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RESPONSE TO THE AIRPORTS COMMISSION CALL FOR EVIDENCE ON INTERIM MEASURES

By

The North East of Scotland Transport Partnership (Nestrans) 17 May 2013

Introduction

Nestrans is the statutory Regional Transport Partnership for the north east of Scotland covering the geographical area of Aberdeen City and Aberdeenshire Councils. This represents just under 10% of Scotland's population and approximately 10% of its land mass. It has a Board consisting of Councillor Appointees from its constituent Councils and of non-elected appointees approved by the Scottish Ministers. Nestrans principal function is to develop and implement a regional transport strategy which has Scottish Ministers approval. Air transport is a key component of that.

This note provides evidence to the Airports Commission in accordance with the Commissions guidance and Nestrans notification of its intention to submit detailed evidence.

This note incorporates views and evidence specific to the Aberdeen City and Shire region. Evidence is provided not only of the significant contribution that the north east of Scotland makes to the UK economy, largely through the energy sector, but also of the expectations placed upon the region by both the UK and Scottish Governments to increase export and further internationalise the oil and gas supply chain business.

The note also refers to a shared north of Scotland view incorporating both the Nestrans and Hitrans areas as a part of Scotland that is one of the most peripheral parts of the UK and a part of Scotland, due to this geography, that cannot access London or its UK hub airport, Heathrow, satisfactorily utilising surface transport. In this context of remote peripherality this submission further refers to the UK's most remote peripheral regional airports, Aberdeen, Inverness, Belfast and Newquay. These essential, but most remote, regional airports are situated in parts of the UK where surface transport cannot meet the needs of their businesses.

Economic factors

A key ambition of the Treasury's Plan for Growth[1] is to *"encourage investment and exports as a route to a more balanced economy".* Ensuring the UK remains one of the top destinations for foreign direct investment, increasing exports to key target markets, increasing private sector employment (especially in regions outside London and the South East) and increasing investment in low carbon technologies are all identified as key to achieving this ambition and are also key to the north east of Scotland and in particular the energy industry. The Scottish Government's Economic Strategy[2] reinforces this and contains a target to deliver a 50% increase in exports by 2017.

The UK Government's Oil and Gas Strategy[3] and the Scottish Government's strategy[4] both

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[1] http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf
[2] http://www.scotland.gov.uk/Resource/Doc/357756/0120893.pdf
[3] https://www.gov.uk/government/publications/uk-oil-and-gas-industrial-strategy-business-and-government-action-plan

call for an increasing internationalisation of the Oil and Gas supply chain sector. This market is currently valued at £17.2 Billion/ annum in total with just under 50% currently international trade with a target set of reaching £30 Billion/ annum with 60% being international trade by 2020.

An SCDI survey of oil and gas activity[5] also shows the importance of this international market and the diversity of international trading locations.

The "Social factors" section below will detail how the north east of Scotland has accepted and risen to the challenges set for it by both the UK and Scottish Governments. However the following will highlight the economic impacts of what the region is trying to do to achieve these Government targets.

Anchoring oil & gas

The population of Aberdeen City was around 217,000 in 2010, accounting for 4% of Scotland's people however the city and surrounding shire produces approximately 12% of Scotland's output and ranks second in the UK, only to Inner London, in terms of GVA per head, equalling £31,944 per head in 2011, up 5.3% on the previous year. Aberdeen is the energy capital of Europe and its buoyant modern economy is driven by the oil industry, which is expected to support growth for decades to come. The region has also been re-branded 'Aberdeen City and Shire' to reflect its strong regional offering which also includes distilling, life sciences and traditional industries such as fishing and farming.

The energy industry has provided prosperity for our region which extends well beyond our immediate boundaries. Whilst much of the project management, decision making, innovation and expertise is undertaken in the north east of Scotland, currently estimated at around 40,000 jobs - many of the functions flowing from the work undertaken here results in job creation in other areas of the country and economy - currently estimated at a total of 200,000 jobs throughout Scotland and a total of 440,000 oil and gas related jobs UK wide[6] - where there are the appropriate skills, plant and people. There are therefore many jobs throughout the country directly linked to the economy, development and connectivity of the north east of Scotland, and the decisions taken by companies, in our region, which benefit other areas of the UK including the Highlands, Fife, Glasgow, Tyneside, London, South East England and the South coast.

