FLYING IN THE FACE OF JOBS AND GROWTH:
HOW AVIATION POLICY NEEDS TO CHANGE TO SUPPORT UK BUSINESS

OCTOBER 2011

British Chambers of Commerce

ABOUT US

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Acknowledgements

This report was produced with contributions from ABTA, ADS, AICES, Airbus, AOA, BAA, BAR UK, BATA, British Airways, and Virgin Atlantic Airways.

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Printed on paper from a managed sustainable source.

CONTENTS

FOREWORD

BY JOHN LONGWORTH

John Longworth

The UK is emerging from the longest recession since 1945. The financial shock of 2008/2009 and consequent global downturn led to six consecutive quarters of contraction. The recession's depth, and the structural problems that followed, have brought the need for action into sharp focus.

With public finances straitened and consumer spending depressed, all eyes are on the private sector to blaze a trail back to prosperity. The onus is on creating a strong, re-balanced economy, powered by exports of goods and services.

Successive policy makers have searched for the interventions that will allow the UK to maintain and improve its competitive position. In this story, the quality and extent of the UK's transport network emerges as a continual theme among experts and businesses alike.

All modes of transport serve business, but it is air transport that businesses rely on to get their employees and goods quickly to distant markets.

Identifying the link between air travel and economic performance is easy. What's harder is to understand how that link works, and how the Government must design aviation policy, if it is to play its full part in ensuring economic recovery. These are the questions that this report deals with.

Despite stating it is not anti-aviation, in the last year we have seen the Government abandon an Air Transport White Paper widely applauded for its long-term clarity, with Ministers citing their cancelling of its key projects as an early success.

But 2010 also saw an announcement that aviation policy was to be fundamentally re-drawn. The Government now has a simple choice. It can set a bold, long-term aviation policy that serves our businesses and boosts economic recovery. Or it can mark time and meander its way to a more anodyne result.

UK businesses do not believe we have the luxury of such time. On aviation policy the Government must act now. And in this report we make five key recommendations on what that action should entail.

John Longworth
Director General
British Chambers of Commerce

EXECUTIVE SUMMARY

INTRODUCTION

This report sets out how aviation serves our members in driving growth, what business needs from air travel, and how the Government can design aviation policy to achieve this. In doing so it surveys the latest expert opinion on how aviation underpins the economy, draws on a series of in-depth case studies and presents new economic analysis on how Government aviation policy options could affect jobs and growth in the economy.

HOW DOES AVIATION HELP BUSINESS CREATE JOBS AND GROWTH?

Air freight delivers goods, especially high value goods, quickly, across long distances. Some 40% (by value) of the UK's exports go by air[i]. Air-freighted shipments between Europe and Asia have increased by an average of 10% a year since 1991[ii]. This sharp rise reflects businesses' reliance on aviation to trade with high-growth economies like China and India. Vital express freight services often take place during the night, allowing, for example, "Just in Time" (JIT) delivery, which has delivered over £6 billion a year in efficiencies through reduced stockholding[iii].

But air transport moves people as well as goods. Businesspeople fly for many reasons: to close business deals, meet customers and invest in employees. Work by the Civil Aviation Authority (CAA)[iv] found a strong (0.87) coefficient of correlation[v] between the countries businesspeople travel to, or from, and the UK's success in trading with them. In work by economic consultants, Oxford Economics[vi] , some 80% of firms reported that air services were important for the efficiency of their production – with higher scores in China and the USA.

Good connectivity is also vital to attracting inward investment. The UK has been one of the most successful countries in Europe in attracting Foreign Direct Investment (FDI). Our stock of FDI increased from £294 billion in 2000 to £654 billion in 2009[vii]. The importance of air links to underpin this is shown in many of the expert surveys reviewed for this report. For example, the European Cities Monitor[viii] shows that 51% of companies it surveyed thought that international transport links were an important factor in deciding where to locate. After easy access to markets, availability of qualified staff and quality of telecommunications, air links were the most important factor when companies decide whether to invest in the UK. Oxford Economics[ix] looked in detail at the risks of poor connectivity. In their work, 8% of companies reported that the quality of air transport links had been material in a decision not to invest in the UK. The same study[x] also included an Express Freight survey which showed that around 10% of firms would relocate from their strategic location close to the East Midlands Airport freight

i. Department for Transport (2009), 'The Air Freight End-to-End Journey
ii. Boeing (2010), 'World Air Cargo Forecast 2010-2011'
iii. Sir Rod Eddington (2006), 'The Eddington Transport Study'
iV. CAA (2010) 'Flying on Business: A study of the UK Business Travel Market'
V. Statisticians use this coefficient, known as R2, to measure how well one measure can be predicted by another. Its value varies between 0 (no correlation) and 1 (perfect correlation)
Vi. IATA (2006), 'Economic Briefing Number 3 – Airline Network Benefits'
Vii. Office for National Statistics (August 2011) , 'Business Monitor MA4' [Online]
Viii. Cushman and Wakefield (2010), 'European Cities Monitor'
iX. Oxford Economic Forecasting (2006), 'The Economic Contribution of the Aviation Industry in the UK'.
X. Oxford Economic Forecasting (2006), Op. cit

hub (and potentially from the UK) if international next day delivery services were no longer available.

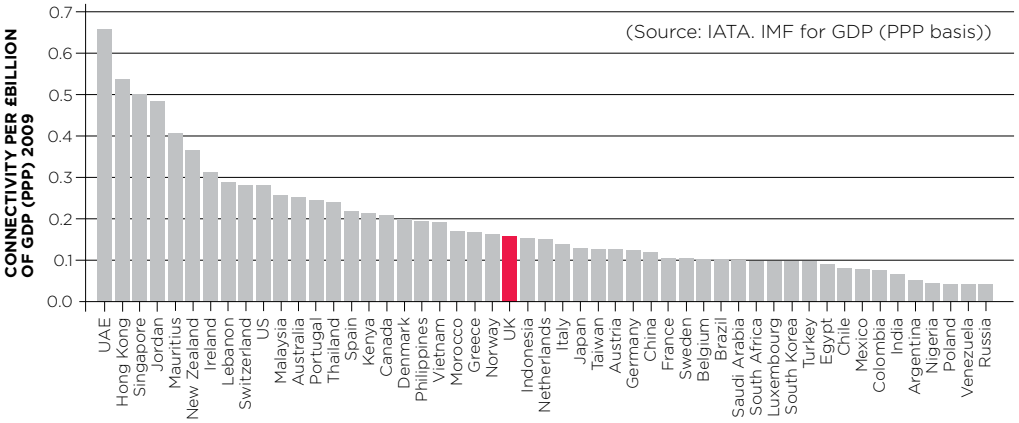
Aviation also drives growth in tourism, the UK's sixth largest industry. A recent study by Deloitte[Xi] concluded that tourism boosted the UK economy by £115 billion in 2009, about 8% of UK GDP. While other modes of transport can have a significant role for European tourists, it is aviation that is the critical enabler for UK tourism businesses. Some 72% of inbound visitors arrive in the UK by air[Xii]. And they spend more than those arriving by other modes of transport, accounting for 83% of all inbound visitors' spend[Xiii].

WHY THE UK NEEDS MORE CONNECTIVITY

There is broad consensus among experts that connectivity is vital to innovation and international trade. Yet Oxford Economics[XiV] found recently that, in proportion to the size of its economy, the UK does not rank as highly as it could on air connectivity.

Other recent work by Frontier Economics[XV] finds that UK businesses trade 20 times as much with emerging market countries that have a direct daily flight to the UK, 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. This loss could reach £14 billion in the next ten years. Conversely, Oxford Economics[XVi] analysed the relationship (known as elasticity) between air connectivity and productivity. It estimated a 10% air connectivity improvement would boost growth by some £890 million every year.

The 'Governments Tourism Policy'[XVii], published in March 2011, sets out an ambition to grow inbound and domestic tourism, returning the UK to the top five most competitive visitor economies in the world. VisitBritain[XVIii] forecasts that there is huge potential for inbound tourism to Britain in the years to 2020. Most striking is the potential for high growth in relatively new tourist markets such as India and China.



Xi. Deloitte 2010),'Economic Contribution of the Visitor Economy: UK and the Nations'
Xii. ONS (2010) 'International Passenger Survey'
Xiii. ONS (2010), Op. cit.
XiV. Oxford Economics (2011), 'Economic Benefits from Air Transport in the UK'
XV. Frontier Economics (2011), 'Connecting for growth: the role of Britain's hub airport in economic recovery'
XVi. Oxford Economics (2011), Op. cit.
XVii. Department for Culture, Media and Sport (2011) 'Government Tourism Policy' [Online]
XViii. Visit Britain / Tourism Economics (2011)

POTENTIAL TOURIST VISITS TO UK (000s OF VISITS)

FROM	2011	2015	2020
INDIA	380	580	800
CHINA	130	190	290
FRANCE	3,700	4,200	5,100
GERMANY	3,000	3,500	3,900
RUSSIAN FEDERATION	170	190	180
BRAZIL	200	230	230
UNITED STATES	2,900	3,900	4,800

(Source: Tourism Economics 2011)

But these projections assume no barriers to visits. Figures from www.capstats.com and VisitBritain show that between 2006 and 2010 airline seat capacity from international origin markets to the UK increased by 2.9%. In comparison, international seat capacity to France has increased 6.3%, while in Germany capacity has risen 5%.

To achieve the UK's full potential in tourism, our airports would need the connectivity to receive some 200 more flights a day by 2020. The tourism sector will only achieve this potential if all factors are favourable, including Government aviation policy.

WHY BUSINESS NEEDS COMPETITIVE AIR TRANSPORT PRICING

For those flying to do business, there has been a softening of the boundaries between the traditional business and leisure segments of the market. In a recent analysis of business travel[xix], the CAA analysed these trends. It presents data showing how an increasing number of business travellers make use of economy tickets and summarises the trend as follows:

> "Against a background of tighter travel policies, short haul business passengers are now more likely to choose 'best fare on the day', despite any penalties for re-booking, because of the potential savings."

Bank of England analysis[xx] shows that when higher technology sectors increase their prices relative to their competitors, the effect on exports is especially marked. Oxford Economics[xxi] used this analysis to calculate that if UK pharmaceutical manufacturers had to raise their prices by 1%, and their foreign competitors did not, the proportional effect on exports would be more than double - some 2.2%. Similar disproportionate effects would occur in other export sectors.

