

## **ABTA response to the Airports Commission**

### **Aviation Connectivity and the Economy**

#### **1. Introduction**

This response is submitted on behalf of the membership of ABTA – The Travel Association. ABTA was founded in 1950 and is the largest travel trade association in the UK, with around 1,200 members and over 5,000 retail outlets and offices. Our Members range from small, specialist tour operators and independent travel agencies specialising in business and leisure travel, through to publicly listed companies and household names.

The success of ABTA Members' businesses is directly reliant on the UK's aviation infrastructure; many of ABTA's larger Members are themselves part of groups that own airlines. ABTA Members provide 90% of the package holidays sold in the UK, with Members also selling millions of independent travel arrangements. The provision of quality, efficient and competitively priced passenger air travel is vital to the business interests of Members.

#### **2. The benefits of aviation and the need for greater aviation connectivity and capacity in the UK**

ABTA welcomes the Government Aviation Policy Framework's (March 2013) clear acknowledgement of aviation's £18 billion per annum direct contribution to the UK's economic output, and direct employment of around 220,000 workers.

ABTA is pleased that aviation's economic contribution is now understood across the political spectrum and that one of the core objectives of the Airports Commission is to ensure that the UK's air links continue to make us one of the best connected countries in the world. The *Aviation Connectivity and the Economy* discussion paper represents a clear understanding of the benefits of connectivity, and the economic risk for all of UK plc where there is diminishing access to the global marketplace.

The aviation sector offers a wide range of benefits to the UK: it facilitates business and leisure travel of British citizens across the world; it brings business and visitors into the UK; it enables the import and export of goods; all of which contribute to a successful and growing UK economy. ABTA believes that aviation needs to be a key plank of the UK's growth strategy and that we need an aviation policy from Government that recognises its pivotal role in the UK's recovery. Aviation currently contributes £49.6 billion directly and indirectly to the UK economy and we believe has the potential to contribute more as a sector and as a catalyst for the wider economy too<sup>1</sup>.

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<sup>1</sup> Oxford Economics, Economic benefits from air transport in the UK, 2011

Aviation is an important part of the UK's strategic transport infrastructure. Given our geographical situation, a strong and comprehensive network of air services is an absolutely vital component of a competitive UK economy. All UK regions rely on aviation with some parts of the UK being dependent upon it as a lifeline, not just for communication purposes but economically e.g. the Scottish Highlands and Islands, Northern Ireland. UK plc benefits from the excellent air connections with cities worldwide, which has until now made the UK an easily accessible country in which to set up businesses. Investors particularly view London as one of the most attractive cities in Europe in which to do business and the quality of its international connections and domestic networks is viewed as key.

It is important to recognise the value of all parts of aviation on the UK economy. Just as ABTA suggests the Government's tourism policy should value all parts of the sector: domestic, inbound and outbound, so too must aviation policy recognise the unique mix of aviation models that together constitute a proud UK industry: scheduled, charter, no-frills, leisure, business and cargo. The UK's aviation mix is composed of leisure, business and VFR (Visiting Friends and Relatives) passengers using the same aircraft on the same routes. Whilst ensuring connectivity for businesses must be an essential consideration as part of the Commission's work, business passenger patterns do not develop in isolation and routes popular with business travellers will rely on leisure passengers to make the economics of that route work. A strategy that promotes one type of flying over another or seeks to downgrade the relative importance of leisure aviation, for instance, would not carry our confidence and would, indeed, be a bad move for the UK.

The UK's historic connectivity advantage cannot be taken for granted. To maintain London's leading status in aviation connectivity, the Government must recognise that the necessary growth in capacity, improvements in surface connectivity, and the quality of the passenger experience are vital conditions for a successful economy. Failure to do so will be damaging to the long-term prospects of British businesses and to the UK's ability to attract new international companies and visitors, and moreover puts at risk retention of existing international investment in Britain.