The Plan for the north east of Scotland, discussed in the Social factors section, involves, amongst other things, internationalising the work in the areas where we are world leaders and diversifying into the renewable energy sector where many of the skills required are transferable. In the supply chain and logistics sector this internationalisation has been very successful to date with, in 2011-12, almost half or some £8.2 billion worth of the total of £17.2 billion worth of annual work being overseas, with sales activity in over 100 countries. A high percentage of this activity is from the north east of Scotland. The targets discussed above for increasing this overseas work further include a target to increase overall sales by the Scottish-based supply chain to £30bn by 2020 and the proportion of exports to 60% (or some £18bn)[7]. This of course creates jobs in the rest of the UK but to do so requires secure and comprehensive air services with guaranteed connectivity to the UK hub at Heathrow.

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4 http://www.scottish-enterprise.com/~/media/SE/Resources/Documents/MNO/Oil-and-Gas-strategy-2012-2020.pdf

5 http://www.scdi.org.uk/sr/Docs/Survey_of_International_Activity_in_the_Oil_and_Gas_Sector_2010-11.pdf

6 http://www.scottish-enterprise.com/~/media/SE/Resources/Documents/MNO/Oil-and-Gas-strategy-2012-2020.pdf

7 http://www.scotland.gov.uk/News/Releases/2012/05/oil-and-gas29052012

The prize for the UK is to create an industry in the north east of Scotland that services the global energy centres by being the world leader in these chosen fields of expertise for a period that long outlasts the extraction of oil and gas from the North Sea. The Plan envisages achieving this prize by anchoring in those parts of the industry and creating the critical mass where companies in similar fields can be located together to work and feed off each other.

Success will ensure that the UK will continue to enjoy the benefits borne from the discovery of oil and gas in the North Sea long after the last oil is removed from it.

Putting this into an annual monetary context the current contribution made by the energy industry to the UK economy is as follows:

- £50 billion to the balance of payments[8]
- £8 billion in exports
- £13 billion in Corporation tax on production
- £6 billion in Corporate and Payroll tax from the wider supply chain

The impact of aviation on the economy and Access to international markets

Aberdeen City and Shire Economic Future (ACSEF) along with Aberdeen Airport commissioned a study to identify the economic impact that Aberdeen Airport has on the north east of Scotland economy[9]. The energy industry in Aberdeen City and Shire supports 44,000 jobs and for Scottish users alone, the present value of journey time savings created by having the airport and its connections over the period of study would be between £859 million and £1.7 billion depending on assumed passenger behaviour.

Nestrans, along with Hitrans have published a study[10] which shows the importance of air travel to/ from Heathrow for our more remote peripheral regions.

The Scottish Council for Development and Industry have published a survey[11] of businesses in the north east of Scotland in relation to their view of air connectivity and its importance which was summarised into their submission to the UK Government on aviation policy.

The evidence in the discussion above and the studies listed highlights the importance of international business air travel to the north east of Scotland economy and therefore the UK economy. The evidence gathered shows the many and diverse destinations reached by the businesses in our region, mainly into the oil and gas producing regions of the world. An extract is shown at Appendix A. These business trips are part of a significant and growing internationalisation of our economy. Whilst the numbers to the various destinations are relatively small the returns from these trips are a major part of the export drive of this country resulting in significant impacts on the economy. For example the supply chain businesses experienced an annual growth rate of 8.4%[12] in 2011/12. One of the biggest threats to this

8 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/175480/bis-13-748-uk-oil-and-gas-industrial-strategy.pdf

9 http://acsef.org.uk/uploads/reports/27/Aberdeen%20Airport%20Economic%20Impact%20Final%20Report.pdf

10 http://www.nestrans.org.uk/db_docs/20120531_Air_Links_to_London_from_the_North_of_Scotland_Final_Report_1.pdf

11 http://www.scdi.org.uk/pi/2011/Sustainable_Aviation_Framework.pdf

12 http://www.scottish-enterprise.com/news/2013/05/scottish-oil-and-gas-exports-surge.aspx

business growth is access to markets. Failure to ensure adequate access will result in the loss of businesses to overseas destinations.

