

## **POLICY SUBMISSION**

### **AIRPORTS COMMISSION: DISCUSSION PAPER 06 UTILISATION OF THE UK'S EXISTING AIRPORT CAPACITY**

SCDI is an independent and inclusive economic development network which seeks to influence and inspire government and key stakeholders with our ambitious vision to create shared sustainable economic prosperity for Scotland.

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## Utilisation of the UK's Existing Airport Capacity

1. SCDI is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI's membership includes businesses, trade unions, local authorities, educational institutions, the voluntary sector and faith groups.
2. SCDI welcomes this discussion paper and the opportunity for SCDI members in Inverness and Aberdeen to discuss it on the day of its launch with the Chair of the Commission, Sir Howard Davies. In previous submissions, SCDI has consistently made the point that the major London airports, particularly the UK's existing hub airport at Heathrow, are national assets and that consideration of their future capacity should include the needs of all parts of the UK economy. It was important that the Commission strengthened the emphasis on regional connectivity in its assessments and this signal has led to improvements in engagement by the promoters on how to realise the possible regional benefits.
3. Scotland is a relatively small, open economy on the periphery of Europe. SCDI members understand the importance of Scotland's airports and air travel to the Scottish economy. Scotland is home to some of the UK's leading exports and internationalisation will be key to generating long-term sustainable economic growth. SCDI members welcome the growth in international route networks at Scotland's major airports which is again becoming more evident post-recession, and strongly support efforts to develop new long-haul services to large and/ or emerging overseas markets for Scotland. However, they understand that, with Scotland's relatively small population size, direct links with many cities and countries will not be viable. For instance, there are very few routes between Scotland and UK Trade and Investment's top 20 emerging markets. Good connections with London are and will remain essential for point-to-point travel to both this world mega-city and for interlining to its wide range of international routes. Loss of access to Heathrow and, in some cases, Gatwick and London's other airports, therefore, has been and is a significant concern to SCDI members.
4. SCDI has summarised the views in previous submissions to the Commission e.g. <http://www.scdi.org.uk/images/document/SCDI-Response-on-Airport-Operational-Models-July2013.pdf> . SCDI members have, generally, been concerned about the lack of capacity at the UK's existing hub airport and the impact that this has or may in the future have on their ability both to access it and reach the destinations on offer at its competitor airports. The Commission's final report must analyse the options with this firmly in mind and propose a solution which it would be possible to deliver within the necessary timescales and would provide sufficient capacity in the right location to maintain the UK's position as a focal point for the global aviation industry in the long-term, and ensure protection and enhancement of regional access to that capacity. The aim should be to enable the growth of global connectivity for the UK and for the regions of the UK.

5. As the consultation says, regional airports will play a crucial national role in the future, providing connectivity domestically and internationally for UK regions. As the relatively high compared to the population and growing number of people utilising Scottish airports shows, this is especially true in Scotland. At present, Government interventions in this sector, such as the increases in Air Passenger Duty while other countries are reducing or abolishing their equivalent taxes, generally have a negative impact, to the point that the UK is ranked as one of the least competitive countries for aviation taxes and charges by the World Economic Forum. SCDI hopes that the Commission will recommend a new policy approach by the Government which encourages growth at the UK's regional airports.

**Is the Commission correct to identify a reduction in air connectivity between the UK regions and the London airport network over the last decade? How do recent new routes to the capital, and the stabilisation in passenger numbers on domestic routes to and from London since 2010, affect this analysis?**

6. The Commission's analysis seems to be reasonable. The deep recession - including the decline in living standards, changes in the employment market and historically very slow recovery in GDP – is a major cause. However, other factors, such as airlines switching scarce slots to international flights from regional flights to increase their revenues, sharp increases in Air Passenger Duty, availability of alternative hubs and modal shift to rail travel due to journey time and service improvements, have also had a significant influence. Whether and the extent to which these factors have had an influence will vary from airport to airport and from region to region, and some stronger regional airports have been affected comparatively little and now appear to be firmly back on a growth trend. Economic recovery and addressing capacity and tax constraints imposed by Government would be likely, therefore, to reveal an underlying demand.

**How do respondents view these trends developing in the future?**

7. The sustainability of recent levels of economic growth will have a strong bearing on trends in air connectivity in the UK's regions and between the UK's regions and the London airport network. Rebalancing of the economy – both regionally and towards higher net exports – as prioritised by the Government and all political parties, would stimulate future growth, although progress has been slow. The UK's population has been increasing at one of Europe's fastest rates and this is projected to continue, with substantial growth in many of the UK's regions.
8. The planned development of HS2 could have a significant influence. The completion of phases 1 and 2 would offer major journey time reductions between the north of England and London, which may encourage further modal shift on the Manchester and London, and Leeds-Bradford and London, routes. On the other hand, if HS2 is not developed, all the north-south main rail lines are projected to reach capacity while may drive modal shift in the opposite direction.

