

# Malindo air

Business



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Scottish Enterprise, working in partnership with the other parties, commissioned York Aviation to develop a common economic appraisal framework for new route development activities that could be agreed by all parties. The Study is specifically required to address three main components, summarized below: a brief overview of existing evidence, literature and research on the economic and carbon costs and benefits to an economy of increased air connectivity; a brief review of existing methodologies for assessing economic and carbon costs and benefits (including Transport Economic Efficiency appraisal and approaches to assessing wider economic benefits); an appropriate methodology is then to be proposed that will allow an assessment to be made of the quantitative and qualitative contribution of new air routes to the Scottish Government's Economic Strategy and the National Performance Framework; this should also consider how contributions to the development of Scotland growth sectors might be measured, and whether economic benefits can be measured at a sub-Scotland, Scotland, UK and European level; the testing and use of the agreed methodology to appraise the quantitative and qualitative economic and carbon costs and benefits of five potential routes into Scotland (2 from Scotland to China and 3 from Scotland to the Middle East).

CJTLS Technical Report sets out the rationale for public sector intervention in the air transport market, provides a detailed description of the defined appraisal framework and its indicators, outlines the basis for calibration of the scored element, details the information requirements of the framework and main sources, and provides some guidance on the use of the framework in decision making.

It also provides some recommendations for the future development of the framework and improving elaboration of the process over time. The report is structured as follows: Section 2 considers the economic benefits associated with air services and new air routes based on a review of existing literature. Section 3 considers the particular circumstances in the Scottish air transport market and the benefits that could accrue from future route development; Section 4 introduces an overview of the economic linkages to air services' ability to deliver economic benefit to the Scottish economy; Section 5 sets out in detail the different indicators within the TEE element of the appraisal framework and the basis for their calculation; Section 6 sets out the indicators within the Business Competitiveness element of the appraisal framework, the calculation of these indicators and the basis for scoring where relevant; Section 7 sets out the indicators within the Tourism Impact element of the appraisal framework, the calculation of these indicators and the basis for scoring where relevant; Section 8 sets out the indicators within the Regeneration and Social Impact element of the appraisal framework, the calculation of these indicators and the basis for scoring where relevant; Section 9 sets out the indicators within the Local Environmental Impact element of the appraisal framework, the calculation of these indicators and the basis for scoring where relevant. Section 10 sets out the basis for the route risk assessment; Section 11 provides some guidance on the use of the appraisal framework in decision making; Section 12 sets out our recommendations for the future development of the appraisal framework.

## 2. The Economic Benefits of Route Development

The economic benefits that stem from air services have been long established by a wide range of research.

Air transport is a provider of prosperity through its operations, employing large numbers of people at and around its geographic nodes (airports), and through its impact on supply chains, but, in many ways more importantly, it is a facilitator of wider economic activity in other sectors. Air services provide connectivity that improves the functioning of a wide range of markets and extends their geographic scope. This enables flows of trade, investment, labor, knowledge and visitors that ultimately support economic growth by providing new opportunities, improving productivity and increasing competition. These benefits extend directly or indirectly across all sectors of the economy. Olin the context of considering the economic benefits that stem from the development of new routes, it is these benefits to the wider economy that are most relevant.

They are also the most relevant in the context of the Scottish economy, which is a modern, developed economy with a focus on developing high value added activities with a strong international focus, stemming from its relatively small domestic markets.

The evidence to support the role played by air services in supporting these benefits in the eider economy is set out in a wide range of different research documents, ranging from specific studies in to the economic impacts associated with Scotland major airports to high level research undertaken at national or international level. Research undertaken by the Air Transport Action Group (TAG) in 2008 identified “ that air transport industry most important economic contribution is through its impact on the performance of other industries and as a facilitator of their growth”.

It cites survey work that identified that 52% of firms consider the availability of air service to be an essential factor in considering locating in Europe. It moves on to decade had resulted in increased global GDP of around US\$ 2,460 billion. The social and economic impact of airports in Europe produced by York Aviation for IAC EUROPE again highlighted the importance of air services in supporting growth in the wider economy.

It emphasizes both the importance of major national airports, such as Amsterdam Schiphol, Paris Charles De Gaulle or Heathrow, in driving highly international economies but also focuses in on the essential role played by regional airports in developing international clusters.