Whilst there is great merit in increasing point to point travel the numbers travelling to the numerous destinations do suggest that travelling via the hub airport is the most advantageous solution for most destinations. Given the constraints on growth at the south east of England airports and the desire to increase connections to the developing world there is a place for Government and European Union policy to ensure that the more peripheral regions of the UK can still effectively connect to all parts of the globe served by the national hub.

Tourism

In relation to tourism, the Commissions aviation connectivity and the economy document notes: *Aviation is essential in supporting both inbound and outbound tourist activity to and from Britain.* It doesn't mention that most tourists arrive via Heathrow and cannot then get direct access to Inverness for example. It does however mention: *Since tourists often value direct connections when choosing their holiday destinations, direct connectivity from the UK to emerging economies is likely to attract inbound tourism from these countries in the future.* What this misses is that for the smaller more remote regions (including Aberdeen and Inverness) the direct access from the hub airport is therefore even more important since point to point traffic to our locations is not possible.

The document also notes: *The Government Tourism Policy promotes domestic tourism for UK residents and supports the growth of the sector's international market. One of the strategies to promote that growth is based on attracting four million extra visitors to England over the next four years, particularly from emerging economies such as China.* This point overlooks the Scottish Government's policy for increasing tourism and the fact that tourists to Scotland from countries such as China are likely to arrive via the hub airport at Heathrow.

Employment

As discussed above whilst much of the project management, decision making, innovation and expertise is undertaken in the north east of Scotland, currently estimated at around 40,000 jobs - many of the functions flowing from the work undertaken here results in job creation in other areas of the country and economy - currently estimated at a total of 200,000 jobs throughout Scotland and a total of 440,000 oil and gas related jobs UK wide - where there are the appropriate skills, plant and people. There are therefore many jobs throughout the country directly linked to the economy, development and connectivity of north east of Scotland, and the decisions taken by companies, in our region, which benefit other areas of the UK.

Many of these jobs located across the country are dependent upon people from the north east of Scotland winning orders for their supply chain activities across the world. This requires good access to these worldwide locations. It has been noted elsewhere in this document that there is a large spread of worldwide locations that these activities take place in requiring access through a hub airport.

As noted in the inward investment and exports section below a considerable strength in the north east of Scotland employment market is the knowledge base of that market. Such markets are relatively easily relocated. This can be seen in the number of people who have previously worked in the north east having found employment in competitor markets in places such as the Middle East or Australia[13]. If this knowledge base doesn't have good

[13] http://www.rigzone.com/news/article_pf.asp?a_id=126250

access to the international markets then there is a high likelihood that companies will relocate to better provide this access. The most likely scenario is that they would relocate outside the United Kingdom. Jobs wouldn't only be lost to the north east of Scotland, the multiplier effect would be considerable across the country if contracts won by north east of Scotland based personnel are lost to overseas competitors.

Inward investment and exports & Business location and regional strategies

In relation to business investment and innovation, the aviation connectivity and the economy discussion paper states that: *International connectivity from passenger air services is important in attracting international business headquarters and foreign investment into the UK. London's connectivity helps sustain clusters of specialised high-value services sector in the UK such as financial, legal, IT consultancy, business management and chemical sectors which are knowledge-intensive and increasingly global in operations.*

This description misses both the Energy sector which is knowledge-intensive and increasingly global in operation and that some of these sectors are remote from London, including the energy sector in north east Scotland. The UK Government's Oil and Gas Strategy and the Scottish Government's strategy both call for an increasing internationalisation of the Oil and Gas supply chain sector. At around £17.2 Billion/ annum in total with just under 50% currently international trade this growing sector warrants consideration with the other professional disciplines listed. That much of this work and investment is concentrated in the north east of Scotland with a crucial need for the connectivity that Heathrow provides to develop and maintain this income and jobs to the UK economy should also be reflected.

