

Written evidence submitted by Edinburgh Airport (AIS0006)

Scottish Affairs Committee

Airports in Scotland Inquiry

Introduction

Edinburgh Airport welcomes this inquiry by the Scotland Affairs Committee and is pleased to be able to contribute. We would be happy to contribute further to future evidence sessions should the Committee deem it appropriate.

We are members of the Airport Operators Association and contributed to its response, therefore in this response we've tried not to duplicate their submission.

Rather we've sought to illustrate the very real impact on our business, our industry and those that rely on us.

As we submit this evidence Scotland and the UK continue to have a more onerous approach to travel than our European competitors.

There is no plan to return to a situation like prior to the pandemic, in which people can travel without further tests or forms to fill out.

Scotland is a country on the tip of an island on the North West coast of Europe; our reliance on aviation connectivity for economic success as well as to support our diverse population and global aspirations is clear.

Aviation will be vital to realising the UK and Scottish Government's long-term goals. Equally, Scotland's communities will see a quicker recovery to pre-pandemic conditions if aviation can quickly recover from the current pandemic.

We echo the view of the AoA and this regard – the UK and Scottish Governments have an opportunity to make both those things possible, if they act decisively now within their respective areas of responsibility.

We have some thoughts about how best to do that which are outlined in this submission.

1. What has been the effect of the coronavirus pandemic and reduced flights on Scottish airports and local communities, including tourism?

Aviation was the first industry to feel the impact of the pandemic and it will be one of the last to recovery fully. It has had two main impacts on our business and on those we support.

Firstly, the coronavirus pandemic has changed our business. Edinburgh Airport made over one third of its staff redundant and restructured its business. The cuts touched all layers of the organisation and we lost many talented colleagues through no fault of their own.

This was replicated across the campus and we estimate current losses sit at circa 2000 at Edinburgh Airport as a whole. It is difficult to assess the impact on our supply chain.

There has been no support package from UK or Scottish Governments beyond welcome schemes such as furlough and rates relief. Whilst welcome, those schemes did not touch the sides of the scales of the losses airports faced.

At Edinburgh Airport we were losing millions per month. The impact of this will reach into the future – loan repayments will curtail our ability to invest in route development, in sustainability and in our campus.

Government policies closed us and discouraged travel; Government rhetoric doubled down on this and Ministers seemed indifferent to aviation job losses.

Throughout the pandemic, our requests for support fell on deaf ears, letters to Ministers went unanswered and those that were answered offered no solution.

Until recently, policy decisions were made late and delivered with no engagement and expectation that they would be implemented by airports with little notice.

A fundamental problem was the two-tier approach where the Scottish Government diverged from the UK Government. It confused airlines, passengers and created difficulty for no real public health benefit that we could understand.

It remains the case that there is no plan for aviation recovery.

Secondly, we are in no doubt that the effect of the coronavirus pandemic on Scottish airports and the communities and industries that rely on them is that Scottish connectivity is not only worse than our competitors in Europe, but also those in England and other parts of the UK.

Decisions on travel and the UK and Scottish Government's approach to the aviation industry has 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 that 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.

We can demonstrate this clearly and will explain below.

Overview of Pre-Covid Growth Patterns

We think to understand the impact of COVID, it is important to understand where Scottish Airports were before the pandemic.

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 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; and
- 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;
- 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.

