

Aviation Connectivity and the Economy: Response by VisitBritain



April 2013

About VisitBritain

VisitBritain is the national tourism agency, responsible for marketing Britain worldwide and developing Britain's visitor economy. VisitBritain plays a unique role promoting Britain around the world, supporting tourism growth. VisitBritain has been directed by Government to run a £100 million marketing programme across a four year period (2010/11-2014/15). VisitBritain is also a key part of the GREAT Britain campaign, which brings together the Foreign & Commonwealth Office, UK Trade & Investment and the British Council to promote the UK as a GREAT place to visit, invest, trade and study. Together these campaigns aim to attract 4.6 million additional visitors, spending £2.6 billion across the UK, sustaining jobs and supporting economic growth.

On the back of a successful Olympic Games, the Government announced an ambition to attract 40 million visitors a year by 2020 (a 9 million increase on today). This would deliver £8.7 billion in additional spend by overseas visitors annually (at today's prices) and support an additional 200,000 additional jobs across the UK. VisitBritain has developed a clear strategy to deliver on this ambition which will be launched by the Secretary of State for Culture, Media and Sport at the end of April.

Tourism in this response refers to all inbound travel to Britain, whether for recreational, leisure or business purposes, encompassing people visiting Britain for a holiday, for business or to visit friends and family.

Given the specialised nature of its remit, VisitBritain's response to the questions is focused on issues which impact tourism.

Summary of VisitBritain's response

1. Tourism is a key economic sector. Worth £115 billion, it delivers growth and employment across the UK. Aviation is an essential enabler for inbound tourism. 73% of overseas visitors arrive by air and they account for 84% of all inbound visitor spending.
2. As evidenced by the loss of £425 million due to the Icelandic ash cloud in 2010 and the increase in visits from India following liberalisation in 2004-5, there is a strong connection between connectivity and tourism growth.
3. Increased flights and increased ground capacity are necessary for Britain to achieve its full tourism growth potential. By 2030 the UK could earn £78 billion a year in spending from inbound visitors, provided sufficient aviation connectivity to meet demand from international visitors is available. Failure to provide sufficient connectivity means part of this economic benefit will be lost.
4. The UK economy needs to compete in both established and emerging markets. VisitBritain agree that Britain currently enjoys good connectivity to established markets but connectivity to emerging markets is comparatively weak. Connectivity to emerging markets and cities is a critical condition to securing tourism growth in the medium-long term.

5. Indirect connectivity makes an important contribution to Britain's overall connectivity, supplementing and extending direct connectivity. Direct connectivity however remains of paramount importance, both for business and leisure visitors. Direct aviation connectivity produces twenty times more business than a connection that requires a stopover at a hub.
6. Capacity constraints have made aviation a zero sum game: fostering connections with fast growing economies should not be at the expense of Britain's ability to connect with established markets. Substitution is no way of demonstrating a commitment to future economic growth.
7. VisitBritain recognises that measuring connectivity is complex. The availability of flights for overseas visitors, the frequency of flights, the pool of potential visitors and the worth of the market all need to be considered to derive a metric which accurately reflects the strength of Britain's connectivity to different markets from an inbound tourism perspective.

Aviation Connectivity & Tourism

To what extent do you agree with evidence that aviation connectivity supports the UK's economic growth through facilitating tourism?

Tourism delivers– it is a key economic sector which delivers growth and employment. Aviation is an essential enabler for inbound tourism. 73% of overseas visitors arrive by air and they account for 84% of all inbound visitor spending.

Tourism's Economic Contribution to UK plc.

Tourism delivers growth. It is a key economic sector and is well placed to deliver the high-value export-led recovery sought by the Government.

Tourism contributes £115 billion to UK GDP and provides employment for 2.6 million people – around 9% of the UK economy on both measures.¹ It is an important job creator, generating jobs at all skill levels right across Britain. One job in every three created between 2009 and 2011 was in tourism and every £40,000 spent by an overseas visitor to Britain can support a new FTE job.²

The contribution of inbound tourism to the UK economy is growing, despite the tough global economic climate:

- Britain welcomed 31 million overseas visits last year, representing a 1% rise on 2011 and the best year since the onset of the global financial crisis.³
- Overseas visitors spent a record £18.7 billion in the UK in 2012, 4% more than in 2011.
- VisitBritain forecast that the volume of international tourism to Britain will grow by 3% in 2013. This will mean one million extra visitors will come to the UK, spending an additional half billion pounds.

In August 2012 the then Culture Secretary Jeremy Hunt set an ambition for Britain to attract 40 million visitors a year by 2020.⁴ Crucially, this would mean that the UK would earn £31.5 billion a year from inbound tourism. Achieving 40 million visits by 2020 represents a considerable increase compared with current levels and would deliver significant economic benefits:

- £31 billion in overseas visitors spend
- Support for 200,000 additional jobs across the UK per annum

Tourism also delivers wider economic benefits, helping to improve the UK's image overseas and in turn enhancing soft-power. Tourism is one of Britain's strongest sectors both for creating soft power in showing the most attractive side of the UK, as well as translating soft power into hard economic benefit for the UK through visitor spend. Britain's image influences not just whether people come for a week's holiday, but whether they choose to invest in British companies or relocate their businesses here.