DESIGNING AVIATION POLICY TO HELP BUSINESS DELIVER JOBS AND GROWTH

Boosting connectivity and business travel has three broad levers: increasing the range and frequency of flights, ensuring sufficient airport

XiX. CAA (2010), Op. cit.
XX. Bank of England (2006), 'Q3 Quarterly Bulletin: UK export performance by industry'
XXi. Oxford Economics (2008), 'Economic Impact of the Proposed Aviation Duty on the Express Delivery Industry and UK Economy'

infrastructure, and keeping air transport prices competitive.

When an airline determines the range, frequency and pricing of routes, it considers: the efficiency of its own operations, other commercial factors (such as airport charges, exchange rates or fuel prices), and political and regulatory factors. Businesses can act, and are acting, in the first two of these areas. But it is the Government and Regulators who must act in the third.

To inform the recommendations made in this report, the BCC asked economic consultants, Oxera, to carry out analysis on how a range of aviation policy options would affect the UK economy, in terms of jobs and growth.

Oxera analysed three separate, but complementary, relationships. It estimated the effect of changes in the amount, or price of, air travel on Gross Domestic Product (GDP) – measured as Gross Value Added (GVA). It then used data about labour productivity in the aviation sector to estimate effects on employment figures.

The three types of relationship Oxera considered were: connectivity, trade and investment effects. While each of these tries to analyse the same ultimate effect - policy changes on economic performance, the estimates are best considered as three different windows on the same world.

OVERALL AVIATION POLICY, AIRPORT INFRASTRUCTURE, AND THE PLANNING REGIME

The most recent traffic forecasts from the DfT project that, by 2030, passenger numbers at UK airports will grow to 335 million[xxii]. This means making the best use of existing airports and the provision of additional capacity through the development of terminals, runways and other infrastructure.

Moreover, with the Government's abolition of the regional layer in the planning system, there is a clear tension between local concerns about aviation development and the benefits accruing at regional and national levels. Without careful thinking, this could lead to the delay and rejection of airport developments that could significantly boost the economy, and with it jobs and growth.

Enabling aviation to support UK businesses will require bold and strategic decisions from the Government both on airport infrastructure and the planning regime.

Oxera looked at two scenarios set-out in a recent DfT report[xxiii], which costed possible policy levers to deal with aviation's carbon emissions. The scenarios were capping the number of flights from UK airports at 3% below today's levels and allowing only future airport developments that already have planning permission. The results are shown overleaf:

XXii. Department for Transport (2011) 'UK Air Passenger and CO2 Demand Forecast'
XXiii. Department for Transport (2011), 'Government Response to the Committee on Climate Report on Reducing CO2 Emissions from UK Aviation to 2050

POLICY SCENARIO	CHANGE TO GROSS VALUE ADDED IN UK ECONOMY (£m)		
	2015	2020	2030
GOVERNMENT CAPS FLIGHTS AT 3% BELOW TODAY'S LEVELS	-100 TO-1,700	-180 TO -2,900	-560 TO -8,900
NO NEW PLANNING PERMISSIONS FOR AIRPORT DEVELOPMENTS	-60 TO -950	-80 TO -1,300	-300 TO -5,000

POLICY SCENARIO	CHANGE TO JOBS IN UK ECONOMY (000's)		
	2015	2020	2030
GOVERNMENT CAPS FLIGHTS AT 3% BELOW TODAY'S LEVELS	-2 TO -39	-4 TO -68	-13 TO -210
NO NEW PLANNING PERMISSIONS FOR AIRPORT DEVELOPMENTS	-2 TO -22	-2 TO 30	-7 TO -112

Were the Government to cap flights or place restrictions on planning permission for new airport infrastructure, there would be serious consequences for the economy. By 2015, losses to the UK economy could already run into billions of pounds and tens of thousands of lost jobs. These would be worse by 2020, when lost growth in the economy could reach, in the worst estimate, close to £3 billion. By 2030, foregone growth could run close to £9 billion with more than 200,000 jobs foregone. It is essential that the Government designs aviation policy to make the best use of existing infrastructure and facilitate developments where they are needed.

RECOMMENDATION 1:

If aviation is to help UK businesses deliver sustained economic growth, provision of air transport services will need to grow too. This means making the best use of existing airports, and the provision of additional infrastructure, while addressing aviation's environmental impacts.

Enabling aviation to support UK businesses will require bold decisions from the Government. These will need to be strategic decisions both on where airports can be expanded and how flights to and from them should be regulated.

A key concern for business is the regulation of night flights, where the Government must ensure that business is not disadvantaged in its ability to access the international market place.

RECOMMENDATION 2:

The BCC urges the Government to make firm strategic decisions to make best use of existing infrastructure and deliver new aviation capacity. We support the Government's pro-growth approach to planning set out in the draft National Planning Policy Framework (NPPF).

Government Ministers must also adopt the same approach when changes to the major infrastructure planning regime come into force in 2012. Proposed provisions to introduce a duty to cooperate on Local Authorities must be strengthened, in order to ensure that Local Authorities work together to look beyond their own areas and take a wider view of strategic projects.

The Government should set clear criteria to ensure that approval of Local Plans is contingent on Authorities working jointly on matters of strategic economic interest.

RE-THINKING AIR PASSENGER DUTY (APD), DEALING WITH CARBON AND CUTTING RED TAPE

Government policy affects the competitiveness of air transport. Air Passenger Duty (APD - the UK's departure tax) has increased between 140% and 325% since 2007, and its top rate is some 8.5 times the average of other countries in Europe that still levy a charge. Many European countries – including Belgium, Holland and Denmark – have abandoned their aviation taxes, due to the negative effects on their economies. Moreover, the Government will receive a new source of direct revenue from aviation entering the European Union's carbon Emissions Trading Scheme (EU ETS) in 2012.

While auction revenues from EU ETS amount to additional taxation, dealing with carbon inevitably has a cost. The BCC wants to see the aviation sector deal with carbon thoroughly, but also cost-effectively. The Government's recent publication in response to the Committee on Climate Change (CCC) Report[xxiv] on aviation emissions shows clearly that a UK unilateral solution, rather than an international approach, is more expensive for aviation, and ultimately for UK businesses. Moreover, by taking an incentivising approach, the Government could assist the aviation industry to decarbonise and boost the UK economy.

Regulation of business also directly affects costs and competitiveness. Aviation, where safe operation is vital, is heavily regulated. The BCC wants to see red tape reduced across all sectors, including aviation. The South East Airports Task Force (SEAT) set up, and chaired, by the Minister of State for Aviation, has begun this work and the Government should ensure that it continues.

XXiV. Department for Transport (2011) Op. cit

In its analysis for the BCC, Oxera estimated the consequences for the UK economy of three scenarios that affect aviation sector competitiveness. They were: a year-on-year 5%-in-real-terms increase in APD (about the same level as the Government plans for next year's budget); the cost of cutting carbon through the current EU ETS targets, compared with the additional cost of dealing with it through the UK unilateral target set by the previous Government; and the benefit to the economy, if the Government incentivised technology (in the way set-out in its response to the CCC) to develop of greener aviation fuel[xxv]. The results are shown below:

POLICY SCENARIO	CHANGE TO GROSS VALUE ADDED IN UK ECONOMY (£m)		
	2015	2020	2030
GOVERNMENT APPLIES A 5% (REAL TERMS) YEAR-ON-YEAR RISE IN APD	-70 TO -1,100	-190 TO -3,000	-660 TO 10,600
GOVERNMENT REGULATES AVIATION CARBON EMISSIONS USING A UK UNILATERAL TARGET.	-1 TO -23	-37 TO -590	-31 TO -490
GOVERNMENT INCENTIVISES GREEN AVIATION FUEL.	+50 TO +760	+50 TO +800	+140 TO +2,300

POLICY SCENARIO	CHANGE TO JOBS IN UK ECONOMY (000's)		
	2015	2020	2030
GOVERNMENT APPLIES A 5% (REAL TERMS) YEAR-ON-YEAR RISE IN APD	-2 TO -25	-4 TO -71	-16 TO -250
GOVERNMENT REGULATES AVIATION CARBON EMISSIONS USING A UK UNILATERAL TARGET.	0 TO -1	-1 TO -14	-1 TO -12
GOVERNMENT INCENTIVISES GREEN AVIATION FUEL.	+1 TO +18	+1 TO +19	+3 TO +54

Were the Government to choose a policy resulting in a year-on-year, real-terms-increase in APD of 5% (about the level of next years' planned Budget increase) there would be serious consequences for the economy. While direct tax revenues would increase, they would be offset by losses in the wider economy. These could run to more than a billion pounds by 2015, resulting in up to 25,000 fewer jobs. The cumulative effects of year-on-year real-terms-rises in APD could ultimately cost the economy a staggering £10 billion in lost growth and up to 250,000 fewer jobs.

While the effect of choosing a UK unilateral approach to dealing with carbon would not be as severe, it could still result in 1000 fewer

XXV. Department for Transport (2011) Op. cit

jobs in the economy by 2015, with reduced growth of close to £500 million pounds by 2030. Conversely, Government incentives for the aviation sector to de-carbonise could boost UK GDP by up to £750 million, by 2015, securing close to 20,000 jobs. It is vital that the Government limits the damaging effects of APD on the economy, regulates aviation's carbon emissions internationally; not unilaterally, and looks hard at the wider economic benefits of incentives to de-carbonise.

RECOMMENDATION 3:

While recognising the reality of public finances, the BCC strongly urges the Government not to raise levels of APD further. We also recommend the Government considers offsetting its overall tax take from APD, by the same amount the Treasury will receive from the aviation sector in new auction revenues, following aviation's entry into the EU ETS in 2012. This will ensure that businesses and travellers are not subject to double taxation.

RECOMMENDATION 4:

The aviation industry is pursuing a global cap and trade deal and its entry into the EU ETS in 2012 will cap emissions from flights in and out of Europe. Should the industry want to emit above this cap, it must pay for emissions reductions elsewhere in the economy.

The Government must avoid a UK unilateral solution to dealing with aviation's emissions. If it adopts one, the associated costs will have a knock-on effect to UK business competitiveness. This in turn will affect jobs and growth. The Government should go further and look in detail at incentives to bring forward technologies that will deal with emissions from flying. This would free the sector to develop more quickly and better serve UK business in the process.

