connecting with onward flights has fallen since the turn of the century. CAA data indicate that it has declined from 30% in 2001 to 20% in 2013. However, growth in overall traffic on the route means that the actual *number* of passengers who are connecting has changed relatively little in that time. They were 45,800 in 2001 and 43,200 in 2013.

As the consultation paper notes, reasons for the decline in connecting at Gatwick include the move of transatlantic flights to Heathrow and the abandonment of British Airways' dual hub strategy. For Inverness traffic there does not appear to be declining underlying demand for connecting at other airports and at ones in London in particular.

Indeed, the number of Inverness connecting passengers across *all* London airports has changed very little. There were 53,200 connecting passengers in 2001 and 52,900 in 2013; a difference of just 300.

1.31

The decline in the number of Inverness passengers connecting at Gatwick was noted earlier. It fell from 48,800 in 2009 to 43,200 in 2013.

This coincides with the introduction of an Inverness-Amsterdam service from 2011 onwards. Gatwick very clearly remains the main source of connecting flights for those flying cross-border to/from Inverness.

At winter 2014-15 Gatwick will have the highest number of routes and countries for which onward connections are available within a reasonable time window of arriving from Inverness. Within that window Gatwick will offer onward connections on 56 routes serving 32 different countries. It will also have the highest number of connecting flights to non-EU destinations.

Gatwick's onward connectivity will be complemented by that available at Amsterdam and Manchester. Amsterdam is relatively well represented for connections to Asia-all of which are to leading world cities (e.g. Beijing, Hong Kong).

Manchester has a higher number of non-EU connections than Amsterdam. This particularly reflects its connections to North America. Many of them are to leading world cities such as New York.

All the other routes out of Inverness offer similar levels of onward connectivity. These are much lower than from Gatwick, Amsterdam or Manchester. This is in terms of: relatively few onward connections, and very limited connections to airports outside the EU. However, there is still potential for these routes' connections to increase if/when their frequency and timings are enhanced.

1.32

"Forced to look elsewhere" is a key phrase. As the preceding analysis has shown there does not appear to be any significant decrease in underlying demand for connecting over London by travellers to/from Highland and Moray.

1.33

Traffic between Inverness and London has not diminished in recent years. Despite some of the changes to Gatwick services (reduced frequency, revised timings) London traffic was virtually flat between 2009 and 2013. Point-to-point traffic increased very slightly over that period. Inverness-London traffic and point-to-point in particular will increase with the introduction of the London City service later in 2014.

1.34

Based on the above we would expect underlying demand in Inverness-London traffic to grow in line with economic growth. As explained earlier the distance between the catchment area and London means that surface travel is not attractive for much of the market.

Rather, the issue is whether this underlying demand is properly catered for. This is in terms of services to the "right" London airport(s) to provide both onward connections and competitive surface travel times to destinations in London/south east, and providing appropriate frequency and timings so passengers can travel in both directions when they need or want to.

1.38

The trend at Inverness is more positive than the general one portrayed in the discussion paper. Inverness' number of cross-border routes declined from eight to six in 2009, following the cessation of the services to East Midlands and Dublin. The number then increased to seven in 2011 with the start of the Amsterdam route. In winter 2014-15 the number will increase further (to nine) with the introduction of London City and re-introduction of Dublin. In addition Manchester's frequency will increase from double to triple daily.

1.41

Inverness' catchment area is not large enough to support scheduled long haul services. Thus, access to hubs with good long haul connections is required, particularly ones to cities

which are economically significant. For these to be effective the frequency and timings of flights between Inverness and the hubs need to meet the travel needs of connecting passengers.

1.46

The discussion paper text refers to “a decline in business routes from small and medium sized airports, ahead of any loss of other routes”. This does not appear to reflect actual experience at Inverness.

As noted earlier 2009 saw the cessation of the East Midlands and Dublin services. Based on their carryings profile neither were especially “business routes” (although the discussion paper does not define what constitutes a “business” route).

Winter 2014-15 will see the introduction of new routes to Dublin (mostly leisure-oriented but with the potential for US connections using the preclearance facilities) and London City (clearly business oriented). This will increase the number of cross-border flights by 30% when allied with increased frequency to Manchester. 2014 has also seen increased frequencies on Birmingham during part of the summer). Birmingham and Manchester are the two cross-border routes with the highest proportions of business traffic on them: around 40% and over 50%, respectively.

It is important to appreciate that all of the cross-border services are a mix of business and leisure traffic. The catchment area is not large enough to support many scheduled services based on outbound leisure.

1.48

Recent research for HIAL has highlighted a number of economic impacts of Inverness airport’s cross-border services.