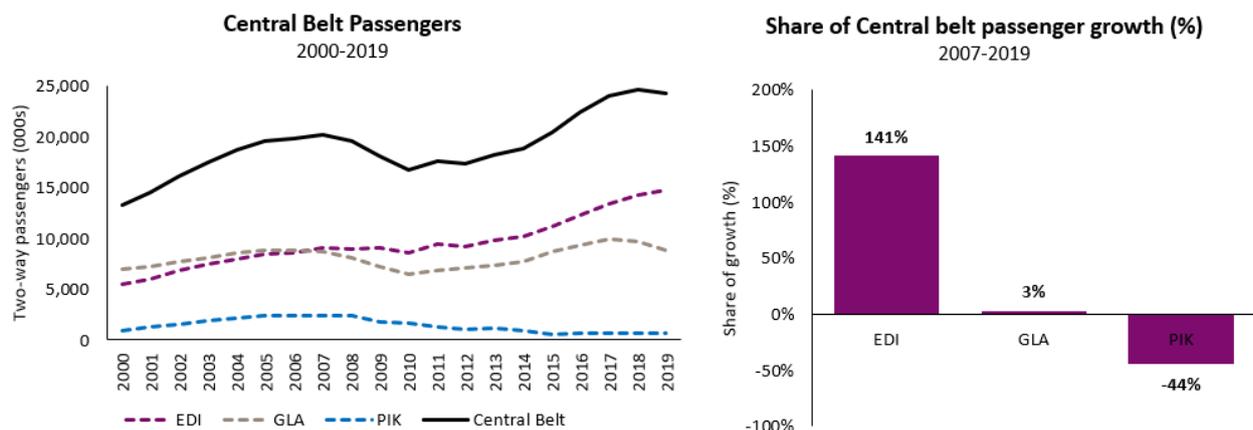


Figure 1: Central Belt two-way passengers 2000-2019; Share of passenger growth 2007-2019 (source: Civil Aviation Authority)

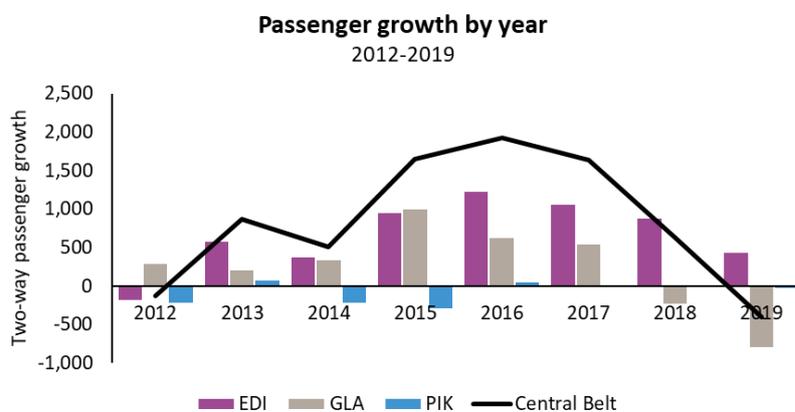


Figure 2: Annual post-GFC passenger growth 2012-2019 (source: Civil Aviation Authority)

Conclusions:

- Pre-Covid there was strong overall central belt aviation growth
- The Scottish market pre-Covid was fragile as a result of longer flight-sectors and adverse tax and Brexit issues

We are already falling behind our competitors

Until September 2021, the UK operated some of the highest travel restrictions in the world and Scotland chose to have higher levels of restrictions than the rest of the UK.

- UK operated 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 ran a high cost testing regime for green and amber countries
- UK and Scottish governments both actively talked down and discouraged 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