RECOMMENDATION 5:

We urge the Government to develop and broaden red tape reduction across the country. Reducing red tape in the aviation sector will free it to increase connectivity and improve its competitiveness. This in turn will help all our members, including those in the aviation supply chain and beyond, to deliver jobs and growth in the economy.

INTRODUCTION

> This report sets out how aviation serves our members in driving growth; what business needs from the air transport sector to help them put the UK on a path to sustained economic recovery; and how the Government can re-draw aviation policy to achieve this.

Aviation serves the needs of a range of UK business sectors. From hi-tech manufacturing to attracting overseas tourists to visit Britain's diverse range of attractions, businesses depend on it. Aviation helps our members make sales, get employees to where they are needed, and send products to market quickly.

In its review of aviation policy, the Government has a unique opportunity to boost economic growth by allowing aviation to better serve businesses that are growing and creating jobs.

THIS REPORT SETS OUT:

- How aviation serves our members in driving growth;
- What our members need from air travel to help them put the UK on a path to sustained economic recovery; and
- How the Government can re-draw aviation policy to achieve this.

IN DOING SO IT:

- Surveys the latest expert opinion on how air transport underpins economic growth;
- Draws on a series of in-depth case studies, carried out with our members; and
- Presents new economic analysis, commissioned for the British Chambers of Commerce (BCC), on how Government aviation policy options might play out in the context of jobs and growth in the economy.

CHAPTER 1:
HOW DOES AVIATION HELP BUSINESS CREATE JOBS AND GROWTH?

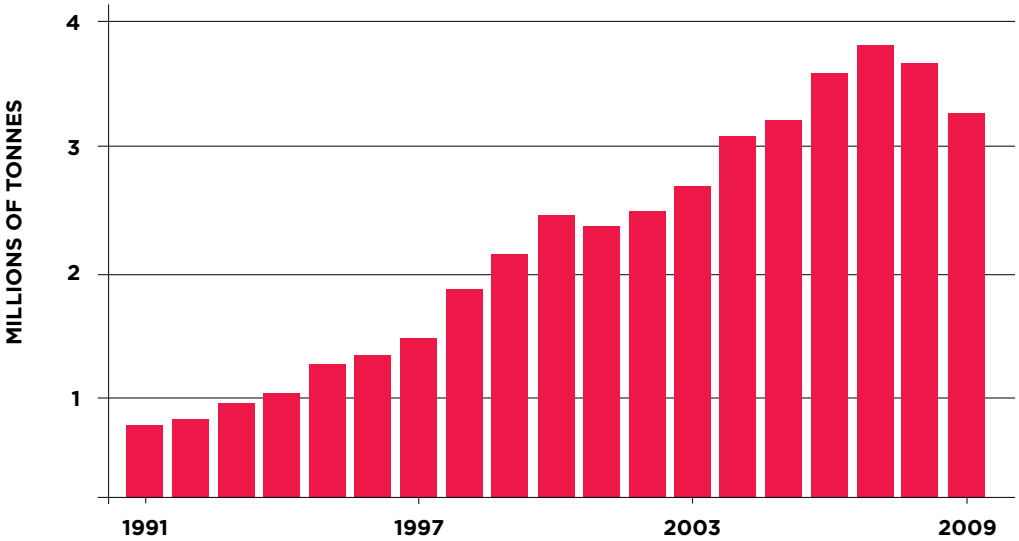
AIR FREIGHT – GETTING PRODUCTS TO MARKET

AIR FREIGHT DELIVERS GOODS RAPIDLY TO EMERGING ECONOMIES

Air freight delivers goods, especially high value goods, quickly, across long distances. Some 40% (by value) of the UK's exports go by air[1]. Similarly, over 30% of our imports by value, including the raw materials and parts that UK manufacturers process and finish, arrive as air freight[2].

Over 2.3 million tonnes a year of traded products are now shipped by air in the UK[3]. This increase has been particularly marked to countries beyond Europe, where, for example, air-freighted shipments between Europe and Asia have increased by an average 10% a year since 1991[4]. This sharp rise, shown below, reflects businesses' reliance on aviation to trade with high-growth economies like China and India.

FIGURE 1. THE EUROPE-ASIA AIR CARGO MARKET



(Source: Boeing)

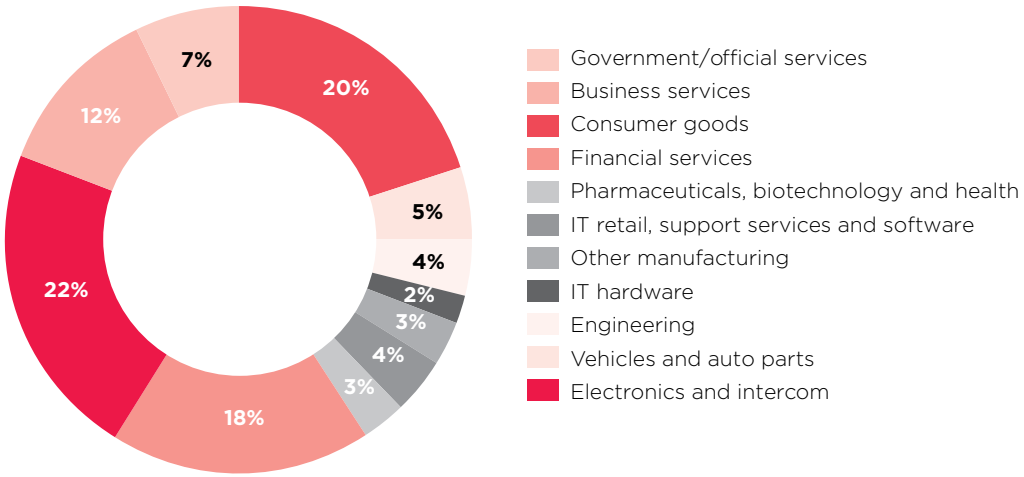
1. Department for Transport (2009), 'The Air Freight End-to-End Journey
2. Oxera, (2009), 'What is the contribution of aviation to the UK economy?'
3. CAA (2010), 'UK Airport Statistics: 2010' [Online]
4. Boeing (2010), 'World Air Cargo Forecast 2010-2011'

EXPRESS AIR FREIGHT POWERS EXPORTS FROM HIGH GROWTH SECTORS

Vital goods, requiring fast delivery, are heavily reliant on express air freight. Express air transport plays a key role in trade across a variety of sectors, from electronics, IT components and spare parts, to bullion and jewellery.

Express freight is essential for perishable products like medical supplies and pharmaceuticals. Moreover, the sectors that most rely on express freight are often the key growth areas of the UK economy, such as electronics, IT, pharmaceuticals and biotechnology.

FIGURE 2. BREAKDOWN OF MAIN CLIENT SECTORS OF THE EXPRESS INDUSTRY BY REVENUE



(Source: Oxford Economics, Survey of Integrators)

CASE STUDY: TDSI

BUSINESS: HIGH-TECH SECURITY MANUFACTURER
TURNOVER: £5 MILLION
BASED: BIRMINGHAM AND POOLE
DISCUSSION WITH: JOHN DAVIES, MD
KEY LEARNING: EXPRESS AIR FREIGHT DRIVES ECONOMIC GROWTH

TDSI is a £5 million turnover company, supplying high-tech security products and systems for access control. It manufactures in Birmingham and ships equipment across the world, from its warehouse in Poole. TDSI recently won and delivered the access control system for the Shanghai Metro.

With international competitors in the USA and China, its edge is built on being able to integrate its products with many types of security system; excellent customer service, including rapid delivery; and the UK's long experience and high international reputation in security.

A key part of its offer is 48-hour-delivery to customers anywhere in the world, without additional charge. To do this, TDSI relies heavily on express air freight to reach export markets in the EU, Middle East and Far East (especially China and Singapore). It also needs good connectivity to get its people to foreign markets to win contracts.

In seven years, TDSI has doubled exports and increased turnover and staffing by more than half. Turnover is growing by more than 20% a year and TDSI is looking to expand its facilities.

IN QUOTES:
ON COMPETITORS:
"We've got lots of competitors in China, but we're competing against the Chinese."
ON WINNING BUSINESS IN THE MIDDLE AND FAR EAST:
"It requires relationship building. You can't build a relationship over the telephone. I have to be there."

EXPRESS DELIVERY UNDERPINS HIGH VALUE SERVICES

And this reliance is not only in sectors traditionally associated with manufacturing. A survey of City of London companies found express air freight deliveries were critical to 23% of respondents and very important for a further 30%[5].

BUSINESS NEEDS NIGHT FLIGHTS

Express services are used primarily to achieve the next-day delivery of goods and documents. Packages are collected towards the end of the business day for delivery early the following day. To deliver an overnight service, the main part of the delivery process must take place during the night, using night flights. In an increasingly competitive international marketplace, this type of operation is vital to UK business and a key component of the national transport infrastructure.

MODERN ECONOMIES COLLAPSE WITHOUT AIR FREIGHT

This UK capability should not be taken for granted. The consequences of a constrained air freight industry were brought into sharp relief by the eruption of the Icelandic volcano (Eyjafjallajökull) in April 2010.

The eruption severely affected international airspace and air transport for close to a week. The estimated cost to global GDP was $4.7 billion[6], and UK businesses, especially those dependent on air freight were badly disrupted. Exports of IT hardware were damaged and pharmaceutical companies feared their products would perish, as exports failed to ship. The disruption affected imports too, with manufacturers running short of raw materials and parts to turn into finished products.

Freight flights were grounded, with major-express-freight-integrator, FedEx, cancelling some 100 flights. Packages had to be flown to destinations unaffected by the volcano's ash cloud, and then carried by road, causing delays and increased costs to businesses.

In motor manufacturing, BMW suspended production at three plants, and Nissan at two, as they ran out of parts. Honda also saw a partial halt to production. In consumer electronics, Samsung and LG's air freight exports were curtailed by 80%[7].

