

# The Importance of Aviation to Scotland's Economic Success.

July 2021





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Executive Summary

This document seeks to assist in the broad discussion with Scottish Government Ministers and officials, the aviation industry and its wider stakeholders on the restart and recovery of aviation – and the rebuilding of Scotland’s connectivity – following the pandemic.

This discussion can only be of value if those participating agree the true starting position – where we are now. This document clearly defines that, and it highlights that Scotland is in a position that is not only worse than our competitors in Europe, but also those in other parts of the UK.

Decisions on travel and the Scottish Government’s approach to the aviation industry have left Scottish airports with a difficult task to compete for and win back capacity that might otherwise be lost for several years.

The scale of this challenge should not be underestimated. Recovery in 2022 is far from assured and the damage done by the slow recovery in 2021 further jeopardises Scotland’s competitive position, with airports, nations and regions moving faster and with greater purpose.

The price for Government inaction and the lack of planning now may well be a greater one than we pay in 2021. As in sport – when you gift a determined competitor a head start, there is little or no way to catch up.

If we are serious about not losing hard won connectivity that benefits and enriches Scotland, and on which many jobs and industries depend, the Scottish Government must act with purpose in concert with the aviation industry on the measures set out in this document.

To do otherwise would see Scotland become less competitive globally and will only serve to frustrate our economic development, aspirations and growth – and undermine our place in the world.

# 1. Overview of Pre-Covid Growth Patterns

- Over the period 2000-2019 central belt airports (Edinburgh (EDI), Glasgow (GLA) and Prestwick (PIK)) grew passenger numbers from 14m to 25m, a growth of over 75%. This growth showed four distinct trend periods:
- 2000-2007 (pre-global financial crisis (GFC)): growth at all airports with EDI growing ahead of GLA/PIK in line with population and economic indicators between east and west coasts of Scotland and where EDI is naturally better located between two major cities;
  - 2008-2012 (GFC period): EDI showing static passenger numbers and strong resilience against European passenger reduction and significant west coast Scotland reductions;
  - 2013-2019 (separate ownership of GLA and EDI): EDI rapidly accelerating its growth and making significant market share gains as EDI free to compete against GLA and utilise its natural market strength in attracting airlines; and

- 2019 (immediately pre-Covid): Overall central Scotland market down with airline failures and uncertainty around Brexit, geographical disadvantages, high aviation tax and wider economics demonstrating some Scottish level market fragility.
- Since the GFC central Scotland passenger numbers have grown from 20m to 25m passengers (+25%) and 141% of that growth has been delivered at EDI where GLA was roughly flat and Prestwick experienced major contraction.

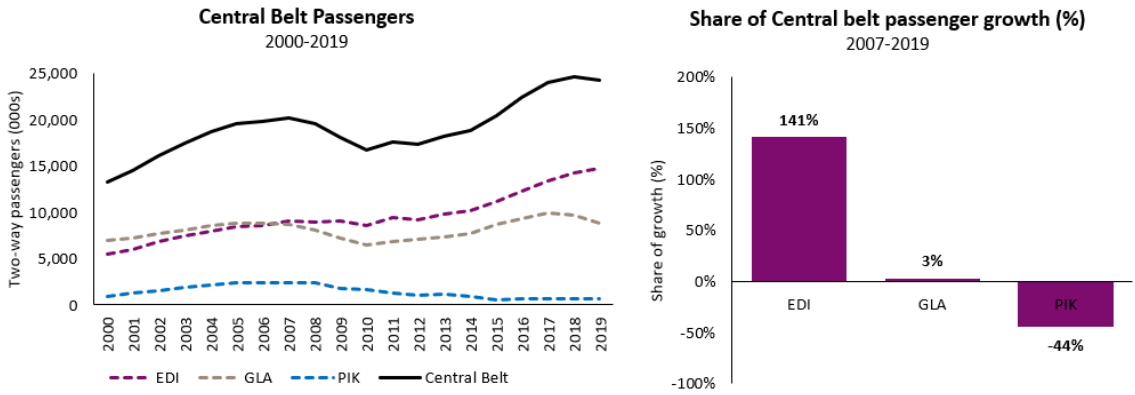


Figure 1: Central Belt two-way passengers 2000-2019; Share of passenger growth 2007-2019 (source: Civil Aviation Authority)

