

Aviation – the Catalyst for Economic Development

An Air Network for the Highlands and Islands

Presentation to

The Scottish Parliament on behalf of HITRANS

by

The Aviation & Travel Consultancy Ltd.

Edinburgh, February 20th 2003

The Rationale for Public Service Obligations (PSOs)

‘The Future Development of Air Transport In the UK: Scotland’ report made the following observations on the use of Public Service Obligations (PSOs):

“...to extend the use of PSOs internally within Scotland, the Scottish Executive would need to be satisfied that no other mechanism could be used to deliver better quality services and that the service currently provided did not adequately meet the needs of the community served and that there was no alternative form of transport being provided, with or without public sector support, which would meet the communities needs...”

Source: page 230 para 8.7.3

“ Enterprise and Lifelong Learning Committee

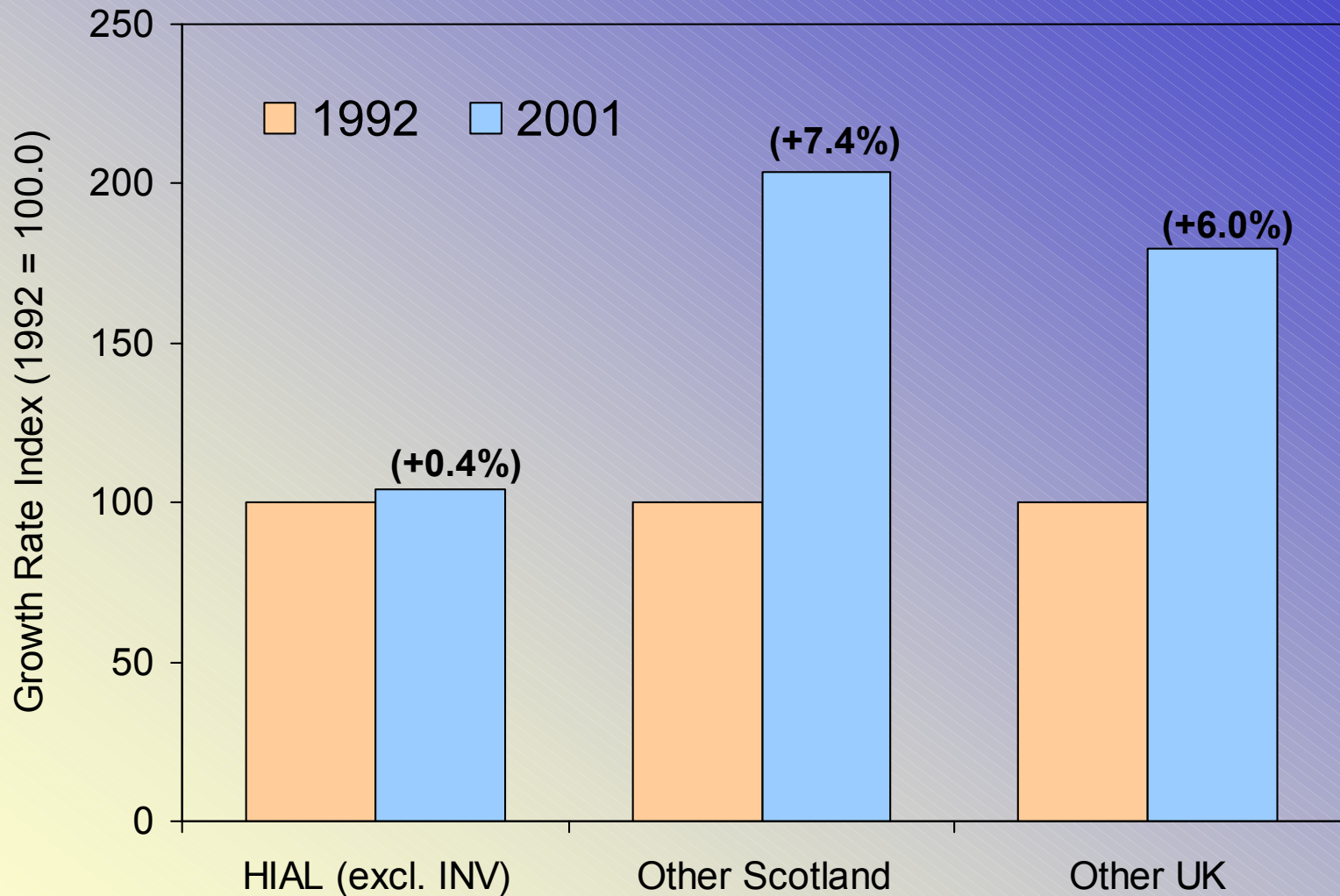
February 2003

Report on the Future of Tourism in Scotland

Volume 1: Report

189. *The Committee...recommends that in addition to their role in maintaining lifeline services, an evaluation of Public Service Obligations as a mechanism to encourage tourism growth in rural and remote areas should be undertaken by the Scottish Executive. ”*

Comparative growth in Scheduled Terminal Passenger Traffic between 1992 and 2001 (and % AAGR)



The Study Objectives

→ Objectives

- Increase accessibility and regularity for Highland and Island Communities (*Scotland Regional Air Services Consultation, para 8.3.1*)
- By:
 - Reducing fares
 - Improving services
 - Increasing frequency
- Assess the probable level of subsidy required
- Maximise the schedule opportunities for remote communities, while at the same time minimising both fares and subsidies through PSOs.