### **3. Aviation Models**

As previously advised to the Commission, the views of the business community making the case for connectivity have already been well represented by the CBI<sup>2</sup>, Institute of Directors<sup>3</sup>, British Chambers of Commerce<sup>4</sup>, Air Transport Action Group<sup>5</sup> and others and, indeed, the Commission has referenced some of them in the consultation document.

Furthermore, while ABTA Members are not directly involved in air freight, we acknowledge that a large amount of freight is carried in the belly holds of passenger aircraft.

ABTA will therefore concentrate its views on leisure aviation; this includes tourism and the VFR market. It should be noted from the ONS data<sup>6</sup> that, in 2011, leisure passengers made up a total of 79.3% of all air travellers to and from the UK, in accordance with the table below:

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<sup>2</sup> CBI – Trading Places (March 2013)

<sup>3</sup> Institute of Directors: Flying into the Future (December 2012)

<sup>4</sup> British Chambers of Commerce – Flying in the face of Jobs and Growth (October 2011)

<sup>5</sup> Air Transport Action Group (ATAG) report by Oxford Economics 'Aviation – Benefits Beyond Borders' highlighting aviation's essential contribution to European and global economies (March 2012)

<sup>6</sup> ONS Travel Trends 2011

<b>2011 – in '000</b>	<b>UK outbound travel</b>	<b>UK inbound travel</b>	<b>Total</b>
Holiday	28,545	7,914	36,457
VFR	9,420	7,120	16,540
Total leisure	37,965	15,032	52,997 (79.3%)
Business	5,501	5,371	10,871 (20.7%)
<b>Total</b>	<b>44,285</b>	<b>22,538</b>	<b>66,823</b>

#### 4. Tourism

Aviation is an essential enabler for the UK's successful tourism industry. Globally, the UK is the sixth largest international tourism destination by visitor numbers and seventh largest by visitor expenditure.

To illustrate the important role of aviation in tourism, the 2011 International Passenger Survey records that 73.5% of visitors arrive in the UK by air and 79% of visits abroad begin with air travel. In terms of inbound tourism, the only markets where non-aviation modes of transport have a significant share are France, Belgium, Germany, Ireland and the Netherlands, where ferries or the Channel Tunnel provide viable alternatives to flying. Of the vast majority of visitors who will in the UK by air, many of them come from long-haul destinations. Visitors from long-haul destinations on average spend more than short-haul visitors, and spend a longer period here<sup>7</sup>.

Over 30 million visitors to the UK spend £18 billion here annually, directly responsible for 360,000 jobs<sup>8</sup>. Increasing inbound tourism numbers is potentially of huge economic benefit to the UK. The Prime Minister stated in his 2010 speech that for every half a per cent increase in Britain's share of the world tourism market we can add £2.7bn to our economy, and more than 50,000 jobs.

Outbound travel also has great potential to generate growth and new jobs, however it is being held back by capacity constraints and disproportionately high taxation. Research published by ABTA<sup>9</sup> paints a picture of outbound travel's growth potential. While we understand that the Commission is familiar with this report, it is worth underlining its key findings.

The research finds that outbound travel directly accounts for 1.6% of UK GDP (£22 billion), with a total economic impact through the supply chain of 3.8% of GDP (£55 billion). The research also found that the sector underpins more than 1.2 million jobs across the UK economy and brings in over £6 billion in tax revenue to HM Treasury. Crucially, the report underlines the critical mass of other industries across the UK economy that outbound travel touches, and supports, such as retail, financial services and construction. Furthermore, it highlights the £31.2 billion holidaymakers spend on high streets across the whole of the UK before they embark on their holiday. The longstanding assertion that outbound travel results in a 'tourism deficit' is proven to be a myth.

