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Mr Laurie Price
Director of Aviation Strategy
Mott MacDonald Ltd
St Anne House
Wellesley Road
Croydon
CR9 2UL

Dear Laurie

Review of Air Services in the Highlands and Islands

As an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity, the Scottish Council for Development and Industry (SCDI) welcomes the opportunity to comment on the Review of Air Services in the Highlands and Islands commissioned by HITRANS and ZetTrans. SCDI's membership, which includes businesses, trades unions, local authorities, educational institutions, the voluntary sector and faith groups, recognises the importance to the region of developing air services.

The review is timely. While good progress was made with air services in the Highlands and Islands – for example the recent introduction of the Lufthansa service between Inverness and Dusseldorf - the price of fuel and the economic downturn have imposed unprecedented pressures on the industry. It is important that the Scottish and UK Governments also reconsider whether their aviation policies will, in the current climate, deliver the objectives which were established in the Overall Statement in the Aviation White Paper:

“Air links greatly enhance accessibility for people living, working and doing business in the Highlands and Islands, and for tourists wishing to visit the area. Direct services reduce the need to rely on connections at other airports to reach key destinations – such as Scotland's major cities, London and key European business cities – and reduce overall journey times. They also open up the opportunity to attract visitors to the area.”

RECOMMENDATION 1: The UK and Scottish Government should be challenged to demonstrate how their policies will deliver these objectives.

SCDI supports the approach being taken by Mott Macdonald to the review. There are a wide diversity of opportunities and challenges in the Highlands

and Islands, which are taken into account in the five separate questionnaires, essentially covering the region's local authority areas. SCDI members that have commented are broadly content with the preliminary assessment made of the main connectivity needs and the possible solutions and changes. SCDI's response focuses on the air service needs of the regional economy over the coming decade, especially to other UK and global destinations.

Economic Need - National Planning Framework 2

The recently published National Planning Framework (NPF2) - the Scottish Government's strategy for the development of Scotland's towns, cities and countryside over the next 20 to 25 years – says “the Highlands and Islands have unique environmental and cultural resources offering very substantial opportunities for sustainable growth”. Highlands and Islands Enterprise considers that half a million is a realistic population target for the Highlands and Islands, an increase of around 15% on the population in 2005. The Inner Moray Firth is identified as an area with strategic concentrations of business activity and clusters of related industries, and the Inverness to Nairn Corridor and the Pentland Firth are identified as key locations which offer substantial strategic growth potential and depend on “good links to the rest of Scotland and the wider world” to be successful. NPF2 also highlights a commitment to “establishing Scotland as a leading location for the development of renewable energy technology and an energy exporter over the long term”.

NPF2 states that Inverness can develop its role as the Highland capital, broaden its economic base, improve its connections to Scotland's other cities and the rest of the world, and attract a wider range of high quality jobs. The strength of the city's life sciences sector is highlighted, with LifeScan's Inverness facility employing over 1000 people and regarded as a global centre of excellence for those working in the field of diabetes, and the opening of the Centre for Health Science, the UK's first centre for excellence in healthcare and biotechnology research, education, training and business development. Highland Council's *A96 Corridor Development Framework* includes proposals designed to accommodate an additional 30,000 people in the area between Inverness and Nairn over the next 35 years. The Scottish Government's recent Strategic Transport Project Review has identified the need to dual the A96 between Inverness and Nairn and to provide a new railway station, airport interchange and park-and-ride facilities at Dalcross.

The Scottish Government's Government Economic Strategy highlights an industry-led target for tourism of boosting visitor numbers by 20% and tourism revenue by 50% to £7.5bn between 2005 and 2015. The industry is disproportionately strong in the Highlands and Islands. While nine per cent of the total Scottish workforce is employed in tourism, Highlands' figure is

13 per cent. The region will have a central role in achieving the target. NPF2 highlights, for example, the redevelopment of Fort William's waterfront as helping to strengthen its role as a national centre for outdoor activities.

RECOMMENDATION 2: Air services should be able to support increasing demand in the region due to a strongly growing population and more visitors.

Last year SCDI commissioned a report from the international energy consultancy Wood Mackenzie on the future of renewable energy in Scotland. The report estimated that there would be a 500% increase in the number of wind farms as a result of £10bn of investment in new electricity generation between now and 2020. A report from the Electricity Networks Strategy Group set out a high-level scenario in which the growth of renewable electricity capacity in Scotland would be just over 40% higher again. NPF2 notes that there is a strong spatial element to Scotland's renewable energy potential. The best resources are within the Highlands and Islands. For example, the Western Isles has the potential for at least 16GW of wind, 1GW of wave and 150MW of tidal. The proposed Viking Energy wind farm on Shetland would alone meet 12% of Scotland's renewable energy target. In the Scottish territorial waters and Round 3 offshore tendering processes, The Crown Estate has identified the Moray Firth and around Argyll and Bute as locations with potential for the development of offshore windfarms. The Crown Estate's leasing process for wave and tidal deployment in the Pentland Firth strategic area is targeted at enabling substantial generation of renewable power by 2020. The north and west coasts offer a number of locations with very substantial potential for harnessing the energy of tidal streams. Projects being developed at the European Marine Energy Centre on Orkney currently place Scotland at the forefront of marine energy research.

