Scottish Council for Development and Industry

POLICY SUBMISSION

SUSTAINABLE AVIATION FRAMEWORK

October 2011

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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Sustainable Aviation Framework

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, trades unions, local authorities, educational institutions, the voluntary sector and faith groups.

2. SCDI has a rich history in trade development and promotion for Scotland. Since our first trade visit to Moscow in 1960, SCDI has organised and led 350 trade visits comprising over 5000 participants to 50 markets worldwide. The 2010/11 programme targeted India, Brazil, China and the United Arab Emirates. Last year’s trade visit programme generated overall business from the visits of nearly £7m, demonstrating the value of exporting to the Scottish and UK economy. Global connectivity has, therefore, been and remains a high priority for SCDI.

3. SCDI has been deeply concerned about the lack of an aviation policy from the UK Government since the last election beyond the cancellation of new runways in south-east England and remains concerned that the new Sustainable Aviation Framework will not be in place until 2013. While welcoming this consultation, we continue to believe that the UK Government was fundamentally mistaken in its decisions on new capacity, above all at Heathrow. This must be reconsidered.

4. SCDI has undertaken a detailed survey of its broad membership around Scotland to inform this submission and generate case studies. SCDI was also commissioned in parallel by Glasgow City Marketing Bureau to undertake a specific survey of 50 leading businesses in key sectors in West Central Scotland on business views, perceptions, requirements and impact of air links from Scotland. Their responses and SCDI’s analysis have provided further specific information. Overall, this response incorporates evidence from 100 businesses.

The aviation sector

How does the aviation sector as a whole benefit the UK? Please consider the whole range of aviation activities including, for example, air freight, General Aviation and aerospace.

5. The UK is one of the world’s leading exporters and destinations for inward investment and tourism in an increasingly integrated global economy. With domestic demand likely to be weaker over the next ten years, the key challenge will be to rebalance the economy, with fewer resources devoted to consumption and more to business investment and net exports. Many Scottish and UK businesses, and indeed the UK and Scottish Governments, believe that internationalisation will be pivotal to achieving growth and higher revenues in the next decade. Emerging markets will to grow faster than developed markets and global trade has been forecast to grow three times faster than global GDP. A Deloitte study in 2010 found that the long-run GVA growth rate of the visitor

economy is forecast to be 3.5% per annum over the period 2010 to 2020, given the right support, and that the number of jobs that tourism supports is forecast to increase by 250,000 between 2010 and 2020, from 2.645 million to 2.899 million. The Governmentõs Tourism Policy aims to grow inbound and domestic tourism, and to return the UK to the top 5 most competitive visitor economies in the world.

6. Given its geography and size, aviation plays a vital role in the UKõs success as a leading trading nation and tourism destination. When measured per £billion of GDP (purchasing parity power), UK connectivity is at present better than that of Germany and France, but worse than Spain, Australia or the US. However, global competition for exports, investment and tourism is only going to become fiercer. For businesses around the UK to capitalise on these opportunities and maximise their contribution to this key economic challenge, global connectivity, which is at least competitive with other leading economies, will be essential.

7. The importance of air freight was under-acknowledged in the previous Aviation White Paper. Air freight is particularly important to Scotland. Aviation capability in this area is vital to maintain so that businesses, Governments or aid agencies can respond to emergency situations from oil spills to wars to natural disasters.

BUSINESS SURVEY

In the survey of Glasgow businesses recently undertaken by SCDI, aviation connectivity was identified as particularly important with regard to meeting customers (73% crucial; 25% important). Two-fifths of businesses surveyed use aviation weekly to meet customers and for internal business activities. Inward and outward freight was either crucial or important to more than 50% of businesses, with around a third of businesses sending or receiving freight weekly.

CASE STUDY

Life science company based in west Central Scotland and the US:

ñWe are already opening a US facility earlier than desired partly because of difficulties with perishable time-critical inward freight coming from the US to Glasgow. Connections via London add 10 hours to such a journey as well as additional costs. In a similar vein, direct flights from Europe are so few in number that we have not been able to open up potential supply routes.ò

What do you consider to be the aviation sectorõs most important contributions to economic growth and social well-being?

8. Air services provide access to overseas markets for UK companies, including inward investors, access to other parts of the organisation, particularly headquarters functions, for inward investors, access to suppliers of goods and services from around the world, and access to knowledge and business partners.

9. At nearly 10% of the entire economy, tourism is a key sector of the UK economy. The UK receives 30 million overseas visitors per year. It is Britainõs third highest export earner, generating £115 billion a year and providing employment for 2.6

million people, as well as supporting over 200,000 SMEs in every part of the country. The only tourism markets where non-aviation modes of transport have a significant share are France, Belgium, Germany, Ireland and The Netherlands.

10. Aviation makes a lifeline contribution to economic growth and social well-being to communities on many of the Scottish islands and peninsulas where there is often no viable alternative. It supports the tourism and leisure sector which, with alternative private sector employment often limited, is vital to the continued growth and success of these communities. It enables access to specialised medical facilities, which are increasingly located in larger centres of population, and delivery of important services such as mail, and access to the communities for specialist workers whose skills are only required on an intermittent basis, and who are dependent on air travel to maintain acceptable levels of productivity.

CASE STUDIES

Public sector organisation based in the Highlands:

ñAviation is essential for relatively small parts of our business. Our main dependency is for air services to the outer islands for staff (Western Isles, Orkney and Shetland and to a lesser extent Islay). While we try to utilise lower carbon forms of transport where we can, we recognise that this is not always practical, particularly where the journey would involved protracted periods away from work and home.ò

Public sector utility:

ñWe will, on occasion, use aviation for travel to/from the islands where this is deemed most practical and cost efficient. For example in the financial year 2010/11 we undertook over 260 flights to Stornoway, Shetland and Orkney.ò

Are some sub-sectors of aviation more important than others? If so, which and why?

