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25 July 2014

Dear Sir,

Response From Nestrans to Discussion Paper No.6: Utilising the UK's Existing Airport Capacity.

This submission is based upon an 'update' of an original Evidence Note on Air Links to London from the North of Scotland, commissioned jointly by Nestrans and HITRANS and first published in May 2012. A copy of that document was sent to the Airports Commission in March 2013, and was subsequently used by the two strategic transport partnerships to underpin submissions made to the Commission in response to its various 'calls for evidence' and discussion papers during the spring and summer of 2013. The 'refresh' of the Evidence Note, which forms the basis of this response to the Commission's Discussion Paper No6, uses the latest 2013 CAA survey data for Scottish airports, whereas the earlier document had to rely on 2009 data. It also includes an up-dated policy overview, because there have been a number of significant developments in this regard in the intervening period and contains feedback from interviews with several important business figures in the North of Scotland about the importance of air links to London in serving their sector of the region's economy.

The full, recently completed, Update document can be found at: http://www.nestrans.org.uk/air-links-to-london-from-the-north-of-scotland.html

Policy Update

UK regional aviation policy exhibits some recent welcome signs of change:

- Flybe intervened - with Government support - to add additional flights to London from Newquay at regular fare levels, while the train services linking Cornwall to the capital were disrupted, and Government changed its long-running ambivalence to PSOs with the capital to keep the service running to its traditional home at Gatwick.
- DfT worked closely and speedily with Cornwall Council on the Newquay route, and Dundee City Council and Transport Scotland on the Dundee service, to invite and approve PSO applications, and HM Treasury announced the creation of a Regional Air Connectivity Fund (RACF) to help subsidise these life-line routes, both of whose

viability were suffering from the very high charges being levied by GIP at its two London Airports.

- HM Treasury and DfT introduced a Regional Air Connectivity Fund not only to help subsidise these two PSO's but later providing a kick start to other route development activity at smaller regional airports.
- The Welsh and Scottish Government's took the struggling airports of Cardiff and Glasgow Prestwick back into public ownership rather than permit anything untoward to occur to what they regard as nationally important infrastructure assets.
- And the European Commission's decision on the remedies associated with BA's takeover of BMI, which attached considerable importance to maintaining competition and frequencies on regional routes, set a positive example that regional interests should not simply be ignored.

With the UK as a whole struggling to emerge from recession, and regional economies demonstrating huge imbalances in their relative performance, enhanced connectivity was recognised as a fundamental component of any policy designed to address that problem. With the Midlands, South Wales and North of England set to benefit enormously from Rail and High Speed Rail projects, a laissez faire regional aviation policy running in parallel with Government failure to address runway capacity shortages in the South East is no longer sustainable or tolerable.

It is not yet clear what form any new policy will ultimately take. There are encouraging signs that policy, which has to date tried to protect slots at Heathrow and Gatwick from regional lobbies attempting to increase access from the other parts of the UK to the principal national hub airport, is changing direction. The value of air connectivity in contributing to export lead economic growth is being more explicitly recognised in economic appraisals and policy decisions and there is the beginnings of an emerging consensus that any new runway capacity in the South East cannot just benefit London and its commuting catchment; it must benefit the UK as a whole.

The Appraisal Framework for the short-listed proposals published in May 2014, significantly strengthened the UK regional strategic dimension of the new runway options assessment, explicitly promising to factor regional impacts into the Commission's final evaluation. The publishing of Discussion Paper No. 6: The Utilisation of the UK's Existing Airport Capacity this June seems to be all part of this process.

We see that the Airports Commission is playing an important catalytic role in all this. We note that the short-listed promoters have taken a greater conscious interest in the regional dimension to new runway capacity (all three have been engaging with stakeholders in the regions) and, indeed, it is accepted now that it is a key element in the option evaluation currently underway by the Commission, not least because of the opportunity it offers to build political consensus.

- London Heathrow has announced their intention to form a Regional Connectivity Task Force to optimise the value of any new runway capacity built at Heathrow for the UK as a whole:
- Transport for London have commissioned two reports [1] [2], both of which appear to suggest a measure of commitment by the Mayor of London to ensuring a new Thames Hub serves other UK regions, as well as London and the south east.
- London Gatwick has yet to go public in any detail on this issue, though it is likely their Stage 2 submission to the Commission will have contained proposals of some kind.

Nestrans noted the nomination of a number of airports (i.e. Newquay, Manchester, Solent-Daedalus Airfield, Glasgow Prestwick and Cardiff/St Athan Airports), as beneficiaries of *Enterprise*

[1] York Aviation for TfL: Making Connections - Improving the UK's Domestic Aviation Connectivity with a New Four Runway Hub Airport (June 2014)
[2] The Smith Institute: Making global connections: the potential of the UK's regional airports (July 2014)

Zone status, then others (eg Birmingham, Bournemouth and Durham Tees Valley) to receive regional growth funding has provided tangible evidence of Government support in line with policy in the Aviation Policy Framework document. The increasingly high profile, both north and south of the border, that the *development of regional cities* as a key policy instrument in securing a spatially more balanced economic growth profile across the UK, is also worthy of note. There is increasing recognition within academia and Government policy circles of the valuable role of cities, including secondary and tertiary cities, as hosts for rapidly growing businesses and knowledge-based sectors of the economy. However there is little focus thus far on the contribution small and medium-sized regional airports can make in this regard, nor in their role as the focal points for airport quarters/campuses or economic clusters etc. Nestrans would remind the Commission that Aberdeen International Airport has been, and continues to be, very much a hotbed of investment and economic and business activity with a cluster of business parks and developments feeding off its connectivity.

The highest profile example of positive intervention has been the announcement of the establishment of a *Regional Air Connectivity Fund (RACF)* in June 2013 to support PSOs regional airports that were in danger of losing their established routes to London (most notably Newquay and Dundee). The doubling of the fund by the Chancellor in March 2014 and extension of its remit to allow start up funding for new routes, not just PSOs suggests real momentum on regional issues, even taking account the fact that neither domestic air services nor regional airports benefitted materially from recent changes to the banding structure of APD.

Meanwhile, the debate on Air Passenger Duty (APD) appears to be stalled, with no firm evidence that the differential rate agenda is finding any traction. The amendments to the APD long haul zones in the March budget may have benefitted one or two of the larger regional airports at the margins, but otherwise it seems to have been driven by wider competitiveness issues and the desire to provide the conditions to encourage new long haul routes to China, the Asia Pacific region and South America. There has still been no movement on APD in a form that would materially benefit Aberdeen.

Both the Government and the Airports Commission are also taking a conservative line on *slot allocation and ring fencing mechanisms for regional services,* with 'legal advice' that is not made public. The fact that this advice appears to differ markedly from that offered informally by Commission Officials and from the empirical evidence of approved practice in other EU states, suggest that this could become a focal issue in regional air access policy over the next 12 months, especially as the European Parliament is intending to make some potentially significant changes to EU Slot Regulations during that period, that would give higher priority to regional connectivity considerations when allocating slots at congested hubs and potentially radically changing the make-up of airport slot committees.