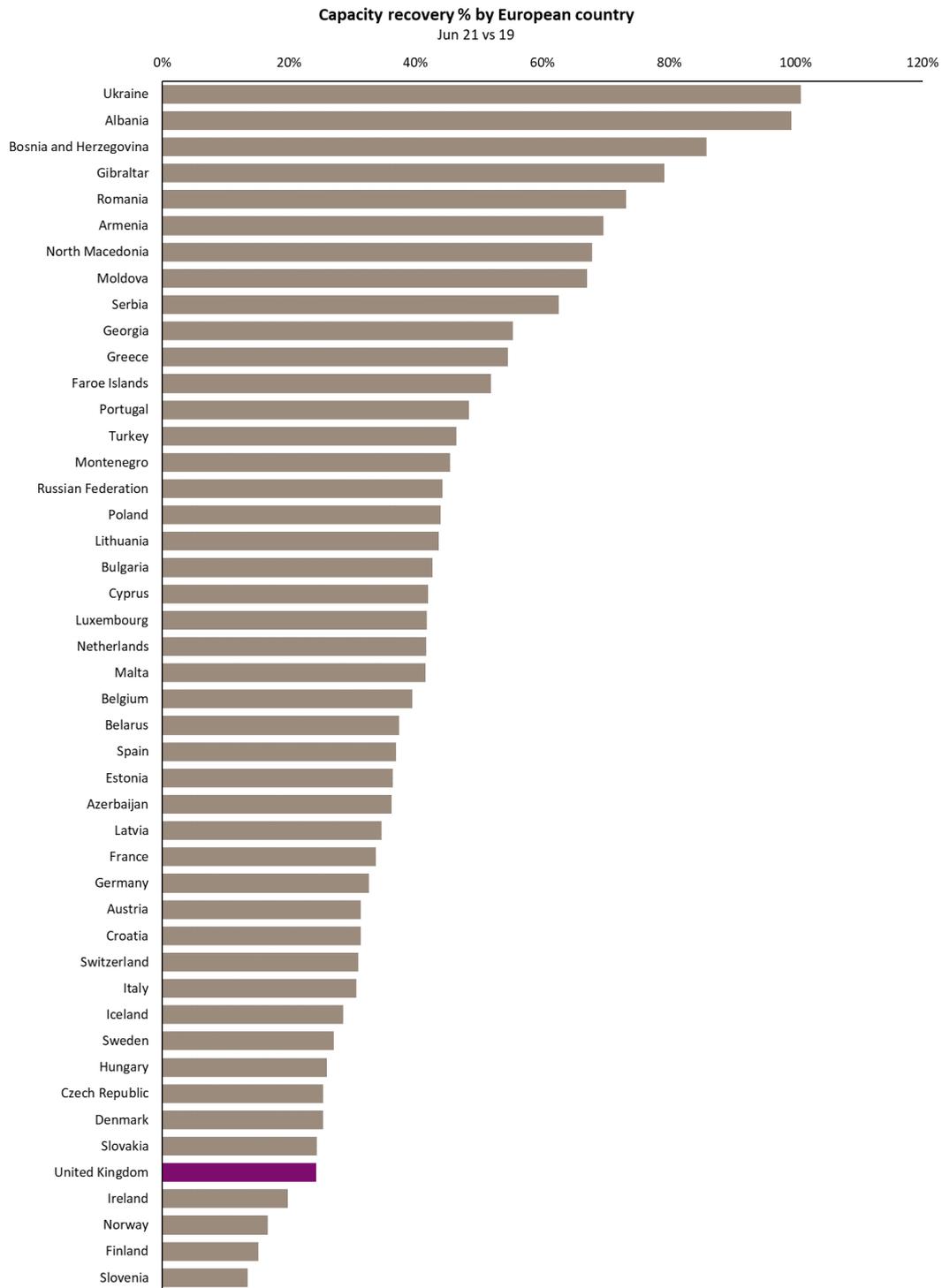


Figure 3: International capacity recovery % by European country, Jun 2021 vs 2019 (source: OAG Schedules)