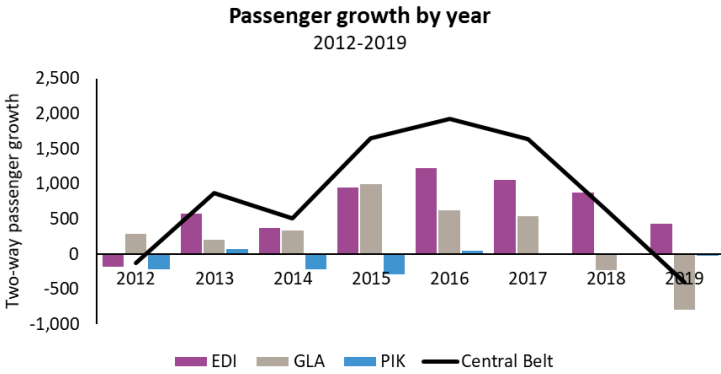


Figure 2: Annual post-GFC passenger growth 2012-2019 (source: Civil Aviation Authority)

## Conclusions:

- 1.1 Pre-Covid there was strong overall central belt aviation growth
- 1.2 More than 100% of growth has been delivered at EDI where its superior geographical positioning, its status as a Capital City and the relative economic strength of Edinburgh makes it the natural focus of airline investment in central Scotland
- 1.3 Even pre-Covid PIK offers few, if any, prospects for passenger growth
- 1.4 The Scottish market pre-Covid was fragile as a result of longer flight-sectors and adverse tax and Brexit issues

# 2. We are already falling behind our Competitors

The UK continues to operate some of the highest travel restrictions in the World and Scotland continues to have higher levels of restrictions than the rest of the UK.

- UK operates a strict traffic light system with few green list countries
- UK is not yet participating in the EU wide scheme for vaccine status and coordinated testing approaches
- Scotland has a high cost testing regime for green and amber countries

- UK and Scottish governments both actively talk down and discourage international travel
- There has been no sector specific support for aviation in comparison to major investment in Europe – rates relief is welcome but is not a support package
- There is no clear plan to encourage aviation recovery in 2022 or beyond

