

MEMORANDUM OF UNDERSTANDING

Between

Heathrow Airport Limited (HAL)

And

The Scottish Government (SG)

Preamble

1. The UK Government is due to announce a preference for one of the following three airport expansion proposals in the South East of England:
 - 1.1. a new north-west runway at Heathrow Airport ("**the Heathrow NWR Option**"), developed by HAL;
 - 1.2. an extension to the northern runway at Heathrow Airport, developed by Heathrow Hub Limited; or
 - 1.3. a new runway at Gatwick Airport, developed by Gatwick Airport Limited.
2. The UK Government appointed Airports Commission unanimously and unambiguously recommended that the Heathrow NWR Option should be given policy support by the UK Government. The Airports Commission concluded that the Heathrow NWR Option could allow Heathrow to expand without more local residents being affected by aviation noise and confirmed that expansion could be delivered without breaching EU air quality law or impacting on the meeting of carbon targets.
3. Expansion at Heathrow will create jobs in Scotland – up to 16,000 based upon Airport Commission numbers – and connect more Scottish cities to the UK's hub airport. This will mean more competition and choice for Scottish passengers, provide reliable trading links for exporters, improve passenger experience and create an international showcase for Scotland.
4. HAL's ambition to add 40 new long-haul flights with expansion is dependent upon a successful hub operation. This in turn requires a high transfer passenger through-put. Domestic routes have a high proportion of transfer passengers and therefore the growth of competitive domestic routes, including to Scotland, is integral to the airport's current and future success.
5. HAL and SG have been working constructively to ensure that the benefits of delivering the Heathrow NWR Option are realised during and after construction and that Scotland's existing interests in Heathrow are protected and enhanced in the meantime.
6. This MoU:
 - 6.1. outlines the joint plan to be undertaken by HAL and SG to ensure these aims are met in the event that the UK Government announces its support for the Heathrow NWR Option;
 - 6.2. confirms the support of SG for the Heathrow NWR Option; and

6.3. is a statement of working intent and is not intended to be legally binding. Nothing in this MoU is intended to affect in any way the legal obligations and/or rights of either party. It is intended to be binding in honour only.

Securing Scottish Connectivity until new capacity is available

7. Before expansion takes place, domestic transfer passengers are essential to support Heathrow Airport's existing hub operation and passenger growth targets. From January 2017, HAL is introducing a discount of £10 per passenger on departing domestic passenger charges to support affordable domestic routes. Heathrow proposes that, provided that the UK Government announces its support for the Heathrow NWR Option and development consent for the Heathrow NWR Option is obtained, the discount could continue for the next 20 years or as long as it is deemed to be in the public interest and there remains a justification for the discount. Once consulted on and if approved, this could extend the current discount (which starts in January 2017) to January 2037. This will improve the viability of routes from all UK domestic destinations, including Scotland, making them more attractive for airlines to operate.
8. In the event that the UK Government announces its support for the Heathrow NWR Option, HAL will work with SG to deliver a marketing campaign worth £1.5 million using Heathrow Airport channels on-airport and online beginning in Q1 2017. This campaign will build on the success of previous Heathrow campaigns with Visit Scotland and Glasgow City Marketing Bureau, as well as the recent "Made in Scotland" week. It will aim to promote investment and tourism in Scotland as well as promote the V&A museum in Dundee in the lead-up to its opening and a short-period after.
9. HAL will also continue to work with all airlines who may wish to operate the British Airways/BMI merger "remedy slots", recognising that these slots could introduce competition between airlines on routes from Heathrow to Aberdeen and to Edinburgh.

Supply Chain Hub

10. Heathrow NWR Option will be one of the largest private infrastructure projects in Europe, and will rely more on off-site pre-assembly and consolidation than any previous capital investment at Heathrow. It will also place significant demand on the UK's skilled construction labour supply. To streamline this process between our many contractors, we propose to open a number of Supply Chain Hubs in strategic locations across the UK where our tier 1 contractors will manufacture, preassemble and consolidate components critical to the expansion project. This will mean components arriving on site more efficiently than before and allow HAL to access a larger number of sub-contractors and wider pool of skilled labour.
11. The delivering of Heathrow NWR Option represents an opportunity to harness the expertise that exists among firms of all sizes across Scotland, supporting HAL's construction proposals and creating jobs and growth in communities across Scotland throughout the construction period. Heathrow has significant experience of off-site manufacture, for example an estimated £36m worth of contracts were awarded to Scottish businesses during the recent construction of Terminal 2 – safeguarding and creating approximately 600 jobs. If the development consent for the Heathrow NWR Option is obtained, Heathrow will build on its track record of operational procurement in Scotland, which includes employing 100 people at its Business Support Centre in Renfrew.
12. To ensure Scottish businesses are able to capitalise on the £16bn supply chain that will be needed to deliver expansion, subject to a UK Government announcement supporting the Heathrow NWR Option HAL will:

- 12.1.** ensure that the SG is represented on Heathrow's Procurement Strategy Forum, with a view to ensuring that the supply chain is accessible to Scottish businesses, creating jobs and apprenticeships in communities across Scotland; and
- 12.2.** host a series of Business Summits in Scotland, following on from the one held on 12 October 2016 in Glasgow, to engage Heathrow's tier 1 suppliers with SMEs from across Scotland.
- 13.** If the development consent for the Heathrow NWR Option is obtained, HAL will also:
- 13.1.** establish a new Supply Chain Hub in Scotland for the beginning of the construction period, which is targeted for 2020. HAL will work with SG to identify the optimal location for the Hub. This investigation will consider in the first instance whether Prestwick Airport has the suitable air, sea, road and rail links to support the pre-fabrication and consolidation of components required for Heathrow expansion;
- 13.2.** target a minimum of £100m value of materials pre-assembled at the Supply Chain Hub and a minimum of 100 direct employees at the Hub at the peak of the construction phase;
- 13.3.** map out the procurement timetable for expansion, establishing target spend: (a) with contractors and sub-contractors based in Scotland, and (b) of the total value of materials assembled at the Supply Chain Hub and employment profile;
- 13.4.** procure a minimum of £200m construction-related spend in Scotland during the planning and construction phase, through a combination of engagement of Scottish SMEs with tier 1 suppliers and the location of a Supply Chain Hub in Scotland itself; and
- 13.5.** explore whether the advertising of contracts through the Public Contracts Scotland portal is a viable option to help deliver HAL's Scottish construction spend targets.

Supporting Scottish connectivity once new capacity becomes available

- 14.** A new runway at Heathrow will open in 2025. HAL have also published plans to release an additional 25,000 ATMs before the Heathrow NWR Option opens. Subject to the UK Government granting development consent for the Heathrow NWR Option and the other necessary consents being obtained, the additional ATMs would be released in Q1 2021. Heathrow will work with the UK Government and advocate that the early expansion flights should be ring-fenced to provide additional connectivity for internal UK flights and to long-haul trade routes. These have the potential to offer up to 21 additional daily UK internal flights and 13 daily long haul flights. This could include additional services for Inverness and the potential to switch the Dundee-London PSO to Heathrow (see paragraph 19).
- 15.** Additional capacity will create the opportunity for new entrants to compete on routes where there is only one incumbent airline. Competitive domestic fares ensure that Heathrow Airport remains the hub of choice for transfer passengers, who are integral to HAL's operation today and its vision to support 40 new long-haul flights with expansion.
- 16.** Many of HAL's measures outlined to establish new connections are also expected to secure and improve existing connections to Heathrow before additional capacity is released. In particular, the £10 domestic passenger discount on departure charges being introduced from January 2017 will give airlines operating between Scotland and Heathrow the ability to either increase margins or induce demand by passing the discount directly to passengers.
- 17.** Heathrow has worked with a number of new entrants to improve competition between airlines on routes between Scottish cities and Heathrow:

17.1. Easyjet has indicated it would operate multiple flights a day from an expanded Heathrow to Aberdeen, Inverness, Glasgow and Edinburgh.

17.2. Flybe have also indicated it would consider new routes from an expanded Heathrow, including Dundee and Prestwick.

18. Provided that the UK Government announces its support for the Heathrow NWR Option and development consent for the Heathrow NWR Option is obtained, HAL will support the introduction of new domestic routes across Scotland and the UK through its discounted pricing (see paragraph 7) and a £10m Route Development Fund that will provide start-up support to airlines commencing new domestic routes. Heathrow also supports the use of Public Service Obligation (PSO) routes to connect more UK cities to an expanded Heathrow, including those where a route might not necessarily be commercially viable.
19. HAL recognises the need for businesses in Dundee not just to be able to connect to London but also to hub through London. The Heathrow NWR Option presents the opportunity to realise a better return for Dundee from its PSO connection. HAL will support the SG and Dundee City Council to reassign the Dundee PSO route as Dundee-Heathrow from the point at which new capacity is available.
20. HAL will also continue to enter into partnerships with individual Scottish airports to cooperate and jointly approach airlines to protect and improve their Heathrow routes both before and after Heathrow expansion, taking account of the usual competitive constraints.
21. HAL and SG will work together to make and win the case for the UK Government to guarantee access to an expanded Heathrow for UK domestic routes in perpetuity. If the UK Government fail to guarantee access with expansion, HAL and SG will consider together alternative means, including financial guarantees or penalties, to ensure the four airports that are currently connected to Heathrow retain a connection to an expanded Heathrow.

Conclusion

22. The SG and HAL agree that, with these measures in place, a third runway at Heathrow will serve Scotland, its businesses and its people by creating jobs, securing trading links and attracting new investment and tourism.
23. The SG and HAL encourage the UK Government to make a swift decision to expand Heathrow and do what is in the interests of Scotland by supporting the Heathrow NWR Option. The UK Government will have the support of SG if it does so.



Keith Brown MSP

Cabinet Secretary for Economy, Jobs and Fair Work, Scottish Government



John Holland-Kaye

Chief Executive, Heathrow Airport Limited