Aviation & Tourism

The UK's island geography is the overriding factor in determining how tourists travel to Britain and makes aviation an essential enabler for tourism. 73% of overseas visitors to the UK arrive directly by air. The only tourism markets where non-aviation modes of transport have a significant share are France, Belgium Germany,

¹ Deloitte 2010

² Deloitte & VisitBritain 2011

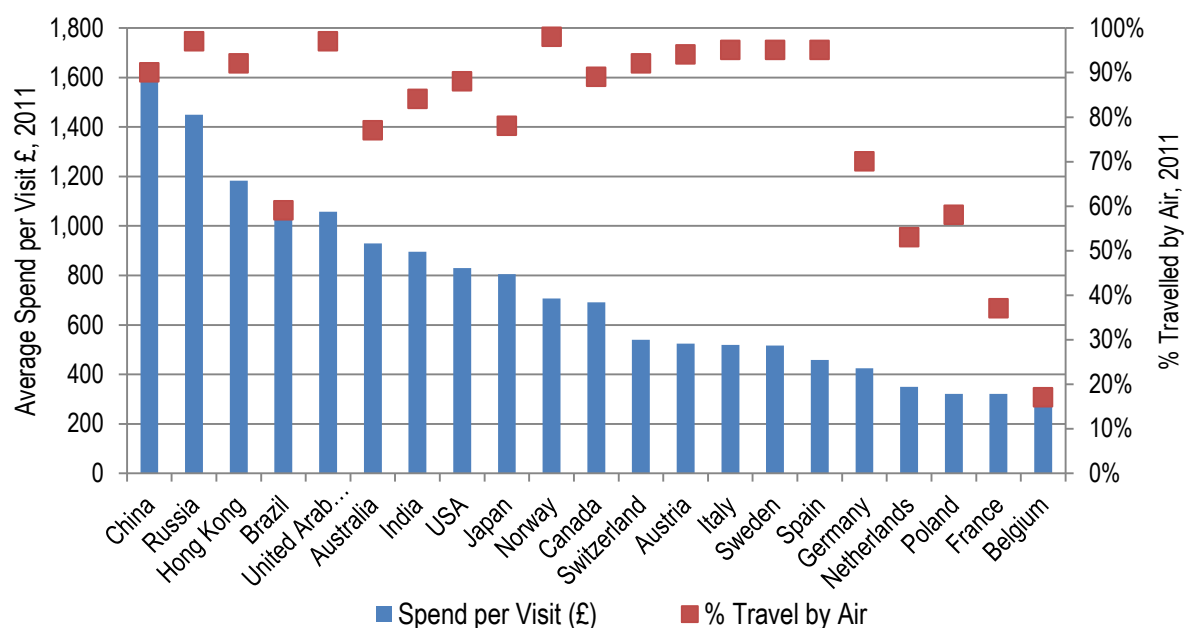
³ International Passenger Survey 2012, ONS (Provisional).

⁴ 'Our Best Ever Tourism Year', Jeremy Hunt speech, 14th August 2012. <http://goc2012.culture.gov.uk/2012/08/2012-our-best-ever-tourism-year-jeremy-hunts-speech-on-tourism-legacy/>

Ireland and the Netherlands where ferries or the Channel Tunnel provide viable alternatives to flying (Figure 1 & 2).⁵ For most visitors the choice is to fly to Britain, or fly elsewhere.

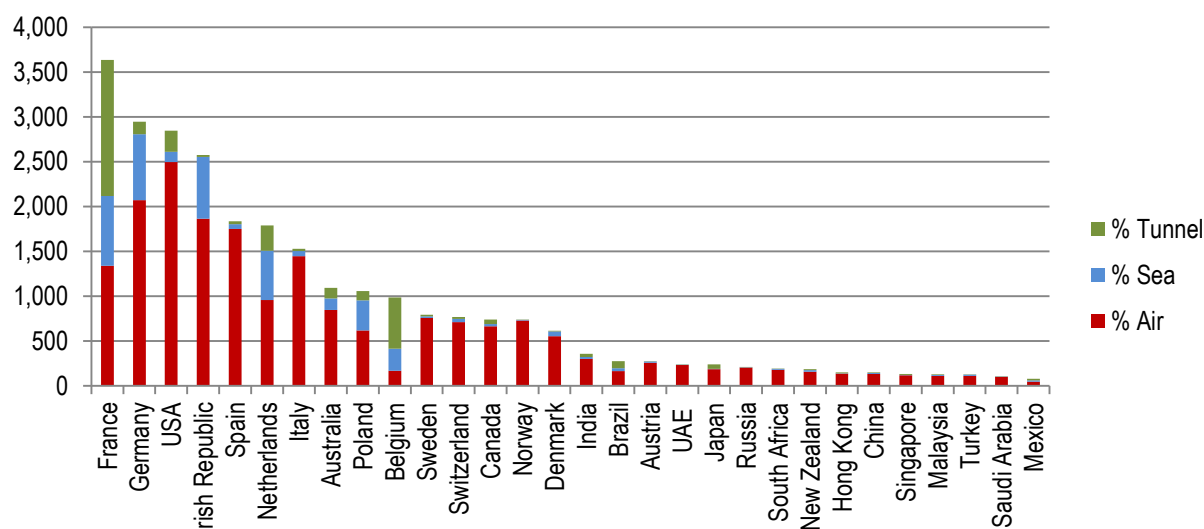
Tourism Economics found that if connectivity is constrained, only a small proportion of the travellers that are unable to arrive by air are still likely to travel to the UK by ferry or tunnel. Potential mode substitution is higher for short-haul European origin markets, but as Figure 1 demonstrates, visitors from these countries have a much lower spend per visit.

Figure 1: Visitor Spend vs. % Travel to Britain by Air



Source: ONS, 2011

Figure 2: Visit Data by Mode of Transport and Size of Market



Source: ONS, 2011

⁵ Some long haul-markets have a lower proportion of visitors travelling by air than is perhaps expected. This is because visitors from these destinations often favour multi-country tours, travelling to Europe by air and continuing to Britain by ferry or the tunnel. 80% of holiday trips by Australian visitors for example are multi-country tours.

Visitors arriving by air spend more per night and more per visit on average than those arriving by other modes of transport, accounting for 84% of all inbound visitor spending. As Figure 3 shows, on average visitors arriving by air have a higher spend per night and a substantially higher average spend per visit.

Figure 3: Visit Data by Mode of Transport

	Visits	Nights	Spend	Av spend per visit	Av spend per night
Air	73%	81%	84%	£669	£80
Sea	15%	12%	9%	£352	£56
Tunnel	12%	7%	7%	£350	£74

Source: ONS, 2011

To what degree can causality between connectivity and tourism be established?

Evidence from the ash-cloud in 2010 and the liberalisation of air services between India and the UK in 2005 suggest there is strong connection between connectivity and tourism.