First, £38.3 million of inbound visitor spend (both business and leisure) in the Highland and Moray areas. Most (£23.7 million) derives from the two London services and from Gatwick in particular (£16.6 million). A further £11.2 million comes from the routes to UK airports outside London. The balance (£3.4 million) is from the international service to Amsterdam.

Thus each type of route (London, other UK, and international) makes a significant contribution. The inbound visitor spend is estimated to support 893 full-time equivalent (FTE) jobs within Highland and Moray. Some 387 of these comes from the Inverness-Gatwick route alone.

Connecting traffic at each of the cross-border airports served from Inverness contributes to these visitor expenditures. Some £6.3 million (one sixth of the total) comes from connecting passengers. As expected most of this impact comes from the services to the two main hubs: £3.5 million from connecting passengers at Gatwick, and £1.6 million from those at Amsterdam.

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Many of these connecting passengers are from key visitor markets for the Highlands & Islands. These include EU countries (notably France and Germany) and those from other continents such as North America.

The discussion paper notes that “aviation connectivity also facilitates outbound tourism”. However, the profile of Inverness’ main cross-border routes is quite distinctive. There are more inbound trips than outbound trips (a ratio of 54:46). Within this, *inbound* leisure volumes are some 46% greater than those for *outbound* leisure. Thus, all things being equal, it can be expected that the cross-border routes will generate a net gain in tourism spend to the Highlands & Islands.

Second, Inverness’ cross-border services facilitate the travel of different types of business. However, they are particularly important to the sectors that have been identified by Scottish Government as offering particular growth potential for the Highlands & Islands.

Some 30% of all business trips on the cross-border services are made by those working in one of five growth sectors. In descending order of trip volumes these are:

- Energy (including oil and gas).
- Financial & Business Services.
- Sustainable Tourism.
- Food and Drink (including major Scottish exports such as whisky and seafood).
- Creative Industries.

Most of these trips are outbound i.e. made by staff in businesses based in and around Inverness Airport’s catchment. Around one quarter of them use connecting flights at the destination airports.

Recent surveys in the Inverness airport catchment have shown that those using cross-border air services tend to be larger companies. They also include businesses with a focus on sales outside Scotland.

In a 2013 survey the companies made, on average, over 40% of their sales to customers based outside Scotland, most of which are outside the UK. This strong export orientation reflects, in part, the limited size of the local market. The population of the Highlands & Islands as a whole is growing but is still less than 450,000 people.

Thus, aviation connectivity is vital to the area’s larger employers and/or to those selling goods and services outside Scotland and overseas in particular.

Chapter 2 How are the business models at non-London airports changing and how can they be expected to change further in time?

Population density in the UK and EU

2.16

The Highlands of Scotland is a geographically remote region with only one regional airport of significant catchment area. At best, one part of the catchment (i.e. most of Moray) is less than two hours from a 1 million passenger airport (Aberdeen). However, that Airport is more than two hours drive from Inverness (2 hours and 28 minutes). Edinburgh and Glasgow airports are a longer drive still (over 3 hours). The quality of the main roads (A9, A96) used to travel to the other three Scottish airports is not particularly good. Both roads have relatively little dualling.

Inverness-Gatwick point-to-point flights are used as a means of travelling to Heathrow to catch an onward flight. This, of course, requires surface travel between the two airports. Surveys of businesses that make that journey have highlighted a number of disbenefits, including:

- Hassle/inconvenience.
- Length of travel time.
- Lack of fit between flight times at the two airports, meaning that an overnight stay in London can be required.

The alternative is for Heathrow to be accessed from another Scottish airport (e.g. flying Aberdeen-Heathrow). Despite the surface journey times to these airports a significant number of passengers choose this option. In 2013 c79,500 passengers with a Highland or Moray origin flew to Heathrow from either Aberdeen, Edinburgh or Glasgow. This is a significant number when compared to the total direct traffic between Inverness and London airports (around 311,000).

This demonstrates the attractiveness of Heathrow as *the* premier London airport and one of the world's major hub airports. This is particularly the case for business passengers who account for approaching half (46%) of the 79,500 "leaked" trips referred to earlier.

A majority (59%) of these passengers who fly direct to/from Heathrow are connecting with a flight there. This equates to c47,200 trips. Thus more Highland and Moray originating trips connect at Heathrow when flying from another Scottish airport, than connect at Gatwick when using the Inverness-Gatwick (43,200 passengers).

Research has shown that onward connectivity at Heathrow from just a *single daily* Inverness flight would be superior to that provided by the current Inverness-Gatwick double daily service. This is in terms of a greater number of:

- Non-EU connections, particularly to Asia.
- Connections to economically significant cities.
- Connections to leading world cities.

A *single daily* Heathrow service's visitor spend impact would be boosted by the fact that most (64%) of its traffic is forecast to be inbound. It is estimated that the spend would be around £7 million, supporting a total of 165 FTE jobs in the Highland/Moray area. More than half (52%) of these impacts would come from visitors connecting with flights at Heathrow, as opposed to point-to-point travellers.