<u>Social factors</u>

Alignment with regional development policies

For around 40 years, the north east of Scotland has been the UK's gateway to enjoying a number of the benefits derived from the oil and gas industry. This industry sits alongside other more indigenous sectors in our region such as food and drink, tourism, life sciences and research and has provided an excellent source of employment and growth to counterbalance the loss of the onetime major employment areas of shipbuilding and repair and fishing.

The work, experience and opportunities generated in our region has in the past been built upon the oil and gas reserves in the North Sea. As the fields have matured and the extraction of oil and gas reserves has become more complex, we have seen the development of many companies whose gained knowledge and innovation has created world class and world leading centres of excellence. This is particularly so in the fields of subsea engineering and in supply chain and logistics.

Whilst there has been a growing acknowledgement amongst companies that the North Sea still offers a significant number of years worth of future employment it does nevertheless have a limited lifespan. Companies and the local authorities have been looking to the future and have through the public private sector partnership Aberdeen City and Shire Economic Future (ACSEF) developed a plan[14] to secure the future of the north east of Scotland and

[14] http://www.acsef.co.uk/uploads/reports/30/The%20Economic%20Action%20Plan%20for%20Aberde

with it the very significant export income, the inward investment and the jobs across the UK that currently depend on the north east of Scotland's continuing involvement in the Energy sector.

To achieve the implementation of the Economic Plan the region has an adopted Structure Plan[15]. This Plan recognises the extent of new investment required to deliver anchoring in of the supply chain in terms of generating new employment and housing opportunities. This Plan is currently being updated to become the new Strategic Development Plan for the region. It continues the Structure Plan theme of being ready to achieve the government's targets for the region in increasing international work in the supply chain. It has been approved by the Strategic Development Plan Authority and the two Councils and has recently concluded its formal consultation period prior to consideration by Scottish Ministers.

The Structure Plan has two Local Development Plans[16&17] which provide a greater level of detail of how the Structure Plan policies for growth are to be achieved.

The extent to which proposals enhance or impair access to air travel for our communities

The Commission will no doubt be considering a full range of options from not increasing capacity to new airport provision. Any options appraisal must consider the impacts on the entire country and not only on the south east of England.

Whilst it is likely that surface access considerations and point to point improvements are going to be significant considerations for reducing domestic air access to London and Heathrow it is essential that equal parts of that consideration include:

- Geography – The size of the country and the location of the capital at the corner of the country leading to large distance between the capital and the remoter regions of the country
- The extent to which high speed rail will reach into the remoter areas of the country – including the residual journey times for points beyond its reach
- The contribution that the regions make not only to their economy but also to the economy of the country
- The interlinked nature of our economy where losses in one part can have a significant impact on other parts.

<u>Accessibility</u>

Access to aviation from our key business district, heavily reliant on international connectivity

Access to key markets is an essential component for any business. With the continued international expansion of the oil and gas sector supply chain work and the Government targets for increasing this further, this aspect of international connectivity becomes even

en%20City%20and%20Shire%202013-18%20-%20Final.pdf
[15] http://www.aberdeencityandshire-sdpa.gov.uk/nmsruntime/saveasdialog.asp?lID=423&sID=38
[16] http://www.aberdeencity.gov.uk/planning_environment/planning/local_development_plan/pla_local_development_plan.asp
[17] http://www.aberdeenshire.gov.uk/planning/plans_policies/plan.asp

more significant for north east of Scotland businesses.

Our companies are competing on a world stage against organisations across the globe. Connectivity is one of the factors in their consideration of what makes them competitive. Should our companies feel that their location is causing them a competitive disadvantage, given the knowledge base of many of the companies, it is a relatively easy step to move location to return a competitive edge. This wouldn't mean a relocation within the UK.

The Airports Commission's own paper describes the UK as very well connected. It has to be borne in mind that the bulk of this connectivity comes from the national hub at Heathrow. With the geography of our country meaning that the hub is at one end of the country and the energy sector is at the opposite end air connectivity becomes more important.