Nestrans welcomes that UK parliamentarians appear to be taking a much greater interest in regional aviation policy issues, of which air links to London is one of the most high profile. This is reflected in:

- A well-attended Westminster Hall debate on regional airports on 15 July 2014[3];
- The Transport Select Committees announcement of an Inquiry in the Autumn into airports of less than 5mppa[4]; and
- The establishment of APRAG a new All Party Regional Aviation Group with a remit to:
  - Promote the relationship between improved air connectivity and regional economic, social and urban development.

[3] Hansard 15 July 2014 - Columns 215-238

[4] http://www.parliament.uk/business/committees/committees-a-z/commons-select/transport-committee/inquiries/parliament-2010/smaller-airports/

- Support for guaranteed regional access to any new UK national hub(s) and legislation measures to ensure this is guaranteed in the medium to long term.
- Examine the effect of APD on regional air links and new long haul routes.

Updated Regional Analysis

Table 1 provides an updated overview of regional air connections to London factoring in current planned service changes out to October 2014. This suggests that between 2011-14 the long run decline in regional connectivity has stabilised in terms of routes served, with London City showing some modest expansion based on Flybe's decision to base its London operation there (and as a franchise operator for Stobart Air at Southend). But this disguises the quality of those links wherein frequency, scheduling and capacity have in many cases deteriorated in the face of slot pressures and associated charging structures at Heathrow and Gatwick.

The core observations from the 2012 Evidence Note remain true, notably that:

- there remains a core of well-served destinations (of which Aberdeen is one, and Belfast and the Scottish Central belt airports the other) that have good frequency to both the primary airports (i.e. LHR, LGW and also LCY) serving London as well as the low cost airports (i.e. STN and LUT, although SNE may also now fall into this category);
- volumes and frequencies to smaller more peripheral markets such as the South West, the Isle of Man and Channel Isles at Gatwick have dropped – materially in some cases;
- a similar pattern to this may be expected on the Gatwick-Inverness route, although on a more moderate scale, as Flybe withdraw and easyJet's sub-optimal schedule for business users takes over, and then Flybe begins to offer indirect competition in the London-Inverness market from London City.

Table 1: Cities with Regional Air Connections to London Airports (1991-2014)

Airport	Heathrow				Gatwick				Stansted				Luton				London City			
	1991	2001	2011	2014	1991	2001	2011	2014	1991	2001	2011	2014	1991	2001	2011	2014	1991	2001	2011	2014
Aberdeen																				Oct-14
Belfast																				Oct-14
Birmingham																				
Derry																				
Dundee																				
DTVA																				
East Midlands																				
Edinburgh																				
Exeter																				Oct-14
Glasgow																				
Guernsey																				
Inverness																				Oct-14
Isle of Man																				
Jersey																				
Leeds Bradford																				
Liverpool																				
Manchester																				
Newcastle																				
Newquay																				
Plymouth																				
Prestwick																				
No Destinations	17	10	6	7	7	11	11		5	8	5	6	3	8	7		0	6	4	8

The explanation for these historic changes remains multi-faceted and has played out differently depending on specific regional centres, but includes:

- withdrawal of low cost carriers as Air Passenger Duty (APD) has increased;
- rail competition on routes of 3.5 hrs or less;
- the state of the economy;
- rising fuel prices;

- increasing London hub airport charges requiring an increase in aircraft size to retain viability (eg there is no regional link into Heathrow now with less than 350,000 pax pa);
- responses by airlines to different market conditions and regulatory decisions (eg BA's acquisition of BMI and subsequent release of slots to Little Red; the rejection by the CAA of Flybe's S41 complaint about discriminatory charges at LGW; the announcement of the RACF; new PSOs awarded or intended on Dundee - Stansted and Newquay - Gatwick).

The picture in terms of relative performance of Aberdeen alongside main UK regional centres is shown in Tables 2 and 3.

Table 2: Passenger Volumes on Main UK Regional Links to Heathrow (000s)

Airport	Pax (000's)					
	1991	1996	2001	2006	2011	2013
Aberdeen	438	516	476	673	652	712
Belfast	1160	1135	975	665	717	672
Edinburgh	1278	1595	1577	1495	1271	1356
Glasgow	1277	1517	1388	1284	821	870
Manchester	888	1083	1284	1089	766	797
Newcastle	354	440	459	479	473	481
Sub Total Pax	**5395**	**6286**	**6159**	**5685**	**4700**	**4888**

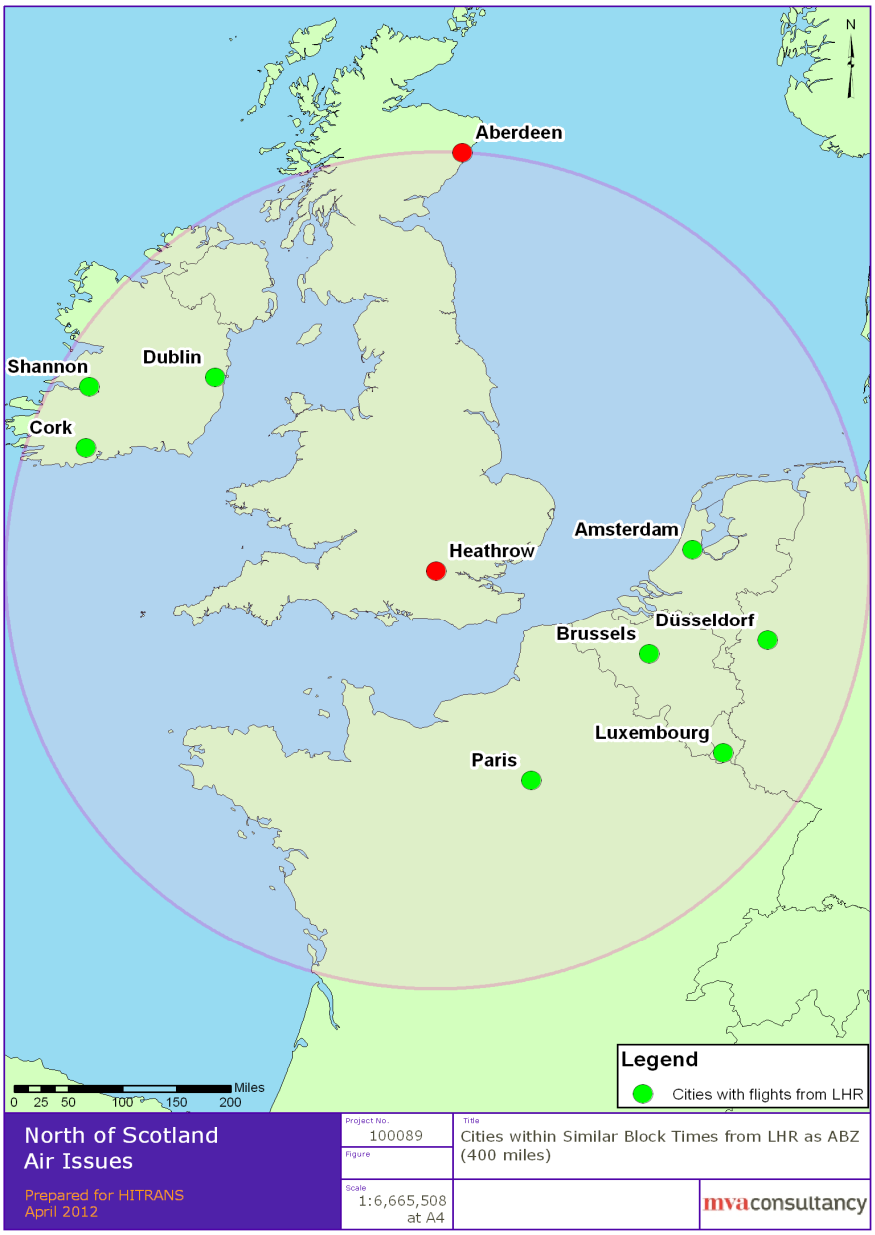
Table 3: Passenger Volumes on Main Regional Regional Air Links to Gatwick (000s)

