



York Aviation

BAA ABERDEEN

THE ECONOMIC IMPACT OF ABERDEEN AIRPORT

Executive Summary

July 2010

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Introduction and Background

In December 2009 BAA Aberdeen commissioned York Aviation to undertake an economic impact assessment of Aberdeen Airport and its future growth plans on the economic performance of Aberdeen City and Shire.

Aberdeen Airport (ABZ)¹ is an important gateway to Scotland's third largest city. It is the third largest airport in Scotland, handling just under 3 million passengers in 2009. The Airport has a wide range of scheduled services, around half of which are to major UK cities, including London, Manchester, Leeds and Bristol. Other key international destinations include Paris, Amsterdam and Copenhagen. The Airport also provides links to a range of destinations relating to its key role as a supporter of the City's position as a centre for the oil and gas industry, including Bergen and Stavanger. The Airport is also the world's busiest commercial heliport: around 16% of passenger throughput in 2009 was carried on helicopter flights, which made up around 37% of air transport movements at the Airport.

Passenger traffic at Aberdeen has grown by 13.3% over the past five years, while overall throughput at Scottish airports has remained broadly flat. As a consequence, Aberdeen's market share within Scotland has grown from 11.7% to 13.3%. Over 50% of total passengers are travelling on domestic connections, of which over 60% are travelling on services to London. International services account for around 43% of passengers. Traffic at the Airport is dominated by UK nationals (83%) and by an exceptionally high proportion of business travellers (56%). For comparison, business passengers account for only around 30% of traffic at Edinburgh and Glasgow.

Aberdeen Airport's 2006 Master Plan forecasts passenger throughput of between 3.1 million and 4.0 million by 2015, with up to 5.9 million by 2030. In order to facilitate this growth over the next five year period, BAA Aberdeen has committed to a capital investment programme of around £28 million, the cost to be met entirely by BAA as the private airport operator.

For the purposes of this economic impact assessment, York Aviation has also defined an alternate scenario hypothetical scenario. This is designed to reflect the growth of Aberdeen Airport if the infrastructure developments set out in the Master Plan are not delivered. This sees the Airport limited to around 3.8 mppa per annum which is reached in around 2015.

¹ ABZ is the International Air Transport Association (IATA) code for Aberdeen Airport and is used to refer to the Airport throughout this report.

Policy Context

The Future of Air Transport White Paper, published in December 2003, recognised, in general, the important role that airports have to play in the future growth and prosperity of the regions they serve, while emphasizing the need to balance these benefits against the environmental costs of the growth in air transport.

The Scottish Government also acknowledges that good air links support Scotland's economy, including the tourism industry, and aims to encourage the development of direct routes to Scotland to foster inward investment and tourism. The sustainable growth of Scottish airports does, however, need to be considered in the context of the Scottish Government's Climate Change Act, which received Royal Assent in August 2009. While aviation is a relatively small contributor to the UK's total CO₂ emissions, around 6% according to the Department for Transport, the economic benefits need to be weighed against environmental costs and appropriate strategies for long term management of aviation's emissions must be implemented, most obviously through the sector's entry in to the EU Emissions Trading Scheme (ETS). Aviation's entry in to the EU ETS is supported by the Scottish Government as a key strategy for addressing carbon emissions from aviation.

The UK aviation industry's commitment to the sustainable development of air transport through its Sustainable Aviation strategy, to which BAA is a signatory, should also be noted. Signatories to the strategy are committed to delivering significant reductions in carbon dioxide emissions, nitrogen oxide emissions and aircraft noise over the next 15 years.

The Aberdeen City and Shire Structure Plan aims to make the region more attractive to business, particularly by improving transport connections and alleviating congestion. Aberdeen City and Shire Economic Future (ACSEF) launched an Economic Manifesto in August 2007 which sets out a range of objectives including delivering a fully integrated transport network and to be the best connected region in the UK with access to global locations with efficient and effective air, rail, road and sea links. Two other related objectives are to 'anchor' the oil and gas industry and to make Aberdeen the location of choice for company headquarters.