Surface access between Aberdeen and London is not a viable option for business. There are three trains daily between the cities each taking more than 7 hours. With transfers to Heathrow this loses a whole day whilst air travel is just over an hour in flight. Even when, and it has not yet been confirmed, high speed rail reaches Edinburgh and Glasgow in around 3 hours, the journey beyond to Aberdeen is a further 2 ½ hours by train resulting in a journey time of around 6 hours allowing for transfer time. These timescales are not acceptable to the business traveller.

Given the high business passenger numbers (54%) from Aberdeen Airport, the high interlining at Heathrow (>40%) and that just under a quarter of all Scotland to Heathrow traffic is from Aberdeen for only 9% of Scotland's population, as highlighted in the Nestrans/ Hitrans study[18], Aberdeen International Airport is well served by flights to Heathrow. However this good level of connectivity is under threat. This has been highlighted by a number of factors over recent years:

- The loss of BMI flights from Glasgow to Heathrow
- The loss previously of the Inverness to Heathrow flights
- The purchase of BMI by IAG and the subsequent withdrawal of services (although total seat numbers are similar)
- The loss of Flybe flights to Gatwick – and the potential further threat to this companies Gatwick operations
- The introduction of what the CAA have termed as "discriminatory" charges for flights at Gatwick

These events together create a scenario where it is clear that the airlines have total control of which flights operate. This added to the reduction in the number of domestic regional airports served by Heathrow over the past few years gives little comfort that despite being profitable, due to the business nature and links to long haul flights, that these flights will not be reduced in future to make way for larger aircraft on longer haul routes even more profitable for the airlines but which could damage the economy of both the north east of Scotland and the UK.

Whilst these negative events have happened there has been some counter positive news where a new route to London City airport has been introduced to benefit travellers to London and a new company has introduced services to Heathrow. This additional service to Heathrow was only able to happen due to a strong campaign to invoke competition regulations at the European Union level to the sale of BMI to IAG. Overall the impression remains that security of the routes is at the whim of the airlines and could be lost as the desire for more destinations from Heathrow to the world increases over time while the

[18] http://www.nestrans.org.uk/db_docs/20120531_Air_Links_to_London_from_the_North_of_Scotland_Final_Report_1.pdf

deciding factor remains the airlines profits without taking into account that the airlines are working in a constrained market – a market constrained by the UK Government.

Impacts on internal connectivity within the UK and consequent access to international aviation services with particular reference to the peripheral regional areas

Aberdeen International Airport serves 3.3 million passengers per annum. For only 9% of Scotland's population this is a disproportionately high level of flying compared to Scotland as a whole. Removing the number of helicopter flights from this equation still leaves a disproportionately high propensity to fly. This reflects both our geography and our business base. We have a very high knowledge based workforce. Such a workforce is often the most likely to fly.

The north east of Scotland is a remote part of the UK and even a remote part of Scotland. Train travel to the central belt of Scotland takes 2 ½ hours and a train journey to London is over 7 hours. The last train to leave London for Aberdeen is at 4pm. Train travel to many of Europe's cities is an easier option than train travel from London to Aberdeen. For example London to Paris by train is 2 ¼ hours.

We have already seen that even if high speed rail reaches Edinburgh and Glasgow the journey time to London including a train transfer is likely to be around 6 hours. Taking a day to travel to London and a day to return for a long haul flight of a similar time is not acceptable to business.

The introduction of high speed rail across the UK is welcomed by Nestrans. This will provide options to air travel for many of the UK's population. We believe, for a number of reasons, that this transference of passengers from air to rail should be encouraged. However it should also be noted that the more remote peripheral regions will not benefit in the same way. These areas, served by Aberdeen, Inverness, Belfast and Newquay airports, need to find different ways of benefiting from the country's very significant investment in improved surface transport.

We believe that this, for these limited numbers of airports, should be by guaranteeing access to London airports and the hub airport should an operator choose to operate. The choice of access to which airport and the frequency of flights should be determined by the particular needs of the region balancing need to access London and the need to access interlining flights which will be different for each region. We believe that the UK Government should be negotiating with the European Commission to permit such limited impositions on the congested airports to the benefit of social and territorial cohesion and national economy.

Given Aberdeen's volume of traffic between Heathrow and London's other airports we do not believe that a PSO is the right tool to secure access.