ABTA strongly believes that all three tourism sectors – inbound, outbound, and domestic – are interconnected and interdependent with shared infrastructure; aviation is absolutely central to the success of the UK's tourism industry

<sup>7</sup> VisitBritain evidence submitted to Aviation APPG inquiry (August 2012) and International Passenger Survey 2011

<sup>8</sup> Office for National Statistics, Travel Trends 2011 (July 2012)

<sup>9</sup> Driving Growth - The economic value of outbound travel (2012)

## **5. Further research – The value of leisure aviation**

ABTA continues to share relevant data and evidence from its Members with the Commission. Where ABTA and the Commission believe there is an evidence gap in relation to the value of leisure aviation, ABTA has commissioned a piece of analytical research which we expect to present to the Airports Commission in late June 2013. The research will consider:

- The total economic contribution of leisure aviation to the UK economy in terms of GVA, GDP, and total tax take to HMT;
- The number and type of jobs that leisure aviation supports directly, and indirectly;
- The broad impact of leisure aviation on connectivity;
- The economic interactivity and reliance of broader aviation on leisure passengers;
- How leisure aviation supports/impacts on the sustainability of routes;
- What additional leisure connectivity would achieve;
- The VFR market.

This analysis should go some way to answering many of the questions asked by the Commission, particularly on the economic importance of routes and connectivity for leisure passengers.

## **6. The importance of hub airports**

The Government and Commission appear to view the five London airports as a whole and not as individual airports which are badly connected, or not connected at all, by surface transport.

ABTA believes there can be only one international hub airport in the UK with a comprehensive route network serving destinations that other airports cannot, supplementing local demand with domestic and international transfer traffic and cargo, and that hub is currently Heathrow. In the long-term, we believe that the UK's hub airport needs to be able to grow to reflect market demand and ensure continued international importance. Heathrow has a unique role as the UK's only international hub airport as emphasised by Heathrow Airport Ltd<sup>10</sup>. The capacity challenge at Heathrow has become increasingly problematic for UK regional airports in establishing links to the UK hub. As acknowledged by the Commission, 18 regional airports were served by Heathrow in 1990, but this has now fallen to only six. If additional capacity cannot be realised at Heathrow then it needs to be found elsewhere.

## **7. Resilience**

London airports do experience problems with resilience and will continue to suffer unless and until capacity issues are addressed. The UK's two largest airports are capacity constrained: Heathrow is currently operating at over 98%. Gatwick is the busiest single runway commercial airport in the world and is operating at around 78% with unused capacity only in the off-peak periods. This leaves little capacity spare for recovery. Resilience therefore has a reputational impact on London's key airports, particularly Heathrow, and this could impact on the choice of customers from around the globe to use the UK's hub airport to connect on onward flights.

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<sup>10</sup> Heathrow: One hub or none: The case for a single UK hub airport (November 2012)

We welcome improvements in recent years in resilience at the London airports but we remain concerned that without further increased resilience measures – including additional capacity - what should be a minor disruption as a result of adverse weather or other incidents can result in a severe delay. Spare capacity is not only essential for jobs and growth but also for efficient management of incidents and delays, however they are caused.

Contrast this with the continental airports at Paris Charles de Gaulle, Amsterdam Schiphol, Frankfurt and Madrid all of which have substantially more runways with the capacity to recover quickly. This gives our continental competition a speedier recovery time in the event of European wide disruption meaning fewer flights are delayed or cancelled and fewer passengers delayed. In essence, their greater capacity reduces the impact on the airport and the wider economy as a result.

There is no room for trade-offs at capacity constrained airports, other than reducing the number of flights, which is completely unacceptable. This is yet another reason to increase runway capacity.

## **8. The implications of failing to provide additional capacity**

The maintenance of a hub airport in the South-East of England will ensure that the UK remains a significant player in the international aviation industry and will ensure future connectivity and global awareness of the UK as a business destination. This needs to be a priority for a revised aviation policy.

