

From: [redacted section 38(1)(b)]

Sent: 23 September 2021 17:24

To [redacted section 38(1)(b)] >

Cc: [redacted section 38(1)(b)]

Subject: Heathrow Airport - Ministerial meeting - John Holland-Kaye - note - 23 September 2021

[redacted section 38(1)(b)]

Key points from meeting with Heathrow Airport today.

Meeting with Heathrow Airport

23 September 2021

13:30 – 14:00

Virtual

Attendees: Minister for Transport; John Holland-Kaye, CEO, Heathrow; [redacted section 38(1)(b)], Heathrow; [redacted section 38(1)(b)] , Aviation Team, SG.

- Discussion on decarbonisation of transport and aviation, the various work going on across the industry to achieve this, and how this has to be achieved globally. Heathrow planning a statement with airlines and as many Governments as they can around COP.
- UK sector committed to net zero by 2050 2 years ago and number of countries have followed since.
- Industry pulling this through and giving [redacted section 30(b)(ii)] in place.
- Big thing is changing fuel source: SAF (big opportunities), liquid hydrogen (requires aircraft and infrastructure changes); and electric (again requires aircraft and infrastructure changes). All three developments required.
- Discussed SAF - LHR mentioned good locations and expertise in Scotland to produce SAF. JHK indicated a [redacted section 30(b)(ii)] use of SAF by [redacted section 30(b)(ii)] and at least [redacted section 30(b)(ii)] by [redacted section 30(b)(ii)] (although thought would be higher % nearer the [redacted section 30(b)(ii)] time) would be achievable but challenging. [redacted section 30(b)(ii)] required to get there. Suggested two policy initiatives – 1) [redacted section 30(b)(ii)]- this sends a demand signal to energy providers to allow them to invest; and 2) [redacted section 30(b)(ii)]. Both UK and EU are currently consulting on mandate. LHR indicated countries like Canada doing well [redacted section 30(b)(ii)]. JHK mentioned solutions exist, just need to be scaled up.
- Minister mentioned SG would be [redacted section 30(b)(ii)] This would be incorporated into aviation strategy.
- Ahead of COP, LHR working with BA and BP to make all flights by delegates zero emissions (by using SAF, decarbonised ground equipment etc.)
- LHR see SG objectives as same as theirs.
- Heathrow see third runway as right thing for UK and Scotland, but need to decarbonise at same time.
- Heathrow continue to do all the actions set out in MoU and remain committed to this.
- Third runway work paused while dealing with pandemic. [redacted section 30(b)(ii)].and think about how they restart third runway work. [redacted section 30(b)(ii)]

30(b)(ii)] – still have planning process, need to change airspace and then build.

- With regards to logistics hub, they will try to build as much off site as possible. Had been shortlisting at time of pausing. Looking for places with good connectivity, good supply chain locally, good engagement with training and skills providers, and strong support from local and national governments. It should become an economic hub.
- JHK is in Scotland quite a lot in next few months and Minister may meet up if have an opportunity.
- Finally, Heathrow offered to help with difficult challenges of balancing economy and decarbonisation, and Minister said we'd keep in touch on our aviation strategy.

Regards

[redacted section 38(1)(b)]

From: [redacted section 38(1)(b)]
Transport Scotland
3 October 2021

First Minister

HEATHROW THIRD RUNWAY

Purpose

1. You asked for advice on [redacted section 30(b)(ii)] the third runway at Heathrow Airport (LHR), in particular:

- [redacted section 30(b)(ii)]

Priority

2. Routine.

Scotland's international connectivity

3. Over the last 6 years or so, Scotland's international connectivity has improved significantly with the addition of new direct connections with the USA, Canada, the Middle East and a significant number of European cities. This has reduced reliance on LHR for our connectivity with the rest of the world, but LHR continues to provide a one-stop connection between Scotland and those parts of the world where demand would never be sufficient to make a direct route viable. This means our approach – set out in Programme for Government – is to help airports “restore lost connectivity, and grow international connectivity, while not returning to previous levels of emissions.” That needs to be through a combination of direct routes and good connectivity to global hubs including but not limited to LHR. Notwithstanding these recent improvements, we have some way to go to be as well connected as peer nations and regions including Ireland, Catalonia, Norway and Denmark.

Scotland's connectivity with LHR

4. Our 4 main airports (Edinburgh, Glasgow, Aberdeen and Inverness) have connectivity with LHR. This serves two purposes. Most important is the value to the Scottish economy of providing one-stop connectivity between Scotland and the rest of the world. This is essential for inbound tourism, business connectivity in both directions, and exports. A secondary purpose is for point-to-point travel between Scotland and the South of England helping provide more choice for passengers, in addition to the connectivity provided by road and rail. The importance of this may diminish with expansion of High Speed Rail for travel between central Scotland and London but for Aberdeen and Inverness in particular journey times mean flying will remain a desirable option. The combination of point-to-point and connecting passengers help ensure the routes remain commercially viable.