11. Policy should recognise that aviation is important to UK regions in different ways. Some airports are located in parts of the country with relatively short surface transport to London and the UKÕs hub airport. Other airports serve regions where air travel is, in some cases for at least the medium term and in others probably always, the only viable means for businesses to access London and the hub. Some airports will offer primarily domestic or lifeline routes, others are located in regions of the country which are particularly well-integrated into the global economy. The aviation framework cannot adopt a óone size fits allô approach.

International Travel

12. Global connectivity is essential to growing businesses around the UK. Hub airports dominate international air travel and Heathrow is the UKÕs only hub. The competitiveness of Heathrow as a hub and the ability of regional centres to access it, by air for Scotland, are essential to the UK economy and interlinked.

BUSINESS SURVEY

In the survey of Glasgow businesses, of those respondents who stated that exports represented over 50% of their annual turnover, over 25% of total aviation travel is to overseas markets.

Regional Connectivity

13. The UK Government acknowledges transportôs role in rebalancing the economy, with more balanced growth between London and the south-east and the regions. With London at least four hours travel by land based transport, air travel is particularly important for Scotland to access London and the UKôs hub airport. For northern Scotland, surface journey times to London are nearly double and, even if high-speed rail is eventually developed to Central Scotland, they will remain uncompetitive over this distance. Aviation policy should seek to improve connectivity for more peripheral areas for their businesses to succeed in the global economy, including ensuring access to London and the UKôs hub airport.

CASE STUDIES

Multinational oil and gas company with a base in Aberdeen:

ñOver the next 5 years we are planning a multi-billion dollar investment programme. If Aberdeenôs connectivity to London/SE England and the wider international market was reduced significantly, it would both reduce our ability to execute our investment programme effectively.ò

Food and drink company based in the Highlands:

ñWe operate in a very competitive market, but having said that, it is growing and we see continued potential for future growth. If we cannot visit markets that growth may not happen and we will lose out to spirits from other countries.ò

Media company (1) based in the Highlands:

ñAviation is very important ï most of our business is abroad in Afghanistan and Africa ï though meetings in Europe and Scandinavia are not uncommon.ò

Media company (2) based in the Highlands:

ñVery important. Almost all clients are outwith Scotland. Customers need to be met outside of Scotland. They need to be account managed.ò

BUSINESS SURVEY

In the survey of Glasgow businesses, of eight choices, the highest priority when choosing a flight was the use of the local airport, followed by the choice of destination and then the cost of the flight.

For businesses in Aberdeen, there are similar results. Businesses in the Highlands are often forced to use airports outwith their region. Edinburgh-based businesses would appear to be more varied in their priorities for choosing a flight.

Lifeline services

14. For many peripheral communities, especially in the Highlands and Islands, air services perform a unique role within a UK context, of providing the main transport network for businesses and public services such as the NHS. Air travel enables access to daily services in larger towns and opportunities such as higher and further education for young people. The lifeline nature of these services and their economic and social benefits should be recognised in UK aviation policy.

Helicopter traffic

15. The offshore oil and gas sector is vital to the UK's energy supply, economy and public finances, as the Prime Minister has recently stated. The country remains a globally significant producer of oil and gas, with an average 2.2 million barrels of oil and gas equivalent (boe) per day produced in 2010. This production satisfied around 90 per cent of the country's oil demand, 60 per cent of gas demand and represents well over half of primary energy needs. Over 40 per cent of the UK's primary energy demand or 60 per cent of oil and gas demand could still be satisfied from these resources in 2020 and the industry still expects to be producing in 2050. With a value of £32bn, it reduced the requirement for imported oil and gas to the extent that the UK's trade deficit was almost halved. £14bn was spent on exploration, development and operations in 2010, including £6 billion of investment in new projects, making the oil and gas industry again the largest investor among the UK's industrial sectors. Employment of 440,000 people is currently supported by the industry with 340,000 of these related to finding, developing and producing the UK's own reserves. Corporation tax paid on production itself was £8.8bn in 2010-11, which constituted one fifth of total corporation tax received by the Exchequer. The proportion paid by the oil and gas industry on production is forecast by the Treasury to increase further in 2011-12 to over £13bn, just over a quarter of the expected total corporation tax.

16. The offshore energy industry is almost totally reliant on helicopter movements and a number of specific charters to allow crews to the many rigs that have been installed around the North Sea and beyond. In 2010, 485,000 personnel were transported on and offshore as a result of Aberdeen Airport's helicopter operations, making it one of the busiest commercial heliports in the world.

17. Helicopter traffic to and from offshore renewables projects will also increase significantly in the next decade as the sector, especially wind, develops rapidly.

CASE STUDY

The Clair Ridge project west of Shetland, which will install two new bridge-linked platforms with the capability to produce an estimated 640 million barrels of oil, is planned to come on stream in 2016 and will extend the production from the greater Clair area to 2050. In addition to the 600 people already working on the project, it will provide hundreds of UK engineering, drilling and oilfield services jobs over the fieldôs life.

How do you think the global aviation sector will evolve in the medium and long term (twenty to fifty years)? What do you expect to be the most significant changes?

18. SCDI believes that others are better-placed to answer this question in detail. The rebalancing of the world economy and rapid growth of aviation to, from and within emerging and developing economies will clearly be a significant factor. Peak oil or the rising costs of oil-based fuel may also be a significant driver of change.

Should some aspects of UK aviation be considered to be of strategic national interest (e.g. certain airports, air traffic control)? If so, based on what criteria?