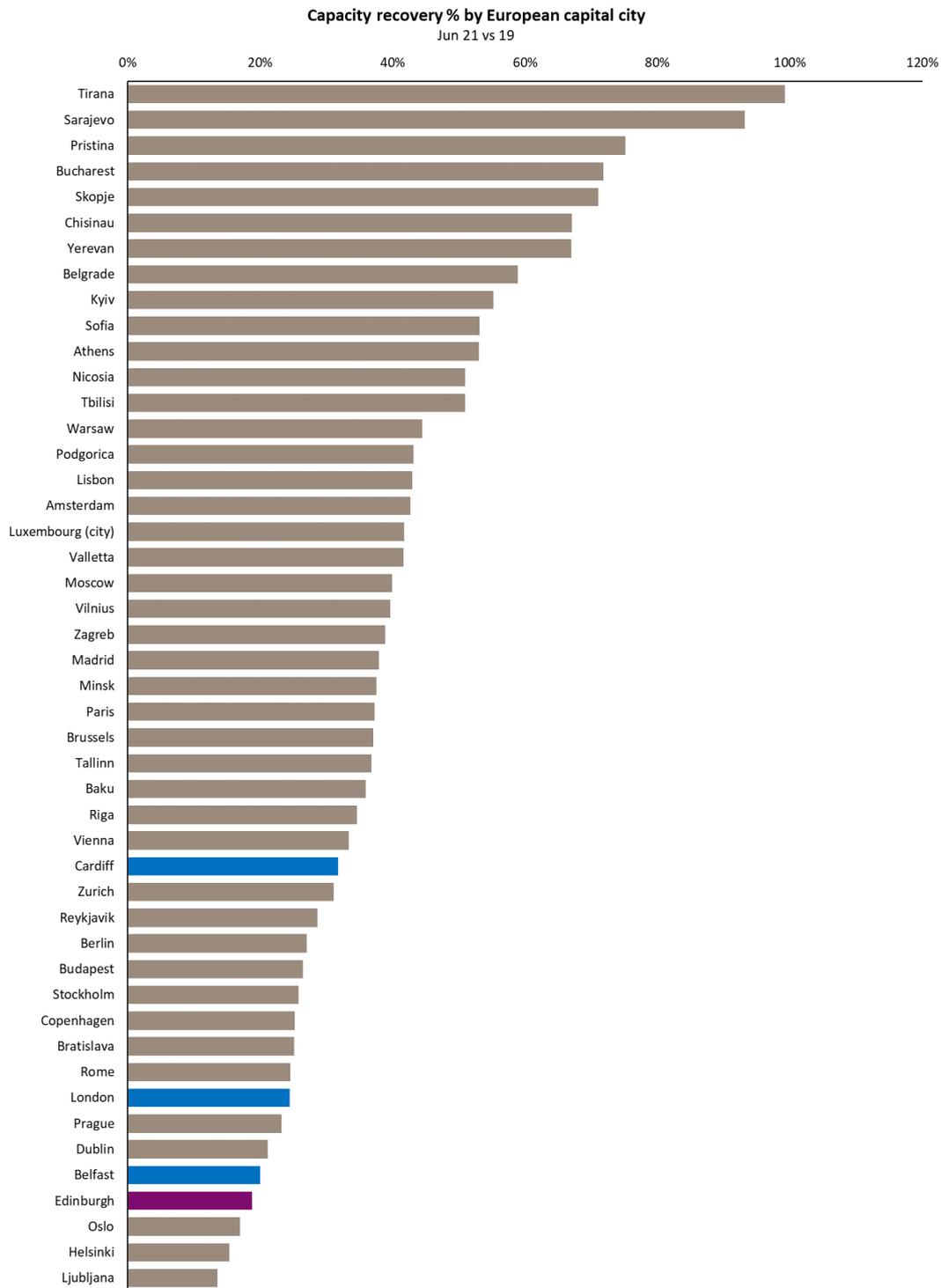


Figure 4: International capacity recovery % by European capital city, Jun 2021 vs 2019 (source: OAG Schedules)

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).

The peak summer travel period in 2021 was missed, which saw routes 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 has been pushed into 2022 and Scotland now has 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, albeit with the recent relaxation of restrictions.