The Regional Transport Strategy (RTS) identifies the Aberdeen Western Peripheral Route (AWPR), due to open in 2012, as a key development that will improve travel across Aberdeen and will reduce journey time costs, which will help to sustain economic growth in the region. The RTS also notes that aviation is central to improving connectivity and that direct air connections from Aberdeen have a key role in sustaining the economic growth of the region. Whilst the environmental impacts of aviation need to be mitigated, it is important that any future measures to tackle carbon emissions from aviation do not increase the relative peripherality of the North East.

Economic Context

Edinburgh and Glasgow City Regions are the main contributors to GVA growth in Scotland, but Aberdeen City and Shire is the third largest contributor. ACSEF estimate that the Aberdeen City and Shire economy accounted for around £10.5 billion of GDP in 2008, around 11.4% of total Scottish GDP. Aberdeen City was also the fastest growing local authority area between 2007 and 2008, experiencing a 1.5% increase in GDP. Aberdeenshire was just behind with a GDP growth rate of 1.4%. GVA per capita in Aberdeen City & Shire is higher than anywhere else in Scotland, whilst the unemployment rate is much lower than for Scotland as a whole.

The Oil & Gas sector is key to the health and prosperity of the Aberdeen City and Shire economy. Extraction of crude petroleum accounts for around 7,000 jobs in the area (out of a UK total of 12,500), while support activities to the industry account for around 15,600 (out of a UK total of 17,700).

It is clear that Aberdeen City and Shire has outperformed the rest of Scotland for some time and prospects remain strong for the future assuming the right frameworks for future development can be put in place. The continued development of Aberdeen Airport and the connectivity it offers is one of the pillars for this future growth and will help the region continue to make a key contribution to the long term prosperity of Scotland as a whole and to the wider UK Energy Sector.

Driver of the Aberdeen City and Shire Region

Air services and indeed ABZ are particularly important in supporting key sectors participating in the global economy. Air services provide:

- access to other parts of the organisation, particularly headquarters functions, for inward investors;
- access to markets for indigenous companies and for inward investors seeking to use a region as a base of operations within a world area;
- access to suppliers of goods and services from around the world;
- access to knowledge partners and complementary businesses.

Aberdeen makes a modest contribution to attracting foreign direct investment (FDI) within Scotland as a whole, but makes a much more significant contribution in nurturing indigenous companies that have successfully entered global markets, particularly within the energy sector.

The energy sector in Aberdeen City and Shire is of huge significance to the region and to the UK as a whole. The UK Oil and Gas industry provides some £8 billion of tax revenues to the Government and collectively pays more corporation tax to the Government than the City of London. The industry employs some 360,000 people in the UK, around 45% of whom are based in Scotland. Aberdeen has the largest concentration of energy businesses in Europe and the greatest concentration of subsea skills in the world.

The industry also has an extensive and important supply chain with an estimated turnover of £13 billion, exports of £5 billion, and growth of around 10% per annum². Some of the largest energy supply and subsea companies in the world have headquarters in Aberdeen, with offices around the world.

The global reach of the energy industry in Aberdeen is exemplified in the vision for 'Energetica': an ambitious public-private partnership to create the world's greatest concentration of energy technology companies, residential housing, and leisure facilities along a 30-mile coastal strip between Peterhead and Aberdeen.

It is clear that the future direction and development of the energy industry in Aberdeen City and Shire will be crucially dependent on global connectivity if it is to continue to be 'anchored' in the region. The importance of Aberdeen Airport in supporting the continuing expansion of the energy industry in the region can hardly be overstated.

Although the energy sector is overwhelmingly important to the economy of Aberdeen City & Shire, there are other sectors of importance to the economy which also have a need for good international connectivity. These sectors include Life Sciences, Food & Drink, and Tourism, all of which are also known to be intensive users of air services and the continued growth of the regional economy across these and other sectors may well be to some degree dependent on the Airport's ability to compete robustly with other European City Regions in terms of providing global air connectivity.

External links are vitally important in allowing a city or region to compete as a global business centre. Many of the knowledge-based sectors upon which modern economies are built, including those in Aberdeen City and Shire, are highly mobile and are consequently continually evaluating the optimal places for their location. While it would be wrong to say that air services are the determining factor in such decisions, there is significant evidence to suggest that air access is an important consideration.