9. Even with completion of phases 1 and 2, the journey time improvements between London and central Scotland would be proportionately smaller and with end-to-end journeys still over three and a half hours, air travel would still be quicker. The Department for Transport and Transport Scotland have asked HS2 Ltd to look at ways to cut journeys from Glasgow and Edinburgh to London to three hours or less, at which point modal shift from aviation to rail would be more substantial. However, there would still be a need to access the major London airports.
10. It is accepted that the business case for high speed rail to be extended north of Glasgow and Edinburgh is unviable. City-regions in the north of Scotland will, therefore, continue to rely on air travel to access London and its airports. Given the scale of the investment planned for high speed rail, SCDI believes that its benefits should be spread widely and that those peripheral city-regions which will not benefit directly should have their connectivity needs addressed by utilising some of the capacity which would be released by HS2 encouraging modal shift on domestic routes to protect and enhance their access to London's key airports.
11. The Commission has the opportunity to shape the development of future trends. If it makes the right policy recommendations to expand capacity in London and enhance regional airports' connectivity and these are accepted and implemented sufficiently quickly by Government, Parliament and the industry, this will support long-term growth at the UK's regional airports and in the UK's regions.

**Is the Commission's analysis of the multiple factors influencing domestic air connectivity between London and the UK regions accurate? Of the factors outlined, which are the most significant or important for explaining how the market has developed? What additional factors, if any, should the Commission be mindful of?**

12. SCDI believes that the Commission's analysis is broadly accurate.
13. The performance of the economy at national and regional levels is a key factor in overall domestic air connectivity and the strength of specific airports and routes. With GDP now back at pre-recession levels and the economy projected to continue to grow relatively strongly, it should be expected that domestic air connectivity, including between London and the UK regions, would increase.
14. The CAA's verdict on whether the re-structuring of Gatwick's airport charges, which led to Flybe selling its slots to EasyJet, unreasonably discriminated against regional users of the airport demonstrated the tendency for national aviation policy and regulation to negatively impact on the UK's regions. While it acknowledged that some services may have been 'squeezed out', the CAA did not appear able or willing to act to address the needs for regional connectivity from areas beyond which surface access is viable or make judgments on the impact of the loss of a service on key sectors of the national or regional

economy. An approach to national assets which is based on what would meet the needs of most passengers will inevitably result in metro-centric decisions.

15. SCDI's surveys of our members have shown that a minority of passengers are choosing other hubs to make connections, sometimes because capacity constraints at Heathrow have either 'squeezed out' their services or have reduced the standard of overall service at Heathrow so that others are more attractive. While these new routes are very welcome, the numbers using them to interline are still far less than those using London airports and the overall connectivity that they provide for the regions is significantly less if measured in terms of the number of flights and ease of onward connections. Of those who do choose them, some would rather opt to fly via Heathrow if that opportunity existed or it was a more attractive experience. Very few SCDI members do not believe that access for their city-region to the London airports is a strategic issue.
16. The Commission should also be mindful of the freight sector. For instance, SCDI understands that Heathrow handles 95% of long-haul UK seafood exports. Access to these services for this time-critical, high-value produce is, therefore, highly significant, especially at a time of rapidly growing global demand.

**Is overall transport connectivity between London and the regions at an appropriate level? What are the social or economic consequences of changes to air connectivity? Can respondents provide any comparisons or other evidence to support their response?**

17. SCDI members are very concerned by the loss of and changes to air connectivity between Scottish city-regions and London, especially the major London airports. The economic consequences of these have been detailed in the surveys and case-studies which we have provided to the Government and Commission. We continue to make strong cases for the levels of connectivity which are required. While services have been reduced or cancelled, it is very important to note that profitable routes are being withdrawn because other, long-haul routes are more profitable. This is due to a market which is being constrained by Government policy on capacity and, until that is changed, the situation will deteriorate further. This suggests that connectivity with London is not appropriate at present for city-regions in the UK and will become even less appropriate for even more of them.
18. While larger planes between London and the regions provide extra capacity, a reduction in frequency, particularly for business travellers and all passengers interlining, means a loss of regional connectivity, with economic consequences.