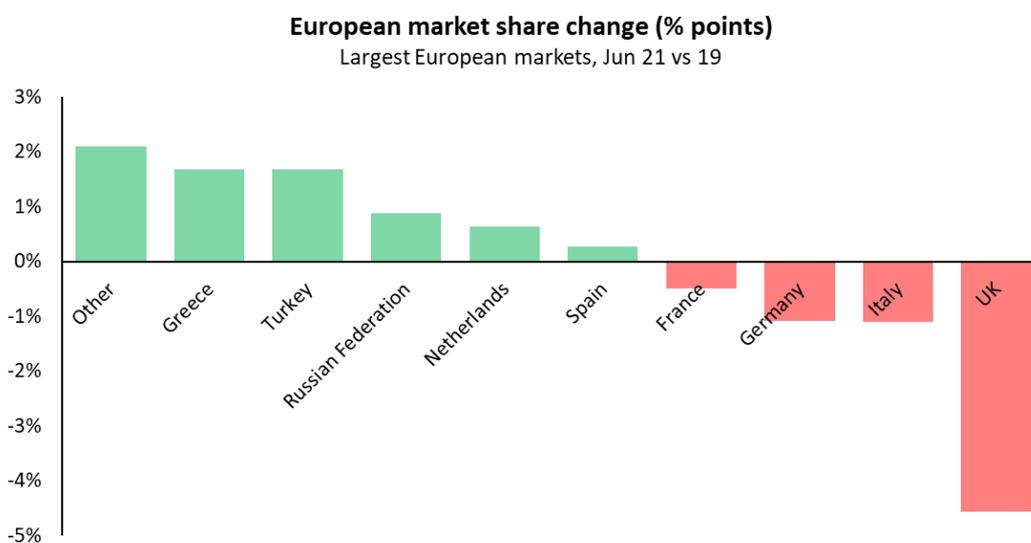


Figure 5: European market share change (of international capacity in percentage points) of the largest European markets, Jun 21 vs 19

Conclusions:

- The UK and Scotland's restrictive travel policies despite vaccine leadership and no sign of international alignment with EU or beyond have affected recovery
- The UK is already well behind the European recovery curve and has no direct sectoral support committed to assist the recovery
- Scotland is performing worst within the poor performing UK recovery
- There is risk that this under-performance in the recovery becomes structural if sustained for many months
- There remains no plan from either Government for recovery

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 Scotland¹ 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.

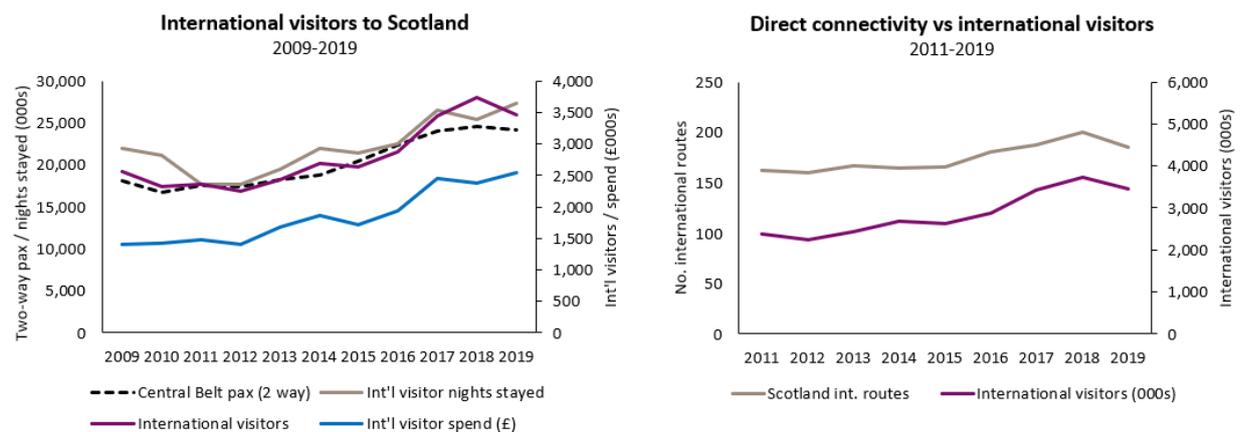


Figure 6: Int'l visitors to Scotland, nights stayed and spend (source: VisitScotland) vs both Central Belt passengers (left; source: Civil Aviation Authority) and the number of destinations with a direct flight from Scotland (right; source: OAG Schedules)

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.