The Service Criteria

The network has been 'optimised' to satisfy these criteria (1) :

- Each airport to be within one hour of a specified key service centre
- The business time available at both ends of the route to be maximised
- Key service centres for each major community have been advised as:
 - Shetland – Aberdeen
 - Orkney – Edinburgh
 - Western Isles – Glasgow
 - Argyll – Glasgow
 - Caithness – Edinburgh
- Key service centre routes to operate at least 3 times daily, plus weekends
- New routes to include Oban and Skye (Broadford) to Glasgow
- European and UK connections to be available at key centre airports
- Not more than two sectors on any one flight
- Efficient utilisation of aircraft to minimise costs

(1) As far as possible

The Scottish Executive strategy for air transport throughout Scotland is:

- To allow a days business to be transacted at a wide range of UK and European cities from all parts of Scotland
- To provide access to all the world's major cities within 24 hours
- To improve direct (and indirect) air access to and from Scotland from key business and inbound tourism markets

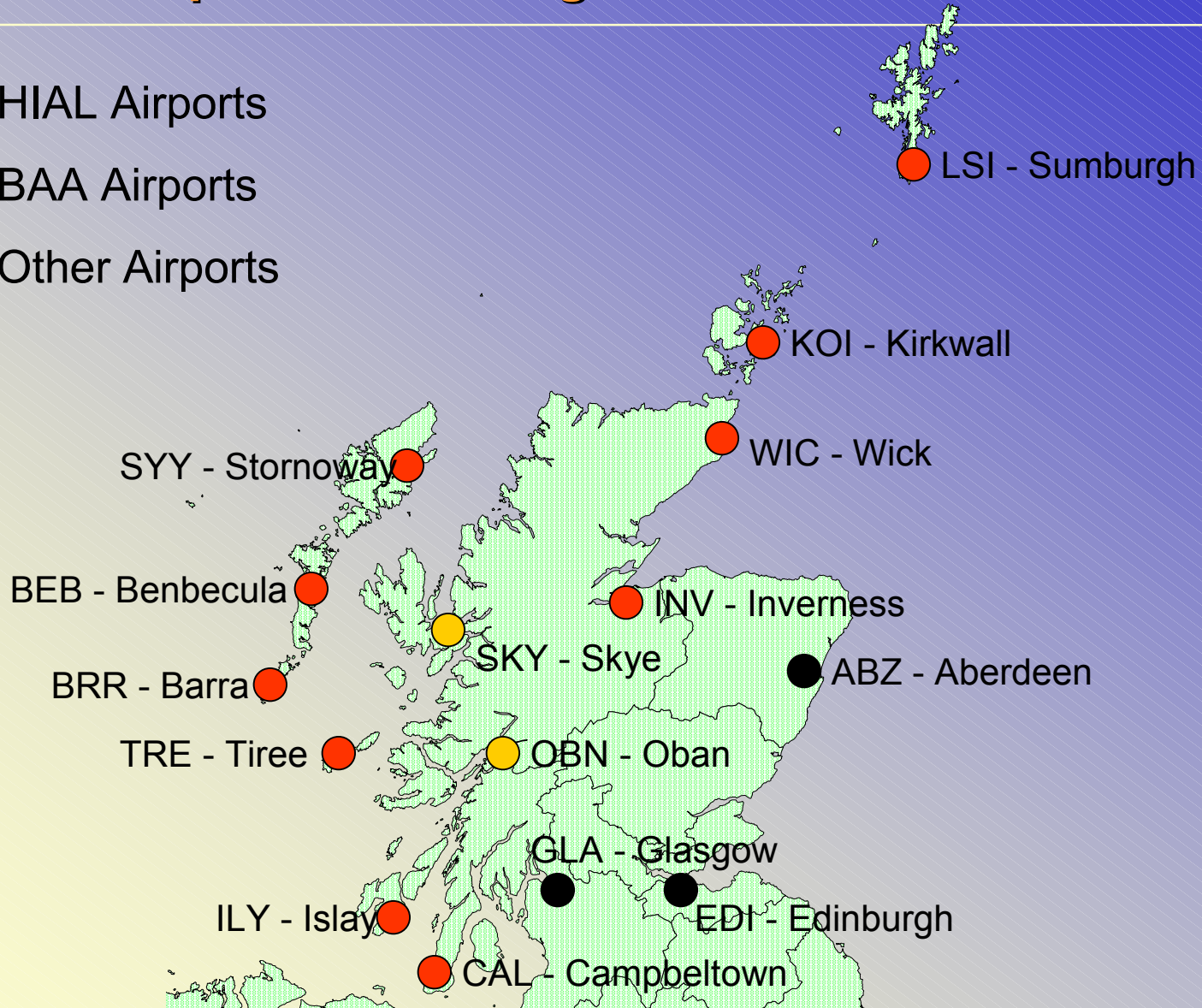
Source: *Future Development of Air Transport in the UK: Scotland*, page 277 para 10.2.3

