

## Written evidence submitted by AGS Airports (AIS0012)

### Overview

- AGS Airports Limited was established in 2014 to invest in Aberdeen International, Glasgow and Southampton airports.
  - As a regional airport group, the connectivity we provide is vital to the economic success of the regions we serve and will be a key part of the UK Government's levelling up agenda.
  - Both Aberdeen and Glasgow airports are major employers and drivers of the economy supporting in excess of 3,000 and 10,000 jobs respectively. The success of our airports and the regions we serve are intertwined. The connectivity provided by both airports helps drive tourism, encourage exports and attract inward investment.
  - In 2019, Aberdeen Airport handled approx. three million passengers and Glasgow handled approx. nine million passengers.
  - In Scotland, where we're located on the north of an island on the periphery of Europe, the role of aviation is even more profound. Travelling by air is not a luxury. It's an essential element of business and family life. Without it, we simply cannot trade globally.
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### Economic importance of aviation

- Aberdeen International Airport is the north-east of Scotland's major transport hub and is a vital economic driver for the region. It is the gateway to Europe's energy capital and is Europe's busiest commercial heliport.
- Aberdeen International Airport contributes more than £110 million a year to the local economy and supports 3,400 jobs across the north-east of Scotland.
- The [Economic Impact of Glasgow Airport](#) study published in January 2019 calculated that the activities and connectivity associated with the airport support over 30,000 jobs and £1.44 billion of economic activity across Scotland. This includes 5,300 people employed directly on-site, an increase of almost 1,000 jobs since the previous study was prepared in 2010.
- Many leading companies have chosen to locate in the vicinity of Glasgow Airport including British Airways Maintenance, Thermo Fisher, HP and Rolls Royce. Within a couple of miles, around 400 companies across a range of key growth sectors employ over 15,000 people. Together with the emerging manufacturing innovation district, this marks Glasgow Airport as a major centre of economic activity and opportunity.
- Glasgow Airport is an important freight hub, handling tens of thousands of tonnes of freight a year. While air freight accounts for a modest proportion of Scottish imports and exports in terms of volume, it represents a much greater proportion of freight by

value. For example, Glasgow Airport handled more than £3.4 billion of goods in 2017, which is over 11% of Scotland's non-EU imports/exports.

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## Impact of COVID-19

- Like every aspect of the aviation sector, AGS has been severely impacted by the COVID-19 pandemic with passenger numbers at our airports approx. 75% down compared to 2019 levels. Passenger numbers were down as much as 99% during the first months of the pandemic.
- Prior to the pandemic, AGS was contending with the collapse of Flybe which was AGS' third largest airline by passenger numbers, accounting for 90% of Southampton Airport's passenger numbers and 20% of the Group's. This followed the collapse of Thomas Cook in September 2019.
- The reduction in traffic and passengers means AGS has lost its main source of revenue, both aeronautical (airport charges to airlines) as well as non-aeronautical (retail, car parking, etc.). Throughout this period costs have stayed roughly the same: 80% of an airport's costs are fixed, such as costs for policing, security, rescue and fire-fighting services and air traffic control. Whether one flight flies out or a hundred, these remain the same.
- In 2020 Glasgow Airport carried 1.9 million passengers compared to approx. 9 million in 2019. The last time passenger numbers were so low was in 1970. Aberdeen carried one million passengers in 2020. The majority of these passengers travelled during the first quarter of 2020 prior to the onset of the pandemic.
- AGS has lost one third of its direct workforce as a result of the pandemic. Over 2,000 jobs have been lost across Glasgow Airport (direct and indirect) alone.
- Aberdeen and Glasgow airports remained open throughout the pandemic to:
  - Support emergency air ambulance flights;
  - Maintain vital connectivity between the Highlands and Islands in Scotland;
  - Facilitate critical domestic and hub services for key workers and repatriating passengers;
  - Facilitate military and charter flights transporting vital PPE equipment and;
  - Help maintain personnel flights for the oil and gas industry in Aberdeen; and
  - Support the national effort volunteering as the first airports in Scotland with the introduction of COVID testing centres.
- Not only has the pandemic had a direct impact on both our passenger and financial performance, it has severely damaged the connectivity our airports have spent decades building up and on which the regions we serve rely so heavily. Emerging from the most drastic and sustained reduction in passenger numbers the aviation sector has ever seen, will take years.
- As a result of the pandemic, Glasgow Airport lost all of its trans-Atlantic routes, 70% of international routes and 50% of domestic services.

