

Written evidence submitted by Loganair (AAS0039)

1. Introduction

1.1 Loganair is the UK's largest regional airline. Based in Glasgow, and the only airline headquartered in Scotland, we operate a fleet of 42 aircraft across 80 routes within the UK and serve 34 UK airports – more than every other airline combined. In addition to an extensive scheduled service network, we also fly for major energy providers in the oil, gas and renewables sectors; support the Scottish Ambulance Service and are one of two operators of the Royal Mail air network.

1.1 19 of the 34 airports we serve are in Scotland. These range from major airports such as Aberdeen, Edinburgh and Glasgow via regional airports such as Inverness and Dundee to the smallest community airports including the beach airport at Barra and the six airfields in the north isles of Orkney. We also have operating bases in City of Derry, Isle of Man, Newcastle and Teesside; and have launched new services including our first ever regular flights to London Heathrow.

1.2 We provide the majority of our air services on a purely commercial basis¹, even though major routes such as Glasgow-Stornoway, Edinburgh-Kirkwall and Aberdeen-Sumburgh are widely regarded as “lifeline air services” by the communities we serve. The Scottish Government's Air Discount Scheme makes an important contribution to affordable travel costs for island residents. However, it is important to distinguish that this is a subsidy to the passenger and not directly to the airline. *In extremis*, if we carry no passengers, we receive no income.

1.3 We were one of very few UK airlines to fly throughout the pandemic. This posed a number of challenges, in amongst which we became the first UK airline to mandate wearing of face coverings on board. We converted aircraft to become air ambulances to carry Covid-19 patients from remote regions; set up a temporary passenger terminal in our maintenance hangar from which we could provide certainty of services to those same regions if the main airports closed; flew regular dedicated freight services carrying Covid-19 test kits to Northern Ireland laboratories; and kept essential passenger and freight air services open for communities ranging from Shetland to Northern Ireland and the Isle of Man.

1.4 The majority of Loganair's routes – over 95% - are UK domestic and Isle of Man services. We took a decision early in the pandemic to suspend all international services – essentially because we could, given the ongoing uncertainty and the small scale of these operations. We recommenced services to Esbjerg in Denmark in September 2021 and will re-open our services to Bergen and Stavanger in Norway in April 2022.

1.5 In the meantime, we have been directly affected by the Covid-19 international travel restrictions as around 15% of our customers are using a Loganair domestic flight to connect to an international journey, and thus this sector of the market in which we trade is constrained accordingly.

2. Recovery of the UK aviation sector

2.1 The short-term effect of the pandemic was arguably felt first in the aviation industry and it appears today as though aviation will be one of the last industries to fully recover from it. This has wider implications for the sector, and for those employed within it.

The impact of the pandemic on Loganair

2.2 At the outset, we committed to our employee groups that we would not follow the “Never waste a good crisis” mantra to use the pandemic as an opportunity to instigate change to their terms and conditions. We have consistently worked on the basis that all employees in Loganair were as equal as could possibly be. We believe that this approach has been intrinsic to our maintenance of both employee morale and positive industrial relations through the pandemic.

2.3 We took a conscious step to defer redundancies at the outset of the pandemic, unlike other airlines. In September 2020, following a root-and-branch review of our business, we identified around 90 roles out of 840 in our airline that we could not foresee returning after the pandemic and regrettably had no option but to commence redundancy consultations given that CJRS was to be used only to support viable jobs. We were able to avoid 20 redundancies through redeployment, and around 30 positions closed through voluntary redundancy and early retirements, but some compulsory redundancies were sadly inevitable.

- 2.4 Re-financing to contend with the effects of the pandemic was successfully achieved in July 2020 with the support of our shareholders, Clydesdale Bank and the Government's CLBILS programme. The re-financing completed at this time has proved sufficient for Loganair to navigate its path through the pandemic whilst maintaining adequate financial reserves to ensure that lifeline air services in Scotland and beyond were not placed at risk.
- 2.5 Loganair made full use of the CJRS "furlough" scheme to support its employees. [Through careful planning, we were able to keep the vast majority of our employees within safety and regulatory parameters to remain able to undertake duties at any time.] In total, the CJRS support for our employee group was £10.7 million between April 2020 and September 2021. This support has been invaluable and without it, there is no question that a significantly higher number of redundancies would have been inevitable.
- 2.6 We must also place on record the support from Loganair's employee group through this most challenging of times. Voluntary pay reductions to 80% of salary through the second quarter of 2020 and again from November 2020 to April 2021 were agreed. We moved to 90% pay from May 2021 and then returning to 100% pay for hours worked from September 2021. The sacrifices made by our employee group in agreeing to this were equally material in their contribution to the company's survival, and equally significant in safeguarding employment for many members of our team.
- 2.7 We understand from our recognised unions and representative groups (BALPA for our pilots, Unite for our cabin crew and staff forums for other workgroups) that Loganair became the first major UK airline to return its employees to full pay in September 2021. We expect to restore pension contributions to pre-pandemic levels (i.e. above statutory minima) by April 2022.
- 2.8 In anticipation of closure of the furlough scheme at several points, we engaged in further consultations with our employee groups over the second lockdown. After a period of uncertainty for 170 roles that were being directly supported by furlough, we were able to confirm on the basis of an improvement in trading conditions by May 2021 that no further redundancies would be necessary even if furlough ended, and that all current roles were protected.