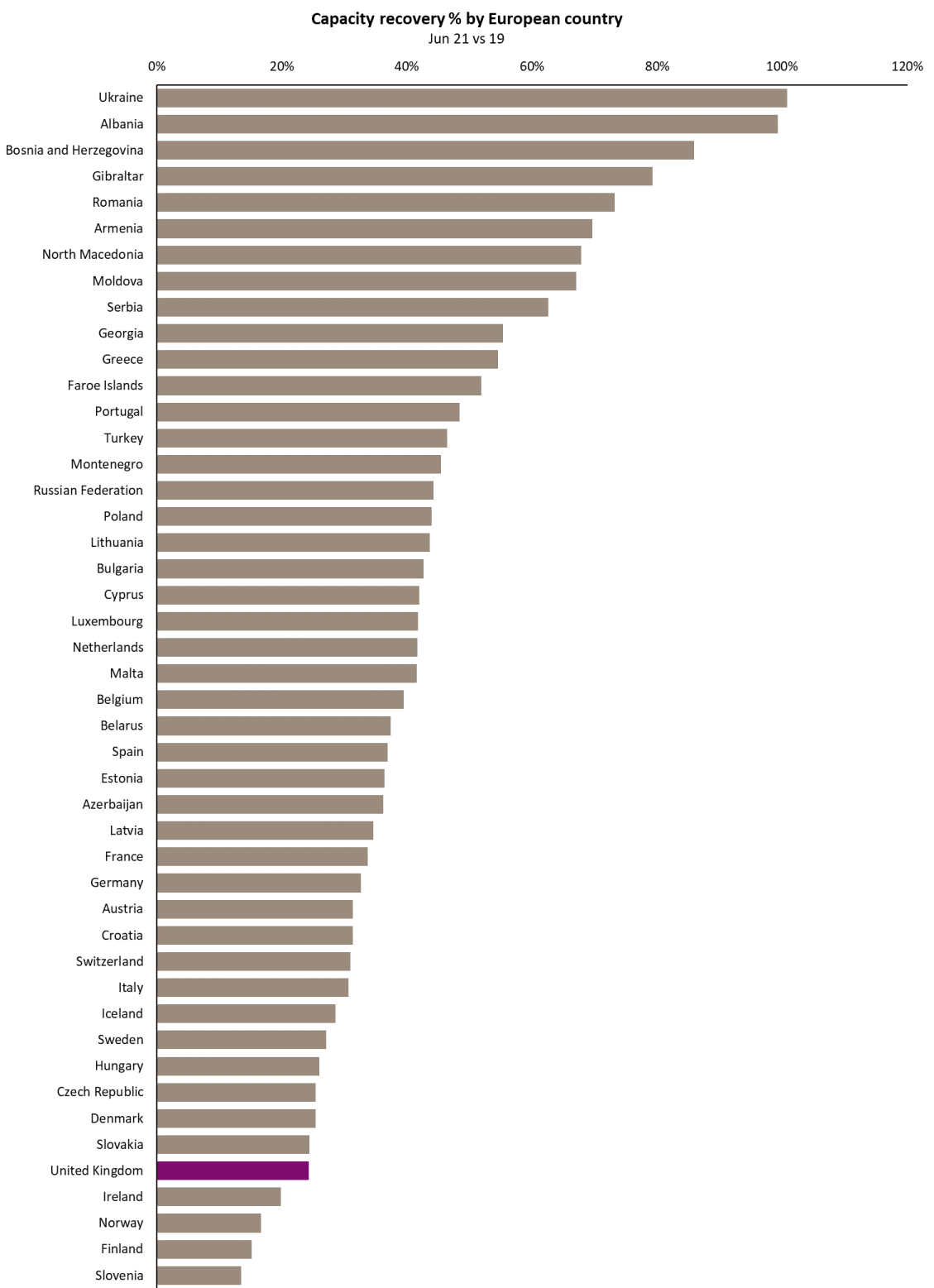


Figure 3: International capacity recovery % by European country, Jun 2021 vs 2019 (source: OAG Schedules)

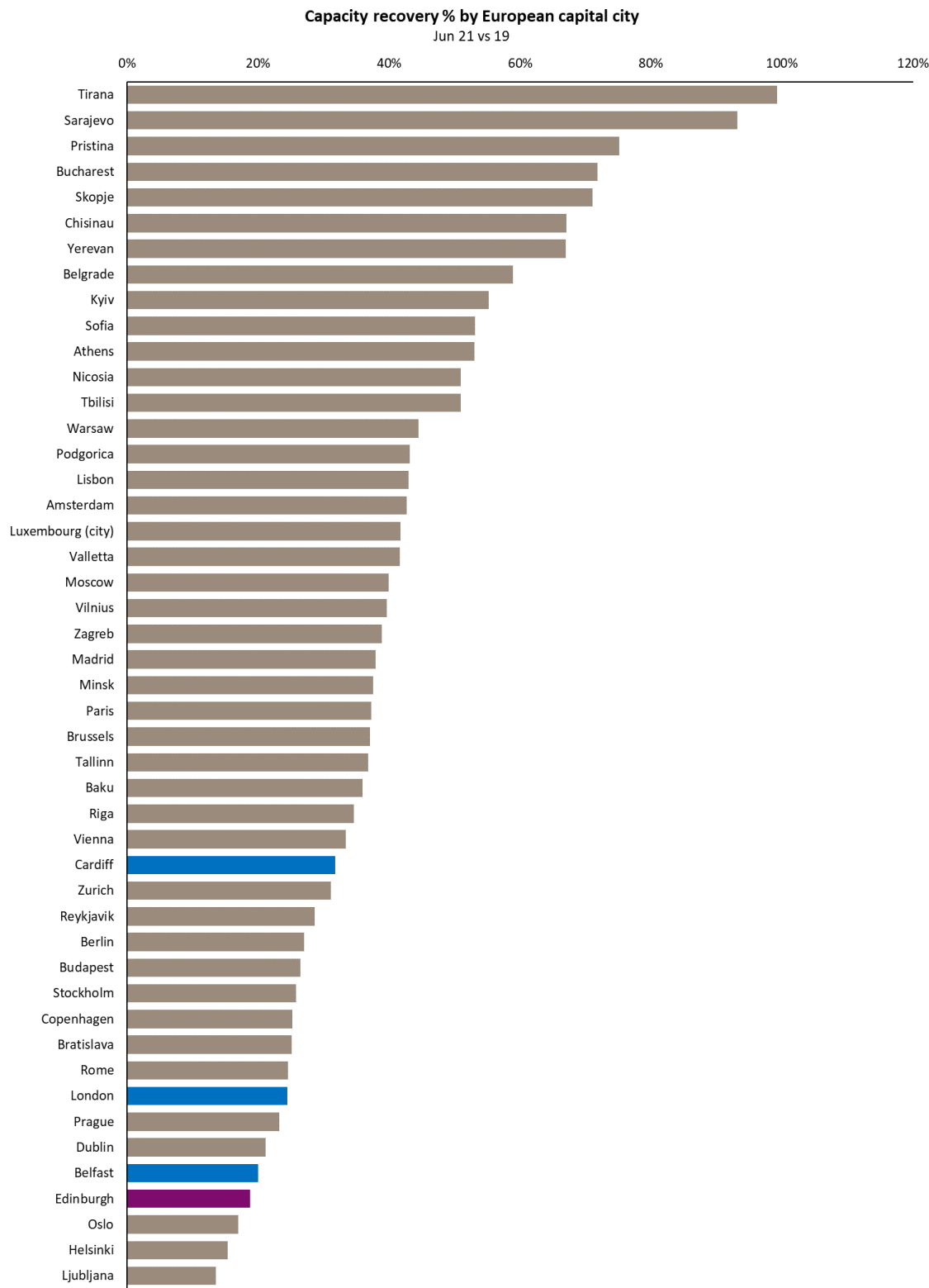


Figure 4: International capacity recovery % by European capital city, Jun 2021 vs 2019 (source: OAG Schedules)