This research also moves on to highlight the particular importance of air services to a number of economic sectors, namely insurance, banking and finance, other means of transport, printing and publishing, coke, petroleum and nuclear fuels, extraction, transport, communications, other business services, research and development, basic metals, computer activities and precision and optical instruments. The confluence with a range of Scotland growth sectors is clear. Research undertaken by Oxford Economic Forecasting in its Aviation's Contribution to the UK Economy (2006) identified again the importance of air services and activity in stimulating the wider economy.

Specifically it identified that: " visitors arriving by air contribute over £5 billion a year to the UK tourism industry, generating a further 170,000 jobs; 55% by value of the UK's manufactured exports to countries outside the EU. Are transported by air; air services have been vital in developing economic

relationships with emerging economies such as China; a quarter of companies report that access to air services is important in determining where they locate their operations in the I-J.

More recently Frontier Economics have examined the link between the existence of direct flights and the UK's trading relationships. This research identified that I-J businesses trade 20 times as much with emerging market countries that have a direct daily flight to the I-J, as they do with those countries that do not.

It found that the lack of direct flights to emerging markets may already be costing the economy £1.2 billion a year as trade goes to better connected competitors. In terms of FDI, a range of studies have homed in on the particularly vital role that air services play in attracting and retaining overseas investors. In 2003 research by Napier University identified air links as the most influential transport factor in the location decisions of most overseas based business investing in the UK.

A 2009 survey undertaken by Oxford Economics and DATA of 600 companies in five countries found that air links were vital or very important in location decisions.

Oxford Economics 2011 study into the economic benefits of air transport also clearly identified a positive correlation between FDI stocks and a country's connectivity (see chart). It is also noticeable that surveys of senior executives, such as the Cushman Wakefield European Cities Monitor, consistently highlight the importance of factors such as access to markets and transport links in location decisions. In 2011, the European Cities

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Monitor identified that easy access to markets, of respondents considered this absolutely essential). Transport links with other cities and internationally was the fourth most important factor (42% of respondents considered this absolutely essential). This generic evidence on the importance of air service development and connectivity growth to the wider economy is supported by a range of research focused on Scotland.

The evaluation of the Scottish Route Development Fund (RDF) undertaken by Scott Wilson Kirkpatrick in 2009 identified the significant economic benefits that had accrued to Scotland from previous market intervention to increase Scotland air connectivity: the evaluation identified that the transport economic efficiency net present value of RDF was around IEE£ million (2002 prices) with a benefit cost ratio of around 24; RDF generated additional Gross Value Added (SVGA) of between EYE million and EYE million; the routes resulted in net additional tourism expenditure of around EYE. Lion (net in this context refers to net of outbound expenditure); airlines supported by RDF supported an additional 37 full time equivalent Jobs; the routes, particularly to the Highlands & Islands, were found to play an important role in combating social exclusion. OAt an individual airport level, a number of economic impact studies in recent years have identified the vital importance of Scotland airports in supporting the international economies within their catchments areas: York Aviation's research in to the economic impact of Edinburgh Airport in 2009 identified that the Airport " is viewed by takeovers as an important factor firstly in attracting investment to the Edinburgh City Region and secondly in allowing firms within the City Region to operate

effectively in world markets. Of particular importance are the links to London, the UK capital, and one of the world's leading business centers.

However, the expansion in the range of international destinations has also been seen as an important factor in expanding Edinburgh image as an international business destination"; the report also identified the role that the Airport plays in supporting Edinburgh tourism economy with visitors arriving via the Airport spending IEE million in Scotland; despite these positive messages, the report still identified that Edinburgh suffers from a connectivity gap and is overly reliant on Heathery for international connectivity; a similar study undertaken by York Aviation for BAA Glasgow and partners identified that the Airport was an important factor in company location decisions in and around the Glasgow City Region and an important enabler of the City growth sectors, particularly financial services; the Airport is seen as a vital part f Glasgow international image, putting it on the map in European and global terms; the recent economic impact study of Aberdeen Airport undertaken by York Aviation also identified a similar role. The Airport is essential to the functioning of the exceptionally global energy cluster in Aberdeen City & Shire; the economic impact study of Prescript Airport undertaken by SQ cites responses from a survey of local business that show that more than half of all the businesses responding considered that the airport was of importance to their performance and almost a fifth thought it ere important or critical.