Airport	Pax (000's)					
	1991	1996	2001	2006	2009	2013
Aberdeen	154	174	235	217	135	173
Belfast	20	224	240	562	525	792
Edinburgh	181	312	376	753	647	694
Glasgow	169	254	356	372	514	606
Manchester	165	374	471	480	288	41
Newcastle	81	116	200	221	110	82
Sub Total Pax	**770**	**1454**	**1878**	**2605**	**2219**	**2388**

In the case of air links from Aberdeen International Airport to London, can be briefly summarised that by 2013 Aberdeen was benefitting from increased average aircraft size on the LHR route as Little Red replaced BMI E145s with A320s, and that this uplift, when set alongside the new services to London City, provides compensation for the withdrawal from the Gatwick route in recent years by BA and Flybe.

Aberdeen To London Air Market

Aberdeen Airport's core catchment area includes a number of towns and fishing ports such as Fraserburgh, Peterhead, Elgin, Forfar, Montrose and Arbroath, as well as the City of Aberdeen itself. Its peripheral geography is illustrated in the map below.



Government and Airports Commission need to keep in mind that Aberdeen is broadly similar in terms of latitude to Stavanger, Gothenburg, Moscow and Riga and is as far away from London in distance terms as Bremen, Frankfurt, Basel, Bordeaux and the West of Ireland. Travel to all of these cities from London is dominated by flying, the use of a combination of road, rail and ferry being a complicated and time-consuming process. Rail times to London are in excess of 7.5 hrs and driving takes over 10 hrs.

As the earlier 2012 version of the Evidence Note set out in some detail, the economy of Aberdeen and its hinterland continues to be dominated by the energy sector, as it has been since UK oil production first came on line in the 1970s. In more recent times, however, the initial focus on oil and gas exploration and production has begun leaning towards the export of related technology and expertise; renewable energy activity is also increasing.

Like the energy industry, other notable sectors in north east Scotland include financial and professional services, marine industries, life sciences, higher education and tourism, and all have a high propensity to fly; more traditional sectors like agriculture/fisheries, construction and local

services less so. As a result of the strength of the oil and gas market, Aberdeenshire as a whole enjoys a high standard of living. According to recent Eurostat figures, Aberdeen City and Shire have one of the 15 highest GDP/head figures in Europe; indeed they are on a par with Edinburgh and the South East of England.

In addition to supporting this wealthy and outward facing economy, Aberdeen International Airport also offers onward connections to Kirkwall (Orkney Islands), Sumburgh and Scatsca (both Shetland Islands), Stornoway (Western Isles) as well as Wick on the mainland. As with the helicopter-based traffic which also uses Aberdeen Airport as a gateway to offshore oil and gas platforms (over 500,000 passengers in 2013), the volumes on these routes are material in size, growing and extending what would otherwise be a discrete, modest and relatively self-contained core catchment area, as the drive times to other major Scottish cities below highlight.

Table 4: Drive Times to other Scottish Cities

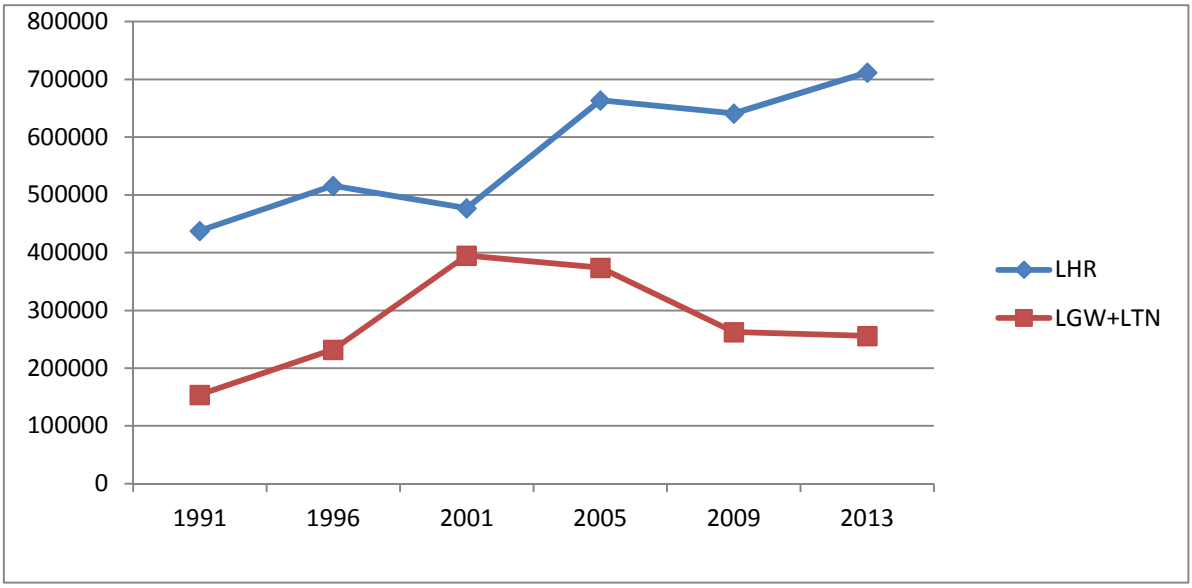
Drive Times (Hrs: Mins)				
	Airport			
City	INV	ABZ	GLA	EDI
Inverness		2.25	3.45	3.25
Aberdeen	2.20		3.15	2.45
Glasgow	3.45	3.15		0.50
Edinburgh	3.40	3.00	1.10	

Source: AA Route Planner

The combination of distance, poor surface alternatives and a strong and internationally focused economy, has historically helped to generate significant demand for air services, and Aberdeen City and Shire has one of the highest propensities to fly in the UK outside central London. Historically, the Aberdeen to London market closely matched Glasgow, and to a lesser extent Edinburgh, in terms of the frequency of services available to Heathrow and Gatwick with up to 14-a-day provided by BA and BMI to Heathrow (depending on the day and season), and three to Gatwick and Luton operated by a combination of BA (then Flybe) and easyJet.