This inevitably feeds through into travel demand and a poor comparative performance for UK versus Europe and Scotland versus rest of UK. These patterns of under-performance have a high risk of becoming long term or even permanent.

Airlines have already moved some capacity to other regions (e.g. easyJet have moved capacity from the UK to Berlin, and Delta has relocated its' EDI-JFK service to serve European routes, where demand is far stronger due to restriction-free travel). If the peak summer travel period is missed, then it is likely routes will be cancelled for at least the rest of the summer season, and in many cases for the winter as well (since this is a far weaker and riskier time to re-start routes).

Therefore, meaningful recovery will be pushed into 2022 and cause Scotland to compete for capacity from a far weaker position than other regions, where the recovery will be far more advanced. It will be a long and difficult process to win back capacity.

Forecasts based on market intelligence and 'on-sale' airline services indicate that EDI will continue to fall behind other European capital recoveries and increase the gap going into 2022, if restrictions in their current form (in Scotland and in Europe) persist.

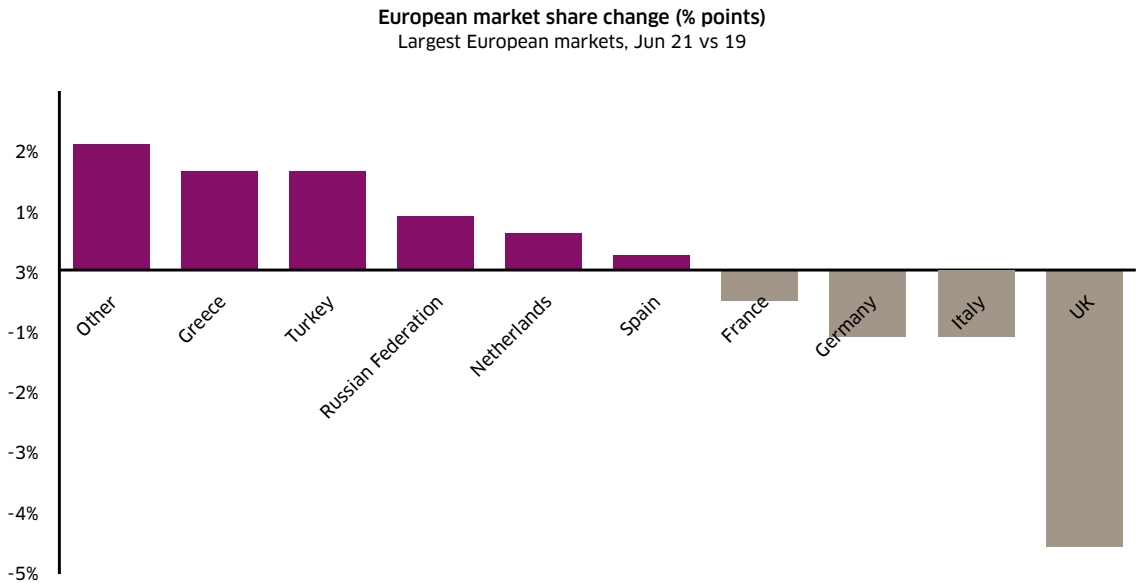


Figure 5: European market share change (of international capacity in percentage points) of the largest European markets, Jun 21 vs 19