- At the end of 2020, our trade body, the Airport Operators Association (AOA) asked consultancy Steer to project anticipated recovery scenarios for UK aviation. The central one of these indicated that the UK would not return to normal levels of traffic until 2025, with airport finances recovering later due to the expected Europe-wide competition for airlines' routes through discounting airport charges and other incentives schemes. Consequently, the scope to invest in other projects has been decimated. This affects the transition to sustainability, improving airspace and even restoring routes that have been lost.
  - Steer also showed that aviation's recovery in Scotland would be among the slowest of the UK regions and nations, having suffered the worst impacts from the decline in traffic. This will impact the Scottish Government's economic priorities, such as inclusive growth.
  - The Scottish Government moved quickly to provide business rates relief to airports for 2020/21. This has been extended to cover the 2021/22 financial year. Whilst welcome, this alleviation accounts for approx. just 8% of our losses.
  - Other countries have recognised the long-term, strategic importance of aviation and have provided sector specific support to preserve and rebuild connectivity. In Europe, Germany, for example, provided €820m in grants to regional airports (separate support was provided through the federal government's shareholding of the three biggest airports)<sup>1</sup> and Italy provided €800m in grants to airports and ground-handlers<sup>2</sup>. In November 2020, the Irish Government announced a revised €80 million funding package for its aviation sector<sup>3</sup>.
  - Our European competitors are, therefore, in a better financial position to bounce back post-pandemic and encourage the return of connectivity.
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## Sustainable re-growth

- It is apparent that the recovery period for aviation will be much more prolonged than other sectors. Several demand and supply side factors will influence this including consumer confidence, household and business expenditure on travel, ticket prices and airline fleet availability and deployment.
- In terms of what this might mean for the Scottish economy, in a scenario where there are no further government interventions or support mechanisms (i.e. connectivity is dependant on a market response), we envisage a deterioration in connectivity. This is extremely concerning against a backdrop of relatively poor performance.

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<sup>1</sup> ['Bund einigt sich auf Finanzhilfen für wichtige Flughäfen'](#), Rheinische Post (Düsseldorf, 12 February 2021)

<sup>2</sup> 'State aid: Commission approves €800 million Italian scheme to compensate airports and ground-handling operators for the damage suffered due to the coronavirus outbreak', *European Commission* (Brussels, 26 July 2021), <[https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_3809](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3809)> [accessed 27 September 2021]

<sup>3</sup> [gov.ie](http://gov.ie) - €80 million support package for Aviation Sector ([www.gov.ie](http://www.gov.ie))

- Figure 1 is taken from a study<sup>4</sup> that benchmarked Scotland's aviation connectivity with that of other similar sized European countries. From a group of 11, Scotland ranks 10<sup>th</sup> in terms of countries served (9<sup>th</sup> in terms of destinations). One of the key findings stated:

*“Despite having the eighth largest population of the 11 countries, Scotland generally ranks 10<sup>th</sup> in terms of connectivity – ahead of only Iceland (with a population 1/20<sup>th</sup> the size of Scotland’s). Ireland and Norway are smaller in terms of population but have measurably greater connectivity than Scotland.”*



**Figure 1: Total Direct Connectivity (Source: Airlines UK/ABTA)**

- At a city level, Figure 2 is a measure of connectivity taken from a recent economic impact study carried out for Glasgow Airport<sup>5</sup>. Both Glasgow and Edinburgh trail competitor cities. Declining connectivity means getting people and goods to and from Scotland becomes more difficult, more expensive and more time consuming.
- The implications of this are as wide ranging as they are impacting everything from tourism to international trade and inward investment decisions, not to mention the effects of additional cost/time burdens on productivity.