5. Oxford Economics (2009), 'Aviation: The Real World Wide Web'
6. Oxford Economics (2010), 'The Economic Impact of Air Travel
7. BBC News (2010), 'Iceland volcano: Nissan and BMW suspend some production' [Online]

CASE STUDY: ALLIANCE BOOTS

BUSINESS: RETAIL AND PHARMACEUTICAL WHOLESALE
TURNOVER: £25 BILLION
BASED: NOTTINGHAM, UK
DISCUSSION WITH: PATRICK DUNNE, GROUP PROCUREMENT AND PROPERTY DIRECTOR
KEY LEARNING: AIR FREIGHT IS KEY TO MANAGE RETAIL DEMAND

Alliance Boots comprises two multinational businesses. Boots is a major UK brand, with some 3000 successful retail outlets and opticians across the UK and Ireland. The business also has a major pharmaceutical wholesale operation.

Boots has strong links to Asia, where many of the products it retails are sourced. While the bulk of these are shipped by sea, it makes heavy use of air freight to meet demand for its retail products at peak times; especially at Christmas, when levels of sales of seasonal products can vary rapidly. Similarly Boots manages its travel costs to allow some 500 managers, who need to travel regularly, to do so conveniently and cost-effectively. In its UK retail business, Directors may be responsible for hundreds of shops. The company considers air travel is the only convenient way to make longer domestic journeys.

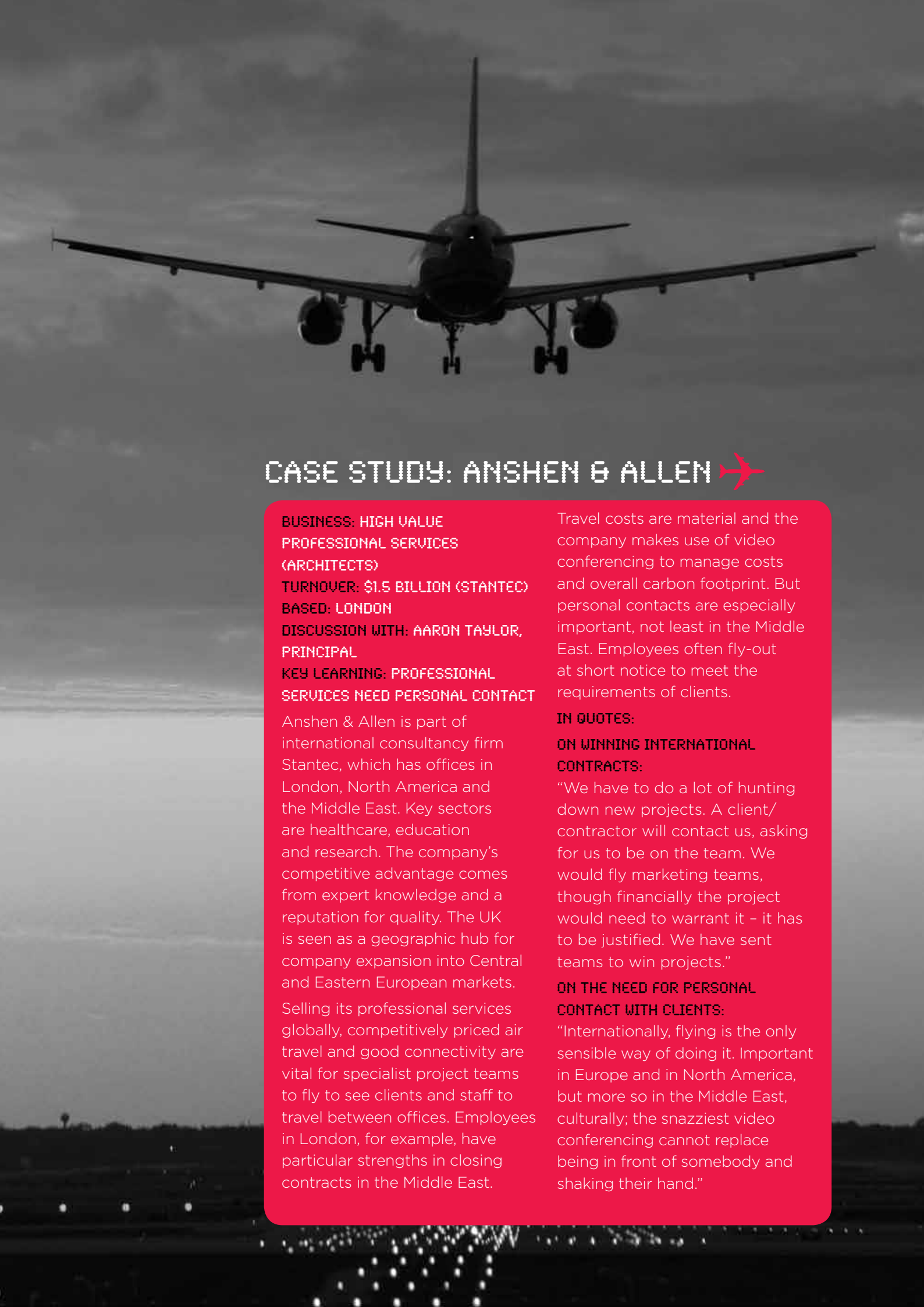
IN QUOTES:

ON USING AIR FREIGHT TO MANAGE PEAK RETAIL DEMAND:

"When you're in the Christmas season the ability to get product into store quickly when you're over-selling, the only way to achieve it, in terms of the source, is generally air freight. The ability to switch that tap on and off - very quickly, and for it to be affordable, is very important."

ON MOVING ITS PEOPLE:

"When a Director is running about 600 stores, the only way to get around the UK effectively is air travel; whether it is from Scotland to London, or whatever; Ireland particularly. They want the easiest transit time and schedules that are fundamentally frequent and value for money."



CASE STUDY: ANSHEN & ALLEN

BUSINESS: HIGH VALUE PROFESSIONAL SERVICES (ARCHITECTS)
TURNOVER: $1.5 BILLION (STANTEC)
BASED: LONDON
DISCUSSION WITH: AARON TAYLOR, PRINCIPAL
KEY LEARNING: PROFESSIONAL SERVICES NEED PERSONAL CONTACT

Anshen & Allen is part of international consultancy firm Stantec, which has offices in London, North America and the Middle East. Key sectors are healthcare, education and research. The company's competitive advantage comes from expert knowledge and a reputation for quality. The UK is seen as a geographic hub for company expansion into Central and Eastern European markets.

Selling its professional services globally, competitively priced air travel and good connectivity are vital for specialist project teams to fly to see clients and staff to travel between offices. Employees in London, for example, have particular strengths in closing contracts in the Middle East.

Travel costs are material and the company makes use of video conferencing to manage costs and overall carbon footprint. But personal contacts are especially important, not least in the Middle East. Employees often fly-out at short notice to meet the requirements of clients.

IN QUOTES:

ON WINNING INTERNATIONAL CONTRACTS:

"We have to do a lot of hunting down new projects. A client/ contractor will contact us, asking for us to be on the team. We would fly marketing teams, though financially the project would need to warrant it – it has to be justified. We have sent teams to win projects."

ON THE NEED FOR PERSONAL CONTACT WITH CLIENTS:

"Internationally, flying is the only sensible way of doing it. Important in Europe and in North America, but more so in the Middle East, culturally; the snazziest video conferencing cannot replace being in front of somebody and shaking their hand."

MOVING BUSINESS PEOPLE

In its 2010 report, "Flying on Business"[8], the Civil Aviation Authority (CAA) cites international research and survey evidence on why businesspeople fly. The main reasons are to:

- Close business deals
- Convert prospective customers into clients
- Retain existing customers
- Establish new contacts and build networks
- Maintain relations with customers
- Invest in their employees (for example, by attending conferences or trade shows)

BUSINESS FLIGHTS DRIVE INTERNATIONAL TRADE AND SALES

Oxford Economics[9] gathered survey evidence on the overall importance of air transport to businesses in a survey covering five countries. Some 85% of firms said air travel was important for sales, with 60% saying it was vital or very important.

This linkage is illustrated below by the CAA[10], using data from the Office of National Statistics (ONS). It found a very strong (0.87) coefficient of correlation[11] between the countries UK businesspeople travel to, or from, and the UK's success in trading with them.

8. CAA (2010) 'Flying on Business: A study of the UK Business Travel Market'
9. IATA (2006), 'Economic Briefing Number 3 – Airline Network Benefits'
10. CAA (2010), Op. cit
11. Statisticians use this coefficient, known as R^2, to measure how well one measure can be predicted by another. Its value varies between 0 (no correlation) and 1 (perfect correlation)

FIGURE 3: UK TRADE WITH FOREIGN COUNTRIES IN 2009, CORRELATED WITH NO. BUSINESS TRIPS TO/ FROM SAME COUNTRIES

(Source: CAA/ONS)

FLYING UNDERPINS BUSINESS EFFICIENCY

Some 80% of firms reported to Oxford Economics[12] that air services were important for the efficiency of their production – with higher scores in China and the USA. Previous work by the same analysts asked businesses about the importance of passenger services in the management of their operations. Some 70% felt that passenger services were either vital or very important. The primary reasons for this were to meet clients and potential clients (about 65% vital or very important) and to network with partners in other countries (around 55%). The businesses saw good connectivity as vital or very important to oversee foreign subsidiaries and for managers based abroad to oversee UK operations (about 45%)[13].

LOSS OF AIR CONNECTIVITY MEANS LOST BUSINESS

The same work also considered the effects of declining air services, 60% of businesses thought they would be very or quite badly affected by less customer contact, 40% felt their businesses would be very or quite badly affected by increased costs and lost orders. And about 35% believed their operations would be very or quite badly affected by reduced ability to network and be innovative[14].

Other experts have looked at businesses' views on these mechanisms within particular sectors of the economy. In a more recent study, Oxford Economics survey work done on businesses in the City of London. Some 73% of firms thought air services were critical or very important for business travel to meet clients or service providers. 64% said they were critical or very important for internal company purposes, and 34% said business travel was critical or very important for other purposes[15].

12. IATA (2006), Op. cit.
13. Oxford Economic Forecasting (2006), 'The Economic Contribution of the Aviation Industry in the UK'
14. Oxford Economic Forecasting (2006), Op. cit
15. Oxford Economics (2009), 'Aviation: The Real World Wide Web, Oxford Economics'

REDUCING PRODUCTION COSTS

EXPRESS FREIGHT REDUCES THE NEED FOR STOCKHOLDING

As manufacturing becomes an increasingly global activity, UK businesses have evolved, re-structuring their operations and logistics towards rapid – "Just in Time" (JIT) – delivery and minimal stock-holding[16]. Competing globally in this way relies on fast, secure delivery of components and finished products. UK express freight operators meet this need at major express freight hubs like East Midlands and Stansted airports, with thousands of employees involved in rapid freight operations[17].