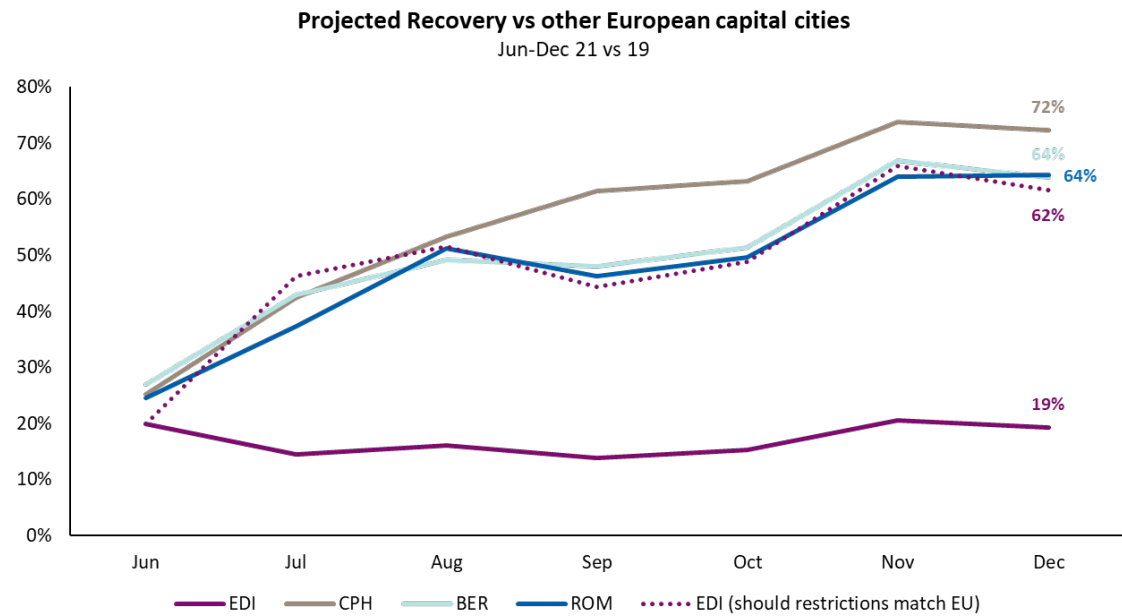


Figure 6: Projected comparative recovery, Jun-Dec 21 vs 19 (Jun uses actuals from OAG Schedules; for Jul-Dec it is assumed that 80% of current planned international capacity will operate for open markets e.g. EU, and 25% for closed markets e.g. UK)

The above chart shows predicted recovery of international traffic under current restrictions. Edinburgh's performance is impacted by quarantine on almost all international destinations, whilst this does not apply in the European comparators. The dotted line for Edinburgh shows how recovery could be transformed if quarantine were not applicable to most destinations.

**Conclusions:**

- 2.1 The UK and Scotland continue to have more restrictive travel policies despite vaccine leadership and little sign of international alignment with EU or beyond or indeed a clear plan for the coming months
- 2.2 The UK is already well behind the European recovery curve and has no direct sectoral support committed to assist the recovery
- 2.3 Scotland is performing worst within the poor performing UK recovery
- 2.4 There is risk that this under-performance in the recovery becomes structural if sustained for many months





### 3.

# Scotland's Tourism Success and wider economic success is supported by aviation accessibility

It is estimated that 229,000 jobs are related to the Visitor economy in Scotland<sup>1</sup> making this the largest employment sector in Scotland. Many other sectors depend upon connectivity including education, financial services, pharmaceuticals, energy and life sciences to access their customers and markets. Many others require direct export capability to access their markets such as food and drink.

The correlation between passenger growth and international visitor growth and spend is very strong. Perhaps this is not surprising given access, and in particular direct access via direct Scottish flights, is a major factor in the attractiveness of Scotland as a tourism destination.

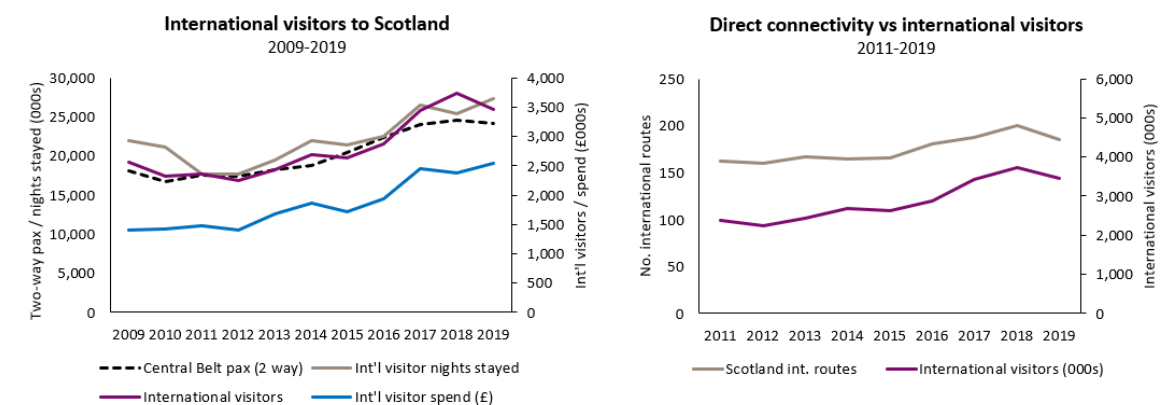


Figure 7: Int'l visitors to Scotland, nights stayed and spend (source: VisitScotland) vs both Central Belt passengers (left; source: Civil Aviation Authority) and the number of destinations with a direct flight from Scotland (right; source: OAG Schedules)

EDI growth in connectivity has been marked since it has operated as a stand-alone business. A total of 58 new connections have been

delivered including the first links to 10 new countries.