The importance of air travel to the UK inbound visitor economy was evident in April 2010 when volcanic ash from Iceland resulted in the closure of airspace. VisitBritain assessed the financial impact on the tourism industry as £425 million.

Conversely, the loosening of regulatory constraints governing scheduled air services between the UK and India in late 2004 and mid-2005 shows that increasing connectivity fosters inbound growth.⁶

The memorandum of understanding liberalised a market that had been substantially constrained for a number of years:

- The capacity limit on airlines operating between India and the UK on the routes between Delhi-Mumbai and London Heathrow more than doubled between 2004 and 2006.
- One new destination in the UK (Birmingham) and two in India (Amritsar and Bangalore) increased the number of different city pairs with direct services from five to eight.
- The increase in capacity and competition also resulted in average fares for leisure passengers falling by 17%.⁷

Figure 4 illustrates corresponding increase in inbound visits to the UK over this period:

Figure 4: Connectivity and Inbound Visits following the India/UK bilateral air agreement

	Airline seats	Aircraft departures	Inbound visits to UK (000)	Year on Year Increase	Inbound visits rest of world (000) ¹	Year on Year Increase
2004	781,335	2,135	255	-	27,500	-
2005	1,222,791	3,672	272	7%	29,697	8%
2006	1,819,098	6,102	367	41%	32,346	16%

1) Not including India

Source: Capstats and ONS, 2004-2006.

CAA analysis supports this, showing that overall direct business traffic (both directions) between the UK and India increased by 37% while direct overall leisure traffic increased by 48%.⁸

⁶ Memorandum of Understanding. Government of India and Government of the United Kingdom of Great Britain and Northern Ireland. New Delhi, 13 April 2005. Available at http://www.dgca.nic.in/bilateral/MoU_UK_0405.pdf

⁷ UK-India Air Services: A Case Study in Liberalisation. Civil Aviation Authority.

Whilst direct causality is hard to prove, the evidence suggests that the increase in the frequency and range of flights was a strong contributory factor.

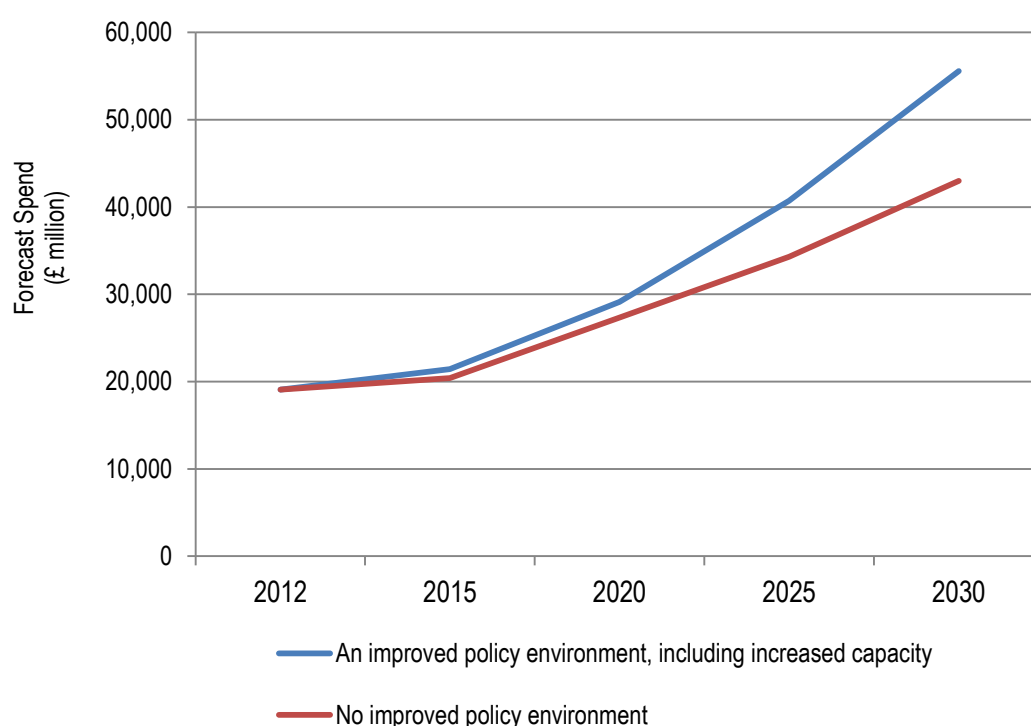
How effectively do you consider that aviation connectivity of the UK may facilitate economic growth now and in the future?

Research commissioned by VisitBritain shows that by 2030 the UK could earn £78 billion a year in spending (in nominal terms) from inbound visitors if there is sufficient aviation connectivity to meet demand from international visitors. Failure to provide sufficient connectivity means part of this economic benefit will be lost.

Tourism Economics has modelled future inbound demand for British tourism under a number of different scenarios (see Annex 1 for more details).⁹ The first assumes that the policy environment becomes more favourable – with the removal of the APD tax and the liberalisation of the UK visa regime. It also assumes increased airport capacity, which would allow the UK to strengthen its connectivity to key markets. The second assumes that no policy changes are made.

Figure 5 illustrates the extent of the influence that policy decisions exert on visitor spend:

Figure 5: Projected Real Spend by Inbound Visitors (2012 Prices)



Source: Tourism Economics, 2012

Total visitor spend is forecast to rise to nearly £43 billion by 2030 should policy remain the same (2012 price). If policy improvements are implemented, this could rise to over £55 billion. This is over £12 billion additional