If additional capacity is not provided where it is needed, we strongly believe that passengers cannot and should not be cajoled into using airports outside the South-East. Rather, we believe they will begin to use competitor airports in Europe to hub through to reach their preferred destination. The governments of these countries have all demonstrated a much more tangible commitment to future growth and a hub airport, and commercial airlines have seen a market opportunity to direct UK feeder traffic, unable to access Heathrow or Gatwick due to a lack of capacity, to overseas hubs.

London's air travellers are not a monolithic group of travellers to whom direction on which airport to use can be given. Neither the airlines nor travel companies who use certain airports should be directed as to which facility to use and how to operate their business models. The UK, therefore, needs an aviation policy that reflects the different needs, demands and preferences of customers and businesses alike.

## **9. Pricing**

The Commission asks how price-sensitive business and leisure travellers are.

The Department for Transport's<sup>11</sup> estimate of price elasticity for the UK in January 2009 showed that a 10% increase in the price of air travel would result in a 10% reduction in demand from the outbound tourism sector and 2% reduction in demand from the inbound tourism sector. That finding matches both ABTA's and our Members' perception of the price elasticity of demand.

Two key costs which most put passengers off travelling to the UK are those of visas and Air Passenger Duty. APD also has a significant effect on UK residents.

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<sup>11</sup> DfT UK Air Passenger Demand and CO2 Forecasts (January 2009)



### *UK Visitor Visas*

The UK's visitor visa is uncompetitive in terms of cost (£80 compared to €60 for a Schengen visa) with more complicated and intrusive documentary requirements compared to the Schengen visa, which allows access to 26 countries. It is estimated that visa liberalisation could deliver an extra £2.8 billion annual spend from tourism to the UK<sup>12</sup>. The Government has acknowledged the need to improve the visa system to attract more Chinese visitors to the UK and also the need to improve the number of flight connections to China. It is worth noting that the European Commission has commissioned an impact assessment study on a review of the EU visa policy with a view to facilitating legitimate travel to Europe; this applies specifically to the Schengen countries. The cost and effort involved in obtaining a UK visitor visa is influencing visitors' decisions to come to the UK. ABTA believes that departments across Government must work together to implement changes to the whole visa system that ensures robust security measures but facilitates a simpler cheaper visa application process to encourage more people to visit the UK.

### *Air Passenger Duty (APD)*

ABTA believes that the UK's Air Passenger Duty (APD) at its current level – the highest air passenger tax anywhere in the world – is negatively impacting the UK economy. APD places the UK at a competitive disadvantage, putting off inward investment and foreign tourists from visiting the UK, while making family holidays and goods and services more expensive. ABTA, as part of the *A Fair Tax on Flying Campaign*, has been calling for HM Treasury to commission a review into the full economic impact of APD; this has been supported by over 200,000 voters, over 100 MPs and over 100,000 international travellers.

ABTA welcomes the findings of the independent report published by PwC<sup>13</sup> in February 2013 which paints a compelling picture of the economic damage APD is doing. In the absence of a study by HMT, the PwC report is the most authoritative analysis of APD's actual impact. The modelling concludes that while the abolition of APD would cost the Treasury around £3-4 billion per annum through lost revenues, receipts from other taxes would offset the direct cost to the Exchequer. In fact it would lead to an average net positive gain of £250 million per annum for the Exchequer – in other words, the abolition of APD would pay for itself. The additional revenue would primarily come from increased business growth achieved through better trade links and higher employment in the UK economy resulting in an increase in revenues from indirect taxes such as VAT.

ABTA supports urgent action being taken by the Government on the level of Air Passenger Duty and furthermore believe that the level and impact of APD needs to be considered as directly relevant to the future of aviation in the UK.

Thank you for taking our comments into consideration. We would welcome the opportunity to discuss any points raised in our response further with the Airports Commission.

### **Further information**

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<sup>12</sup> Visit Britain estimate

<sup>13</sup> PwC The economic impact of Air Passenger Duty (February 2013)

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