19. The competitiveness of the UKôs global connectivity is obviously of strategic national interest. Heathrowôs status as a major hub airport is essential to that connectivity and transport policy should ensure that it is able to serve all parts of the country, particularly those regional economic centres with significant international travel requirements. At the same time, new, direct international air routes should be encouraged and supported at regional and peripheral airports.

20. With rebalancing the UK economy a strategic economic priority, reducing peripherality for regions should be considered of strategic transport priority. This means ensuring that they have good access to major markets. A strategic policy priority should be to ensure that key regional economic centres with surface journeys of over three and a half hours have air access to the UKôs hub airport.

CASE STUDY

Multinational oil and gas company with a base in Aberdeen:

ñThe companyôs demand for Aberdeen to London services and Aberdeen international air travel is expected to be sustained over the coming two decades at least.ò

21. Lifeline services are of strategic national interest because they are critical to the viability of communities, with serious consequences if they no longer existed.

22. Helicopter traffic is essential to the operations of the oil and gas sector and the emerging offshore renewabables sector, two of the UKôs key industries, and search and rescue and emergency services for UK waters and the islands.

International connectivity and hub airports

How important are air transport connections ï both international and domestic ï to the UK at both national and regional levels?

23. Good air transport connectivity vital, for the economic and social reasons already described. International surveys of businesses consistently show that accessibility and transport links are key factors in the attractiveness of cities.[1] External links enable a city and/ or region to compete as a global business centre, particularly in knowledge-based sectors which are often highly-mobile, and uncompetitive air transport connections may force businesses to relocate. The recent European Cities Index Survey undertaken by Cushman Wakefield across 500 European businesses identified air connections as a key factor in selecting office locations and inward investment.

24. The oil and gas industry is a good example. As fields are increasingly managed and services by companies in a number of locations, the Scottish-based supply chain has grown and internationalised successfully and Scottish-based workers are now often employed temporarily on contracts overseas. The most recent annual survey of the Scottish-based oil and gas supply chain showed that sales increased by 3.7% during the global recession in 2009 to £15.9bn, with international sales rapidly growing by 10.4% to £7.2bn. The supply chain is now active in more than 100 countries.[2] This means that there is a growing need for companies and workers to be globally connected to a range of key markets.

CASE STUDIES

Multinational oil and gas company with a base in Aberdeen:

ñAberdeen needs excellent air services and strong UK/international links if it is to retain its place as a major international oil and gas hub.ò

Oil and gas supply chain company (1) based in the Highlands:

ñAviation connectivity is vital to our business. Our staff fly between head office, regional offices and London and Manchester regularly. We also use London hub airports, mainly Gatwick, and Amsterdam. The new Inverness-Amsterdam link will be very useful. Our hired out contractors depart from almost all UK locations so we are totally dependent on air travel in that regard. We would have problems if any of the Gatwick or Heathrow routes were binned. We are growing again as a business both in the UK and internationally and rely heavily on air travel. Our turnover this year will be circa £300 million, around half from overseas.ò

As long as people and goods can easily reach their desired destination from the UK, does it matter if they use a foreign rather than a UK hub airport?

25. For passengers and freight, the location of the hub airport is usually less important than the choice of destination and carrier, the overall journey time and the costs. For journeys to the West from the UK, travelling via Heathrow rather

[1] http://www.cushwake.com/cwglobal/jsp/kcReportDetail.jsp?Country=GLOBAL&Language=EN&catId=100003&pId=c38200001p

[2] http://www.scdi.org.uk/sr/Docs/Oil_and_Gas_Report_09_10.pdf

than a European hub reduces the total flying time and emissions. Heathrow also provides a wider range of choice of carriers and destinations than comparable European hubs, particularly to the USA and British Commonwealth countries. If UK regions have to access international route networks through a European hub rather than through Heathrow they have reduced connectivity to these countries.

26. Many businesses in Scotland have headquarters in London which can make it preferable to have the opportunity to combine a visit to it with international travel.

CASE STUDIES

Large legal firm based in Edinburgh:

ñFrequency of Scotland to Heathrow flights reduces stopover time and aids efficiency of travel. Also more flight options if all goes wrong.ò

Oil and gas supply chain company (2) based in the Highlands:

ñWe rely on our air links between Inverness and Aberdeen to London and having had the service to Heathrow from Inverness withdrawn it has added considerable expenditure to our people needing to use Heathrow as their international departure airport.ò

Multinational life sciences company with a facility in the Highlands on the new Inverness-Amsterdam route:

ñWelcome, but timings will be important. Connection times via Amsterdam possibly an issue. Overnight stay/ additional cost would be a bit of a pest. Most US visitors use Heathrow.ò

Media company (1) based in the Highlands:

ñLack of a link to a good international hub such as Heathrow is far from helpful. When we started the business we had that option. I might use another airport if it has a direct link to my end destination, otherwise going via London from Inverness is far easier. Scotlandôs other airports are ALL 2 -3 hours distant. An air link to Glasgow might change things.ò

BUSINESS SURVEY

In the survey of Glasgow businesses, 51% said that they preferred transiting through Heathrow as opposed to another European hub. 44% of businesses had chosen to connect utilising airports outside the UK on the grounds on lower costs. However, they also cited the cost of time added to the journey, with the impact that this had on staff in terms of additional overnight accommodation requirements, as the area of most disadvantage.

27. The impact of this on the UK economy is addressed in more detail below.

28. There is a risk in believing that European hubs will always provide easy access to desired destinations for people and goods. This may turn out to be rather short-sighted if, in time, access to these hubs becomes more constrained as

capacity is taken up by forecast increases in global aviation. It is incumbent on the UK Government to ensure global connectivity for UK regions. It can influence capacity within the UK for this purpose, but it is unable to do so elsewhere.