2.9 As noted earlier, the support from CJRS has been essential in protecting jobs. The short-notice changes to the scheme – particularly the deferral of the Job Support Scheme and extension of CJRS in late 2020 – were a source of short-term consternation and uncertainty, yet ultimately resulted in positive outcomes for those affected.

2.10 Three further points merit mention. In February 2020, we undertook Mental Health First Aid training in Loganair for 30 volunteers, and it is impossible to place a value on the significant assistance and support provided by these volunteers to their colleagues. As well as providing tremendous support to NHS staff, the Project Wingman charity also provided a hugely valuable outlet for airline staff; it has been our privilege to support this and encourage our team to become involved. Lastly, we concluded it was essential to protect Loganair’s engineering apprenticeship programme despite intense financial pressures; we did so, yet believe that the Government could have taken a more active role in safeguarding future skills than it did.

2.11 At the time of this submission, Loganair is the only European passenger airline flying more intensively than it did in the same period in 2019, according to the publicly-available tracker provided by Eurocontrol. The introduction of new contract work, our decision to replace several UK regional scheduled routes flown by Flybe until its demise shortly before the onset of the pandemic in March 2020, and our priority to restore UK regional connectivity are all factors underpinning this achievement.

The end of furlough

2.12 Given the progress we have made, the end of the furlough programme on 30 September 2021 effectively constitutes the removal of a “safety net” for Loganair, as opposed to a fundamental threat to our airline. If events such as a further lockdown interrupt the re-building of customer demand patterns in Winter 2021/22, this may have a material impact on our business and our employees in the absence of the CJRS scheme. That said, based on what we see today, the collective efforts of our team, our employee group and our shareholders have placed Loganair in a strong position to emerge from the pandemic.

The aviation sector’s role in the UK’s economic recovery from the pandemic

2.13 In our view, aviation has a key role to play in facilitating the UK's economic recovery – not least because the UK is more dependent than ever on its internal economy, and the need to ensure that peripheral regions and Crown Dependencies remain well connected to the UK mainland is more important than ever.

2.14 Jobs in the aviation sector are also a key driver of the UK economy. Over 300 of Loganair's employees are based in the Highlands and Islands, Northern Ireland and the peripheral UK regions. The work of these employees is to provide essential connectivity from their home base airports. During the pandemic, we have seen that Northern Ireland > UK links have been fundamental to the movement of labour in the construction sector; connections within Scotland have maintained lifeline services for healthcare, island economies and the movement of consumer goods; and cross-border air routes like Glasgow-Southampton have been intrinsic to the defence and consumer goods sectors. None of these routes can be practically replaced by surface transport options.

2.15 By June 2021, 45 of 47 UK domestic routes operated by Flybe at the time of its demise in March 2020 had been taken up by other UK airlines, with Loganair being the single largest source of backfill on these routes. The picture is somewhat different on the former Flybe routes between the UK and Europe, yet we believe that this highlights the market's need for a comprehensive yet sustainable network of intra-UK air services to be maintained.

The potential merits of Government support for the aviation sector

2.16 We believe that there are two areas of Government policy which pose a distinct threat to the aviation industry's ability to achieve a sustainable recovery from the pandemic, and where urgent action is required.

2.17 The first is the high level of taxation applied to UK domestic services. Air Passenger Duty [APD] is applied at a rate of £26 per return journey on UK domestic routes versus only £13 per return journey for UK-Europe routes. This inequality is damaging to UK connectivity and has directly contributed to the loss of many intra-regional air connections such as Manchester to Norwich, Glasgow to Cardiff and City of Derry to Birmingham in recent years. A rapid resolution to this inequitable double taxation, advocated by

Sir Peter Hendy in the interim Union Connectivity Review and endorsed by the Prime Minister, must be a priority if the Government is serious about its “levelling up” agenda across the UK regions.

- 2.18 We note that there is some opposition to the proposed APD change from environmental and rail lobbies alike. In our view, the core of this opposition stems from an argument that rail links should replace air services on environmental grounds. In Surbiton, this may be a point for debate. In Shetland, where the nearest mainline rail station is in Bergen, this is not up for question. It is an entirely London-centric counter-debate which ignores the reality that air services in peripheral regions of the UK fulfil the same essential transport needs as rail and road links can fulfil elsewhere in the UK.
- 2.19 The second area in which Government intervention is urgently required is to remedy the shortcomings of the UK’s Emissions Trading Scheme, implemented following the end of the UK/EU exit transition period. UK ETS rates for carbon permits are now far above those in Europe and at the date of this submission, represent an effective yet wholly impractical 35% tax on aviation fuel. Carbon costs have risen from €5 per tonne in 2016 to £75 per tonne today – a 1650% increase.
- 2.20 In implementing the UK ETS, the Government has ignored sound advice from sectoral experts. Of the limited number of carbon permits released for auction, many have been secured and sequestered by large emitters for use in future years, leaving insufficient permits available to meet even the reduced market needs for current-day use. The lack of “time stamping” of permits has led to this shortfall, which threatens to drive economy-wide inflation not only through the cost of airfares (included in CPI/RPI calculations) but also across every-day consumer goods.
- 2.21 The system needs to be urgently reviewed to de-fuse the ticking time bomb which this botched implementation of the UK ETS scheme has planted under the UK economy. The environmental principles of the Emissions Trading Scheme are not in question; this is instead a question of the unintended consequences of the UK Government’s dreadful implementation programme. It runs the risk of jeopardising the viability of several regional UK air routes alongside pushing up prices for commodities ranging from weekly work-related commuter trips to Weetabix.