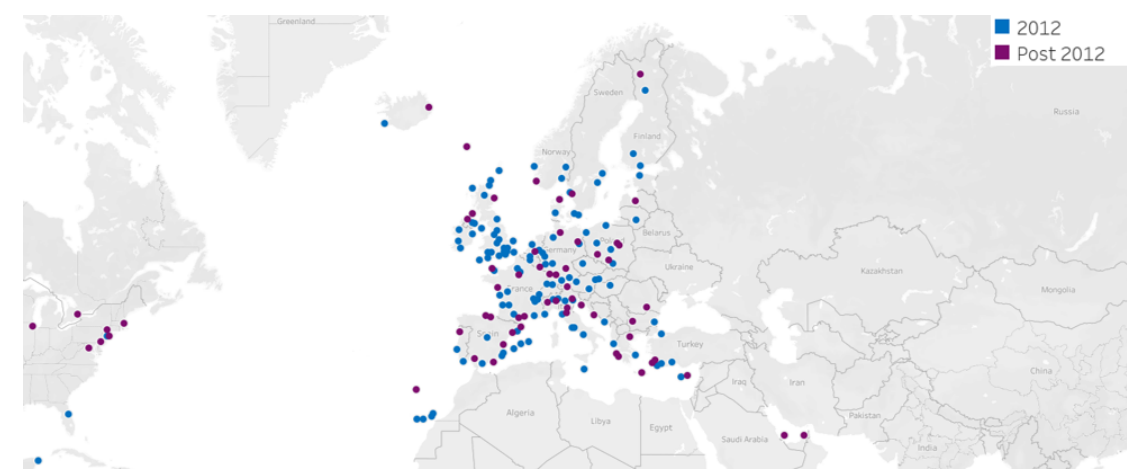


Figure 8: Additional direct connectivity at EDI since 2012 (source: OAG Schedules)

A focus on major international hub connections with 9 additional hubs added to the 8 existing in 2012 has further enhanced this connectivity through additional access to their wider trans-continental one-stop connectivity across the

globe. As one example the Qatar Airways Doha connectivity opens up major Asian connectivity that is important for many Scottish export sectors.

<sup>1</sup> Scotland's tourism industry facts – Scottish Enterprise (scottish-enterprise.com)



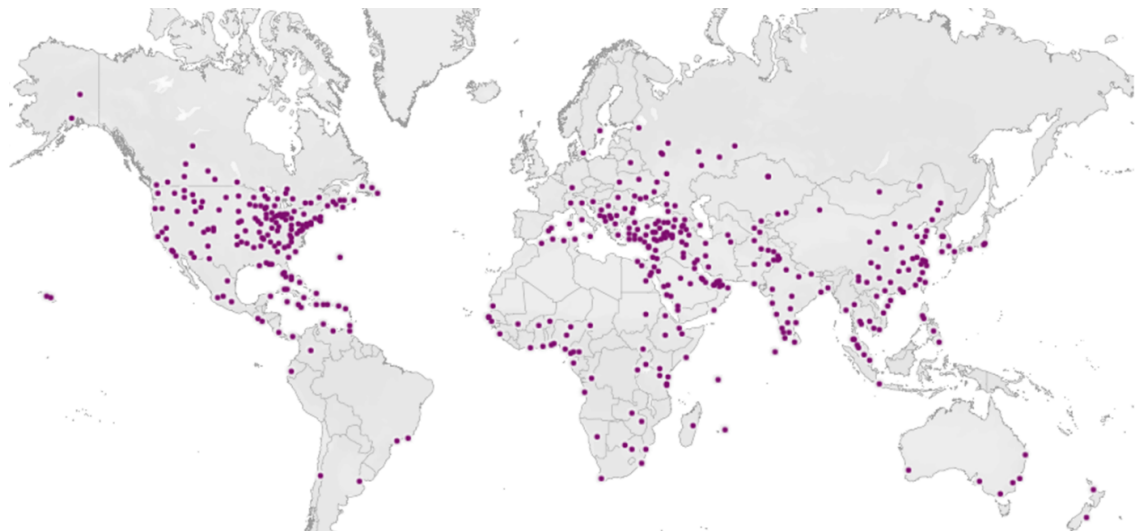


Figure 9: 1-stop accessibility via 9 new International Hubs since 2012 (source: International Air Transport Association)

This growth in connectivity and passenger numbers has driven major job creation at the airport and in the wider Scottish economy with 7,000 jobs on EDI airport campus and 28,000 jobs across Scotland, with other Scottish airports supporting similar relative job numbers.