Are direct connections from the UK to some international destinations more important than others? If so, which and why?

29. Direct connections are important to support business and tourism. They reduce inconvenience and time travelling and increase productivity for businesses, encourage city and industry links, and make travel more attractive for visitors.

30. According to VisitBritain, the lack of direct routes to Britain from emerging economies is an important factor holding back the long term development of UK tourism in those markets. The challenge to Heathrow's hub status is a result of providing fewer links to growing eastern markets than competing European hubs.

How will the UK's connectivity needs change in the light of global developments in the medium and long term (twenty to fifty years)?

31. Emerging markets, especially in Asia, are forecast to continue to grow faster than developed markets with a decisive shift in the balance of economic power, there will be rapid growth in the middle class and consumer markets in these countries, and global trade will continue to grow three times faster than global GDP. Connectivity is key for the UK to capitalise on these opportunities and remain competitive. The Committee on Climate Change has found that growth of 60% in UK aviation is compatible with climate change targets. Higher increases might be possible if technological progress and the development of sustainable biofuels were more rapid than now envisaged. The industry considers this achievable. A medium to long term aviation policy must support the delivery of new capacity. With no new runways, the UK would be able to welcome 50 million fewer passengers per annum by 2050 than it would without capacity constraints.

What are the benefits of maintaining a hub airport in the UK?

32. A hub airport is a key competitive advantage for countries which wants to remain or be a centre of commerce, business and tourism in the global economy. It places the UK at the centre of one of the world's largest international aviation route networks, enabling UK companies to win business in overseas markets as opportunities grow and diversify, and attracting inward investment and tourism. Most countries would highly-prize and aspire to a national asset such as the UK has in its hub airport and could not comprehend a decision not to maintain one.

33. Any policy decision not to maintain a UK hub airport, with the result that the UK becomes a spoke for international aviation routes, would reduce the number of direct connections for the UK, increase the costs of flying for businesses which have to fly via European hubs and reduce their productivity and competitiveness, and make the UK less accessible to potential international visitors. The UK's leading position in Europe in attracting inward investment would be compromised

and businesses which are particularly dependant on global connectivity rather than other factors would be more likely to relocate to a European hub. The absence of a UK hub would reduce employment in the UK aviation sector and the competitiveness of the UKõs aerospace industry, encouraging it to relocate.

CASE STUDY

Oil and gas supply chain company (1) based in Aberdeen:

ñConsistently reliable flights to Heathrow are the cornerstone of our reasoning to keep our business based in the North East of Scotland. We regularly opt to transit via Schiphol as the facilities in the single terminal there are far superior to the sprawling terminals that are known as Heathrow. Should the rot in the standard of service continue we will be forced to consider relocating our business outwith the UK.ò

BUSINESS SURVEY

In the survey of Glasgow businesses, the majority of responses from inward investors cited the importance of connectivity through Heathrow.

34. Without expansion Heathrow does not have a viable future as a long term hub. In contrast to most of its major European competitors, Heathrow now serves fewer routes than it did five years ago, with fewer links to markets like China and Brazil. Figures from www.capstats.com show that between 2006 and 2010 airline seat capacity from international origin markets to the UK increased by 2.9% compared to France where it has increased 6.3%, while in Germany it has risen 5.0%.

How important are transfer and transit passengers to the UK economy?

35. Transfer passengers make many routes which are valued by UK businesses economically viable. The CAA estimates that two thirds of routes to Heathrow are made profitable by carrying on average 20% transfer passengers per flight.

What are the relative merits of a hub versus a point-to-point airport?

36. Both hubs and point-to-point airports are important. The hub airport model is economically and environmentally the most efficient model for the aviation industry, as it allows for the consolidation of routes, the optimisation of airline operations, and increases load factors so that planes are fuller and produce less carbon per passenger. Point-to-point has convenience and time saving opportunities, but does require sufficient patronage to be a viable proposition for an operator. Therefore, if this demand does not exist, a hub airport which is able to capture the additional traffic from point-to-point regional airports is required.

CASE STUDY

University based in west central Scotland:

ñThe problem is not entirely the number of internal flights although at peak times advance booking is essential where possible, it is the poor onward connection to international destinations that leaves the traveller with overnight stays at airport hotels, extra travel time and stress.ò

Would it be possible to establish a new óvirtualô hub airport in the UK with better connectivity between existing London and / or major regional airports? Could another UK airport take on a limited hub role? What would be the benefits and other impacts?

37. This may be possible in the longer term as high speed rail is developed and, probably in the Governmentøs planned phase two extensions, linked to Heathrow.

38. Public transport connections between Londonøs airports are poor and only 1% of passengers in 2007 of passengers at the main London airports connected between flights at different airports. SCDI welcomes the proposed study into a fast rail link between Heathrow and Gatwick, but Gatwick is the worldøs busiest single-runway airport and there is no capacity for an increase in flight frequency and growth in passengers could only happen with the substitution of the airportøs regional network for long-haul traffic, harming the UKøs regional economies. SCDI is not aware of any plans to integrate Londonøs other airports this way. Better connectivity between existing London airports is, in any case, not a long-term solution to capacity pressures. Demand to visit Britain from France, Germany, the USA and the BRICs alone by 2020 has been forecast to generate more flights than the spare capacity at Stansted and Luton airports can accommodate. The Governmentøs own updated growth forecasts project that by 2030 all the major London airports will be full and that by 2040 all growth will be at regional airports outside south east England due to capacity constraints.

