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The Scottish Government
Riaghaltas na h-Alba

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02 FEB 2015

Sir Howard Davies, Chair
Airports Commission
Freepost RTKX-USUC-CXAS
PO Box 1492
Woking
GU22 2QR

29 January 2015

Dear Sir Howard

Scottish Government response to the Airports Commission's consultation on shortlisted options for additional runway capacity in London

I welcome the opportunity to respond to this consultation on behalf of the Scottish Government. As you are aware, we consider Scotland's connections to and through the London airports to be of key strategic importance to Scotland's economy. This was outlined by Alex Salmond MSP, the former First Minister, when he met with you in October 2012 and is, I am sure, a message that will have been repeated to you a number of times since and in a variety of submissions which you will receive to this consultation. Whilst we continue to work with Scotland's airports to improve direct international connectivity, economies of scale dictate that there is and will remain a need for good connections to global hub airports.

The Scottish Government's submission has been brought together with our key strategic interest in mind. We want to see an optimum outcome for Scotland and for the UK as a whole. There is no reason why the two should not be compatible. I should be clear from the outset that the Scottish Government does not seek to influence the Commission in the specific recommendation it will make to the UK Government with regard to the shortlisted options. We have consistently held the position that the local and regional economic and environmental impacts of new runway capacity in London are matters for the UK Government and the Westminster Parliament to opine on. For that reason, our response does not comment in detail on each of the 3 options or confirm a favoured option.

We believe that whichever proposal is put forward, there has to be recognition from the Commission and from the UK Government of the strategic consequences for all of the UK. Heathrow already has global hub status with the requisite frequencies and destinations, whilst Gatwick would move in that direction if its bid was to prevail. As such, Scotland and other parts of the UK should expect fairly to benefit from such status and be guaranteed levels of access which help our economy and businesses to connect to global markets, and which ensure that the significant numbers of inbound tourists interlining through the London airports to Scotland continue to have that option.

Our response sets out the following:

- the current landscape and the importance of maintaining capacity levels for Scotland meantime;
- our concerns on the 'direction of travel' in recent years which has seen a reduction in capacity and frequency from Scotland to Heathrow and the introduction of charging regimes at both airports which disincentivises regional services;
- what we desire from the introduction of new capacity; and
- how we think Scotland's access to a UK global hub can be best achieved.

Our response covers the 'here and now' and the future. Unless both are given due consideration, there is the potential that by the time the new capacity is available, Scotland's access to Heathrow in particular will have been further eroded, thus having the impact of limiting or nuetralising for us the benefits of that new capacity.

The current landscape

Whilst Scotland has seen a good increase in direct international services in recent years, our connections to the London airports – in particular Heathrow – have remained absolutely pivotal to Scotland's economy. Approaching 3m passengers flew from Scotland to Heathrow in 2013 with around 1.7m passengers flying from Scotland to Gatwick.

The table below shows the residing appeal of Heathrow to Scotland but declining passenger numbers between 2007 and 2012. The upturn in 2013 is partially attributable to the introduction of Virgin Little Red services from Edinburgh and Aberdeen in March 2013.

Scheduled Passenger Numbers – Scotland to Heathrow							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
ABZ	658,984	656,034	641,294	617,693	652,520	663,809	712,184
EDI	1,436,516	1,318,962	1,305,830	1,244,787	1,271,299	1,254,933	1,355,926
GLA	1,207,118	1,143,426	1,079,970	1,003,344	820,949	828,277	869,957
Total	**3,302,618**	**3,118,422**	**3,027,094**	**2,865,824**	**2,744,768**	**2,747,019**	**2,938,067**

Source: CAA

Little Red had encountered well publicised difficulties prior to its announcement to cease its Scottish operations from September 2015. However, its load factors were said to be improving. With a stronger performing replacement it is likely that overall passenger figures in Scotland would go beyond 3m passengers annually. The Scottish Government sees competition on the Heathrow and Gatwick routes as extremely important. In terms of a replacement for Little Red and take-up of the IAG/Bmi remedy slots from September, we have held discussions with interested airlines and the European Commission to facilitate as much interest as possible.

The key issue to take from the 2013 figure above and the Little Red experience is that there is demand for additional capacity from Scotland but that the conditions have to be right. We have been told by Virgin and other airlines that airport charges amongst other aspects are a significant barrier to the profitability of these services.