Airports in the Highlands and Islands

● HIAL Airports

● BAA Airports

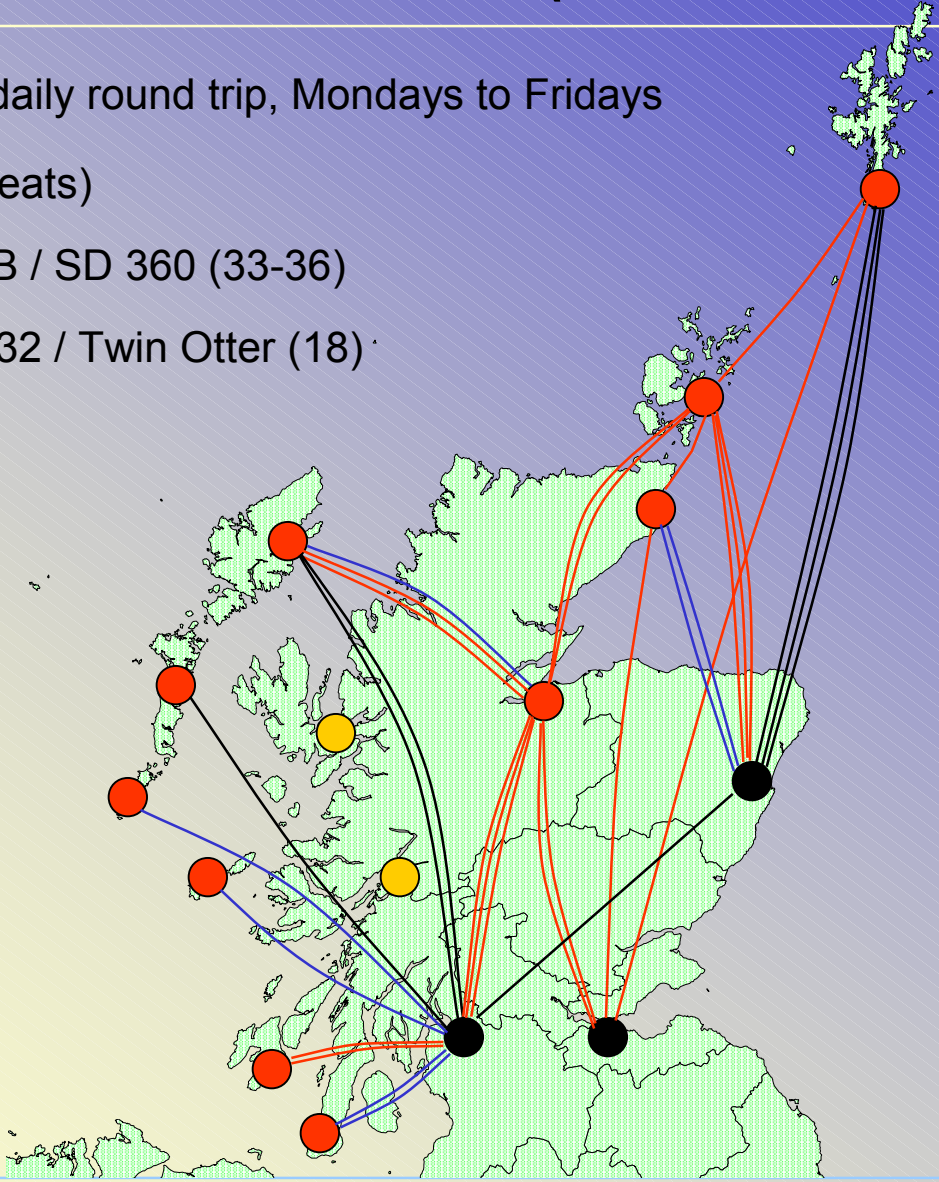
● Other Airports



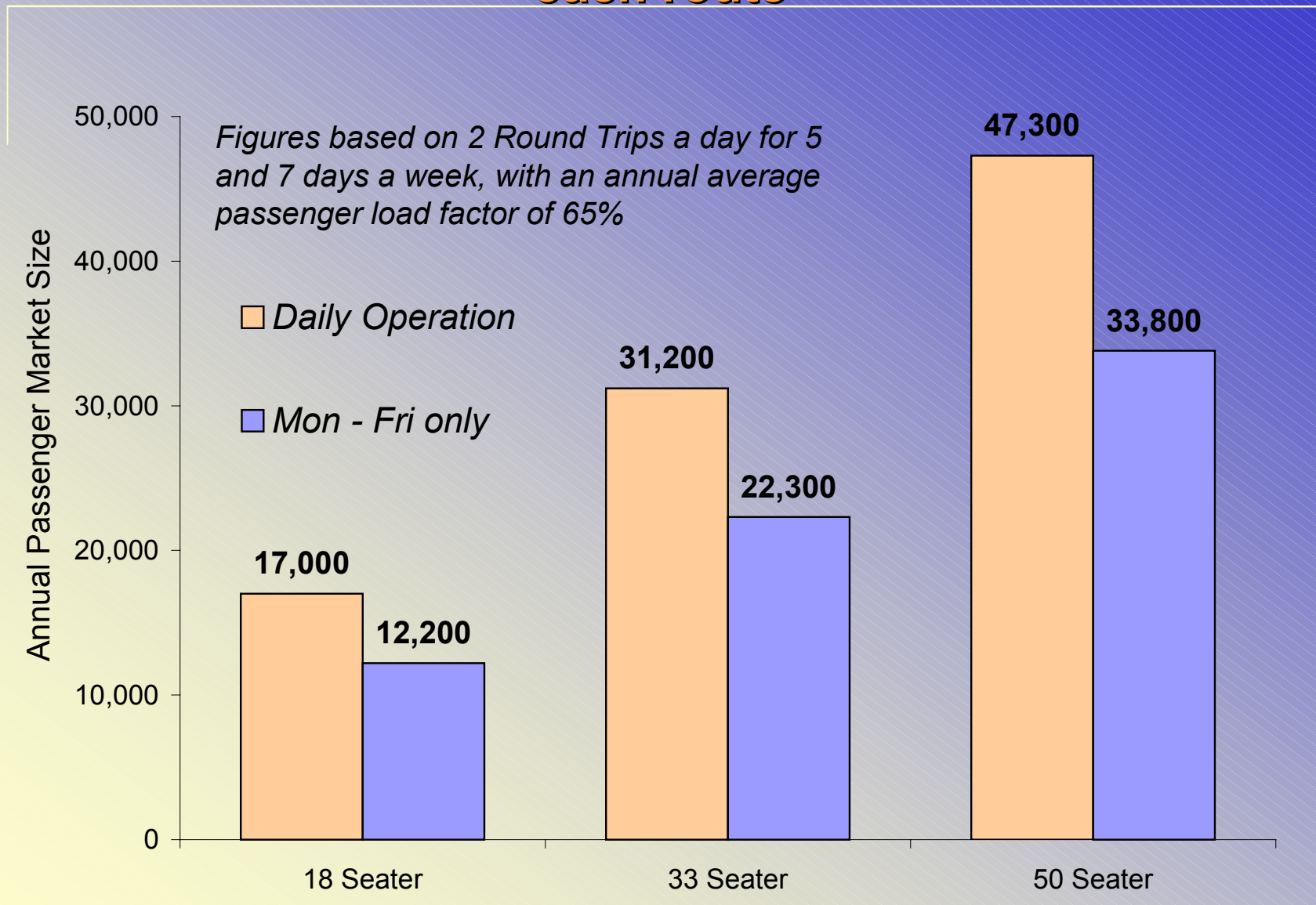
Current Network (Summer 2001)