PROTECT - COMMERCIAL

5. LHR is the busiest route at Edinburgh (EDI); Glasgow (GLA); and Aberdeen (ABZ) airports. It is the second busiest at Inverness (INV). 2019 passenger (pax) numbers show the importance of LHR routes to Scotland's airports:

Airport	LHR pax 2019	Percentage of total pax 2019
EDI	1,196,921	8.12% of EDI pax
GLA	865,008	9.78% of GLA pax
ABZ	692,289	22.7% of ABZ pax
INV	140,358	14.8% of INV pax

6. The proportion of INV and ABZ passengers flying to/from LHR illustrates its importance for these smaller airports which could never support a wide range of direct international services. Conversely, EDI, has the lowest percentage of passengers reliant upon LHR, reflecting the fact that it has (1) the best direct international connectivity of any Scottish airport and (2) the best choice of connections to other global hub airports including Amsterdam, Frankfurt, Paris CDG, Doha, and Istanbul.

7. Information on the split between domestic point-to-point passengers and international connecting passengers is commercially sensitive but we have sourced 2019 figures from different stakeholders. They show for ABZ and GLA [redacted section 33(1)(b)] of passengers on the LHR routes are connecting to/from international services. At EDI it is [redacted section 33(1)(b)] connecting and at INV (redacted section 33(1)(b)) connecting. Again this illustrates why good connectivity with LHR matters for inbound tourism, business connectivity and exports particularly for remote and rural communities in the wider catchment area of INV airport. It is important that we recognise that these "domestic" routes are about more than business people going to London.

8. Our well established work to help improve international connectivity continues to focus on direct international routes. The 4 Scotland-LHR routes take care of themselves commercially with no direct Government support. In common with all departures from INV, the LHR route benefits from the highlands and islands exemption for Air Passenger Duty which is a feature of the Westminster tax.

9. Looking ahead, our LHR connections will remain important but, [redacted section 30(b)(ii)].

10. [redacted section 30(b)(ii)] In addition LHR presents itself, accurately, as the only hub airport serving the whole of the UK, and every hub needs spokes.

Emissions from Scotland's connectivity with Heathrow and emissions displacement

10. In 2019, Scotland's aviation emissions were broken down as:

PROTECT - COMMERCIAL

PROTECT - COMMERCIAL

- International 1.5 MtCO₂e (3.2% of Scotland's total emissions)
- Domestic 0.6 MtCO₂e (1.3% of Scotland's total emissions)

11. Our LHR connectivity represents around 0.15 MtCO₂e – around 7% of emissions from Scottish flights. LHR emissions are considered “domestic” even though between [redacted section 33(1)(b)] of passengers are international connecting passengers.

12. As noted above, [redacted section 30(b)(ii)]. This assumes that Scotland's Airports, supported by the Scottish Government, continue to be successful in restoring direct international flights, continuing to reduce our reliance on LHR. It therefore follows that emissions from our LHR flights should decrease over time, regardless of whether LHR opens a third runway. This is because:

- [redacted section 30(b)(ii)];
- engine and airframe technology continues to improve with a major global endeavour to move to lower emission then zero emission aircraft;
- the entire industry is accelerating work to introduce Sustainable Aviation Fuels and make them more affordable;
- the third runway proposal is designed to reduce unnecessary holding in the air or on the ground, reduce backtracking and reduce taxiing thus making operations more efficient and less emitting.

13. Beyond Scotland's share of emissions from LHR flights, an expanded LHR is expected to increase emissions attributable to England, but will not increase global emissions per se. This is because of the global nature of the market where airports are competing with each other for airline capacity. In the event that LHR did not expand, the additional flights that would have used that new capacity will be gained by competitor airports so emissions will be much the same. Some of LHR's nearest competitors have recently expanded (Dublin has just opened an additional runway) or are in the process of being expanded (Frankfurt T3). In addition, China has set a target of opening 160 new airports over the next 14 years and their current airports continue to grow faster than those in any other part of the world. It is expected that in the next few years, at least 5 Chinese airports will be of the size to rival LHR, absorbing airline capacity that may have been gained by LHR.

14. This illustrates the global market in which LHR operates. The Committee on Climate Change recognises this and “believes that long term aims for aviation emissions should reflect international/EU approaches rather than unilateral UK action, given the risk of emissions leakage.” A similar observation was made by Element Energy in their recent report on decarbonising the transport sector.