In the last few years, both of those markets have seen a major restructuring as BMI was sold to BA and then Flybe withdrew from the Gatwick route. Despite BA being forced by the competition authorities to release three of its newly acquired BMI slots to Little Red, frequency has declined to between 11-12 per day, and yet, as the chart overleaf demonstrates, the Heathrow market has continued to grow as larger aircraft sizes have been brought onto the route increasing overall seat capacity. In 2013, it passed 700,000 passengers for the first time.

Figure 1: Passenger Volumes on Aberdeen to Heathrow and Gatwick Routes



CAA Data

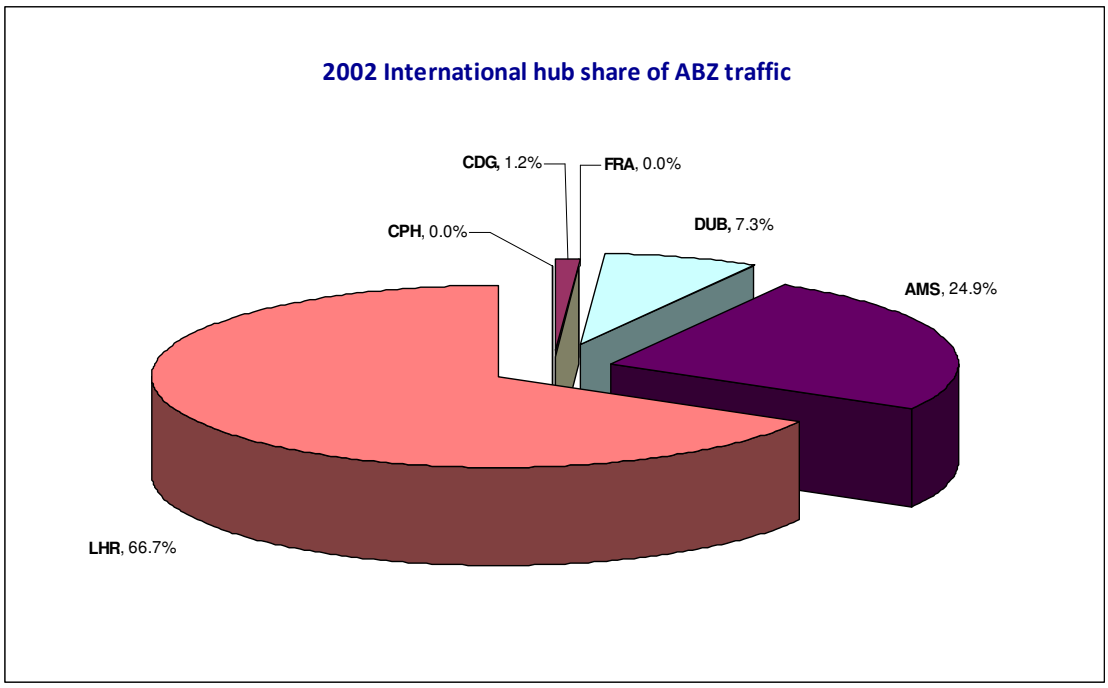
Away from Heathrow, easyJet has remained committed to serving the mainly point-to-point market to Gatwick and Luton. Volumes to Gatwick have declined by around 15% from their 2001 peak, but by 2013 appeared to have stabilised relative to 2009 despite competition on the route disappearing, when BA shifted their operation to London City and Flybe withdrawing from the route altogether. The evidence suggests that this is because it is the connecting market that is growing rather than the point-to-point traffic between London and the South East.

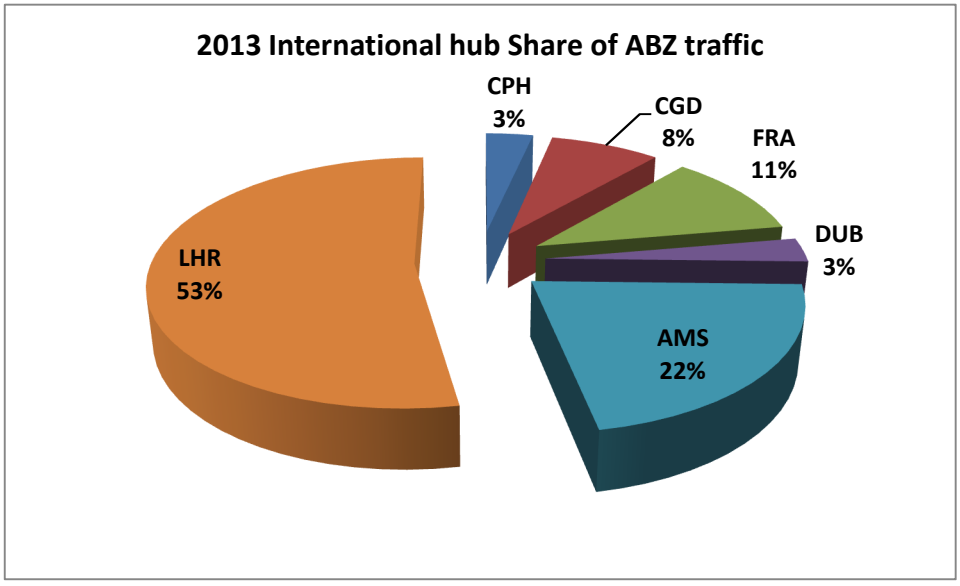
When we look in more detail the combined market between Aberdeen and the two existing airports forming the principal focus of the Airports Commission's second stage work (ie LHR and LGW), in 2013 it had grown to an all time high of 885,000 pa (or over 1 million p.a. if Luton and London City are included); this despite a series of new hub links having been added to Aberdeen International Airport's portfolio of routes (eg CDG, Copenhagen and Frankfurt) during the last decade, in addition the long-established 5 x daily Amsterdam service (see Table 9 below). Of these, Frankfurt has grown particularly quickly since it opened in 2011 and all are competing with Heathrow to meet the demand for onward connections from Aberdeen, which at over 700,000 in total, is not only substantial in UK regional terms, but more importantly is high value, being heavily business orientated.