<sup>4</sup> Reaching Out to the World: How Scotland's Aviation Connectivity Compares, Airlines UK/ABTA, 2017.

<sup>5</sup> The Economic Impact of Glasgow Airport, York Aviation, 2019.



- Ultimately, there needs to be a return to normal. Despite the progress made, we have clearly not reached that end point yet. By extension, the review points need to continue until we have returned to 2019 travel conditions. As this latest review took place on 17 September, we believe the next review should be held no later than 1 November and address the following:
  - Removing the requirement for lateral flow tests for vaccinated travellers from green countries, to bring Scotland and the UK as a whole in line with our European competitors;
  - Removing the Passenger Locator Form (PLF) for vaccinated passengers from green countries; and
  - Reviewing the process for moving countries to Red that protects passengers already abroad or about to travel.

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### **Sustainability funding for infrastructure**

- Like all airports, AGS need to continue to reduce its 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.
- In June 2021, AGS launched its [Sustainability Strategy](#). The strategy sets out how we will balance the undoubted social and economic benefits of aviation with our climate change responsibilities.
- All three of our airports have been carbon neutral since 2020 and we have made a commitment to achieving net zero for our direct emissions by the mid-2030s.
- Since 2018, AGS has reduced its direct carbon footprint by 52%. Our electricity is from 100% renewable sources and we are investing in electrifying our fleet of operational vehicles. In 2019 Glasgow Airport became the first airport in the UK to introduce a fleet of electric buses.

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## Key asks

Together with the wider industry, AGS is calling for the following to support our industry's recovery:

1. The UK Government should urgently implement the planned domestic APD cut while delaying the long-haul increase as this would bring forward the restoration of routes and help restore finances as well as consumer and investor confidence.
2. The UK Government should introduce alleviation from regulatory costs and the Scottish Government should maintain rates relief and support with policing costs in the coming years, as our European competitors have done. This would help airports survive the continuing low-revenue period.

### *Medium to long term:*

1. The Scottish Government should consider an Aviation Recovery fund to cover airport charges for one year for restarting routes lost through Covid that have not otherwise returned. Northern Ireland has attempted something similar through their Domestic Aviation Kickstart Scheme (NIDAKS). This will help re-establish connectivity and boost confidence in the market.
2. Upgrading airspace is a vital to future-proof UK national infrastructure and would deliver important UK-wide environmental benefits, as well as business cost/efficiency gains. The UK Government has previously committed funding to Stage 2, and it is imperative that this funding is delivered in full to ensure progress is not lost. Failure to progress airspace modernisation at all UK airports would prevent a single coordinated national plan from being created. Going beyond Stage 2, further airport investment will prove difficult for several years due to the financial impacts of the pandemic. Therefore, the UK and/or Scottish Government should additionally commit to fund through to Stage 3 to ensure progress is made in the UK national interest.
3. Upgrades to Next Generation Security Checkpoint would enhance the UK's place as the lead in aviation security. However, Covid-19 has severely impacted airports' ability to pursue these in a timely fashion. UK Government assistance is required to fund these upgrades to ensure timely delivery. An alternative approach would be to delay the deadline for these upgrades.
4. The UK Government should allow for arrivals duty-free: York Aviation have found that arrivals duty-free stores would increase passenger spend by 20-30%, which would be of significant benefit to airports, particularly regional airports, some of which get as much as 40% of their revenue from retail sales. Given that it would be competing for foreign pre-departure shopping, this would be a net benefit to UK retail, with all the economic benefits that entails. This is particularly important to compensate for the loss of the airside extra-statutory concession on VAT-free sales, which leaves the UK as the only developed economy without VAT-free sales airside for international passengers.

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