Each line = 1 daily round trip, Mondays to Fridays

- ATP (66 seats)
- Saab 340B / SD 360 (33-36)
- Jetstream32 / Twin Otter (18)



The appropriate aircraft and frequency were selected for each route



The choice of aircraft – balancing costs, capacity and frequency

- Choice of aircraft – a compromise had to be made between the low operating costs of a single aircraft fleet, and the ability to match capacity to demand from a wider range of aircraft
- The study finally settled on the operation of three indicative aircraft fleets:

<u>Type</u>	<u>Capacity</u>	<u>Fleet Size</u>
ATP	66 seat	2 aircraft
Saab 340B	33 seat	10 aircraft
Jetstream 32	18 seat	5 aircraft

The fleet includes two non-operating aircraft providing cover at Inverness

Summary of Production Parameters

Aircraft Type	ATP	Saab 340B	Jetstream 32	Total
Number of Seats	66	33	18	117
Fleet Size	2	10	5	17
Sectors per Week	100	402	284	786
Total Hours per Year	5,230	23,270	10,690	39,190
Utilisation per Aircraft	2,615	2,327	2,138	2,305
Average Sector Length (mins)	1:03	1:07	0:43	0:58

Comparable Utilisation rates achieved by British Airlines 2001		
British Regional	ATP	2,101
Loganair	Saab 340B	1,442
British European	Dash 8	2,667
British European	SD 360	1,691
Brymon	Dash 8	2,481
CityFlyer	ATR 72	2,197
Gill Airways	ATR 42	2,233
Gill Airways	ATR 72	1,952
ScotAirways	Do228	1,987
easyJet	B737-700	4,692

Source: CAA

Current and Proposed Schedules - Parameters

Parameters	Current	Proposed Operation		
	Year	2001	2001	2005
Airports Served	10	12	12	12
Routes Operated non-stop	23	29	29	29
Sectors per Year	18,928	40,872	40,872	40,872
Capacity (Seats per Year)	701,376	1,473,888	1,473,888	1,473,888
Passengers per Year	436,100	776,650	859,610	953,064
Passenger Load Factor %	62.2	52.7	58.3	64.7

Proposed Schedules – the Inverness mid-day hub

INVERNESS MID-DAY HUB SCHEDULES DAILY									
Depart									
Luton									<u>12:25</u>
ABZ					13:05				
EDI			12:50						
GLA								13:00	
CAL							<u>(12:15)</u>		
OBN							13:15		
BEB			13:00*						
SYY	12:50								
WIC									
LSI		12:35							
KOI					12:15				
WIC					13:05				
Arrive									
INV	13:35	13:35	13:40	13:40	13:45	13:45	13:50	13:50	<u>14:05</u>
Depart									
INV	<u>14:25</u>	14:30	14:30	14:35	14:35	14:40	14:40	14:45	14:45
Arrive									
WIC									15:25
KOI									16:15
LSI		15:30							
SYY				15:20					
BEB								15:25*	
OBN							15:15		
CAL							<u>(16:15)</u>		
GLA			15:20						
EDI						15:30			
ABZ					15:15				
Luton	<u>15:55</u>								

- 21:30 100-150 seat B737, RJ100
- 21:30** 66-seat ATP
- 21:30 33-seat Saab
- 21:30 18-seat Jetstream
- 21:30 9-seat Islander
- (21:30) by connecting flight
- * Not Sundays BEB-INV
- * Not Saturdays INV-BEB

Parameters Met or Missed

Service Criteria	LSI - ABZ	KOI - EDI	WIC - EDI	SYU - GLA	ILY - GLA
Sector time of 60 mins	60	70	65	65	40
Minimum 6 hours on mainland	11:10	10:50	4:05 (a)	11:05	8:20
Minimum 6 hours at Periphery	12:20	11:30 (b)	7:45	7:45	10:20
3 round-trips per day plus weekend (Mon-Fri) - (Sat) - (Sun)	5 - 4 - 2	2 - 1 - 1 (c)	2 - 1 - 1	4 - 3 - 1	3 - 2 - 1