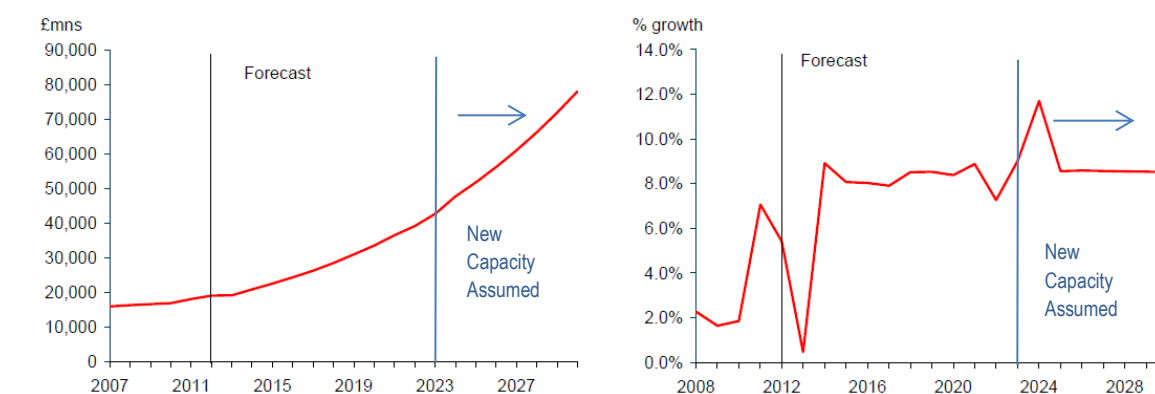
⁸ UK-India Air Services: A Case Study in Liberalisation. Civil Aviation Authority.

⁹ International Demand for British Tourism: Alternative Outlooks. Tourism Economics, and Oxford Economics Company, September 2012.

spending, with a resultant potential for more than 315,000 additional jobs, right across the UK. To put this into context, the UK's current level of unemployment stands at 2.52 million.¹⁰

The modelling assumed that additional runway capacity, and therefore the potential for enhanced connectivity, would come online at the earliest in 2013 and could become fully operational by 2024. As can be seen in Figure 6 below, the forecast suggests this would generate a one off acceleration of growth of visitor spend as connectivity is brought online during 2023, before returning to trend. Growth in spend would then level as no new connectivity is added, continuing at 8%. Growth however would begin from a higher baseline, meaning a greater increase in total spend by visitors.

Figure 6: Impact on Total Spend, Net and % Growth



Source: Tourism Economics, 2012

Are there any other relevant policy issues which should be taken into account?

Visas also place constraints on the ability of people to visit Britain and VisitBritain has developed a detailed policy proposal on visa reform.

VisitBritain's *2020 Growth Strategy* recognises that a number of factors impact Britain's tourism competitiveness. It identifies four key elements need to secure growth:

- Improve Britain's image;
- Increase distribution through the trade in key markets;
- Improve the range of product on offer;
- Make it easier to get here.

The last can only be engendered through policy change. Aviation is not the only policy issue that impacts the ease with which overseas residents can visit the UK. Visas also place constraints on the ability of people to visit Britain and visa reform was also accounted for in Tourism Economics modelling.

A number of key inbound markets are subject to visitor visa requirements, including China, India, Russia and the UAE. These are all high spend markets. The average visitor from the UAE for example spends £1057 per visit, almost the double the average of £584 across all markets.¹¹ Brazil is the only BRIC market not to need a visa for holiday visits and is the UK's fastest growing market.

Visa restrictions directly impact visitor numbers:

¹⁰ Office of National Statistics Labour Market Statistics, March 2013. <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2013/index.html>

¹¹ ONS, 2011

- The requirement for Taiwanese visitors to obtain a visa was removed in April 2009, and visits from Taiwan grew by 40% in 2009.
- Visas were introduced for South African visitors from April 2009. Statistics from the International Passenger Survey indicate that visits from South Africa fell by 11% in the whole of 2009. They fell by a further 15% in 2010.
- 56% of Indian respondents in an Accent study on visas cited problems obtaining a visa as the main reason that visiting Britain was difficult.¹² 61% of those surveyed in a similar study in China who did not want to travel to Britain cited the difficulty obtaining a visa.¹³

Competitors are reforming the design and improving the processing service to attract visitors from lucrative visa markets. New Zealand is the latest to do so. Earlier this month Prime Minister John Key announced that multiple-entry visitor visas for independent Chinese travellers would be extended to 24 months. Britain's competitors, Australia and the US, have similarly implemented reforms.

The Home Office and UK Border Agency have made considerable improvements to the UK visa service in recent years, with the changes to the service in China announced in December 2012 being the most significant. Given Britain's competitive position however, the UK needs to do even better in order to win market share. Britain's position outside Schengen means that it can reform its visa system more quickly and design a service that is significantly better than that of its European rivals. VisitBritain has developed a detailed policy proposal outlining visa changes that, if implemented, would make the greatest impact in support of the Government's growth and prosperity agenda.

¹² Accent, *India Visa Research* June 2011. Available to download from:
<http://www.visitbritain.org/britaintourismindustry/tourismaffairs/visas/>

¹³ Accent, *China Visa Research* March 2012. Available to download from:
<http://www.visitbritain.org/britaintourismindustry/tourismaffairs/visas/>

Connectivity and its drivers

Do you agree with the definition of connectivity presented in the paper?

VisitBritain agrees that connectivity comprises more than the seat capacity or number of flights from one location to another, and that the strength of a connection is determined by a number of factors such as relative cost, the availability of flights and the airports accessibility from passenger's origin and destination.

Tourism is a fiercely competitive business and leisure travel is highly discretionary: potential visitors can choose from a host of different destinations. If a destination proves difficult to access, they can simply choose to fly elsewhere. Connectivity therefore needs to be considered in an internationally competitive context.

When gauging the strength of the UK's overall connectivity the importance of destinations served in terms of their value to UK plc. also needs to be considered.

Do you agree with the assessment of the UK's current aviation connectivity?

The UK's economy needs to compete in both established and emerging markets. VisitBritain agree that Britain currently enjoys good connectivity to established markets but connectivity to emerging markets is comparatively weak.

VisitBritain have identified connectivity to emerging markets as a critical condition to securing tourism growth in the medium-long term. Connectivity to cities also needs to be considered.

Markets

VisitBritain concurs with the assessment that the majority of the best served destinations from the UK are short-haul or transatlantic (with India being a notable exception) and that competitors enjoy considerably better connectivity to emerging markets and the rest of the world.