Frequency is a vital component to good business connectivity and ensuring that inbound tourism by air is given optimum choice. Scotland currently has 231 weekly rotations to Heathrow and 116 to Gatwick. Daily rotations with Heathrow peak at 36 and at Gatwick 20. Compare this to Scotland's daily rotations with other global hubs such as Amsterdam (14) and Frankfurt (3) and it is clear that any notion that Scotland has readymade continental replacements is simplistic.

Businesses frequently tell us that Scotland's continuing links to Heathrow in particular are essential to the maintenance and future prospects of their operations. The business-related debate often centres on the ability to conduct and complete a day's business in Scotland or London. This is clearly an important facet, but just as important is the ability for people and exports to connect quickly to where they need to be. As an example, Heathrow is considered to be the main cargo gateway to key inter-continental markets by air for the Scottish food and drink industry. I understand that the largest export by tonnage through Heathrow in 2013 was Scottish salmon.

The importance of the London hubs to Scotland's tourism industry cannot be overstated. 38% of long-haul visitors travelling to Scotland by air connect through Heathrow. If that is not context enough, it should be noted that the combined figure at Edinburgh and Glasgow is 40%. Gatwick contributes 4% of our long-haul visitors. As you would expect, the London connections are most significant in terms of those markets where Scotland does not have direct connectivity. For example, 52% of Australian visitors to Scotland come through Heathrow.

The direction of travel

Whilst Scotland is well connected to other London airports, in particular Stansted and London City, the importance of accessing airlines' long haul networks at Heathrow and Gatwick cannot be overestimated. The Scottish Government has been voicing for some time concern on the direction of travel of Scotland's connections to Heathrow and Gatwick. Continuing good levels of access is the headline. The context behind that is the airport operators seeking to maximise scarce capacity by increasing the number of higher yield long haul services at the expense of UK/regional services. The changes in airport charges introduced by Gatwick in 2011 and Heathrow in 2012 allied to Air Passenger Duty applied on both sectors of a domestic service have acted as a clear disincentive to regional airlines. The departure of Bmi, Flybe and now Virgin Little Red from the main 2 London airports has limited the choice for passengers at Aberdeen, Edinburgh and Glasgow and removed it completely at Inverness.

As you are aware, Inverness lost its Heathrow service in 1997 and that loss is still impacting negatively. A study conducted in 2013 concluded that the absence of a Heathrow service costs Inverness Airport more than 50,000 passengers annually. There have been a number of attempts to reinstate the service but without success. The possibility of some form of Public Service Obligation arrangement has been mooted but this has not been supported by the UK Government. Competition on the Glasgow/Heathrow service was removed in 2012 and I am advised that there is some evidence of an early increase on fares on the remaining services.

We are extremely keen that the demise of Virgin Little Red does not mean the demise of competition on Aberdeen and Edinburgh's services to Heathrow. My officials have met with the European Commission and airlines to maximise interest and the airlines are consistent in their message – current airport charges make Heathrow an extremely difficult proposition for regional services.

I have to say that the Airport Commission's recent analysis on the potential impact on charges from the need to pay for new infrastructure at Heathrow or Gatwick does not suggest that Scotland can necessarily look ahead to a bright new dawn when the additional capacity is introduced.

The way forward

The example of Virgin Little Red and others has shown that the actual availability of slots is only part of the story. Like all other routes, the economics have to be right and the economics between Scotland and the two main London airports are currently such as to discourage or prevent choice.

In the lead-up to new capacity at Heathrow or Gatwick, we need to see preservation of existing capacity levels from Scotland including a full take-up of the slots that will become available when Little Red services end in September.

To assist this, the Scottish Government is committed to an initial 50% reduction in APD when it is devolved to the Scottish Parliament. This reduction will substantially help the economics of Scotland/UK point to point services in particular. We will provide further incentive by moving to abolish APD when public finances permit. These are potentially game-changing steps. However, the Scottish Government believes that preservation of existing service levels will only be achieved by a reassessment of current airport charges at the airports and the **consideration and implementation of UK/regional pricing policies**. Heathrow's charging regime currently places Scotland alongside other European destinations. I have to say that applying the same departure charge for services to Edinburgh to that applicable to services to Madrid and Munich does not point to tangible recognition of the importance of Scotland to the business or acknowledge the status of the Airport as an asset for all of the UK.