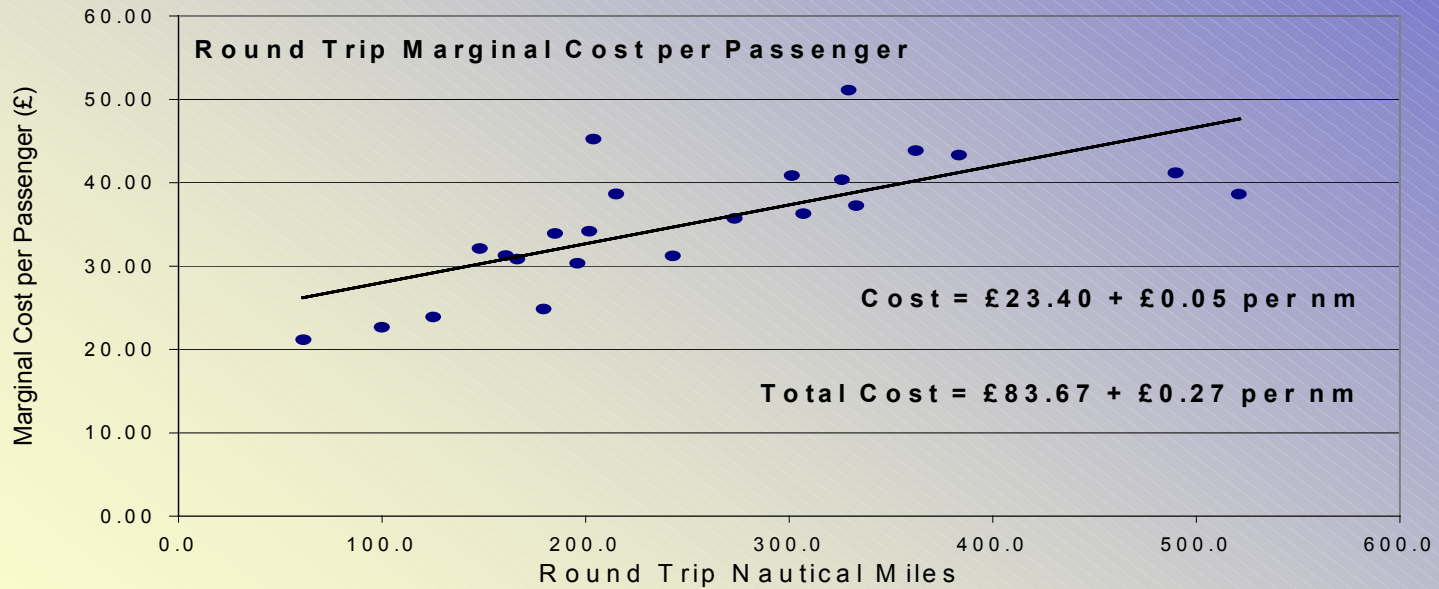
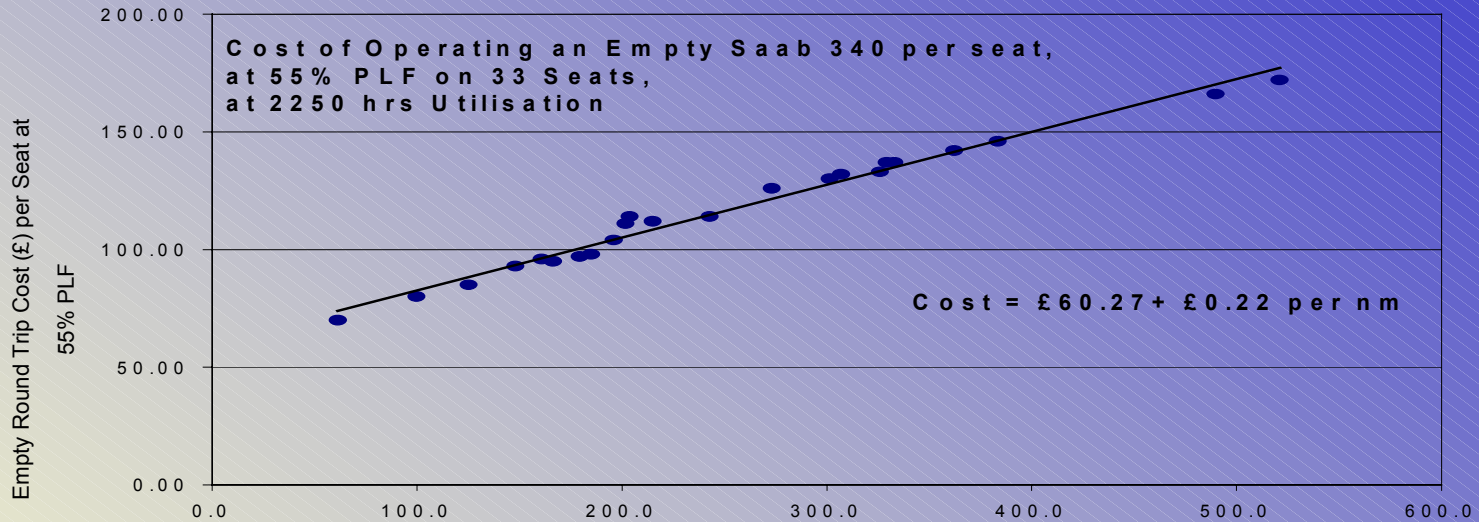
(a) 6:55 if connecting over INV