Table 9: ABZ to Hub - Connecting and Business Splits for Principle Routes (CAA data 2013)

	Total to Hub	O&D	Connecting	% Connecting	Business	% Business
Heathrow	**710,716**	**408,031**	**302,685**	**43**	**366,346**	**52**
Manchester	203,347	173,042	30,305	15	146,721	72
Gatwick	174,512	159,034	15,478	9	67,362	39
Birmingham	96,789	93,760	3,029	3	64,048	66
Luton	83,831	77,905	5,926	7	31,173	37
London City Airport	73,408	70,772	2,636	4	51,593	70
Amsterdam	**291,155**	**123,458**	**167,697**	**58**	**162,886**	**56**
Frankfurt	**146,194**	**45,868**	**100,101**	**68**	**66,200**	**45**
Paris - CDG	**106,937**	**57,222**	**49,715**	**46**	**57,092**	**53**
Copenhagen	**46,007**	**27,070**	**18,937**	**41**	**35,637**	**77**
Dublin	41,568	41,213	355	1	14,115	34

As the pie charts for 2002 and 2013 below indicate, although Heathrow remains the largest single hub route by volume, its overall share has fallen from 65% to 53%, with most of that being due to the rapid growth of Frankfurt.

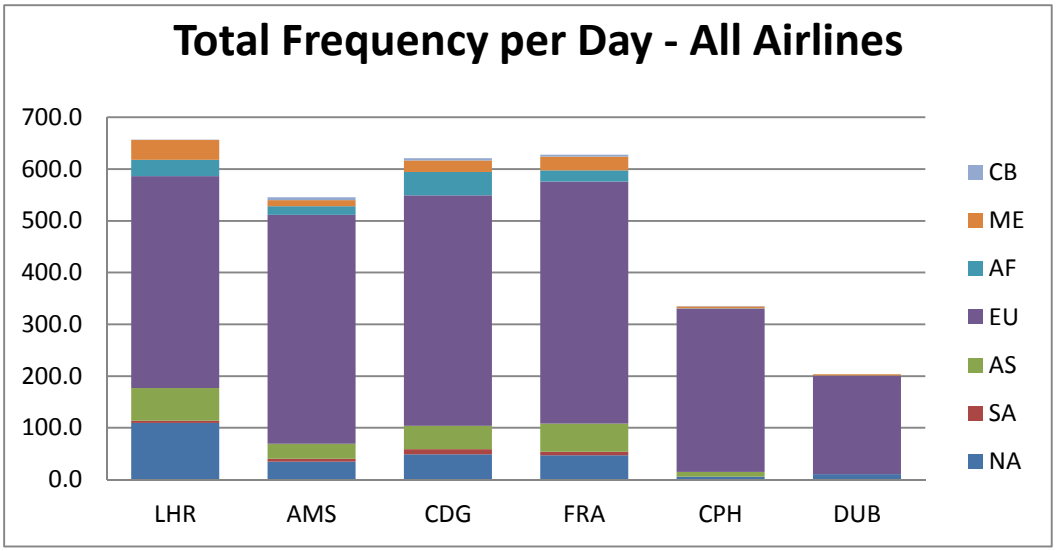




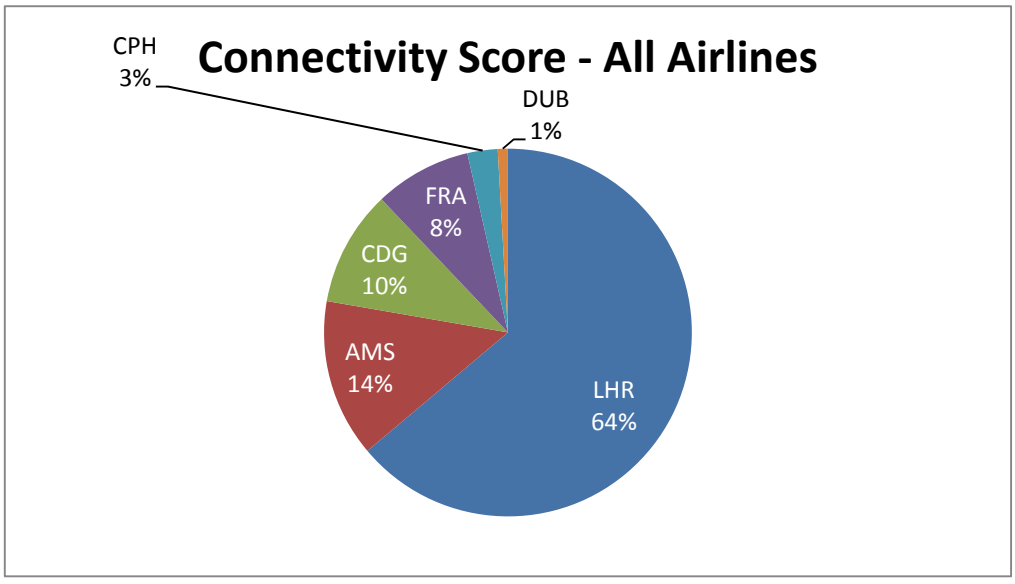
However, it is the strongly held view in the region, and particularly in the energy sector (as first hand comments provided to our consultants in the Update indicate), that while the other connecting points greatly improve choice and flexibility, it is the Heathrow services that represent the most fundamentally important transport infrastructure serving the Aberdeen economy, an important hot spot in a UK economy, otherwise dominated in terms of growth by London and the South East.

The 2012 Evidence Note provided important insights as to why this is, in the form of connectivity analysis, which remains valid today. If we recognise that connectivity is not just a function of the number of destinations served by a hub, but more fundamentally is determined by the frequency of service into different markets, then when we look at the chart below, while Heathrow performs less well on total destinations served, it is much better in terms of frequency to key international

markets of relevance to Aberdeen, most notably North and South America (NA and AS) and to a lesser extent the Middle East (ME) and Africa (AF).



But the best measure of connectivity is one that recognises not just onward frequencies but also inbound frequency from the regional city in question. In Aberdeen's case there are currently 11 services a day to Heathrow, 6 times daily to Amsterdam, 3 times daily to Frankfurt and Paris and twice a day to Copenhagen. By dividing onward frequencies by these inbound we get a connectivity quotient – effectively a measure of the ease of being able to take advantage of the onward services rather than having long connect times or restricted departure times from the originating airport. When looked at in these terms, which is crucial for businesses where time is valuable, Heathrow offers vastly better connectivity than its competitors in terms of all airlines, both of its Alliances and from its principal carrier BA.