Providing direct access to Heathrow for travellers to/from the Highlands & Islands would remove the:

- Current need for surface travel to another Scottish airport or between Gatwick and Heathrow; and
- Time, cost and uncertainty (due to increased number of journey legs) compared to flying direct from Inverness.

These points on the significance of Heathrow and Gatwick demonstrate that access to them is crucial to the Highland and Moray areas and the wider Highlands & Islands.

Chapter 3 Can the connectivity provided by regional airports be enhanced? What are the options for Government and other bodies to intervene in this sector?

Infrastructure funding and start up funding

3.10

We welcome the proposed UK Government consultation on the Regional Air Connectivity Fund, and the clarification of the Fund's operation that will follow on from this.

We would look for the appraisal criteria for candidate routes to include onward connections to third airports. This apparently cannot be taken into account when establishing PSOs; at least according to the UK Government's interpretation. Thus, to date hub connections have not been taken into account when assessing the merits of support to safeguard existing, or establish new, routes.

Public Service Obligations

3.19

There have been obstacles to establishing a PSO between Inverness and a London hub airport. There is merit in considering an international PSO between Inverness and Amsterdam. This would be to ensure a double daily service suitably timed to meet onward connections. That higher frequency could mean a more than 50% increase in both the number of connecting routes and the number of countries served. This would also include a significant increase in the number of suitably timed connections to non-EU airports.

HiAL also operate Dundee Airport on behalf of Scottish Government. Last year passenger numbers were just below 27K and Dundee airport passenger numbers have been in decline for many years. Dundee Airport faces a challenge in the increasingly competitive aviation market with an hours drive time to Edinburgh and Aberdeen.

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In 2012 there were 2 operators of 3 routes (London City, Belfast and Birmingham). In 2013, one operator withdrew the latter 2 routes and the remaining operator withdrew London City in March 2014. Flights to and from London have played an important role in the long-term regeneration of Dundee.

Transport Scotland worked in partnership with Dundee City Council and HIAL to keep the route going in the short term and worked with the Council on its PSO case. This was approved and a new Dundee – London Stansted PSO service is now in operation.

The service consists of two return flights daily Monday to Friday and one return flight on Sunday. The contract will be for two years from July 2014, with the option to extend for a further two subject to agreement and funding

Targeted tourism intervention

3.34

VisitScotland funding for route marketing can act as an incentive to support startup or additional rotations which helps to drive up connectivity with the rest of the world. We have much anecdotal feedback from long haul leisure and business visitors who do not want the challenge of long drives to the Highlands from the Central Belt or east coast Scotland, but are quite used to operating through hub airports in their own countries. Lack of good internal connections do act as deterrents for visits.

Local Enterprise Zones

3.35

Inverness Airport is becoming a magnet for business growth. The Inverness Airport Business Park aims to create between 700 and 1,200 jobs on a 250 hectare site zoned for hotel, office and commercial developments. However, we do have nearby competition from business parks with Local Enterprise Zone status. We view the impact that this status has had on Manchester airport with interest.

Chapter 4 What role do airports serving London and the South East currently play in providing utility and connectivity to the SE and UK?

4.5

If Gatwick squeezed out Inverness due to a lack of capacity, this would have a huge impact on the Highland and Moray economies.

Apart from Heathrow no other London airport is a suitable alternative to Gatwick. The new Inverness-London City route is welcomed. However, it will be oriented to point-to-point business travel. This reflects the range of available connecting flights-very largely limited to EU short-haul; and the low proportion of connecting passengers (c6% in 2013) on existing services between Scotland and London City.

The discussion paper states that “for many a London airport can provide a valuable transfer opportunity”. However, the number and usefulness of onward connections depends on the:

- Frequency and timing of flights from Inverness.
- Economic status of the cities for which connections are available within a reasonable time window.

For the current Inverness-Gatwick service the outcome is a relatively large volume of connecting traffic. This reflects both the timings of the flights and the range of connections available at Gatwick.

Stansted and Southend would not offer these benefits to nearly the same scale, even with the same frequency and timings as the current Inverness-Gatwick operation. Critically, these other two London airports would offer: fewer connecting flights; a lack of non-EU connections; and a lack of connections to economically significant cities.

The same comments would apply if a similar, double daily service between Inverness and Luton was introduced. It, too, is not an adequate substitute for Inverness-Gatwick.

Stansted or Southend would also mean longer public transport journey times to central London and Heathrow than are available from Gatwick.

Short-haul connections at each of Luton, Stansted and Southend are likely to continue to be mostly to cities that are not economically significant. Also, as Chapter 5 of the discussion paper notes, these airports’ ability to provide further long-haul connections “is more uncertain”.