These are primarily matters for the airports to progress in consultation with the CAA.
I understand that the CAA has opined that charges at Heathrow and Gatwick are discriminatory against users of smaller aircraft – clearly of relevance to regional services – but in both cases has chosen not to intervene. My Ministerial colleagues and I have been impressed by the public statements from both Heathrow and Gatwick on the continuing importance of Scotland to their operations. However, we now need to see tangible actions from the airports, supported by the UK authorities, which reflect that importance and the introduction of new and fairer pricing policies would be a significant step forward. We believe that this is a matter for the airports to progress in order to underpin regional services moving forward and in the lead-up to new runway capacity.

Looking ahead to the introduction of new capacity, a fairer charging policy will work best alongside some form of defined access for Scotland. Our short to medium-term desire is to hold what Scotland has. As mentioned, that includes the sic Little Red slots between Edinburgh and Heathrow and the three from Aberdeen. When the new capacity is introduced we would wish to see connections to the UK global hub from Scotland's three main airports – Aberdeen, Edinburgh, Glasgow and Inverness – and, ideally, we would like to see competition from each. We could expect that with additional capacity and the existence of fairer airport charges that this would be a natural market reaction at Edinburgh and Glasgow but perhaps less likely at Aberdeen and Inverness.

The Scottish Government believes that there are two main issues which need to be addressed on access to ensure that Scotland adequately benefits from new capacity:

- **there should be a defined minimum level of access for Scotland which covers our principle airports and the main population centres they serve; and**
- **there needs to a pre-determined and agreed means of facilitating this minimum access.**

On the first component, Heathrow and Gatwick may find it worthwhile to detail what they believe is fair and achievable access corresponding with their published plans. A discussion with the relevant Scottish airports could assist them in this. I have touched on the absence of an Inverness link to Heathrow. The service was withdrawn in 1997 at a time when the catchment population was around 45,000. The population has now grown to over 67,000 coinciding with an improved local economic position. I am aware that the Highlands and Islands Transport Partnership (HITRANS) have suggested two daily rotations between Inverness and Heathrow and the retention of five rotations with Gatwick. NESTRANS, representing the North East of Scotland, has suggested retention of Aberdeen's existing 11 daily Heathrow slots and five at Gatwick. Clearly, both areas will not feel the full benefits of high-speed rail and London air links will remain vital. The Scottish Government would advocate the proposals put forward as reasonable and proportionate.

Competition on the Glasgow/Heathrow route was removed in 2011 and there was significant passenger number and frequency reductions at that point. At Edinburgh, Scotland's largest airport which recently confirmed record annual passenger numbers of more than 10m, there is the possibility that competition on the Heathrow route will be lost. Defined minimum levels of access would have the effect of guaranteeing services from Scottish airports, should encourage competition and choice placing a downward pressure on fares.

Regarding the second component, and notwithstanding the commercial considerations of airlines, there are three main players with responsibility for ensuring that Scotland fully benefits from the new capacity – the airport operators, the UK Government and the independent slot co-ordinator. I understand that the European Commission is currently looking at regional slot regulation issues across the Community so any emerging conclusions from that work could have resonance to your own deliberations. My UK Government counterparts have in the past adopted a hands-off approach to the notion of ring-fencing slots for regional services. At various junctures, Public Service Obligations and Traffic Distribution Rights have been raised as the potential means to preserve and reintroduce access but they have not been taken up by the UK Government. Whether this approach reflects a principled reluctance to intervene in such matters or a practical judgement that these measures do not provide the legal underpinning necessary (or both) remains to be established. On a more positive note, there has been a noticeable change of emphasis from the UK Government to promote regional connectivity in the UK with the soon to be introduced Regional Connectivity Fund the most tangible evidence. The UK Government was also a significant contributor, along with the Scottish Government, to the Public Service Obligation introduced in 2014 which links Dundee with Stansted.

I welcome this changed focus and would hope and expect that it reads over to the work and conclusions of your Commission with regard to services from Scotland. With that expectation in mind, it would then be extremely helpful for the main players to come together to consider and agree minimum access levels for Scotland and how this is facilitated. The Scottish Government would be delighted to contribute to these considerations.

In summary

The Scottish Government believes that the operators of both Heathrow and Gatwick have put forward plausible proposals for additional capacity at their airports. Whilst it is appropriate that we remain impartial in terms of the option appraisal that the Airports Commission is undertaking, we desire to see an outcome which fully recognises the two-way benefits of better and more sustainable connectivity between Scotland and London.

Kind regards

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DEREK MACKAY