At present Aberdeen Airport is viewed by stakeholders as 'punching above its weight' in terms of its importance firstly in anchoring the energy and other key sectors to the local and regional economy by enabling them to operate effectively in world markets, and secondly in attracting new investment. Of particular importance are the links to London, although a greater range and frequency of direct international destinations is also seen as an important factor in supporting continuing economic growth.

The future growth of Aberdeen Airport is therefore seen as being of overwhelming importance to Aberdeen's position in the global economy. It is generally felt that it will be difficult or even impossible for Aberdeen to maintain and enhance its position as an international business centre without a growing international airport.

² Ibid, page 7.

Inbound Tourism

Tourism is a major economic sector in Aberdeen and Grampian accounting for around 8% of total employment. The key market for the area remains the UK, which accounted for around 1.3 million tourist trips in 2008 and around £242 million of consumer expenditure. The largest overseas markets were Germany, the USA, Poland and Norway.

Air travel, and ABZ specifically, has a key role to play in the success of tourism in the area. Around 13% of UK tourists (around 169,000 visitors) and around 87% of overseas visitors (around 217,000) arrived by air. Around 268,000 visitors to Scotland, either from the rest of the UK or from overseas, flew in via ABZ in 2009. We estimate that the expenditure associated with visitors using ABZ in 2009 was around £51 million.

Currently considerable work is being undertaken by stakeholders from around the region to improve and better co-ordinate the tourism offer. The connectivity provided by ABZ is seen as essential within this context. Air services are seen as the only realistic method of transport for expanding the high value short break market at which much of more recent development of the tourism product is aimed.

Connectivity as an Indicator of Catalytic Impact

The connectivity offered by the Airport is central to its ability to deliver benefit to the wider economy. York Aviation's Business Connectivity Index (BCI) facilitates an examination of Aberdeen's position in relation to a number of key competitors in terms of the business connectivity available to it.

Overall, our BCI analysis demonstrates that ABZ is an important provider of business focussed connectivity and that it compares well with a range of its closest comparators. There is also evidence to suggest that it is, allowing for relative size, outperforming other Scottish airports. Domestic services, particularly London, are strong drivers of its connectivity score and there is some evidence to suggest that its international route network could be strengthened if it is to continue to compete effectively in the future and support the economic aspirations of the City and Shire.

The Social Impact of Aberdeen Airport

This social impact of the Airport also largely comes down to the extent of connectivity it offers. ABZ plays an essential role in giving access to the wider world to its catchment area population. This means enabling people to get in and out of what is a remote area quickly and easily to visit friends and relatives, access specialist goods or services, gain access to particular healthcare needs, to attend a cultural or sporting event, or to simply take a holiday.

The region's aspirations to grow a knowledge-driven, high value-added economy based around the energy sector means attracting new people to come and live and work in the area. If companies are to attract the best people, the area must offer a good quality of life. This includes the ability to get in and out of the region easily.

It is also important to remember ABZ's role as an air gateway to many of the Scottish Islands. For these communities the links provided by ABZ are a lifeline to the mainland and essential for their wellbeing on a day to day basis. One example of a service of this nature is that provided by Royal Mail.

Direct, Indirect and Induced Impacts

ABZ is a major generator of GVA and supports a significant number of jobs both in Aberdeen City and Shire and across Scotland. In 2009, we estimate that the Airport supported 2,050 ftes directly on-site, a further 320 ftes through direct off-site effects and a further 1,020 ftes in the City and Shire and 1,500 ftes across Scotland through indirect and induced impacts. In total, ABZ contributed around £114 million of GVA in Aberdeen City and Shire and £126 million across Scotland.

If the Airport is able to develop as per its Master Plan, we estimate that the number of jobs supported in Aberdeen City and Shire will rise to around 3,950 ftes and to around 4,490 ftes in Scotland in 2030. The Airport will make a corresponding contribution to GVA of around £157 million per annum in Aberdeen City and Shire and £174 million of GVA per annum in Scotland as a whole.