Oil and gas development will also be important to the Highlands and Islands' economy in the next decade. The recent 2009 Economic Report by Oil and Gas UK highlights that "the one significant area of the UKCS with unexploited gas reserves lies to the west of the Shetland Isles in the North East Atlantic" in which is located 16% of the UK's currently remaining proven and probable oil and gas reserves. Total and its partners have announced plans to invest c. £2bn in developing fields via a new gas pipeline and a new gas plant at Sullom Voe on Shetland, although these plans are yet to receive final investment sanction. Chevron is currently drilling to appraise the potential oil reserves in two fields to the west of Shetland. NPF2 states that the sheltered deep water of Sullom Voe offers the potential to create a ship-to-ship and shore-based oil transfer facility, and Lerwick and Sullom Voe offer opportunities for the decommissioning of offshore structures.

In addition, NPF2 highlights the strategic growth potential of the region's ports infrastructure, in particular: the fabrication yard at Nigg has potential as a facility for decommissioning oil and gas installations and the manufacture and support services required by the renewable energy industry; the sheltered deep water of Scapa Flow has the potential for a container transshipment terminal at Lyness on Hoy; and Comhairle nan Eilean Siar is promoting Stornoway's Western Harbour as an Energy Portal for the Outer Hebrides, including a sub-sea interconnector to the mainland and oil and gas import and storage facilities; and the harbours of the Outer Hebrides might also have a role to play in the development of North Atlantic oil and gas reserves.

An ambitious industry-led target of growing the value of Scotland's food and drink sector by £2.5bn between 2007 and 2017 to £10bn was also detailed in the Government Economic Strategy. The success of the industry in areas of the Highlands and Islands such as Moray will, again, be a key driver. Scotland's food and drink exports are presently £5bn per year of which whisky comprises £3.2bn. The Scotch Whisky Association believes that about £500m is being spent on expanding capacity to meet rising demand.

SCDI's comments have focussed on the substantial opportunities for further growth, but there are also a number of challenges for the regional economy. The Outer Hebrides, North Skye, the outlying islands of Orkney and Shetland, the Argyll islands, the remote west mainland and parts of Caithness and Moray face major economic and/ or demographic problems. Public sector funding is slowing and European funding is in decline. The economy of the Highlands and Islands is continuing to make significant progress, but the problems in these areas also need to be addressed and these challenges are made more difficult by external perceptions of the region's peripherality.

Connectivity Needs

Realising these opportunities and achieving these ambitions will require a mix of support for high-growth potential businesses and the attraction of skilled people and significant inward investment in key industrial sectors to the Highlands and Islands. Better connectivity is a vital enabler. Air transport provides access for indigenous businesses to global markets, suppliers and knowledge-sharing around the world, increasing efficiency and productivity, and direct air links are a competitive advantage promoted by all national inward investment agencies to attract foreign direct investment. It is particularly important for sectors characterised by high-value products and services for export, mobile workforces and face-to-face relationships.

The review should consider the needs of businesses operating in the Highlands and Islands at present, but perhaps more importantly, their future

needs and the needs of businesses which could be operating in the region in the future. For example, Scottish Enterprise and Highlands and Islands Enterprise are currently undertaking a survey of the needs of companies with the potential to be active in the supply chains across the renewable technologies. This survey should inform the review of regional air services. Project developers based in the region already work around Europe. SCDI understands that a cluster of turbine suppliers is developing in Manchester.

Changing patterns of economic activity will also have an impact on the priority accorded to connectivity to a range of destinations. For instance, the development of oil and gas reserves west of Shetland will mean that Aberdeen will remain its key regional centre, but the rapid growth of renewable energy will strengthen the relevance of links to Edinburgh and Inverness. New resources could perhaps be most productively used for them.

RECOMMENDATION 3: The review should consider the needs of current businesses, but even more importantly the needs of future growth sectors.

Air connectivity is especially significant for the Highlands and Islands. NPF2 recognises that “for the majority of overseas trips and business trips between the North of Scotland and the South of England...flying is likely to remain the only practical option” and that “given Scotland's geographical position, good air links are vital for international connectivity and competitiveness”.

The loss of access from Inverness to the UK's only hub airport at Heathrow, from a position of 22 flights a week in 1988, was a setback to the region. One of the biggest challenges for the life sciences sector in Inverness is connectivity. To support the needs of its global business, LifeScan's employees travel extensively throughout Europe, the American sub-continent, the Middle East and Asia. It also has a number of Johnson & Johnson personnel and customers from other global locations on site in Inverness at any given time. LifeScan regards links to international hubs as critical to its ability to operate efficiently and attract top talent to Inverness.