3. Regional and global connectivity

- 3.1 In preceding paragraphs of this submission, we have highlighted the essential industries which rely on regional connectivity and the steps that Government must take to protect these links.
- 3.2 We believe it is worthwhile taking a few moments to set out the true value of this connectivity to UK industry and consumers. As noted, the replacement of UK domestic air connectivity by surface transport options is frequently, yet falsely, advocated on environmental grounds.
- 3.3 Shorter regional air routes such as Glasgow to Manchester or Edinburgh to Leeds/Bradford, where rail journeys are a viable option, have already disappeared and we would expect to never return. Upgraded rail services have proven to be an adequate substitute for air links which previously supported nearly 200,000 passenger journeys per year (in the case of Glasgow-Manchester). There can be no question that continued development of the rail network will similarly impact on other routes in future.
- 3.4 The residual connectivity where air services remain both essential and economically viable are those where rail and road cannot provide practical alternatives. The shortest over-land route flown by Loganair today is a 270-mile sector between Teesside and Aberdeen. The majority of our over-land routes such as Glasgow to Exeter, Edinburgh to Newquay or Newcastle to Southampton are journeys of 350-500 miles where rail journeys take up to ten hours. At its extreme, Loganair's Sumburgh-Aberdeen-Manchester-Newquay route covers a distance of 669 miles in under five hours. It is the UK's longest domestic air service, covering a journey which would take two days by any other means.
- 3.5 Domestic flights also provide an essential level of connectivity to international travel. As noted earlier, around 15% of Loganair customers on domestic routes in normal times use our flights to connect to international services. Loganair has codeshare and through-ticketing arrangements with major airlines including British Airways, KLM, Emirates and United Airlines to facilitate such journeys.
- 3.6 This air service connectivity is essential to provide both domestic and international access to the peripheral destinations that we serve. For

example, the ability to connect from Paris via Manchester or London and Aberdeen makes investment by a French energy company in Shetland, or a drinks conglomerate investing into a whisky distillery in Orkney, practical. Loss of any part of the joined-up air network which makes such journeys possible would be hugely detrimental to local economies throughout the UK.

4. Sustainability

4.1 The environmental sustainability of air services is a justifiable, and increasing, area of focus across all key stakeholders.

4.2 Loganair has implemented a comprehensive *GreenSkies* environmental programme to address this emerging and significant challenge for the industry. Most importantly, the airline has committed to becoming carbon neutral by 2040 (ten years ahead of the UK Government's mandate), using new technologies such as hydrogen and electrical power to do so. We believe that these are eminently practical for regional air transport over our route network, whereas use of Sustainable Aviation Fuels (bio-fuels) may provide the only comparable option to de-carbonise journeys on long-haul aircraft.

4.3 Loganair is participating in the ZeroAvia hydrogen programme; the Ampaire electrical aircraft programme; and Cranfield Aerospace Solutions' Project Fresson hydrogen-based scheme. We are deploying our extensive experience of operating UK domestic routes to provide flight operations, engineering and ground servicing knowledge to help in the development of these projects.

4.4 We recognise that these technologies are unlikely to be available for widespread deployment until around five years from now. We are concerned that a degree of "tunnel vision" on sustainable aviation fuels – which are incredibly costly and achieve a lesser reduction in carbon emissions - may also divert essential investment from these alternative propulsion projects in the meantime. Loganair, and other regional airlines, will be unable to finance the required modifications or renewals to its aircraft fleet to use hydrogen or electrical power if our operating economics have been fundamentally impaired by a mandate to use SAF for domestic flights.

4.5 In advance of these technologies being widely available and certificated for use, we have introduced a comprehensive programme of carbon offsets for every Loganair flight. This was launched in July 2021, and to fund its introduction, we became the first airline to introduce a mandatory surcharge (£1 per journey) on each passenger ticket, thereby establishing a direct link between the economic and environmental costs of each passenger journey for the first time.

4.6 In addition to this, we have a wider programme of environmental impact reductions ranging from our aircraft external washing processes to fuel efficiency measures to workplace recycling and energy-saving measures.

4.7 We believe that this constitutes the most comprehensive environmental programme of any regional airline in Europe, and we will continue to use emerging technologies and expertise to develop our *GreenSkies* programme. It is encouraging to note that the reaction from customers and stakeholders alike to this scheme has been incredibly positive.

October 2021

Endnote

¹ The exceptional impact of the Covid-19 pandemic on key commercial air routes is covered in a later section within this response.