The Airports Commission (Davies Commission) 2012-2015

PROTECT - COMMERCIAL

PROTECT - COMMERCIAL

15. In 2012 the Westminster Government established a Commission to consider how the UK could maintain its status as an international hub for aviation, and immediate actions to improve the use of existing runway capacity. That piece of work (which was extensive and cannot readily be summarised here) recommended in July 2015 that the proposal for a new northwest runway at LHR, combined with a package of measures to address its environmental and community impacts, presented the strongest case. They took the view that it offered the greatest strategic and economic benefits, providing around 40 new destinations and more than 70,000 new jobs. It was not clear at that stage whether the UKG would agree with the Commission's recommendation or support one of the alternative schemes examined. These were a different LHR option which would extend the length of the current northern runway, and a second runway at Gatwick (LGW). A "Boris Island" option put forward by the then Mayor of London was not progressed.

SG Memorandum of Understanding with LHR (October 2016)

16. Following the recommendations of the Davies Commission both LHR and LGW embarked on programmes of extensive engagement with us, the Welsh Government, Northern Ireland Assembly and various businesses, regional authorities and influencers across the country. We engaged in that process [redacted section 30(b)(ii)]

17. The MoU with LHR confirms the support of the Scottish Government for the LHR third runway option. It is a statement of intent and is not intended to be legally binding. Nothing in it 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. The main aspects of the MoU are summarised below:

Commitment	Current Status	Comments
From January 2017 a £10 per pax discount on departing domestic passengers with possible extension of the discount to 2037.	Delivered	This measure was to improve the viability of domestic connections. It was instrumental in BA's decision to restart the Inverness route after a 20 year absence. The route started in May 2016 in anticipation of the discount being applied.
£1.5m marketing campaign in 2017 developed in conjunction with VisitScotland but paid for by LHR	Delivered	

PROTECT - COMMERCIAL

Working with airlines to encourage take-up of former BMI remedy slots to introduce competition and choice on EDI-LHR and ABZ-LHR routes	Delivered	Routes were taken up by flyBe and operated successfully until company went bust
Establish a Supply Chain hub in Scotland for the construction period (a facility whereby equipment and components for the project would be manufactured, pre-assembled and consolidated before being moved to LHR)	Scoping work complete.	LHR carried out their own evaluation of Scottish sites and we understand [redacted section 33(1)(b)] remain in the running.
Target a minimum of £100m value of material at supply chain hub and a minimum of 100 direct employees at peak of construction phases	As above	As above
Procure minimum of £200m construction related spend in Scotland during planning and construction, through engagement with SMEs and the location of the Supply Chain Hub in Scotland	Longer term	

18. In addition to these commitments, the MoU also set out a range of measures to support Scottish connectivity once a new runway was operational. These have in part been overtaken by other changes in the market outwith the control of either LHR or the Scottish Government. These included the prospect of another airline like easyJet operating from an expanded LHR and flyBe considering adding LHR routes from Prestwick and Dundee. These are of course no longer relevant with [redacted section 30(b)(ii)]. It is impossible to predict what may happen in the market between now and a third runway being constructed as airlines consolidate operations, and merge with others. As these other commitments hang on expansion taking place, we do not need to concern ourselves with these at present.

The UK Government Decision, the Westminster vote, and subsequent legal challenges (June 2018)

PROTECT - COMMERCIAL

19. The UK Government agreed the recommendation of the Airports Commission and the House of Commons voted to agree the LHR third runway option on 26 June 2018. [redacted section 30(b)(ii)] But in the event the UK Government won the vote by 415 to 119, a majority of 296. SNP MPs abstained.

20. There then followed various challenges and appeals in the courts. This culminated in the Supreme Court overturning the Court of Appeal's ruling that the UK Government's Airports National Policy Statement in favour of LHR expansion was unlawful. The Court found that the Secretary of State for Transport had adequately taken into account the Paris Agreement on climate change and gave weight to the fact that he had followed the advice of the Committee on Climate Change (CCC).

21. This ruling does not mean construction will definitely go ahead. It allows LHR to continue with its expansion plan and seek permission for a development consent order. [redacted section 30(b)(ii)] The Chief Executive of LHR commented in May 2020 that construction could be delayed by 5 years or more, not opening until 2030 at the earliest. The CCC assumes that expansion in capacity is balanced out by reductions elsewhere but the UKG will need to be careful that expansion at LHR is not at the expense of capacity being constrained at "regional" airports in other parts of the UK.

[redacted section 30(b)(ii)]

22. [redacted section 30(b)(ii)] – set out in the MoU - is that the Scottish Government supports the opening of a third runway at LHR. The MoU would remain in place until all commitments had been fulfilled when new capacity was operational. We have also used a public line that recognises that the decision to allow a third runway was a democratic one agreed by the Westminster Parliament, but it remains important that the 4 nations of the UK benefit proportionately from the expansion of the UK's only global hub airport.