(b) flights from GLA, not from EDI

(c) plus 2 - 2 - 2 to GLA

In addition, the service from SKY is to EDI not GLA

Revenue Estimates

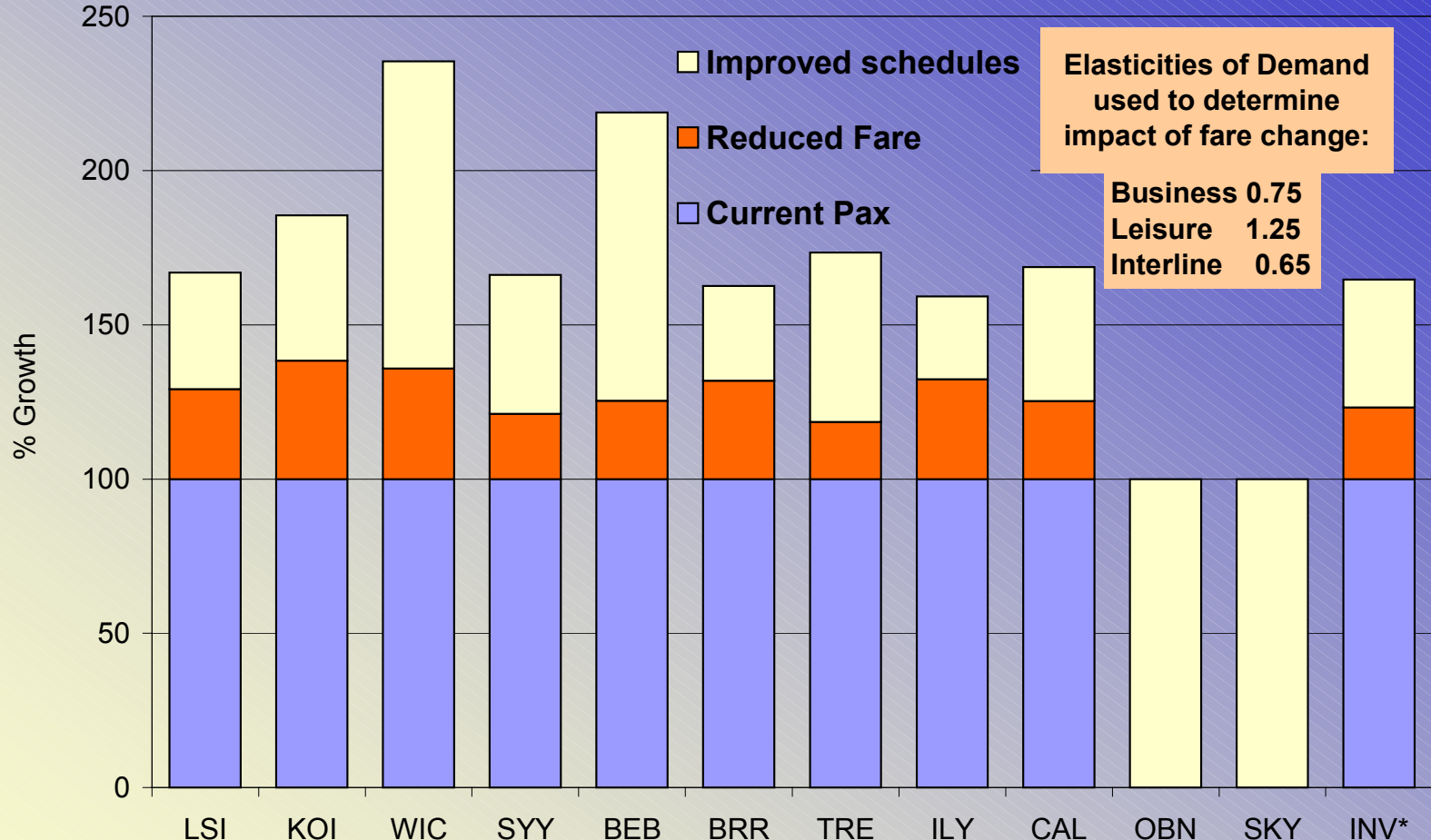


Current and proposed average yields for the sixteen largest routes

City Pair	LSI ABZ	SY GLA	KOI GLA	SY INV	INV GLA	BEB GLA	ILY GLA	LSI EDI
Passengers per year	103,745	75,112	61,628	40,021	38,396	37,158	32,012	26,195
Round Trip Nautical Miles	326.0	307.0	215.0	166.4	201.8	273.2	125.2	489.8
Maximum R.T Fare £ 2001	268.00	252.00	328.00	150.00	163.00	252.00	132.00	372.00
Max fare as £ per nm	0.82	0.82	1.53	0.90	0.81	0.92	1.05	0.76
Average fare paid 2001	215.00	156.00	178.00	120.00	134.00	160.00	108.00	236.00
<i>Ave. fare as % of max fare</i>	<i>80.2%</i>	<i>61.9%</i>	<i>54.3%</i>	<i>80.0%</i>	<i>82.2%</i>	<i>63.5%</i>	<i>81.8%</i>	<i>63.4%</i>
Ave fare at £35 + £0.30per nm	132.80	127.10	99.50	84.92	95.54	116.96	72.56	181.94
<i>Fare reduction (%)</i>	<i>38.2%</i>	<i>18.5%</i>	<i>44.1%</i>	<i>29.2%</i>	<i>28.7%</i>	<i>26.9%</i>	<i>32.8%</i>	<i>22.9%</i>