It is the possibility that this crucially important high level of connectivity could be substantially compromised by any further loss of service frequency between Aberdeen and Heathrow, which is the greatest area of concern in relation to South East capacity issues for strategic authorities in the north east of Scotland. The commercial viability of the Heathrow route is not in doubt. Rather it is

the opportunity value of the [11-12] pairs of slots that Aberdeen currently enjoys, for use on yielding long-haul services that is the worry. As repeated Transport Select Committee investigations have highlighted, incumbent carriers currently have complete freedom over how these slots are used. Wider economic considerations at a regional level play little role in their commercial decisions. Moreover, unlike in the case of Gatwick for Inverness, the London metropolitan, green and long haul airline lobbies could argue that the 'global connectivity' argument for retaining links to Heathrow is less clear-cut given the availability of connections over other European hubs. In our view, the evidence demonstrates this does not stand-up to scrutiny.

The riposte to these arguments from the north east of Scotland is that with 61% of passengers using Aberdeen International Airport to travel on business, much the highest of any UK airport (and interestingly is now 7% points higher than in 2009), it has become even more vital to Aberdeen's economy as it moves from a focus on oil and gas production to one of being a technology and expert services supplier to the global energy sector. And because of its prominent position in the energy sector and strong export performance, the fate of north east Scotland's economy is also important for the wider Scottish and UK economies.

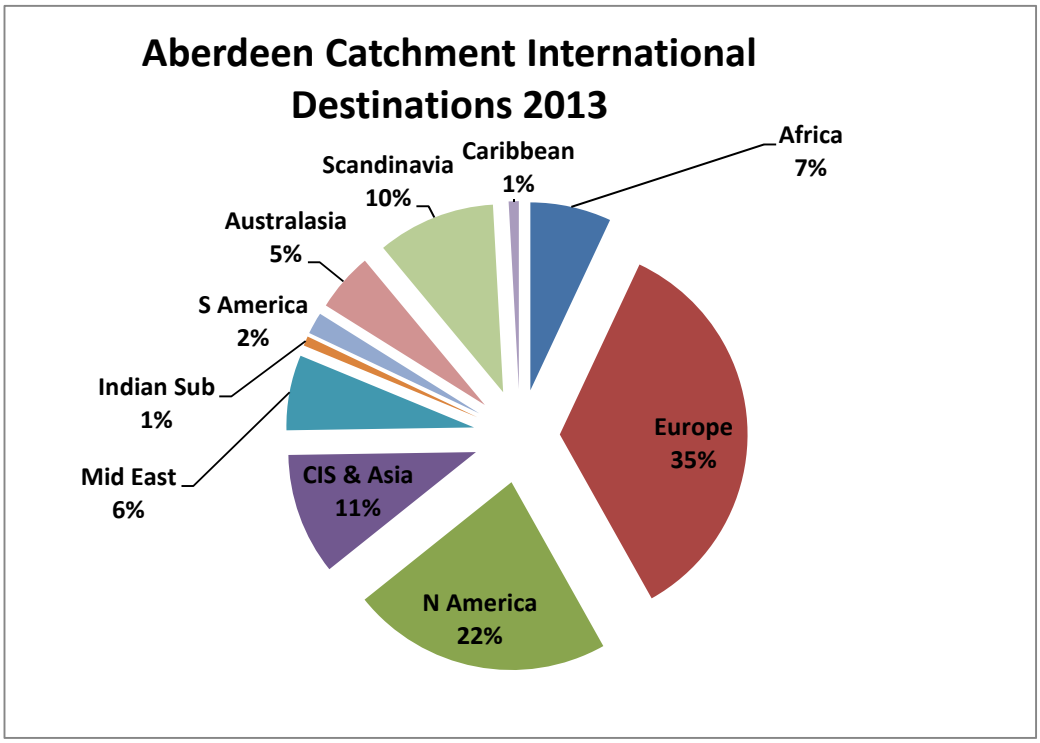
Table 5 provides us with yet more evidence, if it was needed, that it is the core scheduled services provided from Aberdeen International Airport that are fundamental to its business connectivity. It shows that of the 685,000 passengers from the Airport's core catchment who used other airports in Scotland (and the North of England) to fly from, only 17% were on business (see Table 5). In other words, the vast majority of 'leaking' demand is from leisure passengers looking for cost effective services to sun destinations, which are under-developed and therefore expensive from Aberdeen. Although this figure has grown from 542,000 passengers in 2009 to 685,000 in 2013, at 25% surface leakage, Aberdeen's catchment area remains materially lower than Inverness and less than for many regional airports in the UK (despite Glasgow being three times and Edinburgh four times the size of Aberdeen, if rotary traffic is excluded).

Table 5: Passenger Leakage Aberdeen's Catchment to other Scottish Airports (000s)

	Business	%	Leisure	%	Total
EDI	58,087	16.2	300,471	83.8	358,558
GLA	21,134	10.1	187,196	89.9	208,330
INV	34,303	31.0	76,252	69.0	110,555
NCL	1,136	14.5	6,685	85.5	7,821
Total	**114,660**	**16.7**	**570,604**	**83.3**	**685,264**

Source: CAA Scottish Airports 2013 Survey

When we look at ultimate destinations for onward connecting markets, the data reinforces the 'business lifeline' message yet further. As the figure below shows, North America and Europe are the principal global regions for connecting traffic from Aberdeen, with the Middle East, Far East and Africa also material.



This is a reflection predominantly of business links associated with the oil industry, (see Table 11 in main Update document), and in the case of Europe the other major sectors under-pinning Aberdeen's internationalised economy. It emphasises again the tremendous importance of businesses in north east Scotland region being able to access these markets easily by air, but also flags that there are very few city pairs that have sufficiently large volumes to merit direct services. So for example, of the oil cities below, demand is highest to Houston, but at 50,000 in 2013 vs 27,000 passengers in 2009, it is getting close to, but is probably not yet quite at, a level to justify a year round direct scheduled operation at a sensible frequency.

This means that the use of hubs will continue to have a vital role for many years to come in allowing Aberdeen's businesses and residents to connect to a disparate array of destinations worldwide; and by far the most important of these remains Heathrow. For an insight into why this is, we need to look in more depth into connectivity and its importance for economic activity.

A full list of the destinations served from Aberdeen is at Appendix B in the Update document, which also shows changes in route volumes between the 2009 and 2013 CAA surveys.

Having said all of which, it is worth stating clearly amongst all this discussion of global connectivity, that Heathrow does not just act as an important gateway for north east Scotland-based businesses to the wider world, it also has a key role in providing access to the world's leading city, London, and the huge market represented by the South East, one of a number of emerging mega-regions which will dominate global economic activity by 2050. If HAL, for its own commercial reasons, seeks to cannibalise some of the slots portfolio it operates to Aberdeen, or Virgin abandon's its Little Red adventure, total 'capacity' on the north east of Scotland's single biggest and most economically important route, could be quickly and materially compromised. And while further increases in aircraft size could compensate in part, it would not overcome the damage associated with a loss of frequency.