CASE STUDY

Large legal firm with offices in Edinburgh and London:

ñOn London travel we predominantly use London City/Heathrow/Gatwick plus Stanstead ï airports that are then further out of London are not a suitable option.ò

Telecommunications company with offices in Aberdeen and London:

ñWe operate internationally with the oil and gas sector and without connectivity to London Heathrow, we would not be able to operateé [London, Stansted, Southend] are not designed for international interlining and have poor connections to London. Not an option.ò

Multinational oil and gas company with a base in Aberdeen:

ñIn reality these airports will never provide the diversity of international business connections of Heathrow and Gatwick.ò

Media company (2) based in the Highlands:

ñWould not solve interconnectivity. Outlying airports are not an option for business travel because of transit time in London. If availability and cost change negatively it may result in relocation of some functions from the [the Highlands].ò

39. Manchester Airport currently acts as a partial hub for some regions of the country for some international travel, but the number of destinations and frequency to key destinations is very limited and inter flight connectivity in both directions is poor.

40. Smaller airports may be able to perform a limited hub role if they are located on the relevant flights paths, have good connections with regional airports and have significant point-to-point demand and potential for growth. Given the substantial oil and gas traffic between North East Scotland, Scandinavia and Western Russia, Aberdeen Airport might collate UK passengers for these markets.

Regional connectivity and regional airports

Can regional airports absorb some of the demand pressures from constrained airports in the south-east? What conditions would facilitate this?

41. Regional airports already absorb some of the pressures from constrained airports in the south-east by providing direct access to international destinations, though clearly not for point to point movement to the South East of England. There is the potential to grow links, particularly on the busy European short haul markets. Scottish airports have, in recent months, announced a number of new routes. However, current conditions in the aviation industry do not promote risk-taking. Government could facilitate efforts to attract new, direct international air routes. SCDI has consistently called for the reintroduction of a form of Scotlandǒs previous Route Development Fund which is consistent with European rules. The Scottish Government proposes to vary Air Passenger Duty if it is devolved for this purpose, a transfer of powers which would be strongly supported by SCDI.

42. SCDI has commented in detail on reform of Air Passenger Duty in its response to the recent consultation from HM Treasury. However, it is worth pointing out in the context of this question that huge rises in Air Passenger Duty undermine the ability of regional airports to absorb some of these demand pressures. A report from York Aviation published in 2011 found that the most recent rise in Air Passenger Duty could reduce the number of passengers to, from and within Scotland by 1.2m over the next three years, including 150,000 inbound international visitors. Such a drop in demand would threaten the long-term viability of some routes and undermine the case for new routes, restricting trade, investment and tourism. The cost would be up to £77m in lost tourism spend. It is very important for Scottish businesses that the UK Government does not further erode the competitiveness of UK aviation by increasing Air Passenger Duty.

BUSINESS SURVEY

In the survey of Glasgow businesses, only 52% of respondents believe there is adequate direct links from Glasgow to support their international activity, which is a concern given the significant number of international markets that respondents are currently trading with and the values attached. Priorities for new routes were additional cities in the USA (East Coast, Chicago, West Coast), the ability to travel within one day to most major European capitals, and cities in South East Asia and China. A number of respondents also said an increase in frequency on Glasgow-Dubai to twice daily would support their onward connections to Asia.

A direct service to China is also a key aspiration for businesses in east central Scotland.

Businesses in North East Scotland cited Aberdeen-Houston and further Aberdeen-Norway services in addition to the Stavanger route as priorities.

CASE STUDY

Textile manufacturer based in west central Scotland:

ñThe issue of lack of direct flights to most European countries is very seriousé it disadvantages Scottish businesses in terms of cost and speed of response. We also believe that it puts Scottish suppliers at a serious disadvantage when under consideration as a supply chain partner.ò

43. The concept of mini hubs floated in the consultation where a regional airport can supply services for UK travellers from outwith their own region is worth exploring.

44. While SCDI supports work to develop long haul services for Scotland, for established long haul markets like the USA or emerging markets in Asia, a hub airport and access to London will continue to be critical to economic viability.

45. The Governmentõs belief that regional airports can absorb some of the demand pressures from constrained airports in the south-east assumes, to an extent, that passengers travelling to UK airports will be content to travel to other airports. However, research by VisitBritain over a long period has found that perceptions of Britain are dominated by London - it receives 50% of overseas visitors. Broadening the perceptions of Britain could encourage some travellers to other parts of the country, but the risk is that if they cannot travel to London, they will choose an alternative country, reducing visitor numbers and spending in the UK.

What more can be done ï and by whom ï to encourage a switch from domestic air travel to rail?

46. The improvements which have been made to the rail network and by long-distance rail operators have in the last ten years helped to capture a significantly higher share of the domestic market. Incremental improvements to timetables and onboard facilities for working would encourage this trend, but a more fundamental switch is unlikely without a large reduction in journey times. SCDI has recently undertaken a survey on high-speed rail of leading businesses in key sectors based in Edinburgh and Glasgow. This has shown that air is still the most common mode of travel for journeys between Central Scotland and London, but that there is a strong and increasing appetite to switch to rail. The key factors for business are reduced journey times, increased capacity and reliability, and price.

