European and External Relations Committee  
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Introduction

Thank you for the opportunity to present to the Committee on the potential implications of Brexit for the Scottish economy and what responses may be appropriate in the short term.

I would like to spend a few minutes setting out our views on the potential impact of Brexit which are focussed on two main themes:

- Uncertainty in the short to medium term where the future business environment will not be known for many months and potentially years;
- The risk of new barriers to and constraints on trade and transport for people and goods that will inevitably hinder Scotland’s economy that relies upon international markets.

Edinburgh Airport is a barometer of Scotland’s wider success. Our corporate strapline of ‘Where Scotland Meets the World’ is no idle boast, rather it’s a statement of fact for the vast majority of inward visitors and most outward looking businesses in Scotland that need to access world markets.

Our growth from 9m passengers in 2012 to what will be 12m passengers in 2016 and our growth from 1 long haul route to 8 in that same time period is a demonstrable success for Scotland and supports many industries across the country as well as supporting £1bn of GVA and 23,000 jobs as independently calculated by BiGGAR Economics earlier this year.

However, Edinburgh Airport is, in fact, bucking the wider Airport trend in Scotland where it was only last year that overall demand in central Scotland returned to pre financial crisis levels and where oil price is having a huge adverse impact on other airport’s demand that is associated most with that sector.

In short, we both represent and support Scotland’s economic success of the last few years but it is not something we can be complacent about and must work hard to protect this positive trend, particularly in the light of the Brexit vote.

Uncertainty

Many other commentators have discussed the implications on uncertainty for investment and hiring decisions for existing businesses or for businesses considering where to site new investments within Europe.

A further dimension that is less discussed is the ‘sentiment’ risk where it is possible that the UK’s decision to leave gives the message that we wish to be isolationist and inward looking and less welcoming to others. This is a particular risk for tourism demand where this is an entirely discretionary market in terms of location choice but other sectors such as education will also be impacted where decisions are made for relatively short periods of time (a holiday or a 2 year post-graduate course) and where there are good alternatives on offer in Europe and the US in particular.
We’re seeing the post Brexit uncertainty manifest itself tangibly in the following ways:

In terms of low cost carriers, easyJet is talking about relocating and therefore less focussed on UK market for future growth and Ryanair focussing its growth in mainland Europe at expense of UK markets.

We’re seeing long haul carriers (e.g. Delta) trimming winter operations where the currency/demand implications are greatest.

We’re also finding that potential long-haul carriers (e.g. China) are more likely to wait until there is more clarity on European access and the impact on UK economy and border controls.

For certain, UK domestic carriers will now have higher fuel costs that are in dollars and face uncertainty about longer term economic impacts.

The response to this must be one of ‘open for business’ and a warm welcome, potentially leveraging Scotland’s differentiated position as a ‘Remain’ stronghold and a country discussing how to retain EU ties. Not all of the uncertainty can be overcome but it is critically important to avoid the 2017 ‘cliff edge’ where this short term discretionary demand dries up for a year or two while awaiting the outcome of the Brexit negotiations.

Whilst there are many opportunities to present this ‘welcome’ through presentations, speeches and negotiations, none will be as effective as the simple action of delivering the government policy of halving APD. This would be the most tangible and visible ‘welcome’ and a confident statement of our internationalist credentials to passengers and investors alike. It would also have the added benefit of differentiating Scotland from ‘Leaver’ parts of the UK.

Avoiding new constraints and removing existing barriers to growth

Most critically for our sector and the accessibility of Scotland in both directions is the preservation of open skies in Europe and access to that overall market. The UK has always led the push for the open skies policy and it must be hoped will put the highest priority on preserving the benefits that flow from this.

For the longer term future the UK Government must make a decision on capacity in the South East and create the conditions not just for the policy decision but for the delivery of that capacity that is needed to preserve Scottish access to our biggest single market, London. We believe that this decision must be made quickly and be based on the only practicable and deliverable solution that will provide competition and affordable pricing for airlines and taxpayers alike. Gatwick should be chosen this summer and encouraged to deliver as quickly as possible.

However, the largest barrier of all for continuing our growth is also the strongest policy lever capable of accelerating that growth. APD is the biggest opportunity we have to avoid decline and promote growth that will touch every single part of our economy AND deliver that growth in months not years.

This punitive tax has long been a brake on the growth opportunities where it is the highest in Europe by some way and simply encourages airlines to invest in other European countries rather than Scotland.
Before the Brexit vote easyJet, BA and Ryanair all called for the reduction or abolition of APD in Scotland and committed to significant growth if delivered. Other airlines are all of a similar mind in terms of making Scotland an attractive place to do business.

As noted post the Brexit vote, already airlines are already showing caution about future growth and considering reductions.

The solution is simple where we simply have to deliver on an existing government policy that was in the manifesto....halve APD, announce it immediately for a 2018 implementation and tell the world’s airlines, tourists and investors that Scotland is open for business. Then watch the route startups accelerate and growth in tourism and many other industries and the jobs that come with that delivered with almost immediate effect.

All that and it will even mean a net increase in tax income for the government as the reduction of APD income is more than offset by income tax, reduced benefit payments and VAT and Business rates increases flowing from the increased economic activity and more jobs.