The 2012 Evidence Note included some scenario based forecasting. While, currently traffic from Heathrow to Aberdeen is in line with the higher of the two 2012 projections, it could quickly fall

below the lower forecast if a further 20-25% loss of frequency occurred. This is exactly what has happened at LGW and LUT where a 50% reduction in frequency has seen traffic fall below the lower of the two projections, although if London City traffic were included it would be around the midpoint between them.

The original Evidence Note contained analysis that demonstrated the close relationship between the structural composition of the North of Scotland's economy and its high propensity to fly (see Sections 3.8-3.18 on Aberdeen and north east Scotland). In essence, because of geography relative to key markets, and the international, export focused, nature of key sectors such as energy, whisky and tourism, there is a high dependency on access to good air links and on connections to London (and for Aberdeen, Heathrow in particular), for their effective operation.

We believe that analysis stands the test of time and that there have not been any sufficiently large structural changes in the last two years to require re-visiting it. What we have done as part of the update, however, is seek to provide a little more insight to the nature of that dependency by speaking directly with a number of key figures in the business scene across the North of Scotland and asking for their views on the significance of air links to London for their own business or economic sector. This feedback is in the fuller Update document, but we would particularly draw your attention to comments and analysis on the Energy and Higher Education sector.

The north east of Scotland significantly out performs many other parts of the UK economically relative to its population. However, it is only able to do this and 'punch above its weight' in terms of GDP and exports, because of the access to major UK, European and global markets that aviation facilitates.

Proposed Policy Interventions

The original Evidence Note was concerned to counter the various justifications made at a national level for UK aviation policy that was having a material negative impact on regions such as the North of Scotland, namely:

- A laissez-faire 'let the market decide' policy, when the failure to approve and drive through the creation of new runway capacity in the South East was causing the most significant market distortions of all in the form of severe supply side slot shortages.
- The application of 'allocative efficiency' as a theory to resultant slot distribution and airport charges, inherently disadvantaging thinner domestic and short haul routes using smaller aircraft, relative to their more remunerative counterparts on long haul routes – this without any assessment of the associated local and regional economic impacts.
- Failure to use the compensatory mechanisms allowed under EU treaties to protect intra-national and EU connectivity (eg PSOs and ring fencing/priority in local rules of regional slots)
- Insistence that airports should cover regulatory costs that should lie with the state (eg Border controls, security and safety), and typically do, elsewhere in Europe.
- Passenger departure taxes materially higher than anywhere else in Europe and continuing to rise, when in other countries they are being reduced or dismantled

Whilst it is accepted that even a perfect market, ideal in delivering rational optimal solutions, is complicated within aviation because of its international nature in which state interests and airline grandfather rights play a substantive role, every EU country has come up with its own response to these constraints – some more interventionist that others - the UK with no PSOs to its capital (until this year), no regional slot protection at its main international hub and high regulatory cost and tax imposition, stands out in Europe for a fiscal environment that is markedly anti-regional, having been designed apparently to optimise use of scare capacity to maximise global connectivity from London.

In our view this cannot go on, as Aberdeen has witnessed marginal declines in connectivity mainly through the loss of frequency to Heathrow and BA's recent withdrawal of its Aberdeen route from London City. The resulting reductions in onward connectivity have been material and go some way to explaining what the 2012 Evidence Note and the update spell out, therefore:

- Why access to a UK national hub is of such strategic importance to more peripheral and less densely populated regions such as the north east of Scotland
- Why being forced to rely on links to Luton, Stansted, London City, Southend and even Gatwick are far less satisfactory
- And why those parts of the UK that are forced to rely on a foreign hub for onward connectivity, do not regard this option as strategically secure or satisfactory and would prefer that they did not have to. The north east of Scotland does not want to find itself in this position.

It is not surprising therefore, that leading businesses and strategic authorities in the North of Scotland, like other more remote parts of the UK, regard the possibility of a new runway (as supported by the Airports Commission in its Interim report), as a major opportunity to materially improve their regions connectivity and are advocating the runway be accompanied by a pro-regional access policy that offers the prospect of optimising links to the capital by offering hub access, better frequency and route competition to maintain downward pressure on fares.

For the North of Scotland, geography pre-determines that HS2 is not the answer, even if it were directly connected to the national hub, which also seems unlikely. Distance and time make air access to London essential both for point-to-point travel and onward connectivity. Moreover, recent TfL funded work in connected with the Thames Hub project[5], also highlight the economic opportunity costs of Inverness not being connected to a future national hub and Aberdeen losing frequency.

In relation to Aberdeen the report makes the assumption that without airport expansion in the South East, Aberdeen's frequency to London will drop from 11 to 7 per day. Conversely, if LHR gets a third runway, then 12 per day will be possible whilst a fourth runway will deliver 14 flights per day. This allows the report to suggest prospective benefits to the local economy by 2050, £346m GVA and 2,810 additional jobs.

While the underlying assumptions are debatable, the analysis is useful in providing estimates of the broad quantum of impact that loss of connectivity or failure to benefit from additional South East runway capacity would give rise to. It adds to the sectoral appraisals provided in the previous version of this Evidence Note to make a compelling case as to why air links to London are so important to the economy of the north east of Scotland and that of the wider UK and consequently why ring-fencing of new capacity for such links should form part of the Airports Commission's final recommendations to Government. Those core generic arguments bear repeating here.

In the case of Aberdeen, arguments based on the absence of viable surface alternatives, the inconvenience of the Scottish Lowland airports, the inadequacy of other London and regional airports as hubs and the need for good overseas access for Aberdeen and the north east of Scotland Region's principal economic sectors are common to those associated with Inverness and the Highlands. But the policy focus in this case, needs to be rather more on the compelling evidence highlighting the essential role of Heathrow and the frequency of services to it from Aberdeen. This is not only because of:

[5] York Aviation June 2014 - Making Connections - Improving the UK's Domestic Aviation Connectivity with a New Four Runway Hub Airport

- the very high proportion of business traffic (around 55%) that Aberdeen to Heathrow services cater for, more than double that of other Scottish Airports; and
- the overall connectivity quotient it offers.

But also because of:

- its primacy in the high value North American long-haul market; and
- its ability to offer good quality access to several major oil producing regions, more than any of its competitor hubs in Europe to which Aberdeen is already, though much less well, linked.

In many ways, Aberdeen International Airport offers an archetypal example of the kind of 'network' solution the CAA is advocating for regional air access, whilst its economy exemplifies the kind of privately driven, high skill, high value and export focused approach which the Government is seeking to foster. With an economy dominated by the oil and gas sector, but seeking to diversify into 'new' sectors such as life sciences, and renewable energy, whilst increasing the international market for its tourism offer, geography makes high quality air 'connectivity' essential to the functioning of what currently is one of the most prosperous part of the UK and a major source of exports and tax revenues for UK plc. This requirement cannot be met adequately by reliance on foreign hubs or regional hubs elsewhere in the UK; continued high frequency access to Heathrow is demonstrably the key to maintaining access both to London, the number one World City, and to the wider global economy.