Connectivity to emerging economies however is critical to secure tourism growth for Britain. Although the majority of growth in both visits and value is forecast to come from established markets in the short term, emerging markets are those with the greatest growth potential in the long term.

The BRIC markets are a case in point. The Brazilian market has already grown by 146% over the last 5 years: the US market declined by 27% in the same period. Spend by international visitors from China in Britain is forecast to grow by 157% by 2020: spend by French visitors is forecast to grow by just 10% in the same period.¹⁴

Emerging markets in the 'rest of world' also play a critical role in delivering growth in tourism to Britain. They are forecast to contribute an additional 3.5 million visitors a year and £14.2 million in visitor spend by 2020. While many of these markets such as Malaysia, Mexico and South Korea are small, the rates of economic growth means that there is potential to influence new travellers to visit Britain and that visitors are likely to be of high worth – contributing to a large overall benefit in spend and visits.

Figure 7 contrasts the forecast growth in the value of a number of key tourism markets to UK plc. in 2020 with current direct seat capacity. This clearly demonstrates that Britain currently has far stronger connections with established markets. While maintaining these links is important as they will continue to provide a high volume and value of visits, these markets offer considerably smaller growth prospects. The growth markets are important for Britain to compete effectively to ensure future prosperity.

¹⁴ ONS, 2006 & 2011 and Tourism Decision Metrics Forecasts.

Figure 7: Markets Growth Potential & Direct Connectivity

Emerging Markets			Established Markets		
Market	2012 Seat Capacity to Britain (Direct Flights)	Potential growth in spend 2020 (%)	Market	2012 Seat Capacity to Britain (Direct Flights)	Potential growth in spend 2020 (%)
Brazil	373804	63%	Austria	907562	25%
India	1397524	38%	Belgium	1132556	31%
Malaysia	316053	86%	Canada	1830224	78%
Mexico	338866	84%	Denmark	1714963	18%
Singapore	1052005	37%	France	6687713	10%
South Africa	804664	46%	Germany	8665812	18%
China	514955	157%	Hong Kong	992462	80%
Russia	715475	75%	Ireland	6919136	28%
South Korea	0	95%	Italy	6692569	-16%
Turkey	2721385	31%	Japan	522923	26%
Gulf Markets			Netherlands	5296250	-5%
Market	2012 Seat Capacity to Britain (Direct Flights)	Potential growth in spend 2020 (%)	Norway	1854066	32%
Kuwait	197758	50%	Poland	2764326	69%
Qatar	671445	51%	Spain	17630377	54%
Saudi Arabia	424942	181%	Sweden	1642617	-7%
UAE	3285022	50%	Switzerland	3989304	22%
			USA	10835237	50%

Sources: Tourism Economics 2012, Capstats, 2012

To ensure the future health of our tourism industry Britain therefore needs to establish and maintain good connectivity to emerging markets such as Brazil and China and take advantage of opportunities in the rest of the world – the rising economies of Asia, South America and Africa.

Cities

Over half the world's current population lives in cities and the UN Population Fund believes that by 2030 over five billion people will live in cities. This concentration of people goes hand in hand with a concentration of wealth and outbound travel. McKinsey estimates that between 2010 and 2025 the world's 600 largest cities will account for 65% of global GDP growth. Indian High Net Worth Individuals will number around 24 million by 2025, concentrated in the eight largest Indian cities.¹⁵ This trend is not confined to emerging powers. In the USA, New York and Los Angeles alone are already the source of almost one million visitors to Britain.¹⁶

Given this concentration of wealth and large populations, an understanding of Britain's connectivity to cities is essential in making a full assessment of Britain's connectivity.

A number of key powerhouse cities are not connected to the UK, as illustrated in Figure 8.

¹⁵ NCAER 2011

¹⁶ ONS, 2011

Figure 8: Seat Capacity to Powerhouse Cities

Bold text: Emerging cities
Normal text: Emerged cities

Rank	GDP	Direct Seat Capacity to UK	GDP Growth ¹	Direct Seat Capacity	Total Population	Direct Seat Capacity to UK	Households with annual income over \$20,000 ²	Direct Seat Capacity to UK	Most Dynamic Cities in 2025	Direct Seat Capacity to UK
1	New York	3149466	Shanghai	237760	Tokyo	522923	Tokyo	522923	Shanghai	237760
2	Tokyo	522923	Beijing	249311	Mumbai	557293	New York	3149466	Beijing	249311
3	Shanghai	237760	New York	3149466	Shanghai	237760	London	N/A	Tianjin	0
4	London	N/A	Tianjin	0	Beijing	249311	Shanghai	237760	São Paulo	262766
5	Beijing	249311	Chongqing	0	Delhi	586197	Beijing	249311	Guangzhou	27884
6	Los Angeles	860200	Shenzhen	0	Kolkata	0	Paris	2813656	Shenzhen	0
7	Paris	2813656	Guangzhou	27884	Dhaka	56030	Rhein-Ruhr	1663902	New York	3149466
8	Chicago	836539	Nanjing	0	Sao Paulo	262766	Osaka	0	Chongqing	0
9	Rhein-Ruhr	1663902	Hangzhou	0	Mexico City	61052	Moscow	627366	Moscow	627366
10	Shenzhen	0	Chengdu	0	New York	3149466	Mexico City	61052	Tokyo	522923
11	Tianjin	0	Wuhan	0	Chongqing	0	Los Angeles	860200	Wuhan	0
12	Dallas	363065	London	N/A	Karachi	51925	São Paulo	262766	Los Angeles	860200
13	Washington DC	703266	Los Angeles	860200	Kinshasa	0	Seoul	249568	Foshan	0
14	Houston	384531	Foshan	0	London	N/A	Chicago	836539	Istanbul	101085
15	São Paulo	262766	Taipei	6624	Lagos	335813	Milan	1869067	Nanjing	0

1) Per capita GDP growth 2007 to 2025 in predicted real exchange rate

2) Households with annual incomes greater than \$20,000 in purchasing power parity terms

Source: McKinsey Global Institute *Urban world: Mapping the economic power of cities*, March 2011, McKinsey Global Institute & Foreign Policy October 2012, Capstats 2012.