Businesses understand how vital this type of air transport is to their success. A survey of CBI[18] members found that 64% of companies believed next day delivery was important for their clients and 40% said a lack of availability of next day delivery would require them to hold more stocks. This, in turn, would increase space requirements and costs, making them less competitive. And 16% of businesses surveyed would consider relocating, if next day delivery were not possible.

JUST IN TIME (JIT) STOCK MANAGEMENT SAVES UK BUSINESSES £6 BILLION A YEAR

The Eddington Transport Study[19] looked at the efficiencies businesses had gained by embracing JIT techniques. It found that businesses' "inventory to output" ratio had been reduced by some 20% over the last 20 years. This delivers over £6 billion a year in efficiencies to UK companies[20], allowing them to stay competitive, invest in new equipment and increase productivity.

16. York Aviation (2004), 'The Social and Economic Impact of Airports in Europe'
17. Oxford Economics (2008) 'The Economic Impact of the Proposed Aviation Duty on the Express Delivery Industry and UK Economy'
18. York Aviation (2004), Op. cit.
19. Sir Rod Eddington (2006), 'The Eddington Transport Study'
20. The inventory-output ratio is a key manufacturing benchmark which measures the stocks of finished goods versus the company output. The higher the ratio the more working capital is tied up in unsold goods.

INCREASING PRODUCTIVITY

HIGH-END BUSINESSES BEGIN TO CLUSTER AT AIRPORTS

Agglomeration refers to the enhanced performance that businesses experience by clustering with other related companies. Agglomerations at airports can lead to accelerated productivity and growth, over and above the gains from better connectivity, or decisions on where to operate.

Airport agglomerations particularly attract high value international services in sectors, for example law, finance, property and creative industries. Gains arise from firms' proximity, which allows reduced transaction costs and increased transfer of knowledge and innovation.

Oxera[21] has considered the extent of existing knowledge on how these gains occur and what forms they take. For example, the use of patents is five to ten times higher in zones where firms cluster. Specialist skills and skilled labour pools in agglomerations drive higher productivity. And firms can reduce costs and be more profitable by sharing common supply processes.

"AEROTROPOLI" REDUCE COSTS AND INCREASE PRODUCTIVITY

The clustering of business in the vicinity of airports has been termed "Aerotropoli", this concept was developed by Kasarda[22] to mean 'a large industrial area surrounding an airport with a high concentration of commercial activities'. In the UK, airports are developing this concept in tandem with the Government's policy to create 'Enterprise Zones'. Manchester and Newquay Cornwall airports have both been part of successful bids to create such zones.

Companies that cluster at "Aerotropoli", such as retail or IT companies may have physical products they need to move quickly. Service sector companies, such as financial services or creative enterprises, also move to be close to airports, in order to benefit from the services located there, including air links that exist due to the high concentration of business-related flights[23].

Cork Airport Business Park, Ireland

Agglomeration is not only a large city phenomenon. Cork Airport Business Park, two minutes from Cork airport, was created in 1998. It involved a combination of local and national initiatives, seeking to attract foreign investors. Pfizer, Lloyds TSB, Amazon and Black & Decker are some of the international companies that have located there. The local economy has diversified as a result, and has seen a shift from agriculture, which was in decline, to pharmaceuticals and IT; high growth sectors that rely on air transport. The key factors that attract companies to Cork are accessibility, research and development investment, tertiary education and quality universities.

21. Oxera (2009), Op. cit.
22. Real Estate Issues (2000/2001), 'Logistics and the Rise of Aerotropolis',
23. Ricardo Flores-Fillol and Rosella Nicolini (2006) 'Aerotropolis: an aviation-linked space

ATTRACTING FOREIGN DIRECT INVESTMENT (FDI)

Companies with international operations have existed for a long time, but they are increasing in number as globalisation gathers pace. More and more, the UK competes with other countries, not only to trade products and services, but also to attract foreign capital.

THE UK HAS PUNCHED ABOVE ITS WEIGHT IN ATTRACTING INVESTMENT

The UK has been one of the most successful countries in Europe in attracting Foreign Direct Investment (FDI), with the stock of FDI increasing from £294 billion in 2000 to £654 billion in 2009[24]. The Government presently has a strong focus on FDI, with support for inward investment a key action set out in its "*Plan for Growth*"[25].

AIR LINKS ARE THE MOST INFLUENTIAL TRANSPORT FACTOR FOR INVESTORS

FDI has many drivers and the quality of air links is an important one. Napier University[26] summarises their importance as follows:

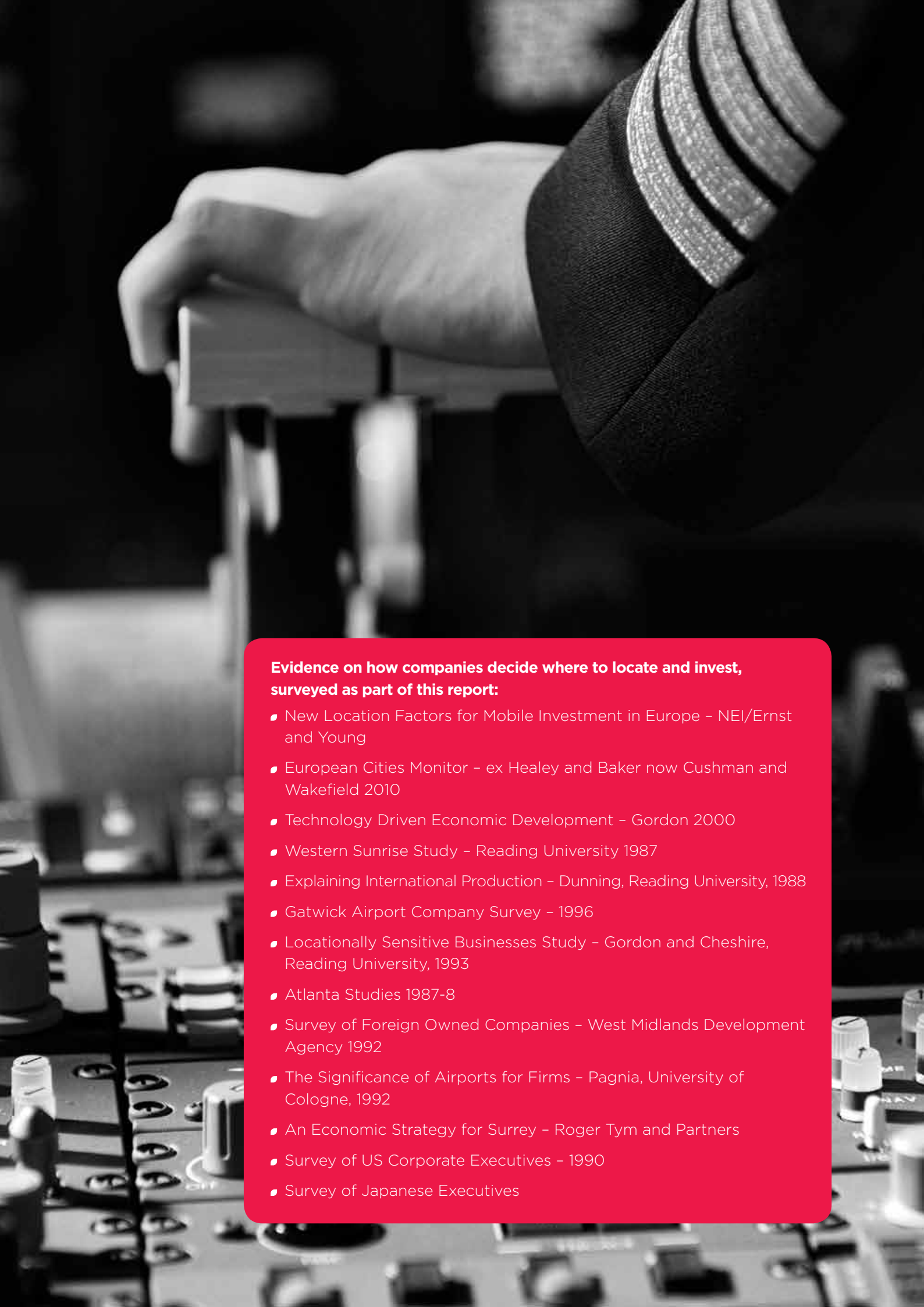
- Air links are the most influential transport factor in the location decisions of most overseas based business investing in the UK;
- Links to all regions are important in attracting and maintaining business investment;
- Aside from logistics, air transport is important to the perceived quality of a location, particularly when a business is unfamiliar with the area.

AIR CONNECTIVITY AFFECTS WHERE INTERNATIONAL COMPANIES LOCATE

The research carried out for this report surveyed a wealth of academic and business expert opinion on the extent to which good air links are an important factor when businesses decide where to locate. Some key findings were:

- The European Cities Monitor[27] shows that 51% of companies surveyed thought that international transport links were an important factor in deciding where to locate. Air links ranked fourth, after easy access to markets, availability of qualified staff and quality of telecommunications.
- Similarly, Oxford Economics[28] reports survey work by the International Air Transport Association (IATA), which looked at 600 companies in five countries. Here 63% of firms stated that air transport networks were vital or very important to investment decisions.
- A London Chamber of Commerce and Industry *'Business Leaders' Panel'*[29] shows that 30% of London's businesses felt it was very important to have airport access. Its importance varies by sector, with 40% of retailers, 37% of manufacturers, and 27% of service businesses rating airport access as very important.