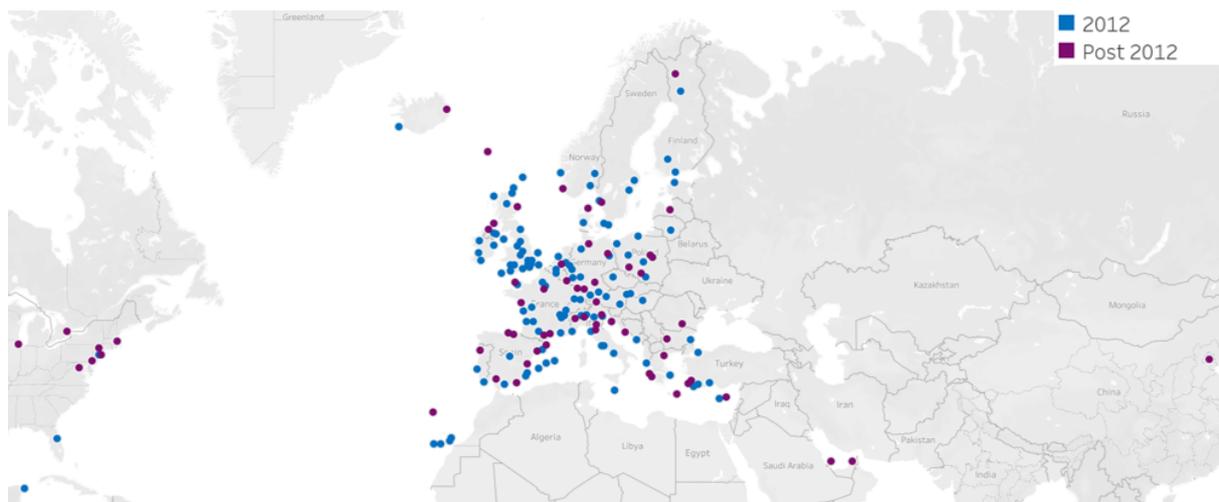


Figure 7: Additional direct connectivity at EDI since 2012 (source: OAG Schedules)

¹ [Scotland's tourism industry facts - Scottish Enterprise \(scottish-enterprise.com\)](http://scottish-enterprise.com)

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.



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 across Scotland² and where other Scottish airports support similar relative 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.

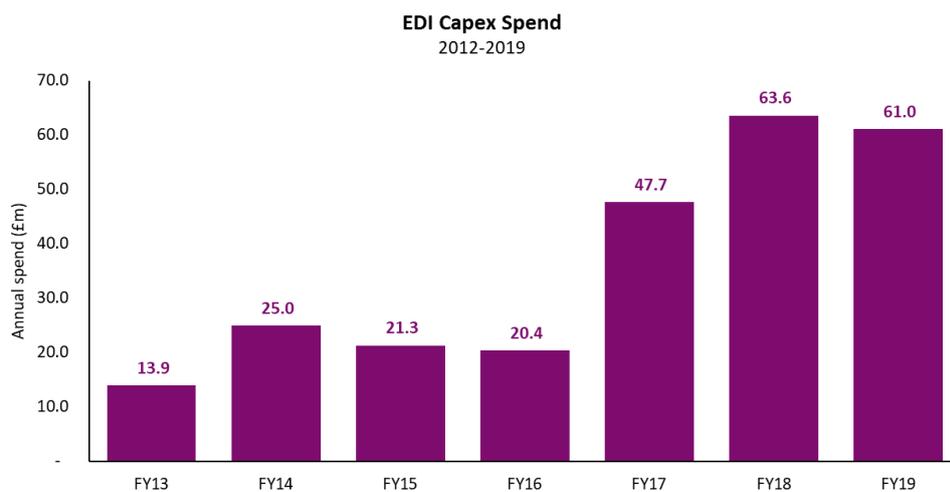


Figure 6: EDI Annual Capex Spend, FY13-FY19 (source: Edinburgh Airport Limited)

Conclusions:

² Biggar Economics

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

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 and 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.