This clearly shows that the UK currently enjoys much stronger connectivity to cities in emerged markets to those in emerging markets (marked in **blue**).

Chinese cities serve as a good example: they make up 4 of the top 15 for GDP, 11 of the top 15 for GDP growth, 3 of the top 15 for population and 2 for high income households. In addition, McKinsey Global Institute forecast that by 2025 9 of the top 15 most dynamic cities will be Chinese cities.

Despite their global economic importance and potential for inbound tourism, Britain currently has direct air connectivity with just three cities in mainland China (Beijing, Shanghai and Guangzhou) with Chengdu set to become the fourth when British Airways inaugurates the route in September 2013. Cities such as Tianjin, Shenzhen, Chongqing and Wuhan which are enjoying dramatic growth rates are not currently served by a UK airport.

Connectivity to British cities and regions outside London is also important. Increasing the number of international connections to regional airports would strengthen Britain's overall connectivity, encourage visitors to visit destinations outside London and make Britain more competitive. Germany is the European leader in regional connectivity. Its connections to China for example are excellent, with routes to China from Frankfurt to Beijing, Shanghai, Nanking and Guangzhou, Munich to Beijing and Shanghai and Berlin to Beijing.

There is capacity at British regional airports such as Manchester, Newcastle and Edinburgh and these airports have rightly demonstrated aspiration to grow. A study by York Aviation found that Newcastle airport already brings £57 million per year to the North East via tourism impacts, supporting 1,750 tourism jobs. EasyJet launched a new flight to Amsterdam from the airport in December 2012, estimating that it would deliver 30,000 Dutch visitors to the region in 2013. Emirates connection between Newcastle International Airport and the UAE

which began in 2007 demonstrates the value long-haul connectivity can bring to a region. Due to its extensive onward connections the route has enabled visitors from 152 different destinations to fly to Newcastle via 1 stop in Dubai. The value of exports shipped via the Airport is £173.6m per annum. Of this, £150m is carried on the Emirates service, which highlights the transformational effect a single long haul scheduled service can have.

VisitBritain supports a programme of route development at regional airports between first and second cities.

What factors do you think contribute to the fact that the UK is directly better connected to some regions of the world than others?

The shape of the UK's current connectivity is the result of a number of factors:

- Britain's geographical location makes Britain a natural aviation hub for traffic between South Asia, the Middle East and the Americas;
- Proximity to major centres of population is clearly a major factor;
- Historical ties play an important role. Due to airport capacity constraints connectivity is still focused on Britain's historic trading partners and tourism markets rather than emerging ones;
- Commonality of language helping to explain links to the US and Australia;
- Trade is another key factor – cities with which trade ties are strong are likely to have better connectivity to Britain than those where trade ties are weak.
- Britain is also connected to many places thanks to demand for outbound rather than inbound travel. Many airports around Britain for example have flights to the Spanish Islands, but the traffic is fairly unilateral;
- The diversity of the UK population also impacts connectivity. The *Pakistan International* (PIA) flight to Leeds Bradford for example is largely due to the large Pakistani population in West Yorkshire;

To what extent do you consider indirect connectivity to be an important part of presenting an accurate picture of the UK's nature of connectivity?

Indirect connectivity makes an important contribution to Britain's overall connectivity. It is essential in providing a connection where no direct connection exists (for example to Indonesia) and increases the total number of flights available to those wishing to visit Britain, in effect expanding Britain's route network.

Indirect connectivity provided by Middle Eastern hubs serve as a good example. Total figures for the region are quite staggering; seat capacity into the hubs from Asia-Pacific markets has risen by 230% since 2006 and rose a further 6% in 2012, representing an additional 7.5 million seats since 2006 and 600,000 in 2012.

A crude but illustrative measure of the connectivity potential this offers is the number of people living within the vicinity of target market airports in Asia-Pacific who have the possibility of flying to Middle Eastern hubs and, by extension, onwards to Europe. Figure 9 takes into account populations local to airports that either have direct flights (or one flight code, if stopping to refuel) to Europe and to the Middle Eastern hubs:

Figure 9: Potential market population connected with Europe¹⁷

Population of Cities with Hub Connections or Direct Flights to Europe (m)				
Asia Pacific Market	Flights via ME and Direct	Flights via ME Hubs Only	Direct Flights Only	Total
Australia	7.4	4.4		11.8
China	53.7	2.8	23.6	80.1
Hong Kong	9.8			9.8
India	92.5	14.8		107.3
Japan	56.3		13.3	69.6

Source: Capstats 2012, World Gazetteer 2012 & 2013.

Whereas direct seat capacity from major cities such as Beijing, Delhi, Sydney and Tokyo to Europe is much higher than that to the Middle East, other populous cities such as Bengaluru (almost seven million citizens) and Guangzhou (nearly six million) currently have more capacity to the Middle East than direct to Europe.

Britain's current connectivity to Middle Eastern Hubs is robust: not only does Britain have by far the highest seat capacity from the three Middle Eastern hubs of any European country, but it also has the largest number of connected destination airports. This means that, should they wish to come to Britain, visitors from our Asia-Pacific target markets are well served by the presence of the Middle Eastern hubs.

Our competitors in Europe however are also benefitting from expansion of the Middle East's hubs, and at a much faster pace than Britain, whose market share on Middle Eastern routes has been dealt a large dent in recent years. High capacity alone will not suffice in trying to win visitors and the vast choice of European destinations that the Middle Eastern hubs are putting within one stop of various Asia-Pacific cities is sure to intensify competition, even as numbers of potential visitors increase. This works particularly to the benefit of countries which have no or few direct connections with the region, such as Ireland, Spain and Sweden.

While indirect connectivity supplements and extends Britain's connectivity, offering an alternative source of capacity, direct flights remain important, both in terms of increasing the degree of connectivity, but also for passenger convenience.