24. Office for National Statistics (August 2011) , 'Business Monitor MA4' [Online]
25. HM Treasury and Department for Business, Innovation and Skills (2011), 'The Plan for Growth'
26. The Transport Research Institute and Employment Research Institute at Napier University, Edinburgh (2003), 'The Importance of Transport in Business' Location Decisions'
27. Cushman and Wakefield (2010), 'European Cities Monitor'
28. Oxford Economics (2009), Op. cit.
29. London Chamber of Commerce and Industry (2006), 'The Business Case for Airport Expansion'



Evidence on how companies decide where to locate and invest, surveyed as part of this report:

- New Location Factors for Mobile Investment in Europe – NEI/Ernst and Young
- European Cities Monitor – ex Healey and Baker now Cushman and Wakefield 2010
- Technology Driven Economic Development – Gordon 2000
- Western Sunrise Study – Reading University 1987
- Explaining International Production – Dunning, Reading University, 1988
- Gatwick Airport Company Survey – 1996
- Locationally Sensitive Businesses Study – Gordon and Cheshire, Reading University, 1993
- Atlanta Studies 1987-8
- Survey of Foreign Owned Companies – West Midlands Development Agency 1992
- The Significance of Airports for Firms – Pagnia, University of Cologne, 1992
- An Economic Strategy for Surrey – Roger Tym and Partners
- Survey of US Corporate Executives – 1990
- Survey of Japanese Executives

LACK OF AIR CONNECTIVITY MEANS THE FLIGHT OF INVESTMENT CAPITAL

This type of evidence also demonstrates the potential to lose Foreign Direct Investment, if air links deteriorate:

- Oxford Economic Forecasting[30] looked in detail at aviation and investment issues. In their work, 8% of companies reported that the quality of air transport links had been material in a decision not to invest in the UK.
- The same study[31] also includes an Express Freight survey which showed that around 10% of firms would relocate from the East Midlands area (and potentially the UK) if international next day delivery services were no longer available.
- The IATA survey,[32] cited above, found that some 30% firms said they would be highly likely to invest less in a region if air networks were constrained. Investment by the high-tech sector was found to be particularly sensitive to the quality of air transport networks.

The risks of poor connectivity are illustrated through an analysis of the importance of Bangalore Airport to India's "Silicon Valley". Bangalore, known as the "Silicon Valley" of India because its high number of domestic and foreign IT companies, suffered from insufficient air connectivity in the 1980's and 1990's. This resulted in manufacturers and exporters choosing to locate elsewhere, because they judged that the delivery of components and finished goods would be unreliable. Subsequent expansion in Bangalore's global connectivity has seen its IT industry flourish[33].

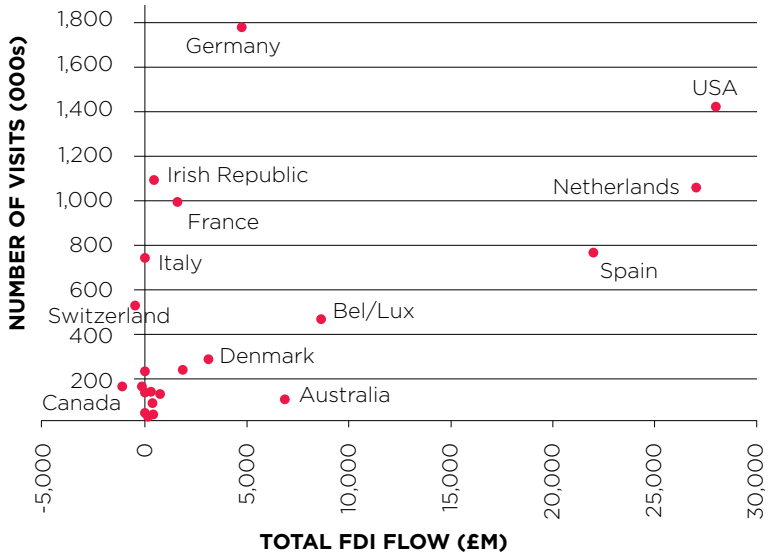
This example is salient for the Government as it considers its aviation policy. One of the Government's first acts was to cancel planned airport developments in the South East. While such expansion has been hotly debated within the UK, aviation is a global industry. Given the importance of air links in business decisions on where to locate, policy makers should bear in mind that all policy interventions send signals to potential foreign investors about the long term prospects of doing business with the UK.

INVESTMENT HAS MANY DRIVERS, BUT AIR CONNECTIVITY MATTERS

At macro-economic level, it is more challenging to demonstrate a direct linear relationship between air services and attracting investment. The CAA looked at the correlation between UK business passengers and FDI[34]. Its analysis, overleaf, does not show a straightforward line of best fit. This reflects other factors, as well as air connectivity, in the UK attracting FDI. However, the CAA's work demonstrates clearly the converse: that the UK tends not to attract investment from countries to which few business trips are made. Regardless of the debate about whether connectivity drives trade, or vice versa, the fact is that trade requires air connectivity.

30. Oxford Economic Forecasting (2006), Op. cit.
31. Oxford Economic Forecasting (2006), Op. cit
32. Oxford Economics (2009), Op. cit.
33. Oxford Economics (2009), Op. cit.
34. CAA (2010), Op.cit.

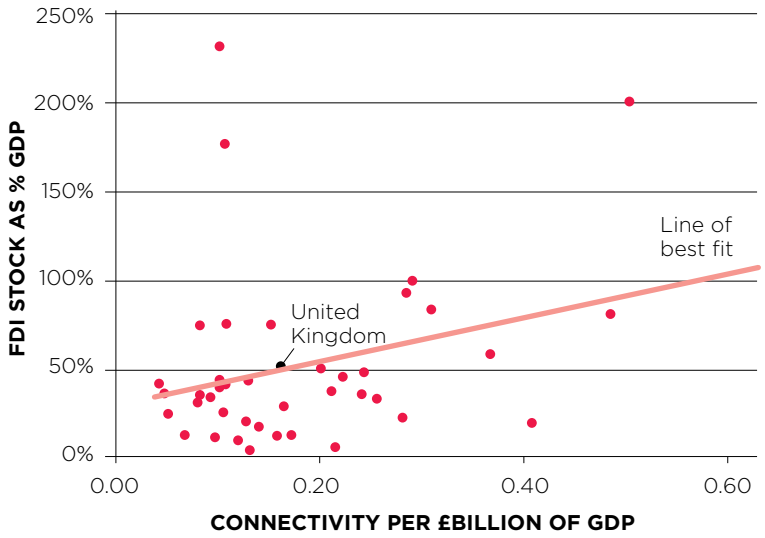
FIGURE 4. NUMBER OF VISITS BY BUSINESS PASSENGERS TO AND FROM THE UK AND TOTAL FLOW OF FOREIGN DIRECT INVESTMENT IN 2008



(Source: Travelpac and Foreign Direct Investment and Statistical Bulletin, ONS)

Oxford Economics,[35] working with IATA, analysed the relationship between IATA's measure of air connectivity and FDI (scaled to reflect the size of countries' economies). This shows the positive correlation between countries with high air transport connectivity and their ability to attract FDI.

FIGURE 5. FOREIGN DIRECT INVESTMENT AND CONNECTIVITY



(Source: Oxford Economics IATA)

35. Oxford Economics (2011), 'Economic Benefits from Air Transport in the UK'

BOOSTING TOURISM

TOURISM IS A KEY ECONOMIC SECTOR

Tourism is the UK's sixth largest industry. A recent study by Deloitte[36] concluded that tourism boosted the UK economy by £115 billion in 2009 – about 8% of the UK's GDP.

The report also estimates that at present, tourism provides over one million jobs (about 3% of all UK jobs) and maintains a further 1.3 million through its associated activity. In total, some 7.5% of the UK's workforce depends on tourism for jobs.

In the UK, some 200,000 tourism businesses are Small and Medium Sized Enterprises (SMEs)[37]. These businesses are spread throughout the country, from large cities and towns, to seaside resorts and remote villages.

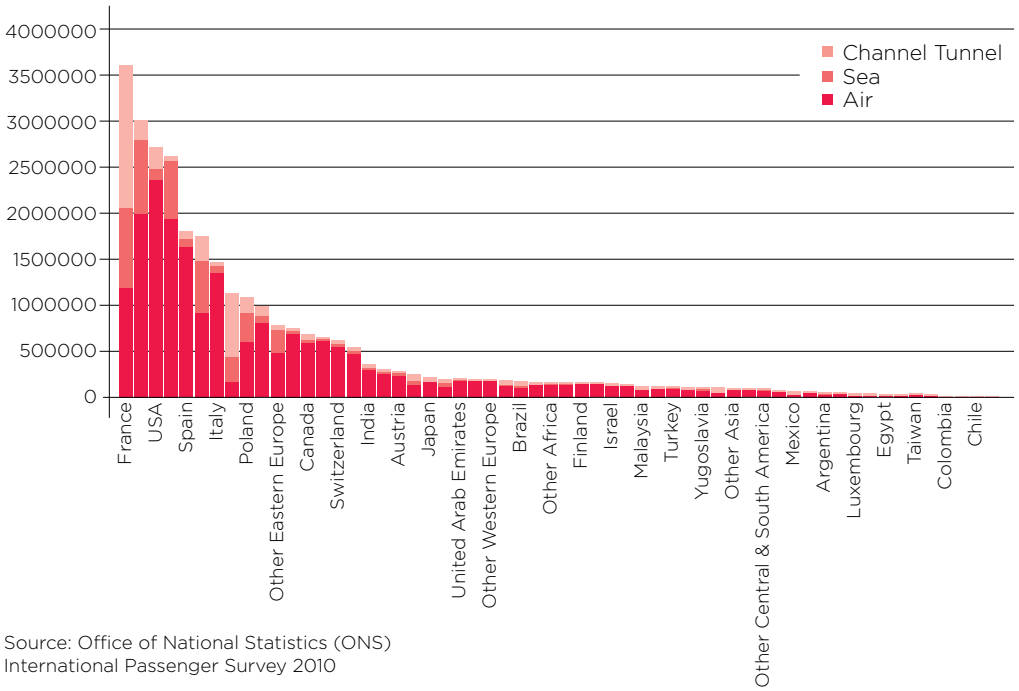
TOURISM BOOSTS LOCAL ECONOMIES

Income from tourism is very important to many of the UK's local economies, helping maintain the businesses and jobs on which communities depend. The sector is well placed to help the Government achieve its objective to re-balance the UK's economy.

AVIATION IS VITAL TO TOURISM

While other modes of transport can have a significant role for tourists arriving from northern Europe, it is aviation that is the critical enabler for UK tourism businesses. Some 72% of inbound visitors arrive in the UK by air[38].

FIGURE 6: OVERSEAS VISITORS TO THE UK (BY MODE) 2010



Source: Office of National Statistics (ONS) International Passenger Survey 2010

36. Deloitte (2010),'Economic Contribution of the Visitor Economy: UK and the Nations'

37. Visit Britain (2011) www.visitbritain.org [online]

38. ONS (2010) 'International Passenger Survey'

ALL UK REGIONS PLAY A ROLE IN TOURISM

While London receives half of all overseas visitors, in the last decade, airports outside London have increased the size of their operations to offer many more flights. While these airports serve outbound passengers as well, some have also been able to strongly increase their facilitation of inbound tourism. Prestwick Airport (near Glasgow) saw a 132% increase in overseas visitors between 2000 and 2010[39] This was directly related to Ryanair's decision to introduce 20 routes to and from the airport.