The Master Plan offers significant additional gross benefits to the Constrained Scenario. In 2030, ABZ would deliver an additional £37 million of GVA per annum and 970 ftes in Aberdeen City and Shire and £42 million of GVA per annum and 1,110 ftes in Scotland as a whole.

In addition to the GVA and employment impacts stemming from the operation of the Airport, the investment programme will support GVA and employment through construction activity. We estimate that this investment will support around £17 million of additional GVA over the life of the project and around 50 ftes in Aberdeen City and Shire. Across Scotland as a whole, we estimate that the investment will support around £22 million of GVA and 60 ftes over the lifetime of the Master Plan.

Cost Benefit Analysis

In addition to considering the GVA and employment effects of ABZ, we have also considered the net economic benefits in terms of the effect on overall economic welfare. This type of approach is central to the economy objective of a wide range of appraisal frameworks recommended for use by UK government agencies including the New Approach to Appraisal (NATA) and the Scottish Transport Appraisal Guidance (STAG).

In terms of the issues we are considering in this report, this approach seeks to explore the benefits to users from the expansion of ABZ and hence enables a quantitative assessment of a proportion of the benefits to the wider economy, particularly those relating to improved productivity.

We have quantified a number of economic costs and benefits associated with the development of ABZ:

- Journey Time Savings;
- Air Fare Savings;
- Government Revenue;
- Producer Benefits;
- Construction Costs;
- Aircraft Emissions Costs.

If aircraft carbon emissions costs are included within the assessment we estimate net present values to all users of between £1.1 and £2.1 billion (at 2010 prices) and a Benefit Cost Ratio of between 4.0 and 8.6.

If aircraft carbon emissions costs are not included within the assessment we estimate net present values to all users of between £1.3 and £2.3 billion (at 2010 prices) and a Benefit Cost Ratio of between 23.2 and 40.6.

The most significant factor within this appraisal is journey time savings to users from the expansion of ABZ. For Scottish users alone, the present value of journey time savings over the period would be between £859 million and £1.7 billion depending on assumed passenger behaviour.

Overall, this analysis demonstrates that the economic benefits associated with the development of ABZ in line with its Master Plan outweigh the costs of construction and the carbon costs associated with this expansion. It also therefore holds true that if ABZ were to be unable to develop then there would be substantial net economic benefits forgone for the Scottish and UK economies.

Maximising the Potential of Aberdeen Airport

Key agencies within Aberdeen City & Shire are already placing a strong focus on the Airport as a key driver of the regional economy. As such, action is already being taken or has been taken in a number of areas to maximise the potential of the Airport to deliver economic benefit.

Looking forward, there are perhaps three key areas in which public sector stakeholders could be considering action over and above what is already being done.

- **Route Development** - enhancing the Airport's route network would substantially benefit its performance and would enable the City & Shire to anchor the energy sector and market itself more effectively. Our

analysis demonstrates that the City & Shire is suffering from a connectivity deficit that will, if not addressed, impact on its long term economic performance. Stakeholders might wish to consider how they can become more effectively involved in supporting route development at the Airport. To the extent that further development of the route network might be held back by runway length considerations, BAA should expedite this project.

- **Surface Access** is a substantial issue for Aberdeen Airport. Many stakeholders considered this to be a vital issue for the expansion of the Airport and for the image of the City. A number of welcome short term initiatives have been taken but they do not address the underlying long term strategic issue of improved road access, to which the main solution is likely to be the Aberdeen Western Peripheral Route (APWR). The announcement therefore from the Scottish Government towards the end of 2009 that this project would go ahead is highly significant. Efforts must now be concentrated on ensuring that the project is expedited and completed as soon as possible.

- **Labour & Skills** - the Airport's labour requirements are likely to expand as it continues to grow and this increasing demand for labour will come against a backdrop of what seems likely to be a tightening labour market around the Airport. Therefore, if the anticipated growth at Aberdeen is to be achieved the public sector should be working with the Airport now to consider the nature and volume of its labour requirements in the future and how these requirements can be met through recruitment, training and other initiatives.