[redacted section 30(b)(ii)]

Element Energy research

23. [redacted section 30(b)(ii)]. Element Energy considered that demand reduction was required to meet emissions targets but, like the CCC, they acknowledged that "the international nature of the aviation industry requires international cooperation in order to limit emissions leakage." We share that view. While the overall aim is to reduce emissions, we need to be mindful that local measures to reduce demand can simply shift airline capacity to more attractive markets with the same aircraft flying for the same amount of time each day, generating the same emissions.

24. [redacted section 30(b)(ii)], and there is nothing to suggest that LHR expansion will have a negative impact on emissions attributable to Scotland. On the contrary, if a new runway is not operational until after 2030, that provides another 10 years where technology will continue to improve,

PROTECT - COMMERCIAL

PROTECT - COMMERCIAL

sustainable fuels will be more common, and operating efficiencies (less fuel burn) created by the new capacity and airspace modernisation will be in place.

[redacted section 30(b)(ii)]

25. *[redacted section 30(b)(ii)]* the impact Covid 19 has had on the aviation market; how that has affected our international connectivity; and how that has put a question mark around many of the assumptions and projections which were a feature of the Airports' Commission's work. That work started in 2012, almost 10 years ago, and the market has changed beyond all recognition since then. Sir Howard Davies who Chaired the commission is reported as recently as June 2021 as saying the pandemic raised doubts over the expansion. Davies maintained that if a new runway was needed it must still be at LHR but when asked if he was still in favour of the programme said he is reported to have said he "would have to redo the numbers to see if the economics made sense".

26. *[redacted section 30(b)(ii)]*. As per the table earlier in this submission some actions have been implemented; some are contingent on the third runway being build and it is not clear when that will happen; and some are now irrelevant because of changes in the market since 2016.

[redacted section 30(b)(ii)]

27. *[redacted section 30(b)(ii)]* of which you should be aware:

- The MoU guarantees that a logistics hub will be located in Scotland creating at least 100 direct jobs. *[redacted section 30(b)(ii)]*.
- The MoU guarantees a £10 per passenger discount for domestic flights which would remain in place until 2037 if it was deemed to be in the public interest and there remained a justification for the discount. *[redacted section 30(b)(ii)]*.
- The MoU guarantees that LHR will 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 LHR's "Tier 1 suppliers." *[redacted section 30(b)(ii)]* companies appointed by LHR to build new terminals, the runway and associated infrastructure. A number of Scottish suppliers were involved in building and kitting out Terminals 5 and 2 at LHR supplying glass, car park floor panels, lifts and a range of other components *[redacted section 30(b)(ii)]*

28. *[redacted section 30(b)(ii)]* are less obvious or not substantive.

[redacted section 30(b)(ii)]

29. *[redacted section 30(b)(ii)]* it will be important to:

PROTECT - COMMERCIAL

PROTECT - COMMERCIAL

- [redacted section 30(b)(ii)]. You opened the extension to Edinburgh Airport in 2018 and there are expansion plans being developed at other Scottish airports, some of which the Scottish Government owns. None of these involve new runways but are nevertheless about planning for projected growth.
- [redacted section 30(b)(ii)] restoring and growing international connectivity. We are meeting 20 airlines between 10 and 12 October at the World Route Development Forum (a set piece event where future route networks are negotiated) to progress our route recovery work in partnership with Scotland's airports. We will need to reassure airlines that the Scottish Government still sees restoring international connectivity as essential for tourism, business, exports, and Scotland's place in the world.

30. [redacted section 30(b)(ii)]

- [redacted section 30(b)(ii)]
- Significant changes to the global aviation market have taken place in the last 18 months.
- [redacted section 30(b)(ii)]
- Our focus post-Covid will be on helping Scotland's Airport restore and grow direct international connectivity without restoring previous levels of emissions.

31. [redacted section 30(b)(ii)]

Other stakeholders

32. [redacted section 30(b)(ii)]

Conclusion

33. [redacted section 30(b)(ii)] LHR will expand to meet demand, expected to return to 2019 levels around 2024. Whether that expansion includes all of the proposals set out in the original plan, including a third runway, remains to be seen.

34. [redacted section 30(b)(ii)].

[redacted section 38(1)(b)]

3 October 2021

Head of Aviation
Transport Scotland

PROTECT - COMMERCIAL

PROTECT - COMMERCIAL

[redacted]

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Deputy First Minister					
Cabinet Secretary for Net Zero, Energy & Transport					
Minister for Transport			X		X
Cabinet Secretary for Finance & the Economy			X		
Minister for Zero Carbon Buildings, Active Travel & Tenants' Rights					X
Minister for Green Skills, Circular Economy & Biodiversity					X

DG Economy
 Chief Executive, Transport Scotland
 Frances Pacitti, Transport Scotland
 Alison Irvine, Transport Scotland
 [redacted section 38(1)(b)], Transport Scotland
 Colin McAllister
 Kate Higgins
 Liz Lloyd
 Leanne Dobson
 John McFarlane