City Pair	KOI EDI	INV EDI	KOI INV	LSI GLA	WIC EDI	WIC ABZ	SY EDI	LSI KOI
Passengers per year	24,494	24,127	22,705	19,937	19,764	16,382	15,622	14,752
Round Trip Nautical Miles	362.2	196.0	185.0	521.0	301.4	160.8	333.0	148.0
Maximum R.T Fare £ 2001	328.0	163.0	190.0	386.0	270.0	244.0	275.0	150.0
Max fare as £ per nm	0.91	0.83	1.03	0.74	0.90	1.52	0.83	1.01
Average fare paid 2001	272.0	163.0	166.0	194.0	215.0	157.0	172.0	127.0
<i>Ave. fare as % of max fare</i>	<i>82.9%</i>	<i>100.0%</i>	<i>87.4%</i>	<i>50.3%</i>	<i>79.6%</i>	<i>64.3%</i>	<i>62.5%</i>	<i>84.7%</i>
Ave fare at £35 + £0.30per nm	143.66	93.80	90.50	191.30	125.42	83.24	134.90	79.40
<i>Fare reduction (%)</i>	<i>47.2%</i>	<i>42.5%</i>	<i>45.5%</i>	<i>1.4%</i>	<i>41.7%</i>	<i>47.0%</i>	<i>21.6%</i>	<i>37.5%</i>

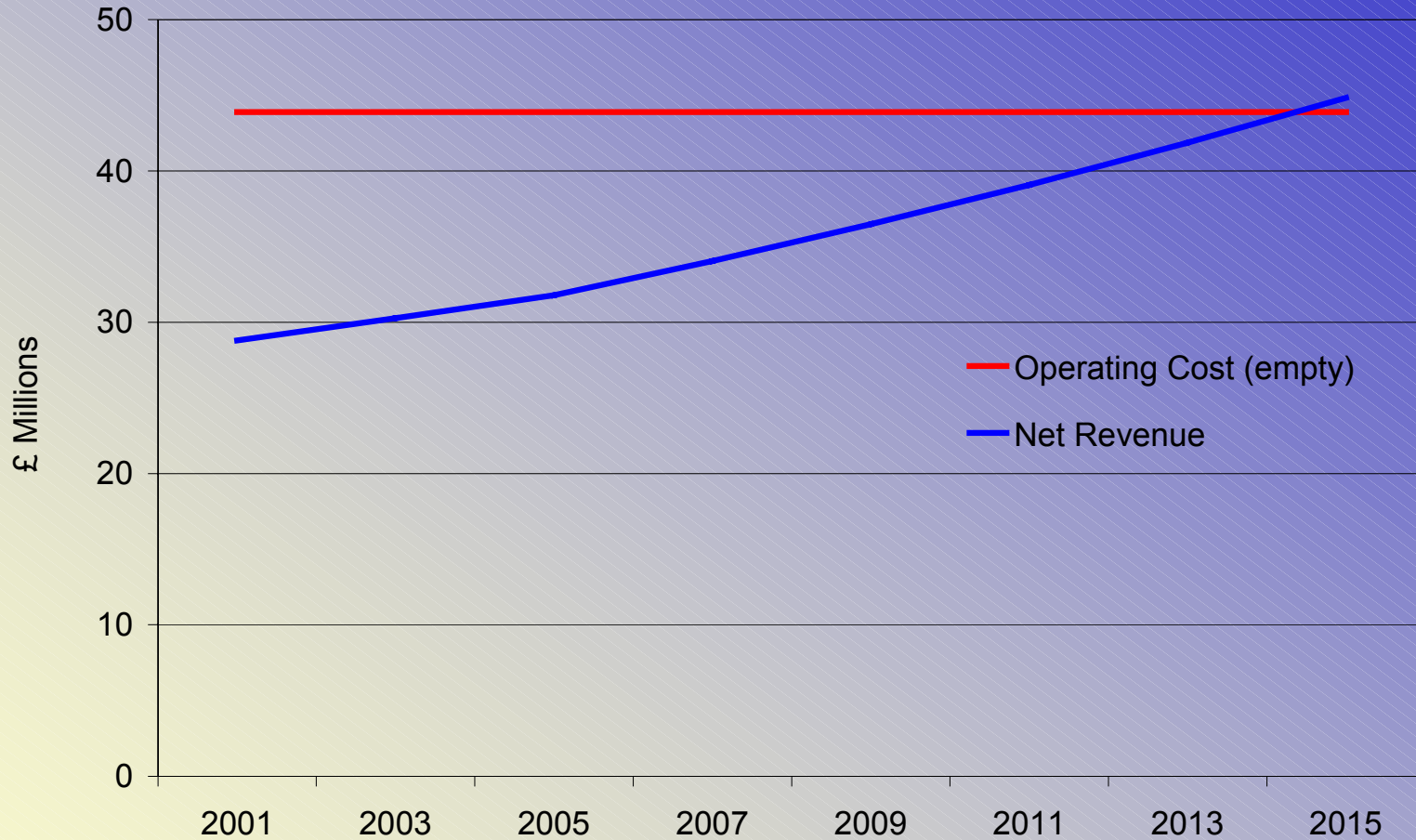
Growth in Scheduled Passengers by Airport, due to i) reduction in fares; ii) improved schedules



	LSI	KOI	WIC	SYU	BEB	BRR	TRE	ILY	CAL	OBN	SKY	INV*
Population	22,528	19,604	26,123	22,324	5,987	1,312	768	3,736	10,957	15,035	9,024	-
Current Flights per Head	5.0	3.5	0.7	3.7	3.5	4.1	7.6	5.4	0.7	0.0	0.0	-
Forecast Flights per Head	8.4	6.5	1.7	6.2	7.7	6.7	13.1	8.6	1.2	0.9	1.9	-

nb: INV* - flights to ABZ, EDI, GLA only

Costs, Break-even and Subsidy



PLF %	52.7	55.4	58.2	62.3	66.8	71.5	76.6	82.1
Operating Loss (£M)	-15.1	-13.6	-12.1	-9.8	-7.4	-4.8	-2.0	0.9