Capital investments of £253m since 2012 and of £61m in 2019 alone have enabled this growth and again provided economic stimulus in the Scottish supply chain. This has all been achieved without public sector funding.

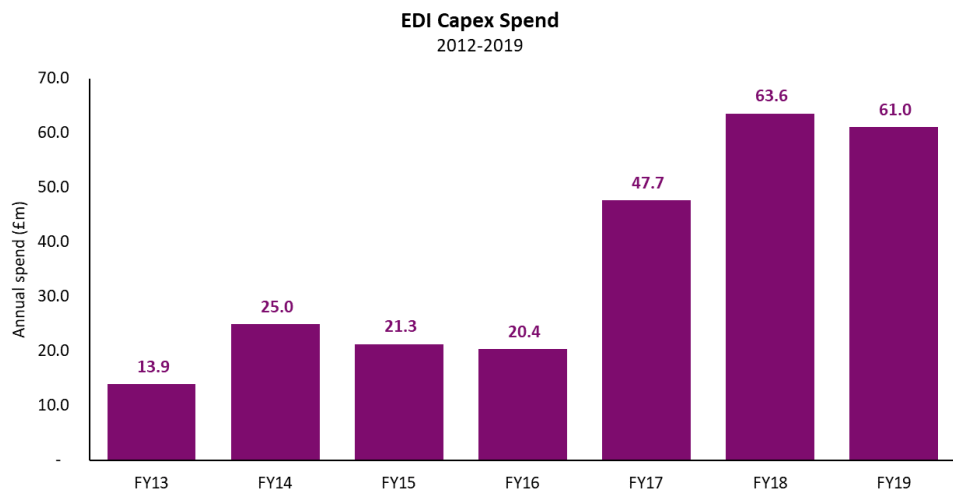


Figure 10: EDI Annual Capex Spend, FY13-FY19 (source: Edinburgh Airport Limited)

**Conclusions:**

- 3.1 Connectivity has been a major part of Scotland's Tourism success
- 3.2 Route growth has driven major expansion at EDI since 2012
- 3.3 Connectivity is a major element of economic growth and job creation and support
- 3.4 This connectivity has been won with almost no public sector financial support or investment required generating over £1.4bn of GVA per annum.
- 3.5 Loss of hard-won connectivity would be a major employment and wider economic threat in Scotland





# 4. Recovery in 2022 is not assured – Route development is difficult and competition is fierce

Winning new routes is a difficult job. Airlines have many choices where they invest their very expensive assets and new routes often take a number of years to achieve profitability. No airline is obliged to fly to/from Scotland, and there is no home-based international flag carrier. Airlines can place aircraft at the airports which offer the best commercial proposition.

Scottish market strengths include strong two-way passenger demand (particularly at Edinburgh) and the potential for reasonable airline ticket yields driven by a strong economy and balanced inbound and outbound demands for travel across business and leisure. Scottish airports are not capacity restricted or subject to curfews, and offer good operational and commercial environments.

Pre-Covid Scottish market weaknesses include the additional sector length associated with our geographical location at the fringe of Europe, high aviation taxes (APD) and modest government investment in route development support and wider tourism marketing compared to European competitors.

## Route Development

- Airlines choose airports that best satisfy all needs for establishing new direct routes
- Post-Covid environment expected to be more competitive – more options for airlines
- New routes stimulate inbound tourism, new business connections and VFR traffic