TOURISTS ARRIVING BY AIR SPEND THE MOST

Moreover, visitors arriving by air spend more in the UK than those arriving by other modes of transport. They account for 83% of all inbound visitors' spend[40].

TABLE 1: POINTS OF ENTRY TO THE UK AND VISITOR SPEND

POINT OF ENTRY	SPEND PER VISITOR (£)
HEATHROW T2 (AIR)	1,600
GLASGOW (AIR)	1,000
HEATHROW T5 (AIR)	990
NEWCASTLE (AIR)	720
MANCHESTER (AIR)	580
LIVERPOOL (AIR)	450
HOLYHEAD (FERRY)	440
EUROSTAR (RAIL)	390
DOVER (FERRY)	300
EUROTUNNEL (CAR)	260

(Source: ONS 2010)

THE "TOURIST DEFICIT" CLAIM

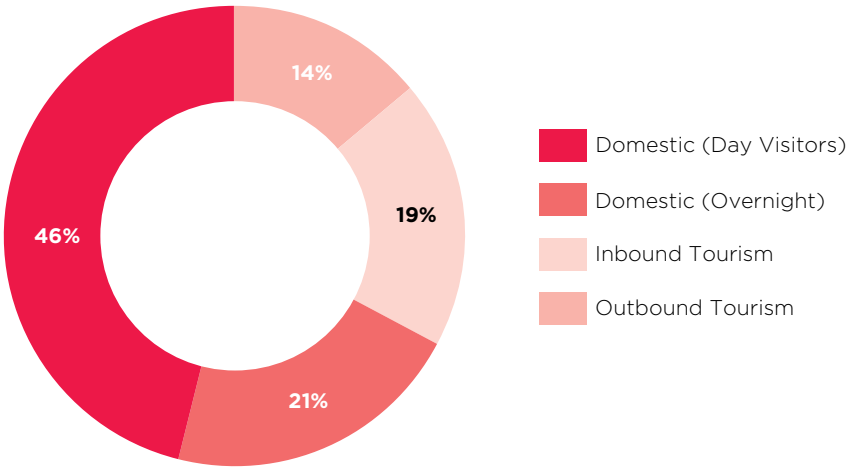
In the past, policy makers have compartmentalised domestic, inbound, and outbound parts of the tourist sector; but the UK's "tourism infrastructure", including airports, is shared and needs all three parts of the sector.

Some commentators have claimed that, because aviation facilitates more outbound than inbound tourism, tourism is (in financial terms) a net import; and therefore, the UK has a "tourism deficit" problem, which it should address by limiting people's ability to fly abroad. None of the three legs of this claim bear detailed scrutiny. In particular:

- UK holidaymakers spend significant amounts of money (on clothes and other goods and services) before travelling abroad. This boosts domestic consumer demand and drives economic growth. The Tourism Satellite Accounts[41] report the value of this as some £27 billion a year. This, along with the overall breakdown on sales in the UK tourist sector, shown below, puts the claim in context.

39. ONS and Visit Britain data (2000 and 2010)
40. ONS (2010), Op. cit.
41. ONS (2011), 'The UK Tourism Satellite Accounts [Online]

FIGURE 7: VALUE OF THE UK TOURISM INDUSTRY (%)



(Source: ABTA)

- An imbalance in trade in a particular product or service is not a bad thing in itself. Foreign trade works by countries exporting products (or services) they can provide better, or more cheaply, in return for imports that others are better placed to make. It is a matter of fact that this results in people in both trading countries being better off.
- An analysis of whether a country is doing well, or badly, on trade flows must look at the overall balance of trade. This is the difference between overall export earnings and spends on imports. The UK's balance of trade has worsened in recent years, tending towards an ever larger deficit in manufactures. This is compensated (to an extent) by more export earnings from services. Experts list many reasons for this overall deficit, both historical and related to the structure of the economy. Tourism generally does not feature on this list.
- Even if it were politically desirable or possible to limit people's ability to holiday abroad, a pound "not spent" on a foreign holiday, would not necessarily translate into a pound's reduction in the UK trade deficit. Spending in the UK tourism sector is more complex than this (as described above). And even if it were not, the higher ticket prices caused by capping flights would see less overseas visitors coming to the UK, whilst UK holidaymakers, who might otherwise have flown abroad, may spend disposable income in other leisure related ways. Many of these would involve imports.

CHAPTER 2:
WHAT UK BUSINESS NEEDS FROM AVIATION TO HELP DELIVER JOBS AND GROWTH

HOW MORE CONNECTIVITY DRIVES GROWTH

WHAT IS CONNECTIVITY?

People know intuitively that connectivity is important. But what does connectivity mean and how would more of it help UK businesses deliver more jobs and growth? Oxera[42] has carried out work on connectivity theory and how it relates to transport networks. It defines connectivity as:

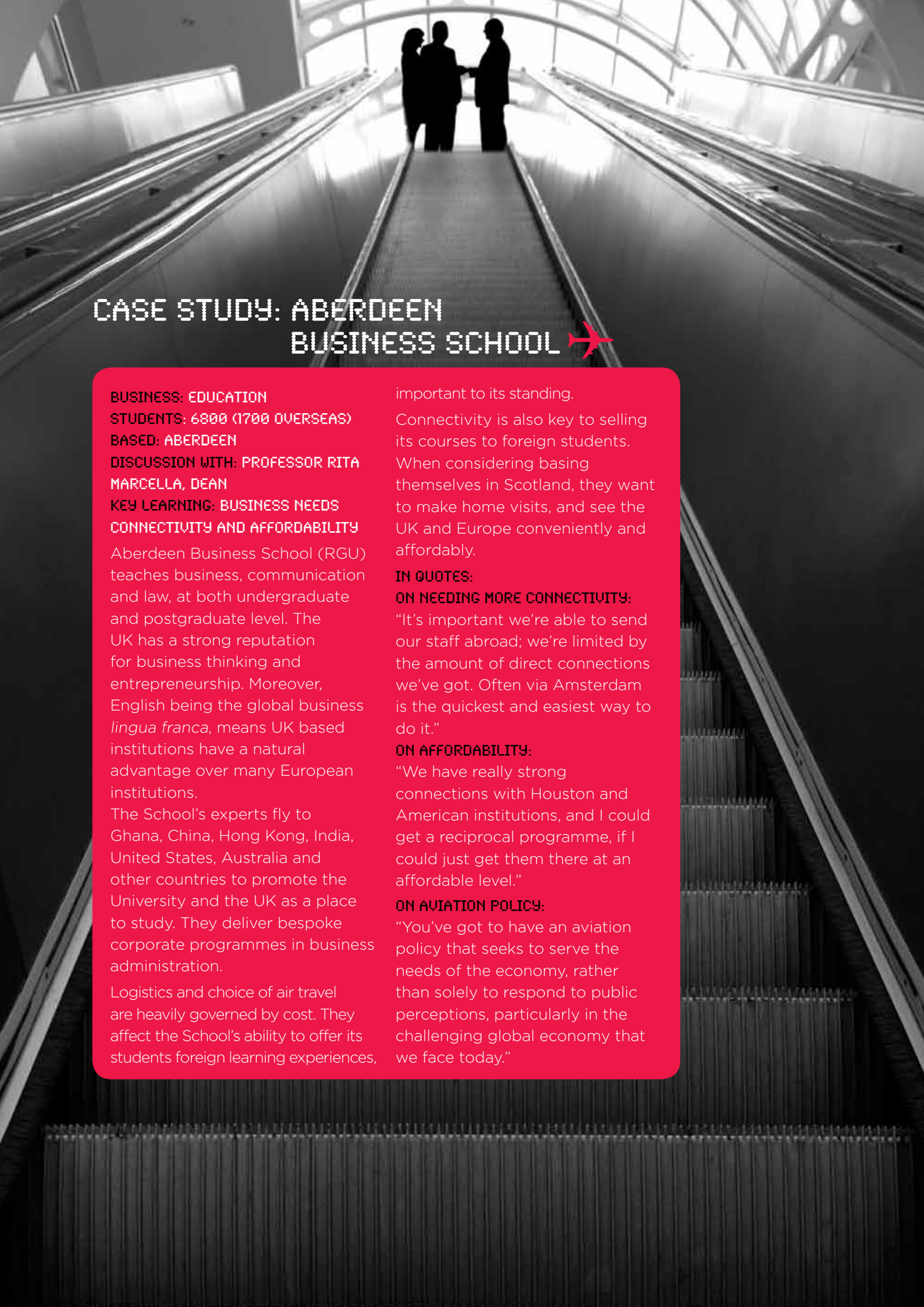
> the ability of passengers and freight to move between a wide range of destinations, as well as the 'strength' of these connections (where strength incorporates factors such as the frequency, journey time and capacity of a service)

HOW DOES INCREASED CONNECTIVITY DRIVE BUSINESS?

There is broad consensus among experts that connectivity is vital to innovation and international trade. Economic analysts such as Oxford Economics[43] have considered in detail how increased air connectivity boosts growth. The key mechanisms are:

- Faster and cheaper options to export manufactures and import the raw materials or parts used to make them;
- More options to build relations with international clients and boost sales;
- Exchange of ideas with others leading to increased innovation;
- Easier logistics for key employees to move quickly between international sites; and
- More options for skilled employees to work for UK businesses, leading to a more flexible labour supply (one of the Government's objectives in its Plan for Growth[44]) and increased economic efficiency.

42. Oxera (2010), 'To Timbuktu, and back again: why transport connectivity is important'
43. Oxford Economics (2011), Op.cit.
44. HM Treasury and Department for Business, Innovation and Skills (2011), Op. cit.



CASE STUDY: ABERDEEN BUSINESS SCHOOL

BUSINESS: EDUCATION
STUDENTS: 6800 (1700 OVERSEAS)
BASED: ABERDEEN
DISCUSSION WITH: PROFESSOR RITA MARCELLA, DEAN
KEY LEARNING: BUSINESS NEEDS CONNECTIVITY AND AFFORDABILITY

Aberdeen Business School (RGU) teaches business, communication and law, at both undergraduate and postgraduate level. The UK has a strong reputation for business thinking and entrepreneurship. Moreover, English being the global business *lingua franca*, means UK based institutions have a natural advantage over many European institutions.