Surface transport integration and associated infrastructure development

Nestrans believes that any airport proposals should take into account the ability to permit the maximum number of passengers to travel to London and its hub airport by surface means. This would allow the greatest transference of passengers from domestic air travel to rail travel. This would have the impact of:

- Reducing carbon outputs from aviation
- Releasing capacity at the congested airports from domestic traffic (which could include traffic from the nearer European cities)

- Reduce pressure on the routes to the congested airports from the most peripheral regional airports

<u>What we would like to see</u>

In responding to this consultation we have tried to put our concerns into an overall economic context for the UK as a whole. Clearly we have the interests of the north east of Scotland foremost in our consideration but have tried to demonstrate the economic impact should the connectivity that our region currently enjoys be put at risk by a failure to consider these issues in UK aviation policy. The consequences will not be limited to our region as the follow on impact on jobs across the UK, many in high unemployment areas, would be significant.

To ensure that this threat to jobs does not happen we are keen to implement our Regional Plan to anchor the energy industry into the UK. This requires that UK aviation policy provides existing companies and prospective inward-investing companies with reassurance that the connectivity vital to their on-going or new business is maintained and secured. The volume of travellers and number of destinations requires a hub airport that meets these connectivity needs. Data on passenger choices clearly demonstrates that Heathrow provides the connectivity that business requires.

Therefore, we would urge that UK aviation policy recognises that the aviation industry is currently working in a constrained market place - a constraint made by the Government - and that complementary mitigation measures are required to counter the effects of that policy.

We believe that any consideration of the south east of England airports should take into account the following:

- The difference between access to London and access to the national hub at Heathrow
- Surface access suitability to both London and Heathrow – taking into account the full range of modes including conventional as well as high speed rail
- The geography of the country – taking into account the distances travelled to reach London and Heathrow
- The importance of the flying between peripheral regions to London and Heathrow – taking into account the business carried out by people flying and the impact of that business on both the regional and national economy.

APPENDIX A

Table 3.6 ABZ passenger World regional destinations and international hub

Region	**Total**	**AMS**	**CDG**	**CPH**	**DUB**	**LHR**	**LGW**	**MAN**	**LTN**
Africa	42,273	5,428	13,582	-	-	22,239	606	418	-
Australasia	2 2,719	843	1,145	-	-	19,882	408	441	-
Caribbean	1,425	-	-	-	-	-	1,425	-	-
Europe	1 57,642	41,349	19,884	9,437	4,409	60,356	12,083	3,132	6 ,991
Far East	52,149	22,390	4,384	-	-	23,853	1,254	268	-
Indian Sub	12,877	4,612	-	-	-	8,266	-	-	-
Mid East	52,503	21,941	2,475	-	-	27,820	-	268	-
N America	122,349	31,194	10,285	-	-	71,383	7,805	1,681	-
Scandinavia	25,590	13,733	-	8,662	-	3,023	-	173	-
S America	13,181	3,886	6,270	-	-	3,025	-	-	-
	502,708 1	**45,376**	**58,024**	**18,099**	**4,409**	**239,847**	**23,581**	**6,381**	**6,991**

Table 3.7 Passenger Traffic from Aberdeen Airport's Catchment to Oil Cities

Country	**total pax to Oil country**	**Oil city**	**Pax to Oil city**
Kazakhstan	2,387	Atyrau	929
Canada	20,424	Calgary	7,721
Saudi Arabia	1,264	Damman	1,020
China	10,332	Daqing	-
Qatar	2,109	Doha	2,109
China	10,332	Dongying	-
Canada	20,424	Halifax	2,409
USA	100,691	Houston	27,438
Angola	10,277	Luanda	10,277
Eq Guinea	1,730	Malabo	1,730
Australia	19,616	Perth	6,826
Nigeria	4,355	Port Harcourt	635
Trinidad & Tobago	1,425	San Fernando	-
Canada	20,424		2,701
Norway	188,963	Stavangar	129,816
Russia	3,559	Tomsk	-
Mexico	1,233	Villahermosa	-
Total	**419,546**		**193,609**