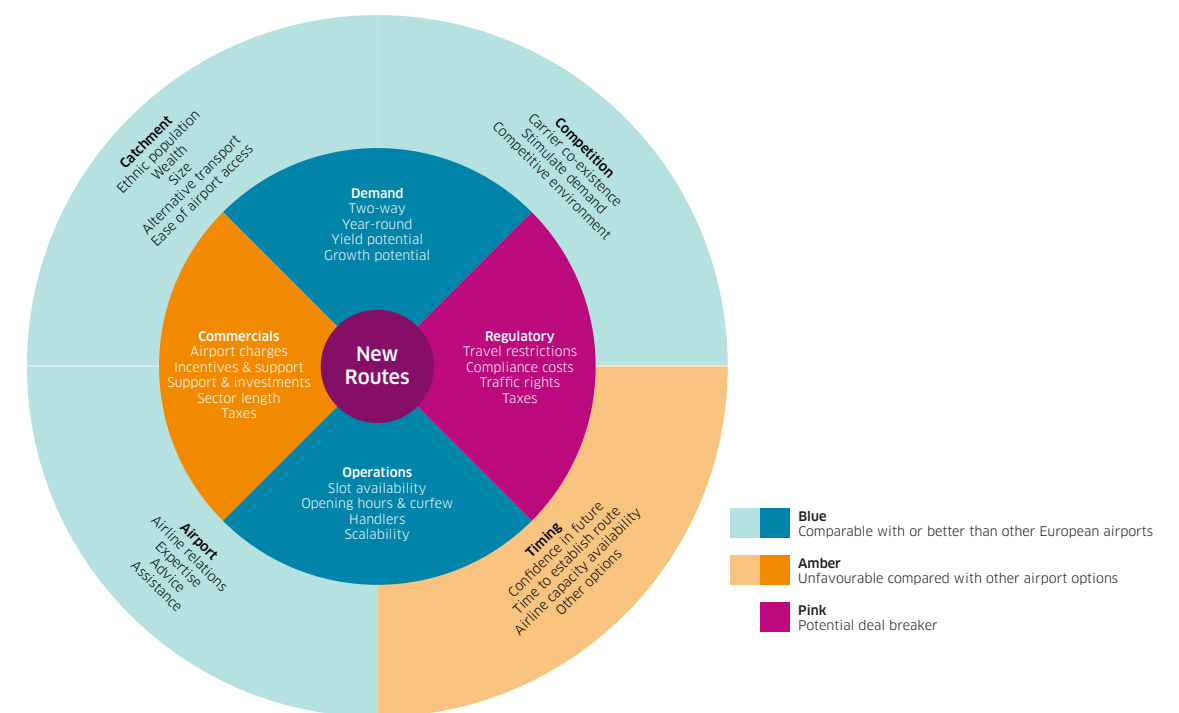


Figure 11: Factors considered by airlines in route development, coded RAG to highlight EDI's strengths and limiting factors

## Conclusions:

- 4.1 The Scottish market has geographical and policy/taxation disadvantages
- 4.2 Many moving parts supported by imaginative data presentation and airport commercial structures have been required to achieve success despite these challenges
- 4.3 Post-Covid much ground has been lost
- 4.4 The recovery will be fiercely competitive



# 5.

## What are the required responses?

If the hugely valuable and hard-won benefits of improved connectivity over the past decade and more are not to be lost, then creating the conditions for recovery must be an urgent policy response.

The industry is not seeking direct financial support but is seeking a clear position on creating the conditions for a competitive recovery and for communicating that approach to the aviation sector as a matter of urgency.

Governments have made much of 'engagement' with the aviation industry during the pandemic. The engagement has frequently taken the form of government speaking at industry, with very little, if any listening happening. This needs to change to maximise the recovery.

**Short-term action requirements:**

- Meaningful engagement with the industry to seek optimisation of travel restrictions and their relaxation
- A clear roadmap for the easing of restrictions
- A clear roadmap for the alignment with EU/international travel requirements (testing and vaccine status etc.)
- Direct support for affordable testing when required (adopt antigen testing for Green/Amber with PCR test only where a positive result is obtained). Allow returning UK residents to use NHS antigen kits or cheaper providers of PCR

**Actions required NOW for recovery in 2022 and beyond:**

- Overt policy statement on wish to recover
- Commitment to easing restrictions and alignment with international practice as soon as practicable
- A 4 nations approach to enable Scottish airports to compete fairly with other UK airports
- Commitment to removing all travel restrictions as soon as practicable (Green list restrictions still major barrier, must have route to 'White' list = 2019 situation)
- Reduction/removal of APD for 2022 and tapering return while restrictions still apply
- Substantial increase in direct tourism marketing that can be deployed at route origins to support airline restarts (NOT match funding)
- Clarity on government support available to route development in the recovery
- Recognition of vaccinated and recovered passengers into the UK:
- Remove quarantine for all vaccinated passengers arriving from Amber destinations; exempt children under a certain age from quarantine and testing
- Review of Amber quarantine period and testing regime:
  - Introduce "test to release" in Scotland and reduce time period to 2 days post arrival (for non-vaccinated travellers)
  - Remove "should not travel" advice from Amber destinations
- Recognition of third-party Digital Health wallets/certificates
- Recognition that secure airside transit/transfer via international hubs is not classified as having been in a red or amber list country, if the hub is green or amber-listed