Conclusions:

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

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.

The Scottish Government's Working Group on Aviation is a good model and we're grateful for officials' time and energy, however, its remit needs expanded.

We also found the Scottish Government's commitment to connectivity in its Programme for Government very useful.

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.)

Actions required NOW for recovery in 2022 and beyond:

- Commitment to easing restrictions and alignment with international practice as soon as practicable
- Commitment to removing all travel restrictions as soon as practicable
- 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

2. How do airports support the local and regional job market?

Edinburgh Airport commissioned BiGGAR Economics to undertake an assessment of its economic impact.

It found that in 2019, Edinburgh Airport generated £1.4 billion Gross Value Added (GVA) and 28,000 jobs in the Scottish economy.

This includes:

- direct Edinburgh Airport employment of 750 jobs and an associated £172 million GVA;
- direct impact associated with on-site operators (including airlines, retail and food services), of £356 million GVA and 5,100 jobs; and
- direct impact associated with off-site operators in the vicinity of the airport (such as nearby hotels, trams and car parking) of £27 million GVA and 650 jobs.

This gives a total combined direct impact in and around Edinburgh Airport of £556 million GVA and 6,500 jobs. Wider economic multiplier effects include:

- spending on supplies of goods and services, generating £121 million GVA and 3,100 jobs
- impacts from staff spending in the Scottish economy, generating £144 million GVA and 1,750 jobs.

The passengers using Edinburgh Airport generate significant impacts for the tourism sector estimated at £576 million GVA and 16,700 jobs in Scotland.

Whilst the quantitative economic impact of Edinburgh Airport is significant, the wider impact is far greater.

Edinburgh Airport also generates a raft of impacts that contribute to the well-being of its staff, the businesses that supply the airport, those that depend on tourism and trade, its domestic passengers

and millions of visitors to Scotland. A thriving airport is an important part of any society, enabling people to live a better quality of life overall through:

- allowing freedom of movement;
- bringing opportunities for people to live more meaningfully and experience other cultures;
- promoting Scotland's culture and heritage;
- enabling people to remain in contact with friends and family; and
- enhancing Scotland's accessibility for visitors.

Edinburgh Airport is undoubtedly a valuable economic and social asset to Scotland and overall it offers a positive contribution to national well-being.

Aligning its contribution with Scotland's National Performance Framework enables Edinburgh Airport to remain in step with national and international discussions and policy around the contribution to economic well-being. In this respect, Edinburgh Airport makes a strong and valuable contribution to economic and social well-being for:

- the national economy: by supporting economic growth and the functioning of businesses, of government and of tourism, which are all vitally important to Scotland;
- the international community: it provides an essential link with the wider world: as the first and last physical contact with Scotland it adds to the country's reputation with the wider international community;
- the cultural economy: by enabling people to come to Scotland from all over the world it helps to increase international footfall at cultural and sporting events and conferences, broadening and enhancing Scotland's reputation in these areas;
- the local community: as well as engaging with the local community regularly on operational matters, the Airport has established the Edinburgh Airport Community Fund which awards grants each year to local initiatives that support health, well-being, the environment and education;
- education and skills: the Airport requires people with a broad range of skills and brings an opportunity to work in a dynamic environment; and
- staff: as an employer, the Airport offers its employees a range of support services and benefits for staff to enhance the quality of their working lives.

Is there a sufficient level of investment in the infrastructure around airports in Scotland?

Airports need to continue to reduce their direct emissions, and the UK and Scottish Governments have set out clear intentions in this regard. Many environmental projects have had to be cancelled or delayed due to Covid-19 so financial support for emission reduction projects is necessary from the Scottish Government. Types of projects would include: energy efficiency; electricity decarbonisation; decarbonising ground mobile equipment; decarbonising backup power sources; and electric vehicle charging projects (for staff and passenger).