CASE STUDIES

Trade association based in west central Scotland for key sector:

ñRail is OK if time reduced. Overall impact would be negative ï fewer trips, likely to lose some business.ò

Large legal firm based in Edinburgh:

ñBig issue with people being in the wrong place to do business due to length of journey etc. train breakdowns an issue and price of first class travel can be prohibitive compared with air travel when booked in advance.ò

Major bank with a base in Edinburgh:

ñJourney time and frequency restricts the use of rail on these routes. We do have use of sleeper services and rail but not to the extent of or air travel.ò

Oil and gas supply chain company (2) based in Aberdeen:

ñTried the train to London several times but it was not as effective as we hoped ï delays, lack of reliable internet and ability to be productive whilst on the train. The sleeper is a good option but the quality of service is not adequate to prepare for a days work on arrival in London.ò

Media company (2) based in the Highlands:

ñThey have to be used with great planning. The sleeper is the only option to South East clients as the day-time train takes approx. 8 hours.ò

Public sector utility:

ñRail does provide a viable alternative. However, the rail option depends on being able to work productively for the time spent on the train and this generally requires first class travel, which can be much more expensive than flying. The overnight sleeper service from London to the major Scottish cities is a useful alternative that allows a full day and evening in London without the cost of a hotel, thereby matching the cost of flying.ò

How could the benefits from any future high speed rail network be maximised for aviation?

47. As a range of studies have evidenced, the benefits from a north-south high speed rail line, in terms of reducing pressures on capacity at the UKôs hub airport, can only be maximised if the network includes Edinburgh and Glasgow.

BUSINESS SURVEY

Another study undertaken by SCDI of 43 leading businesses in Edinburgh and Glasgow in key sectors on high speed rail, has recently found that air is the main mode of travel between Central Scotland and London for 24, 12 businesses split between air and rail, with rail the main mode for only 3 businesses. Of these, 40 were supportive of a high-speed rail network including Edinburgh and Glasgow, with 36 saying that they saw the potential for some modal shift with the estimated journey time improvements which only a cross-border high speed line would deliver. Reducing time travelling was the most commonly cited benefit with 37 businesses.

48. SCDI welcomes Government studies into fast rail links between the Great Western Main Line and High Speed 2 at Heathrow and between Heathrow and Gatwick. The integration of transport networks is supported and these links may further improve the options for air travel and the connectivity between regions.

49. Rail times between the north of Scotland and London currently occupy a complete working day. If a high speed rail network is developed to include Edinburgh and Glasgow, journey times to the north of Scotland would still be 5-6 hours. It is unlikely that any future network will ever be developed north of Central Scotland. Thus, air access will remain essential. The benefits of national investment in high speed rail would be maximised for aviation by releasing capacity at London and the UKõs hub airports for guaranteed air access for key regional airports more than three and a half hours away by surface transport.

CASE STUDY

Multinational manufacturer with a facility in the Highlands:

ñWith the current air connections (from/to INV or EDI) we lose a lot of time waiting for connection flights, sitting in the train or on the A9. Travel to and from Frankfurt takes around one working day so for a one day meeting in Germany you are three days out of the office. International air travel demand will grow in upcoming years due to growth of our business and stronger technical networking with other sites. Good guess is ~10% per year. If forced to use land transport in UK. Significant working time losses and loss of reputation/attractiveness for HQ to further support growth of our site.ò

How can regional airports and the aviation sector as a whole support the rebalancing of the economy across the UK?

50. The UK economy needs to be rebalanced in two ways - from unbalanced growth with London and the south-east growing much faster than the rest of the country to more balanced regional growth, and from growth based on rising consumption to growth based on business investment and net exports. Given these imperatives, the role of regional airports and the aviation sector in supporting business investment and net exports from the regions is essential. Scotland has a number of sectors ï including the oil and gas supply chain, food and drink, engineering and tourism ï which are highly successful internationally and contribute significantly to the overall UK economy, with potential for rapid growth. Its universities sector has approximately 25,000 non-EU students at Scottish institutions with a further 16,000 EU students and around 8,000 non-EU staff.

CASE STUDIES

Multinational life sciences company with a facility in the Highlands:

ñWe plan to centralise more of R&D in Inverness. We are reorganising the operational side, leading to more inter-UK and global travel, and more integration with different sites on the East Coast of the US. Gatwick would be a big loss.ò

Multinational manufacturer headquartered in west Central Scotland:

ñOur main comment at present is the lack of choice of airlines between Glasgow and other key airports in the UK, particularly Heathrow and London City, and also what appears to be a regular change of schedules.ò

Oil and gas supply chain company (2) based in the Highlands:

ñThe reality is companies all have to get by with it costing us much more than our counterparts in the south. Certainly, we have many people from the Highlands area requiring to travel at best by car, train or hired car to Aberdeen to pick up flights to Heathrow or Paris for onward connections. If I was to put a figure on this it would probably be an extra £1million per annum to cater for our travel needs with extra overnights, food, hired vehicles etc.ò

51. Regional airports and the aviation sector can work closely with the UK and Scottish Government and other bodies, such as tourism and city marketing organisations, to maintain and attract direct international air routes. Government pump-priming can make all the difference at this time. Retaining international connectivity via good, frequent access to the UKõs hub airport is also essential.

Making better use of existing capacity

To what extent do UK airports meet the needs of their customers? How might those needs be more effectively met within existing capacity? What is the right balance between competition and regulation?

52. The lack of existing capacity at Heathrow results in a poor passenger experience and gateway, as the facilities are overcrowded and, at times, overwhelmed.