Work by Frontier Economics found that direct aviation connectivity produces twenty times more business than a connection that requires a stopover at a hub.¹⁸ The same study estimated that the lack of direct flights to emerging markets may already be costing the economy £1.2 billion a year, and the value of the missed opportunity to the UK economy by 2020 could be as much as £14 billion. This is echoed in a British Chambers of Commerce survey of business leaders in five high growth markets – Brazil, China, India, South Korea and Mexico. 92% said that *direct* flights were important to their inward investment decisions, and 67% said that better connections from their home country to France, Germany and Holland mean they are more likely to do business with those countries rather than the UK.¹⁹

Direct connectivity is also important for the leisure market.

The attractiveness of a destination is in part reliant on how easily accessible it is. In terms of aviation connectivity this means the relative frequencies of flights, length of travel, cost and if travelling indirect, the ease of transit process.

¹⁷ All data is based on connections with more than 100 departures per year to represent regular connections (i.e. at least two flights per week)

¹⁸ Frontier Economics, *Connecting for Growth: The Role of Britain's hub airport in economic Recovery*, September 2011

¹⁹ British Chambers of Commerce, 26 January 2012 <http://www.britishchambers.org.uk/press-office/press-releases/uk-will-miss-out-on-investment-because-of-poor-air-connections120126.html>

Figure 10 contrasts direct and indirect return flights from Rio de Janeiro to London. This clearly shows that flying indirect is considerably more inconvenient for passengers – with the outbound flight being over three times as long. Furthermore, while flying indirect is cheaper, it is not significantly so– flying via an alternative hub adds cost to the flight as a result of airline charging models, airport costs (for e.g. departure taxes and security fees) and the greater cost in aviation fuel, which is a major component of ticket prices.

Figure 10 also shows the price and length of return flights from Bogota in Columbia. There are currently no direct flights from Columbia to Britain – despite it being one of the six CIVET countries.

Figure 10: Comparing Direct and Indirect Flights: Long Haul ²⁰

From	To	Price	Time to Britain	Stops	Return Time	Stops
Rio De Janeiro Internacional	London Heathrow	£1,016	11h10	Direct	11h40	Direct
Rio De Janeiro Internacional	London Heathrow	£948	37h48	2	15h25	1
Bogota	London Heathrow	£849	25h06	2	17h19	1

The advantages of direct connectivity are even more pronounced for short haul flights, as illustrated in Figure 11 which compares flying direct and indirect from Milan to London. For just £10 more, a passenger saves 20 hours and 55 minutes.

Figure 11: Comparing Direct and Indirect Flights: Short Haul ²¹

From	To	Price	Time to Britain	Stops	Return Time	Stops
Milan Linate	London Heathrow/Gatwick	£140	2h15	Direct	1h55	Direct
Milan Linate	London Heathrow	£130	9h25	1	15h40	1

This shows that indirect connectivity is arguably more burdensome for short-haul leisure visitors due to the proportion of the overall journey time than transiting consumes. If the direct connection were not available, passengers wishing to travel from Milan to London would be much less likely to do so.

²⁰ All figures cheapest available fare based on 1 adult flying to Britain on the 31st August and returning to Brazil on the 7th September. Prices as of the 18th April 2013.

²¹ Ibid. The £140 return flight arrives in Heathrow, while the return flight is to London Gatwick.

Future Aviation Objectives

What is the best approach to measuring the UK's aviation connectivity?

Measuring aviation connectivity is complex. A number of facets of connectivity need to be considered to derive a metric which accurately reflects the strength of Britain's connectivity to different markets from an inbound tourism perspective.

Flights data is clearly key:

- **The availability of flights for overseas visitors:** this can be measured using direct seat capacity to the UK. Seat capacity from some destinations is primarily occupied by returning Britons, leaving little capacity available for overseas residents (such as flights from Ibiza). To get an accurate picture of the availability of flights it is therefore important to also factor the ratio of inbound / outbound passengers.
- **The frequency of flights:** this can be measured using annual or weekly seat departures.

A good metric also needs to reflect the size of the pool of potential visitors who can afford to travel to Britain, and the worth of those visitors to UK plc.:

- **Pool of potential visitors:** The number of people who live within two hours of an airport with direct connections to Britain can be used to measure this. This variable also reflects ease of access.
- **Worth of Market:** this can be measured in GDP per capita. Alternatively, market average spend per visit or per night can be used.

The equation below factors some of these facets:

$$\text{Britain's connectivity} = \frac{\text{population within two hours of an airport} \times \text{annual departures} \times \text{seat capacity}}{\text{GDP per Capita} \times \text{ratio inbound / outbound passenger numbers}}$$

Figure 12 applies this metric to 4 important tourism markets. While the overall scores are high, it is relative relationship which is illustrative. This clearly shows that Britain has a much stronger connection to the USA and Germany than to China.

Figure 12: Connectivity Metric Results

Country	Population near airport with direct connection (millions) ²²	Annual departures 2012 ²³	Seat Capacity to Britain 2012 ²⁴	GDP per Capita 2012 ²⁵	Inbound/outbound ratio ²⁶	SCORE
China (mainland)	40.48	1819	515433	9,146.4	0.46	159,680,707,517,559
USA	135.63	40884	10963601	49,802.1	0.88	2,664,361,257,218,620,000
UAE	3.19	9500	3285838	48,992.5	0.43	2,118,686,210,246,220
Germany	38.72	61782	8670024	39,058.8	1.2	972,114,995,960,325,000

Reflecting the importance of cities as outlined on page 10, another measure of connectivity would be to compare

²² 2013 calculations sourced from world gazetteer. City populations or (where available) metropolitan populations used.

²³ Annual departures for 2012, sourced from Capstats

²⁴ Seat capacity to Britain for 2012, sourced from Capstats

²⁵ GDP per capita based on PPP, \$Int, sourced from IMF

²⁶ Inbound/outbound ratio calculated by dividing 2011 inbound visits by 2011 outbound visits, sourced from ONS.

seat capacity and annual flights to Britain to the population of each of the world's 100 largest conurbations. This measure could also be used to assess Britain's competitive position, simply by adding columns showing connectivity from each conurbation to top competitor markets. This highlights that many of the leading global metropolises such as Jakarta and Tianjin have limited or no access to Britain.