Overall, none of these London airports can be considered acceptable alternatives to Gatwick and in the longer term-Heathrow.

SUMMARY

The trends at Inverness appear more positive than the generic picture of regional airports described in the discussion paper. Specifically:

- Cross-border domestic traffic has grown in recent years, with some routes having strong percentage terms growth since 2008.
- Total Inverness-London traffic has not diminished since 2009.
- The volume of connecting traffic at London airports is unchanged since 2001.
- While the proportion of traffic connecting at Gatwick has fallen the actual passengers *numbers* have fallen only slightly. This is despite the relocation of transatlantic services to Heathrow and the introduction of a service from Inverness to another hub (Amsterdam). There does not appear to be any significant reduction in underlying demand for connecting at Gatwick.
- The number of routes has grown since 2009. It will increase further in 2014 along with increased frequencies on some existing routes.

- There has been no decline in the number of business-oriented routes.

Accordingly, it can be expected that underlying Inverness-London demand will increase in line with economic growth. However, that will be only through providing a range of onward connections and frequency and timings that allow passengers to travel when they need/want to.

Air services are vital to the mostly remote and geographically large catchment area of Inverness airport. This reflects:

- Distances from main markets making air the mode of choice for cross-border travel.
- A small internal market making business reliant on selling goods and services to customers based outside the area and overseas in particular. These include inbound visitors who arrive in the area at Inverness airport.
- Distance and travel time to other main Scottish airports that offer a more extensive range of services. This generates a significant demand from those in the Inverness airport catchment area to “fly local” wherever possible.

It can be expected that Gatwick will remain highly significant for connecting traffic out of Inverness. This reflects, first, its double daily frequency.

Second, it is a function of the number of routes and countries that can be accessed from Gatwick within a reasonable time window of arriving from Inverness.

Inverness airport generates significant economic impacts in its catchment area and beyond. Inbound visitors spend over £38 million in the Highland and Moray areas. This supports 893 FTE jobs in Highland and Moray.

16% of these impacts come from connecting traffic. Connections at the airports served by Inverness provide access to the Highlands & Islands for key EU and intercontinental visitor markets.

The Gatwick route is a large element of the overall visitor impact. It generates over £16.5 million visitor spend, supporting some 387 FTE jobs.

The directional balance of traffic means that inbound visitor spend is likely to be greater than outbound visitor spend. That is relatively unusual among UK regional airports.

Inverness' cross-border flights facilitate business travel by the main growth sectors of the Highlands & Islands economy. These include sectors that are major exporters, such as food and drink (notably whisky and seafood). In addition, air travel is particularly important for larger businesses.

Some passengers access connections at Heathrow by flying Inverness-Gatwick and then travelling by surface to Heathrow. This can incur considerable additional time, cost, and uncertainty due to the number of different journey legs involved.

Thus, a significant number of passengers whose trip originates in Highland or Moray travel to another Scottish airport in order to fly direct to Heathrow. This is despite the time and distances between much of the Inverness catchment area and Aberdeen, Edinburgh and Glasgow.

This is particularly important to business passengers who are catching a connecting flight in London. More do so by flying to Heathrow from, say, Aberdeen and catching a flight there, than do so by flying Inverness-Gatwick and connecting on from there.

This shows the key role of Heathrow in catering for connecting traffic. This is also illustrated by the case of Aberdeen. It has direct flights to a range of European hubs apart from Heathrow. However, Heathrow has a much higher volume of onward connecting traffic than any of the other hubs to which Aberdeen is connected.

Even a *single daily* service to Heathrow would offer a superior range of connections than available from an Inverness-Gatwick double daily. This in terms of connections to cities beyond the EU and ones which are world leading in economic terms.

Such an Inverness-Heathrow service could also generate significant impacts from inbound visitor spend: an estimated £7 million of expenditure supporting 165 FTE jobs in Highland and Moray. In addition there would be the benefits of direct access to Heathrow for passengers, through reduced travel time and fewer journey legs.

Neither Luton, Stansted nor Southend are acceptable alternatives to Gatwick or Heathrow. This is in terms of the number and type of onward connections available. Compared to Gatwick, Stansted and Southend also require longer public transport journeys into central London and for travel to/from Heathrow for connecting flights.

The vital importance of the direct Gatwick flights and, indirectly, access to Heathrow remains; even as the number of non-London routes out of Inverness grows. If the available capacity at Inverness is to be used effectively it is not enough to simply have “a link to the capital”. Rather, there needs to be flights to London airports which provide:

- Suitable frequency and timings for business travel, and the inbound leisure market.
- Connections to leading world cities and key inbound visitor markets, within a reasonable time window.

For Inverness and its catchment area, and the Highlands & Islands as a whole, this requires direct services to both Gatwick and Heathrow.