CASE STUDIES

Oil and gas supply chain company (1) based in Aberdeen on Heathrow:

ñUnreliable, chaotic to be avoided if possible. Transatlantic terminal moves are a real challenge. Flight delays are a common occurrence so difficult to schedule meetings with confidence results in a costly overnight stay in London.ò

Oil and gas supply chain company (2) based in the Highlands:

ñThere is no doubt costs have gone up over the past few years and we get frustrated with the cost of late tickets. Some of our companies are on 24 hour standby and so flights can be last second and we have to pay the going rate for this. We can sometimes charge this on to our clients, but this can make us uncompetitive and lose us business.ò

Multinational oil and gas company with a base in Aberdeen:

ñVariations in timing and frequency of London Heathrow and Gatwick flights (and number of carriers) has also impacted our business in a negative way over the years. We need reliable, frequent and consistent service.ò

Oil and gas supply chain company (1) based in Aberdeen:

ñOver the past few years we have become more and more concerned at the frequency with which flights to and from London are cancelledé to make way for their more profitable intercontinental ones. Cancellation of flights on inward legs to Heathrow leave the traveller in the unenviable position of being held to ransom by the hoteliers around Heathrow.ò

Can we extract more capacity out of the UKõs existing airport infrastructure? Can we do this in a way which is environmentally acceptable? To what extent might demand management measures help achieve this?

53. It would be possible to reduce capacity pressures at Heathrow if the competitiveness of surface access, particularly by public transport, was increased and led to a reduction in the number of landing slots required for regional airports. Current plans for High Speed 2 will create this opportunity for routes to and from northern England. However, as the Committee on Climate Change has shown, the greatest potential for modal shift is on route to and from Central Scotland. If High Speed 2 is not developed between northern England and Scotland, journey times between Scotland and London will still be three and a half hours, which is not a significant enough reduction to shift decisively the balance in favour of rail. That is a key reason why the business case for a national high-speed rail network including Edinburgh and Glasgow is so strong. However, even if the UK Government accepts this case, it must be understood that journey times by rail to London and the UKõs hub airport for cities north of Central Scotland will remain unattractive and air access will still be essential.

54. SCDI believes that key regional economic centres which are further than three and a half hours away in surface journey times should have guaranteed air access to London and, where it is required, the UKõs hub airport at Heathrow.

55. A differential Air Passenger Duty should play a role in demand management, with a higher rate applied to those flights from airports within the surface access time limit than to those airports which are more than three and a half hours away.

56. It should be noted that the lack of capacity at Heathrow has negative environmental impacts as planes are forced to stack overhead before landing.

How can we support Heathrow's hub status within the constraints of its existing capacity? Can we do this in a way which is environmentally acceptable?

57. SCDI was extremely disappointed that, after cancelling plans for a third runway at Heathrow, the UK Government has ruled out the use of mixed-mode operations on the existing runways which would have allowed for increased capacity. SCDI believes that insufficient weight has been given to the national economic interest and the impact of these policies on the regions of the UK.

58. The Government has agreed to a trial where in times of difficulty BAA can, in certain circumstances, suspend alternation of runways permitting increased runway capacity to clear up a backlog of flights and speed up a return to normal operations. If this is successful, it should be extended to increase capacity and protect regional flights until such a time when the high speed rail network is developed and enables a large shift of passengers from domestic aviation to rail.

59. The Government and Heathrow's operators must avoid negatively impacting on the connectivity of Scotland and other UK regions through decisions, including commercial, which seek to incentivise Heathrow's efficiency at their expense. If the UK's regions are forced to choose alternative hubs for their global connectivity, it will not only reduce their overall connectivity and productivity in key businesses, it will ultimately undermine the hub status of Heathrow.

How important is increased resilience at the UK's major airports to reduce delays? How best could resilience be improved with existing capacity, e.g. how might trade-offs between existing capacity and resilience play a role in this?

60. It would not be efficient if, in order to increase resilience on the handful of days per year where there is disruption, to reduce capacity on every other day. At Heathrow, this would put further pressure on landing slots and, consequently, reduce access for UK regional airports, damaging their economies. The best way to improve resilience is to more effectively tackle the causes of this disruption. As previously stated, the Government has agreed to a trial where in times of difficulty BAA can, in certain circumstances, suspend alternation of runways permitting increased runway capacity to speed up a return to normal operations.

61. The lack of capacity is, again, a significant factor in resilience to disruption.

What provision, if any, should be made for regional access into congested airports?

What provision, if any, should be made for General and Business Aviation access into congested airports?

62. This is an issue of key concern. Heathrow is the UK's only hub airport and regional access to this national asset is essential. In recent years, there has been the withdrawal of regional services such as those from Inverness, Glasgow and Teeside to Heathrow as airlines utilise slots for more lucrative, long-haul routes. Government decisions on capacity at Heathrow are accelerating this trend.

63. There is also now a threat to regional access at Gatwick as its new owners try to recoup their investment by attracting more long-haul services and increasing charges on domestic aviation. This has again been caused by Government policy. Access to Gatwick is particularly important for key regional centres, such as Inverness, which have in recent years lost their direct service with Heathrow.

64. The loss of regional access not only impacts on key regional economies, but, by forcing traffic to European hubs, it takes money out of the London economy.

65. Intervention from the Government now is imperative, within EU competition law. SCDI believes that key regional economic centres which are further than three and a half hours away in surface journey times should have guaranteed air access to London and, where it is required for nationally-significant regional industries to connect internationally, to the UKõs hub airport at Heathrow.

BUSINESS SURVEY

In the survey of Glasgow businesses, over two thirds of respondents cite that the loss of the BMI Glasgow-Heathrow route has had a direct impact on their business. Similarly, two thirds of businesses said that if the Glasgow-Heathrow route was reduced or discontinued it would have a severe or high impact on their business, by far the highest percentage for any UK airport. Comments and reference to business impact was phrased as ñhorrificò, ñhugelyò, ñserious impactò etc which emphasise the scale of impact on business operations.

Similar comments are expressed by businesses in other parts of Scotland. For many businesses in the Highlands, the loss of the Inverness-Gatwick would have an equivalent negative impact.

Financial and business services companies in Edinburgh also highly value the Edinburgh-London City service.