The Scottish Government could provide grant funding to prepare infrastructure for hydrogen/electric power for planes as these future aviation options are still in development but facilities at airports will be necessary as projects evolve. Funding should be provided to enable Scottish airports to host and support such a process. This would also help secure such projects and initiatives within Scotland given the fixed nature of ground infrastructure.

How will airspace modernisation affect Scottish airports?

Airspace Change modernisation will make Scotland's airports more efficient, increasing capacity where it is needed, reducing the impact on communities and improving the environmental performance of our route networks.

It will not only reduce track miles but reduce queues in taxiways.

Airspace is a piece of infrastructure that has remained unchanged since the 1970s. It needs modernised to match new aircraft and technologies.

The support from the DfT during the pandemic has been very welcome. Airports would be unable to invest in and implement this important work without it given the impact of the pandemic.

It is our belief that this funding should continue beyond 2022 given the length of the recovery.

What schemes are in place to reduce the carbon footprint of airports?

A cleaner and greener future is a goal we all share, and it is incumbent on all of us to play our part. That was true before the Covid-19 pandemic, and the recovery from it presents all of us, Edinburgh Airport included, with an ability to reframe our approach for the benefit of Scotland.

Edinburgh Airport became carbon neutral in 2021 through a focus on cutting emissions across the campus and using only renewable energy. We also announced the construction of a solar farm adjacent to the runway – a first of its kind in the UK - which will allow us to generate 26% of our energy needs.

We also committed to reducing our Scope 3 emissions by 2030 and ultimately reaching Net Zero by 2040.

Our commitments and approach can be found here:

<https://corporate.edinburghairport.com/sustainability>

Our strategy is called Greater Good: it is our approach to a sustainable future for Edinburgh Airport and our plan of action to tackle the immediate recovery and the years beyond it.

Greater Good is built on a simple premise – Scottish aviation must be sustainable in order for it to continue to deliver the benefits this country derives from it, without compromising future generations.

To us, sustainability involves linking environmental, societal and economic issues and solutions through collaboration, innovation and partnership. All working in concert for the greater good. Limiting climate change and its effects are as much social imperatives as environmental ones. The creation and sustaining of good jobs benefit the economy and society and allows us to innovate in environmentally. All of this benefits Scotland and we think our plan understands the connections and delivers for all.

We believe that the ability to connect globally is important for a small country on the tip of an island on the northern coast of Europe. It is central to Scotland's reputation for a global outlook and that connectivity supports a myriad of activities, organisations and livelihoods across the country.

Our Greater Good strategy is built on four pillars reflecting our environmental, social and economic responsibilities:

- Zero Carbon
- Enhancing Scotland
- Scotland's Best Business
- Trusted Neighbour

In formulating our goals, we have aligned with local and national priorities, and with our investors' sustainability and Environment Society-Governance requirements. We also recognise the importance of concerted and accelerated global action in this decade to deliver on the Paris Agreement to limit climate change and on the UN Sustainable Development Goals.

Our approach to sustainability encompasses the entire airport campus – our business and the businesses we work with. We to be clear on our approach, our priorities and why we think that this is important. We will demonstrate our commitment to sustainability through action, measurement, transparency and benchmarking.

We understand that we cannot achieve our goals alone and will seek to work creatively with government, industry organisations, stakeholders and communities.

This cannot be the airport just transmitting its views and agenda. It means active listening; working hard to understand. We'll also measure and track the benefits of our strategy implementation and make sure they are understood and shared.

We are committed to best practice across the airport. Our approach to sustainability is no different and reflects the aspirations of our team and our owners. This means that we'll continue to

- set clear targets;
- operate as efficiently as we can;
- ensure our business is resilient;
- communicate clearly and transparently on progress and issues;
- partner with organisations who can help us achieve our goals;
- play our part as a leading business in Scotland
- continue to make the case for connectivity and be clear on the positive role it plays in Scotland
- work with government, industry and regulators to develop policy and plans; and
- listen to and work with our communities on minimising the impact of operations and supporting them more widely

Gordon Robertson, Edinburgh Airport,

October 2021