What kinds of impact do you consider capacity constraints to have on the frequency and number of destinations served by the UK?

Capacity constraints have a direct impact on the range, frequency and convenience of connections available. The lack of spare capacity at Heathrow in particular means that new routes to emerging markets, which are reliant on a hub model to be economically viable, are harder to establish as there is a lack of slots and new flights are substituted for existing routes which are providing an immediate return for airlines.

As noted previously, the lack of direct connections to China is a competitive weakness for Britain. There is scope for growth:

- Under the terms of the 2011 Air Services Agreement between China and the UK, each country is able to operate up to 31 services per week to up to six points in either nation. In practice however Chinese and UK airlines only operate 20 services per week.
- There is demonstrable demand for new routes to Britain from China. China Airways has opened a new route to London Gatwick, China Southern has added a new route direct from Guangzhou to Heathrow airport and Chengdu is set to become the fourth Chinese city with direct connections to Britain when British Airways inaugurates the route in September 2013.

Capacity constraints at Heathrow are a major factor inhibiting the delivery of additional direct flight capacity. Slot allocations are limited, and the market drives airlines to use their aircraft in the most commercially efficient ways possible. New air routes often operate at low load-factors which mean that they are usually unprofitable for a period. APD and high fuel costs exacerbate this problem.

Whilst there is additional capacity at other South East and regional airports, DfT reports that in air service negotiations Chinese airlines are overwhelmingly focused on securing access to Heathrow alone. If they are unable to do so then they are likely to choose another major European airport, not a UK regional airport.

This has an obvious impact on the number of direct flights available to the UK as a whole. A secondary impact is that the UK's direct flight access to China is heavily dependent on UK carriers. The UK has the lowest proportion of Chinese airline-operated air services; only 18%. The total is 46% at Frankfurt. This, combined with non-policy barriers to entry for Chinese airlines seeking access to the UK results in a situation where the UK is effectively being bypassed as the three major Chinese airlines – Air China, China Southern and China Eastern – develop their European route networks. These Chinese airlines have extensive networks within China, each serving three or four hub airports and a wide range of secondary cities.

Increasing access to the UK for Chinese airlines, building marketing relationships with them, and tapping into their extensive domestic Chinese route networks should be strategic priorities for the UK in increasing access from China.

Britain's poor connectivity to Brazil is also noteworthy since capacity constraints operate both in London and in São Paulo. This shows that securing new connections is not merely reliant on UK capacity, but is part of a complex international picture. Where capacity constraints exist at the time that a departure is necessary to serve convenient arrival and departure times, operational issues such as night flights become more important.

To what extent do you consider that the need for additional connectivity may support the argument that additional capacity is required?

There is a strong connection between connectivity and capacity – in simple terms, the need for additional connectivity can only be met if additional capacity is available.

Heathrow, which operates at 99% capacity, serves as a good example of how limited capacity has a detrimental impact on the number of routes served.

Ultimately, it is airlines who determine which routes are flown and therefore overall connectivity. This depends on the profitability of routes. The lack of spare capacity at Heathrow means that new routes to emerging markets, which may have long term economic potential for airlines, are substituted for existing routes which are providing an immediate return. This reduces Britain's overall aviation network.

Capacity constraints at London airports do not necessarily mean that routes from emerging economies go to airports outside the South East: instead they often go to competitor European cities.

Capacity constraints have made aviation a zero sum game: fostering connections with fast growing economies should not be at the expense of Britain's ability to connect with established markets. Substitution is no way of demonstrating a commitment to future economic growth.

Further Information:

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

For further information please contact:

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Annex – Tourism Economics Modelling

Tourism Economics modelled four potential scenarios:

- A1: Best case scenario (good marketing strategy, improved policy)
- A2: Status quo extended scenario (good marketing strategy, current policy)
- B1: Mixed scenario (bad marketing strategy, improved policy)
- B2: Worst case scenario (bad marketing strategy, current policy)

The modelling assumed that additional runway capacity is constructed and comes into operation in 2023, and is fully operational by 2024. No explicit assumptions were made about where the runway capacity would be added but it was presumed likely that it would be in South-East England where airports are under greatest pressure and running at higher utilisation rates.

While improved air capacity, including new runway construction, is not the only policy improvement this modelling accounts for (the others being visa liberalisation and APD tax), it was deemed to be necessary to fully realise the benefits of other policies.

		2011	2012	2015	2020	2025	2030
A1: An improved policy environment, including increased capacity	Visitors ('000)	30628.6	32480.8	35197.3	42091.0	51576.9	61932.6
	- annual average % growth		6.0%	1.6%	3.6%	4.1%	3.7%
	Total spend (£million)	18091.7	19073.8	22555.9	33563.3	51820.6	78102.3
	- annual average % growth		5.4%	3.4%	8.3%	9.1%	8.6%
	Real spend (£million, 2012 price)	18591.6	19073.8	21442.2	29120.4	40722.4	55589.4
	- annual average % growth		2.6%	2.4%	6.3%	6.9%	6.4%
A2: No improved policy environment	Visitors ('000)	30628.6	32480.8	33752.3	39832.1	44540.7	49713.2
	- annual average % growth		6.0%	0.8%	3.4%	2.3%	2.2%
	Total spend (£million)	18091.7	19073.8	21477.3	31486.3	43670.8	60387.5
	- annual average % growth		5.4%	2.4%	8.0%	6.8%	6.7%
	Real spend (£million, 2012 price)	18591.6	19073.8	20416.8	27318.3	34318.0	42980.9
	- annual average % growth		2.6%	1.4%	6.0%	4.7%	4.6%
Difference	Visitors ('000)		N/A	1445.0	2258.9	7036.2	12219.5
	- annual average % growth			0.8%	0.3%	1.9%	1.5%
	Total spend (£million)		N/A	1078.6	2077.0	8149.8	17714.8
	- annual average % growth			1.0%	0.3%	2.3%	1.9%
	Real spend (£million, 2012 price)		N/A	1025.4	1802.1	6404.4	12608.6
	- annual average % growth			1.0%	0.3%	2.3%	1.8%