**What future trends do respondents envisage in domestic air connectivity excluding routes into London? How relevant are the factors explored in relation to London and the regions for these other domestic routes?**

19. Economic growth globally is expected to be disproportionately concentrated in city-regions and Government policy is to rebalance UK economic growth both towards regions outwith London and higher net exports. These trends, if realised, should encourage the development of more long-haul services from regional airports. The introduction of new planes should enable growth of these services. There are signs in Scotland that the major airports are being more successful in attracting new long-haul services and in expanding existing long-haul services.
20. Access to a sufficiently large local market will always be a challenge in Scotland. There is perhaps some scope to attract network airlines or alliances to supplement local demand with connecting traffic, although this is highly competitive. The loss of the very successful Route Development Fund in 2007 and the uncompetitive levels of Air Passenger Duty are two major barriers to long-haul services. Addressing these points would make a significant difference.

**Is the Commission correct in its analysis of changing purposes of travel and routes types at non-London airports? What are the drivers and ramifications of this trend?**

21. While the recession has clearly reduced demand across the board, SCDI has not seen any evidence that would explain the apparently greater decline in business rather than leisure traffic at non-London airports, notably in Scotland. The Aberdeen and Edinburgh economies are widely-recognised as having been among the UK's strongest performers outwith London following the recession and have high proportions of business-orientated routes. Some other European countries have prioritised the attraction of more overseas visitors to support their economies during the crisis, including by significantly reducing aviation taxes, and perhaps they have helped to maintain the viability of certain leisure routes. There is evidence now of business-orientated routes starting to increase again.

**Is the Commission right to identify particular financial challenges for smaller airports? Can respondents corroborate or refute any of the Commission's evidence on financial pressures at regional airports?**

22. SCDI agrees with the Commission's analysis. The paper references that approximately 80% of airports' costs are fixed, with a significant proportion of operating costs driven by regulatory requirements such as safety and security. As security requirements have more frequently increased in recent years, the costs to smaller airports have grown. In other parts of Europe, the costs of regulation – border controls, security and safety – are often state-funded. The Commission may enquire whether current regulatory requirements and funding responsibilities for them are appropriate and sustainable for smaller airports.

**Is the Commission accurate in its analysis of the market dynamics affecting the non-London airports sector? Is the Commission correct to identify a broad trend, especially since 2007, in larger regional airports retaining or building their route**

**networks, whilst smaller airports' route networks shrink? What explanations can respondents provide for this trend?**

23. Yes, this appears to be the broad trend.

24. There are exceptions to this trend – as Table 2.2 shows – where the local economy is stronger, for example smaller airports with significant oil and gas industry traffic. This suggests that a more general economic recovery will support and increase the route networks at more regional airports. However, the other market dynamics identified by the Commission will probably continue this trend.

**Can respondents provide any evidence to counter or support the Commission's analysis of the UK population having quick access to relatively high numbers of airports, or to build on the Commission's comparison between the UK and other countries' airport networks?**

25. SCDI broadly agrees with this analysis. It is important to bear in mind the issue of perception. While access from alternative airports may appear to be quick, the loss of connectivity between a city-region and London or another major UK city-region can lead to a loss of status and it being seen as a less attractive location for business investment or tourism. While average journey times may appear reasonable, surface access may be regarded as presenting some risks, whether due to times of congestion or reliance on the operation of specific infrastructure.

26. There are obvious exceptions to this analysis. In the long-term, major improvements are planned for the road and rail connections in the north of Scotland. However, the distances are such that it is not projected that journey times between Aberdeen and Inverness and Aberdeen and Central Scotland will be cut below 2 hours, with Inverness and Central Scotland substantially longer. These airports will, therefore, always have a highly important regional role.

**What analysis ought the national or local Government undertake when faced with a potential airport closure?**

27. Government should consider the impact on the national and regional economy, whether or not the challenges are short or long-term in nature, the impact on a level-playing field within the airports market and whether or not alternative airports already or could provide similar services and are reasonably accessible, and the long-term potential of the asset or for diversification to alternative uses of the site. Government should consider passenger, freight and cluster effects.

**In the longer term, what is an appropriate, adequate or ideal shape for the UK's airport system? Is consolidation of the airport network desirable, inevitable, both or neither?**

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29. The Government needs to support positively the UK's regional airports as part of the rebalancing of the economy both geographically and internationally. Some further consolidation of the UK airport network is, however, probably inevitable, and it would not be sustainable for the government to intervene in all cases.
30. In ordering BAA to divest either Glasgow or Edinburgh airport, the Competition Commission identified the potential for competition to deliver improvements in price, service quality and investment to both passengers and airlines. While both airports are demonstrably making good progress in areas such as new facilities and route development, SCDI is not aware of independent analysis about the role in this of competition. Such evidence could be useful to the Commission in answering the question above. For example, in resisting the break-up of its central Scotland airports, BAA argued that they served relatively distinct markets, with very few people in west central Scotland flying from Edinburgh Airport and vice versa for people in east central Scotland and Glasgow Airport. Information on whether separate ownership has led to greater blurring of the airports' catchments between these two strong regional airports may suggest insights into the potential for and limits on the consolidation of the regional airports market.