CASE STUDIES

Multinational life sciences company with facilities in west central Scotland:

ñIf air services between Glasgow and London airports are subject to future reductions we cannot move product and it would make no sense that the product is made here ï so theoretically it could impact on decisions as to where to place manufacturing.ò

Company with offices in the Heathrow area and west central Scotland:

ñIf air services levels between Glasgow and London airports are subject to future reductions we will move out of Scotlandò.

Oil and gas supply chain company (1) based in Aberdeen on the possible loss of the Heathrow service:

ñA large unacceptable impact and the company would move out of UK.ò

Multinational life sciences company with a facility in the Highlands on Heathrow and Gatwick:

ñ[The loss of] Heathrow was a big disappointment. The taxi from Gatwick to the UK HQ is one and a half hours and expensive and meetings canôt start until mid-morning.ò

Multinational infrastructure company with an office in Inverness:

ñThere would be a large impact on business should the Gatwick interline be lost as this is the route we use on a regular basis to attend meetings/seminars at our head office.ò

Food and drink company based in the Highlands on reductions to services between the north of Scotland and Heathrow or Gatwick:

ñIf the frequency of service decreased this would result in increased costs with layovers at hub airports with the results detailed above. If the services stopped, it would have a major impact on our business.ò

Organisation involved in the Commonwealth Games in Glasgow in 2014 on the Heathrow service:

ñThis link is vital for both ongoing business and connections during the event period (July-Aug 2014). [Its loss would present] both budget and logistical problems as in many cases no suitable cost/time alternative exists.ò

Oil and gas supply chain company (2) based in Aberdeen on the loss of the Heathrow service:

ñWe would become even more of a backwater in the eyes of the global business players!ò

Climate change impacts

What do you consider to be the most significant impacts of aviation, including its non-CO_2 emissions, on climate change? How can these impacts best be addressed?

66. Worldwide aviation accounts for some 2 per cent of global CO2 emissions and is estimated to grow to 5-6 per cent by 2050. It is clear that other sectors make a far larger impact on climate change, but that aviation must play its part on emissions reductions. These impacts should be addressed in a proportionate way and with global co-ordination of policy, recognising the economic and social value of aviation, the link between connectivity and competitiveness, the differing role of aviation in the UKôs regions and the lifeline services for peripheral areas.

What role should aviation play relative to other sectors of the economy in reducing greenhouse gas emissions in the medium and long term?

67. The Committee on Climate Change has found that growth of 60% in UK aviation is compatible with climate change targets. Higher increases might be possible if

technological progress and the development of sustainable biofuels were more rapid than currently envisaged. Sustainable Aviation, which involves UK airports, airlines, aircraft and engine manufacturers, and environmental non-governmental organisations has produced a ‘road map’ setting out an assessment of how CO_2 emissions from aviation can be controlled and reduced over the next 40 years.

68. A balance needs to be struck, based on the percentage of greenhouse gas emissions from aviation and the benefits of aviation to the economy and society. The consultation tends to focus on the UK’s larger airports, but the final Sustainable Aviation Framework for the UK must not be a ‘one size fits all’ policy. The importance of aviation to the UK’s regions, including peripheral areas, and for services such as medical evacuations, should not be compromised by disproportionate environmental regulations, standards or taxes, especially if measures such as CO_2 emissions per passenger kilometre were to be adopted.

How effective do you believe the EU ETS will be in addressing the climate impacts of aviation? Should the UK consider unilateral measures in addition to the EU ETS? If so, what?

69. EU ETS is a fair and just way of regulating environmental impacts in a transparent manner because it will require airlines operating flight to and from EU airports to cover the costs of carbon emissions from their flights via the surrender of carbon allowances which reflect the environmental cost. In contrast, Air Passenger Duty would appear to be a tax raising power for Government. Retention of Air Passenger Duty once aviation enters the EU ETS in 2012 will charge aviation twice for the same emissions. The Government should, at least, reduce Air Passenger Duty rather than consider any further unilateral measures.

What more can the UK aviation industry do to reduce the climate change impact of its ground operations and surface access to and from the airport (which can also help reduce local environmental impacts)?

70. National and local governments and airports could work together to set targets for increased access by public transport linked to associated improvements.

71. It may be possible to reduce engine emissions for aircraft which are taxiing for take-off, especially at larger airports where there can be long queues for a slot.

Local impacts

What do you consider to be the most significant impacts – positive and negative - of aviation for local communities? Can more be done to enhance and / or mitigate those impacts? If so, what and by whom?

72. The most significant impact of aviation of local communities is the connectivity which they enable for local and regional employers with UK and global markets. The greatest negative impact would be if aviation was reduced and UK

businesses were not able to compete internationally, inward investment opportunities were lost and visitors went elsewhere. Airports themselves are often also large employers and economic multipliers in their local economies.

73. For remote regions, aviation is a lifeline for many local communities for economic opportunities and public services such as access to acute care centres. Reduced accessibility would have a significant negative impact on their long-term viability.

What are your views on the idea of setting a ónoise envelopeô within which aviation growth would be possible, as technology and operations reduce noise impacts per plane? What do you consider to be the advantages and disadvantages of such an approach?

74. In relation to noise impacts, SCDI would urge against a óone size fits allô approach. Concern about noise may be far greater around one airport than another, particularly in those areas which are more dependant on aviation. It would be inappropriate to set a blanket noise envelope and the Government must be careful that in addressing a specific concern in one location it does not engender concerns in a small but vocal minority in another location where previously none existed. There should be flexibility for different parts of the UK.

75. In considering whether to set noise envelopes around major UK airports, the Government must balance the impacts that these decisions would have on those regions which economically depend on connectivity with and via those airports.

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