The analysis of the impact of cannibalisation of Heathrow slots in Section 3 of the Update report on the point-to-point market to London, demonstrates the real impact continuation of laissez-faire policies will have on Aberdeen's economy. And that is before the deleterious affects reduced hub-connectivity that diminution of access to Heathrow from Aberdeen will have on:

- access to global markets for one of the UK's most important economic sectors;
- one of the few regional economic hotspots outside the South East of England; and
- on the Government's own future revenue streams, given that according to Oil and Gas UK, production from the UKCS in 2008 contributed £12.9 billion in corporate taxes, 28% of total corporation taxes received by the Exchequer.

There is, therefore, real resonance to the need for government to recognise the importance either in:

- supporting new runway capacity in the South East – ideally at Heathrow, but failing that at Gatwick or a new Thames hub airport and of facilitating regional access to it; or
- if no new runways are permitted – by pro-actively intervening in the existing slot market to iron out market distortions its own policies have potentially created for crucial regional air links to London such as those to Aberdeen.

A Proportionate Policy Response for the North of Scotland

Collectively, the two regions making up the North of Scotland must have a strong claim for some measure of prioritisation within any regional air access component to transport policy. This is because:

High-speed rail will provide considerably improved access to London, and prospectively Heathrow or new runway capacity at Gatwick or in the Thames, for all English regions except the far South West of England. HS2 will particularly benefit the Midlands and North of England and electrification of the Great Western Mainline could materially cut journey times from Bristol and South Wales. These schemes, will draw heavily on the Central Exchequer for their funding, and therefore will be contributed to by taxpayers across the UK, including those in peripheral regions

such as the North of Scotland for whom there will be little or no benefit and into which it is not practical or sensible to extend them.

In recognition of this and its duty to provide adequate transport access and socio-economic connectivity to all its citizens in return for taxing them, not just those living in the national capital and major regional centres, but also those occupying more peripheral regions, HITRANS and Nestrans are strongly placed to argue that in return the UK Government should be willing to accept a small amount of prioritisation at the UK's hub airport and at Gatwick, as the price for providing some equity of treatment and market access.

Such a policy requires no subsidy; the routes themselves are commercially viable. It therefore provides a very low cost solution, mainly in the form of opportunity costs, to a very specific but important problem, which is of wider UK as well as regional, significance, namely the loss of trade that Aberdeen and the Highlands generate. If lost to those regions, in some cases it would be lost to the UK as well, as it would in all likelihood move overseas, as some of the quotes in Appendix B make clear.

Daily Pairs of Slot Reservations for the UK's Most Peripheral Regions

Airport	Heathrow		Gatwick	
	Current	Proposed	Current	Proposed
Aberdeen	11	11	4-5	5
Inverness	0	2	4-5	5
Belfast	9-10	10	9	10
Newquay Cornwall	0	2	3	3
Total	20-21	25	20-22	23

If for example, the slot reservations set out in the Table 4.1 above, were to be made at Heathrow and Gatwick, for the UK's four most peripheral regions, the total claim on the slot portfolio at the two airports would be:

1. Heathrow: 9,125 pairs of slots per annum, or 3.8-3.9% of currently available annual capacity (470,000 ATMs); and
2. Gatwick: 8,395 pairs of slots per annum, or 6.3% of currently available annual capacity (265,000 ATM's).

The North of Scotland's share of that would be around half (ie 1.9% and 3% respectively). This amounts to a very small cost for maintaining links between, and providing connectivity to, the wider world for all parts of the Union. And as Appendix B makes clear, these links are vital to real businesses, employing a lot of people and generating wealth and tax receipts for UK plc.

In the context of an international short-haul portfolio of routes at Heathrow, it is worth noting that there are:

- A number on which there are up to three competitors;
- others where point-to-point passengers might be served equally as well by High Speed Rail connections, given they are physically closer to London than Aberdeen;
- and others still, which serve outbound leisure destinations and are therefore a questionable use of valuable Heathrow slots.

Considering Paris and Brussels for example, there are already high frequency High Speed train (HST) services to both cities that offer attractive travel times for point-to-point journeys to and from London. Yet air services on these routes still absorb 372 slots per week (that is over 19,000 per

year or 25 slot pairs per day at Heathrow alone). Moreover, Eurostar have announced plans to run other HST services to the Netherlands (Amsterdam), Germany (Cologne and Frankfurt), southern France (Lyons and Marseille) and Switzerland (Geneva), and there is also interest from other HST operators in these countries in doing the same.

Imposing some form of route based frequency cap on these routes would therefore seem a readily achievable way of generating the supply of additional slots required. With surface travel times from Aberdeen to London and its airport of between 8-10 hours, passengers need to fly. With rail access times of 2.0-4.5 hours on many of these routes, there will be less need for high frequency air services from Heathrow and/or Gatwick to these cities than there is to the North of Scotland.

We estimate that if the number of services to Amsterdam, Brussels, Paris and Dusseldorf alone from Heathrow were reduced by 25% (Cologne has only 3 flights in each direction per day and is therefore excluded) and some of this lost seat capacity could be replaced by up-sizing the types of aircraft used on the route), nearly 200 slots would be released. If Frankfurt and Geneva were also included, that figure would rise to over 250, which is more than sufficient to meet the needs of the UK's peripheral regions, without having to cannibalise slots to other parts of the UK.

The foregoing is not dependent on any SE airports solution - it can be used under any scenario. As such, it represents in our view a proportionate policy response to what for the regions concerned is a critical issue, but also of material importance to UK plc.

Delivery Mechanisms

We are aware that both the Commission and DfT have said that they have legal advice – probably from the same source – that EU regulations do not allow such preferential slot allocation, let alone slot retention in perpetuity. This does not accord with legal advice from other sources, practice in other Member States, nor from discussions a number of parties have had with the responsible EU officials, who for example evidence precedent elsewhere of slots being allocated for specific purposes, and PSOs being drawn up on the basis of airport specific, not city or regional, pairs.

The need for a refreshed approach is likely to be given greater force by prospective changes to the Slot Regulation recommended by the EU Parliament, which will give regional air access to hubs greater priority and ensure that slot allocation committees (who devise local slot allocation rules) are not dominated by vested interests.

Conclusions

Nestrans are happy, and keen to, engage in detail in face-to-face meetings with the Airports Commission and DfT officials on these issues. A set piece question and answer session, or written correspondence based on a consultation document like Discussion Paper 6, are unlikely to get to the heart of complicated legal and policy arguments.

Nestrans wish to explore every avenue in this regard with the Airports Commission. We acknowledge a shared interest to build a political consensus around a preferred runway solution, and that it must have to benefit the whole of the UK, not just London and the South East.