**Has the Commission correctly identified the major options to support or bolster the regional airports sector? Of the options here explored, which have the potential to be most beneficial?**

**Can respondents suggest means of bringing about positive change in the context of these options? What recommendations could the Commission make in these areas?**

31. SCDI agrees that the Commission has correctly identified the major options.
32. The large increases to Air Passenger Duty in recent years to highest levels of any aviation tax in the world are one of the most significant negative factors for the UK aviation industry, especially regional airports. It has been a principal cause for the withdrawal of routes and it is a major barrier to the development of new routes. The changes to Air Passenger Duty announced in the last Budget – while welcome as far they went – did not materially benefit domestic air services or regional airports. This is an issue which cannot be avoided in this debate.
33. Scottish passengers interlining through other UK airports are charged Air Passenger Duty on each part of that journey. SCDI believes that Air Passenger Duty must be reformed. We have supported reductions in its level and devolution to the Scottish Parliament. The Scottish Government has said that they would use this power to support Scotland's connectivity and develop key routes for the economy. SCDI also believes that there is a strong case for graduating levels of Air Passenger Duty within the UK based on distance and viable surface alternatives. Lower rates could be charged for routes on which surface transport journey times exceed a certain threshold beyond which they are uncompetitive

with air. As HS2 is constructed, fewer cities would be without viable surface alternatives, but areas such as the north of Scotland, which otherwise would not benefit from this national investment, would continue to have lower rates.

34. The Government's willingness to new-found willingness to introduce to establish Public Service Obligations (PSOs) to maintain domestic air access to London is welcome in the context of long-term decline and more recent threats to connectivity. SCDI agrees that there is a case to broaden their usage to domestic regional routes outwith London, as is the practice of some other European Union members. SCDI is aware that there is a strong and informed view that the Department for Transport's interpretation of European Union rules as ruling out airport to airport PSOs is more of a matter of UK Government policy rather than European Union law, and that such routes safeguarded in other European countries without challenge. The Commission should seek further opinions.
35. SCDI welcomes the creation of the Regional Connectivity Fund. However, we are concerned that its introduction might be delayed due to discussions between the UK Government and the European Commission. We would like it to be implemented as soon as possible and its long-term future to be secured.
36. SCDI facilitates the Scottish Cities Alliance of the Scottish Government and Scotland's seven cities. This recently completed a set of City Investment Plans. These demonstrate the symbiotic relationship between the development of airports and city-regions. Aberdeen's airport is described as a "vital hub", with an ambitious investment plan which is "integral to the success of the north east and Scotland as a whole". The city aims to connect the airport with other strategic sites, locking in the benefits of the planned Aberdeen Western Peripheral Route. Dundee is placing emphasis on the growth of its airport and planning a new transport interchange with easy access to central Dundee. The Inverness Airport Business Park is strategically positioned adjacent to Inverness airport, and transport links will be strengthened with the planned new railway station and the dualling of the A96 between Inverness and Aberdeen by 2030. The Edinburgh International project, which includes the expansion Edinburgh Airport, has huge strategic significance for Scotland, with estimates that it could, by 2030, contribute an additional £2bn GVA to the Scottish economy, and transport links are being improved with the Tram connecting the area to the city centre already open and Edinburgh Gateway Station to connect the area to the national rail network due by late 2016. The Commission's support for better public transport access to Glasgow Airport has been hugely welcome, and a new light rail link forms a key part of the City Deal recently agreed by the UK and Scottish governments and Glasgow and Clyde Valley local authorities for the city-region.
37. While progress is now certainly evident, there have been many false dawns and cancelled projects regarding improved surface access to Scottish airports. SCDI supports the view that there is a need to develop a clear, evidence-based,

depoliticised and longer-term plan for infrastructure priorities, and streamlined and joined-up mechanisms at national and regional levels for its implementation.

38. The Commission may not be able to reach a view on many of the schemes proposed for improving access to smaller and regional airports. However, given it will also be a key future development in city-regions with stations, many of which also have major regional airports, and of north-south connectivity, it may wish to make further comments about the development of high speed rail (including phase 3 to Central Scotland), and the links between HS2 and regional airports.



**Scottish Council for Development and Industry**