Heathrow is the UK's only hub airport. Over 60% of Heathrow's international passengers are travelling outside the EU, the highest proportion for any European hubs, and it presently offers high density services on a range of long-haul routes which are particularly valued by UK businesses.

The nature of destinations which it serves is very different from other UK airports. London Gatwick has strong levels of passengers travelling outside the EU (40%), but this is dominated by leisure routes and the airline operating the Inverness route does not offer through ticketing or baggage to most destinations. Transferring from other London airports to Heathrow is

often unattractive. This involves multiple changes between public transport modes and, including baggage reclaim and checking in at Heathrow, adds at least another three hours to the journey time. It also increases the probability of inconvenience and delays. Advice for the Heathrow-Gatwick shuttle bus is to allow 3 hours minimum from landing to check-in at the other airport.

SCDI members in the Highlands and Islands and North East Scotland are generally supportive of the case for adding capacity at Heathrow airport, but want the Government, through planning consent or traffic regulations, to ensure that some of the additional capacity is used for regional air services.

It is important that existing services from Inverness to core English regional cities such as Manchester and Birmingham are maintained and improved. The aim should be to enable business people to undertake a full working day. Services to London which are used by businesses in the region - flights to Gatwick and between Aberdeen and Heathrow - also need to be protected.

RECOMMENDATION 4: With the Scottish Government and NESTRANS, argue for guaranteed routes from Inverness and Aberdeen to Heathrow.

Developing a wide range of international direct air routes from the Highlands and Islands will always prove difficult because of the small size of its market. International connectivity via larger Scottish airports, Heathrow and European hub airports is the most realistic option to access major economic centres, particularly in North America and in the emerging economies.

NPF2 highlights that “Air links to their countries of origin are important to the people from other parts of Europe now contributing to the Scottish economy, and good international connectivity will be a crucial factor in encouraging more people to come to live and work in Scotland.” SCDI believes that the large number of migrants who have come to the Highlands and Islands from the Accession States has opened up an economic opportunity for many of the region’s SMEs in Central and Eastern Europe. At present they are being forced to connect through central Scotland airports and then Amsterdam, adding significantly to their journey times and costs.

The abolition two years ago of Scotland’s Route Development Fund following a ruling by the European Commission was a setback to efforts to introduce European short-haul connectivity from the Highlands and Islands, and long-haul services from Scotland which would benefit businesses in this region. The Scottish Government has attempted to replace it by marketing new routes to airlines, but this has proved inadequate at a time when airlines simply will not take any financial risks. However, a recent judgment from the

European Court has called the original ruling into question and raised the possibility that a relatively small, well-targeted Fund could be reintroduced.

RECOMMENDATION 5: Consider if a new Fund or another means would be best in incentivising airlines to operate new direct international air routes.

In the 1990s Heathrow could offer more destinations than any other single European airport, but it has now slipped to fifth with Amsterdam and Paris serving more than double the number of these cities served by Heathrow. In respect of direct flights China, Heathrow has slipped from third to fourth in Europe, behind Amsterdam, and risks being overtaken by Munich. The average flight experiences longer delays at Heathrow than at Amsterdam or other European hub airports, and SCDI members report that interlining via Heathrow is much more expensive than interlining via Amsterdam or Paris.

Therefore, in addition to reestablishing the service between Inverness and Heathrow, a service between Inverness and a European hub airport should be sought. Highlands and Islands Airports Limited has worked hard to develop such an alternative route. While attracting an airline to service alternative routes has proved difficult because of the lower numbers of passengers wishing to travel from point to point, public funding could make it viable.

RECOMMENDATION 6: Introduce a subsidy to attract airlines to offer a morning flight from Inverness to a European hub, preferably Amsterdam.

In order that all parts of the region can access opportunities, inter-island and local services, and services to key regional centres and Scottish destinations need to be sustained and enhanced. Businesspeople can build plenty of contingency time into their schedules if they are taking a number of connecting flights, but are concerned that, at times, operators do not work closely and flexibly together in order that they are able to make connections.

The air discount scheme has been a success and the economic benefits to island businesses should be retained if there are changes to its operation.

RECOMMENDATION 7: Sustain, enhance and improve the integration with connecting services within Scotland, of inter-island and local services.

Further Questions for Review

SCDI would suggest that reference should be made to air freight services.

It has also been suggested to SCDI that - because their aircraft are smaller, flights are already subsidised and large-scale renewable energy projects are

being developed on them - services to the Scottish islands may be suitable candidates for research programmes into alternative aviation fuels. It would be worth asking if this might be feasible within the review period. In the long-term, this may lead to less expensive and more sustainable air services.

I hope that these comments are useful. I am happy to facilitate discussions with businesses and look forward to participating in the review's next stage.

Yours sincerely.

Gareth Williams
Highlands and Islands Manager
Scottish Council for Development and Industry