Investment Required to Support New Network

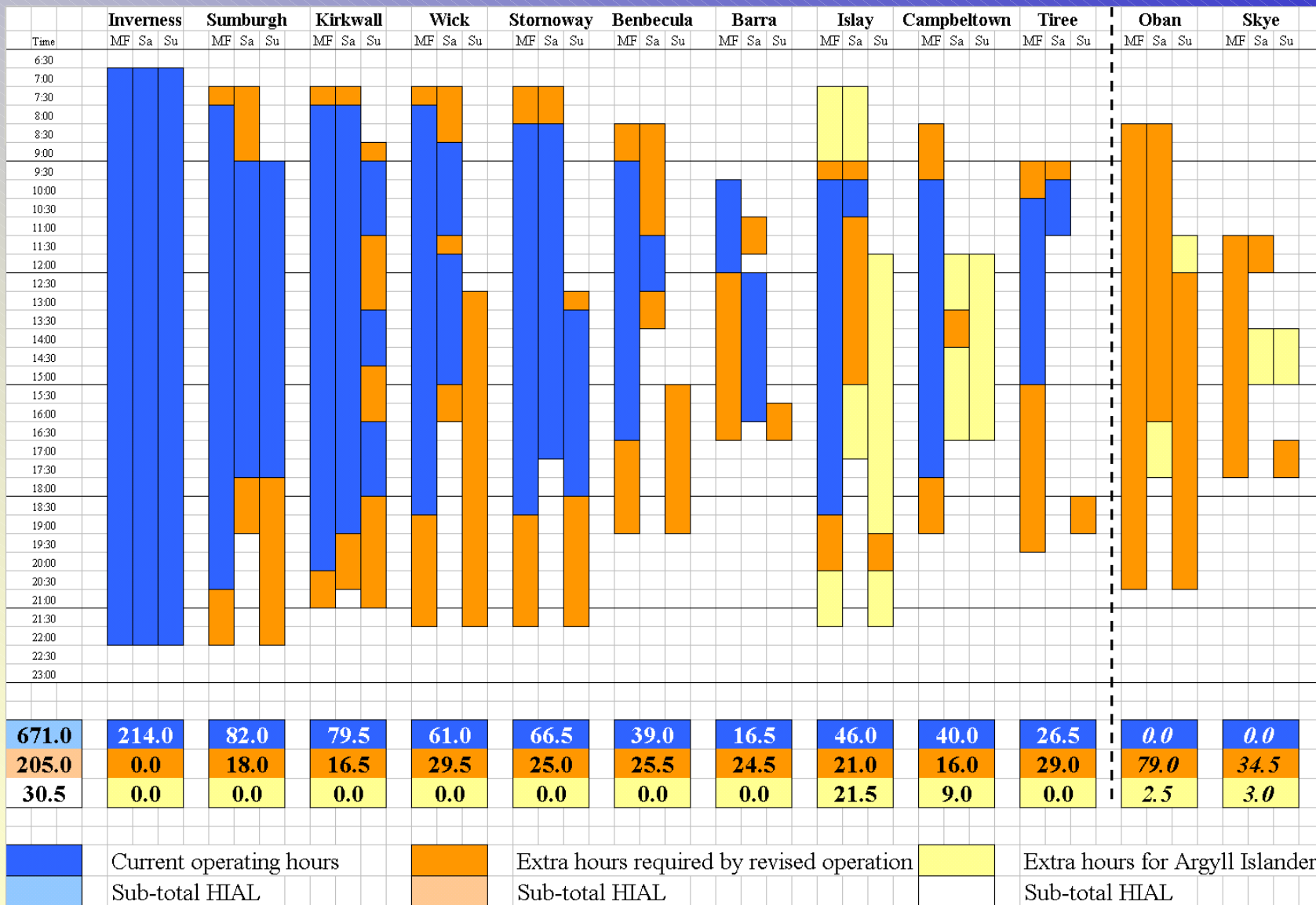
Musts:

- New runway – Barra
- Extended runways to 1199 metres – Sumburgh and Skye
- Airports upgraded to meet CAA CAP168 regulations – Oban and Skye
- Extending operating hours, including ATC – all airports bar Inverness post H24

Desirables:

- Improved navigational aids – ILS at all airports for poor weather approaches
- Additional Secondary Radar cover
- Increased apron area at Inverness
- There may be a need for improved lighting at Tiree

The proposed schedules require a significant increase in airport operating hours



The case for PSOs in the Highlands and Islands

- Investing in PSOs makes economic sense
- Transport subsidies in Scotland are already made for:
 - Rail; Road; Ferry; HIAL
 - Barra, Campbeltown and Tiree flights to Glasgow; and Inter-island flights
- The principle of transport subsidy to facilitate economic development is already well established in Scotland.
- Full economic impact still needs to be measured
- The principal of providing significant support to air services for broader economic gain is well established in the USA and other EC countries

Aviation Investment – The optimum solution

- Delivers higher quality, improved access compared to others forms of transport on similar sectors
- Better potential return per £ invested by SE
- Improved service integrity, increased accessibility, improved reputation and confidence = increased traffic
- Establishes a virtuous spiral – traffic – economy – social inclusion
- Is consistent with the aims of the new route development fund
- Supports your policy priorities

Questions

Thank you