The School's experts fly to Ghana, China, Hong Kong, India, United States, Australia and other countries to promote the University and the UK as a place to study. They deliver bespoke corporate programmes in business administration.

Logistics and choice of air travel are heavily governed by cost. They affect the School's ability to offer its students foreign learning experiences, important to its standing.

Connectivity is also key to selling its courses to foreign students. When considering basing themselves in Scotland, they want to make home visits, and see the UK and Europe conveniently and affordably.

IN QUOTES:

ON NEEDING MORE CONNECTIVITY:

"It's important we're able to send our staff abroad; we're limited by the amount of direct connections we've got. Often via Amsterdam is the quickest and easiest way to do it."

ON AFFORDABILITY:

"We have really strong connections with Houston and American institutions, and I could get a reciprocal programme, if I could just get them there at an affordable level."

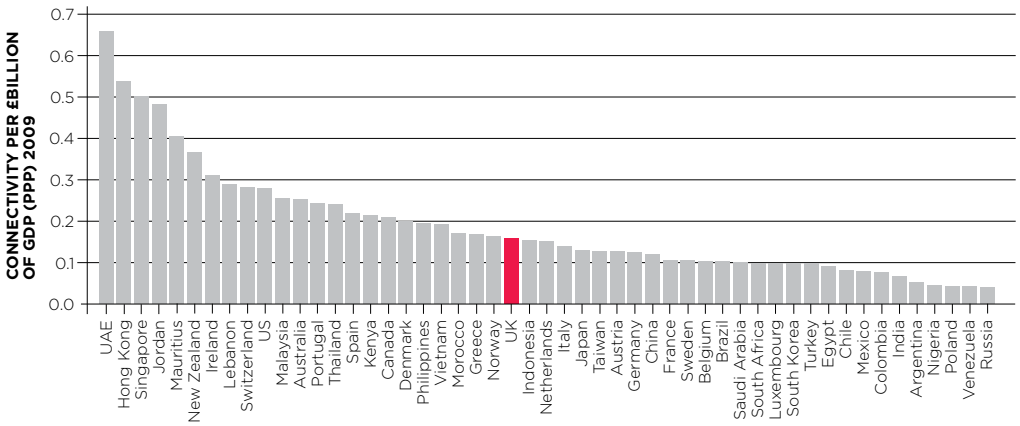
ON AVIATION POLICY:

"You've got to have an aviation policy that seeks to serve the needs of the economy, rather than solely to respond to public perceptions, particularly in the challenging global economy that we face today."

IS THE UK WELL CONNECTED?

Business needs direct and frequent flights. Yet Oxford Economics[45] found recently that, in proportion to the size of its economy, the UK does not rank as highly as it could on air connectivity.

FIGURE 8: OVERSEAS VISITORS TO THE UK (BY MODE) 2010



(Source: IATA. IMF for GDP (PPP basis))

THE IMPORTANCE OF DIRECT FLIGHTS

Other recent work by Frontier Economics[46] finds that UK businesses trade 20 times as much with emerging market countries that have a direct daily flight to the UK, 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. Frontier Economics estimates that the value of this missed opportunity to the UK economy over the next ten years could be as much as £14 billion.

Figures from www.capstats.com and VisitBritain (2011) show that between 2006 and 2010 airline seat capacity from international origin markets to the UK increased by 2.9%. In comparison, international seat capacity to France has increased 6.3%, while in Germany capacity has risen 5%.

As a result of its historic and geographic position, the UK still enjoys a strong position in the transatlantic aviation market. By contrast, Britain is linked with relatively fewer locations in the key emerging economies.

45. Oxford Economics (2011), Op. cit.
46. Frontier Economics (2011), 'Connecting for growth: the role of Britain's hub airport in economic recovery'

The table below sets out the annual seat capacity and number of flights between China and Brazil and selected European nations:

TABLE 2: UK CONNECTVITY TO CHINA AND BRAZIL, COMPARED WITH OTHER EUROPEAN COUNTRIES

2010 ANNUAL FIGURES	CHINA			BRAZIL		
	SEATS	FLIGHTS	RANK (FLIGHTS)	SEATS	FLIGHTS	RANK (FLIGHTS)
TO FRANCE	894189	2979	2	685593	2741	3
TO GERMANY	1281880	4639	1	460745	1568	4
TO ITALY	259987	992	5	827836	3492	1
TO THE NETHERLANDS	630438	2245	3	982519	3275	2
TO THE UNITED KINGDOM	443104	1579	4	416483	1501	5

Source: www.capstats.com and VisitBritain

Comparison with other countries demonstrates the importance of direct connections, both from London and the rest of the country, if UK business is to remain competitive. To China, the UK currently only has air routes from Heathrow, to Beijing, Hong Kong and Shanghai.

In France, Paris Charles de Gaulle Airport has direct connections with Beijing, Shanghai and Guangzhou. Germany has even better direct connectivity, with routes to Frankfurt from Beijing, Shanghai, Nanking and Guangzhou; to Munich from Beijing and Shanghai; and to Berlin from Beijing.

HOW BETTER CONNECTIVITY TRANSLATES INTO ECONOMIC GROWTH

Oxford Economics[47], the BCC[48], and Oxera[49] have all analysed the relationship (known as elasticity) between air connectivity and productivity. Oxford Economics' analysis[50] is the most recent; it estimates that a 10% air connectivity improvement would boost growth by some £890 million every year.

IATA too examined the relationship[51] between connectivity and GDP growth for the ten accession states that joined the European Union in the early 2000's. It found a 25% air connectivity improvement could boost long term growth rates by as much as 2.8%.

HOW MORE CONNECTIVITY COULD BOOST TOURISM

The World Travel & Tourism Council[52] has estimated that over the next ten years, Tourism's contribution to the UK economy could increase to some £150 billion – growth of nearly 50% - bringing with it some 240,000 new jobs.

The '*Governments Tourism Policy*'[53], published in March 2011, sets out an ambition to grow inbound and domestic tourism, returning the UK to the top five most competitive visitor economies in the world. VisitBritain[54] forecasts that there is huge potential for inbound tourism to Britain in the years to 2020:

TABLE 3: POTENTIAL TOURIST VISITS TO UK (000s OF VISITS)

FROM	2011	2015	2020
INDIA	380	580	800
CHINA	130	190	290
FRANCE	3,700	4,200	5,100
GERMANY	3,000	3,500	3,900
RUSSIAN FEDERATION	170	190	180
BRAZIL	200	230	230
UNITED STATES	2,900	3,900	4,800

(Source: Tourism Economics 2011)

But these projections assume no barriers to visits. To achieve this potential our airports would need the connectivity to receive some 200 more flights a day by 2020. The tourism sector will only achieve this potential if all factors are favourable, including Government aviation policy.

47. Oxford Economics (2011), Op. cit.
48. British Chambers of Commerce (2009), 'Economic Impacts of Hub Airports'
49. Oxera (2009), Op.cit
50. Oxford Economics (2011), Op. cit.
51. IATA (2006), Op cit.
52. World Travel & Tourism Council (2011) 'UK key facts at a glance' [Online]
53. Department for Culture, Media and Sport (2011) 'Government Tourism Policy' [Online]
54. Visit Britain / Tourism Economics (2011)

WHY COMPETITIVE AIR TRANSPORT PRICING HELPS FOREIGN TRADE

BUSINESS TRAVEL PRICE ELASTICITY

Price elasticity measures the change in demand for flights triggered by a change in ticket prices. In the last decade, experts have estimated the price elasticity of business travel as ranging from -0.2 to -0.7[55]. This means a 10% rise in ticket prices would result in a reduction in business flights taken of between 2% and 7%. In its 2011 traffic forecasts, the Department for Transport (DfT)[56] uses price elasticities of -0.2 and -0.3 for foreign and domestic business travel, respectively.

THE BUSINESS MARKET BECOMES MORE SEGMENTED AND MORE PRICE SENSITIVE

However, broad economic ratios like price elasticity only provide an overall guide to the behaviour of business travellers. Behaviour within specific segments of the business flight market may be different.

Over the last two decades, airlines have tailored the types of tickets they offer to an increasing number of different categories of passenger, leading to greater choice. The result has been a softening of the boundaries between the traditional business and leisure segments of the market. In a recent analysis of business travel[57], the CAA analysed these trends. It presents data showing how an increasing number of business travellers make use of economy tickets and summarises the trend as follows:

> Against a background of tighter travel policies, short haul business passengers are now more likely to choose 'best fare on the day', despite any penalties for re-booking, because of the potential savings

TABLE 4: BUSINESS PASSENGERS TRAVELLING ECONOMY ON FLIGHTS TO/FROM MAIN LONDON AIRPORTS

FROM	PROPORTION OF BUSINESS PASSENGERS FLYING ECONOMY		
	1996	2007	2009
NORTH AMERICA	62%	59%	67%
OTHER LONG-HAUL	67%	67%	79%
SHORT-HAUL	59%	91%	95%

(Source: CAA)

55. CAA (2010), Op. cit
56. Department for Transport (2011) 'UK Air Passenger and CO2 Demand Forecast'
57. CAA (2010), Op. cit.

CASE STUDY: COGNITIO AND QUIETSTONE

BUSINESS: PROFESSIONAL MARKETING SERVICES / CONSTRUCTION
BASED: CHESHIRE
TURNOVER: £1 MILLION (QUIETSTONE)
DISCUSSION WITH: TIM GRESTY, MANAGING DIRECTOR (COGNITIO)
KEY FINDING: NEW LEISURE ROUTES CAN BENEFIT BUSINESS

Tim Gresty runs Cognitio, providing professional marketing services, with a client list that includes De Vere Hotels, P&O and Toyota. In 2009, Cognitio began work with Quietstone, a North West company offering sustainable sound absorption products for the Construction Sector. Projects have included motorway underpasses, factories, and sports halls. Quietstone wanted to significantly expand its operations to South Korea, Abu Dhabi and Dubai.

Cognitio and its clients fly extensively to explore business opportunities, set up partnerships and secure contracts. Their key requirements are good connectivity and frequent flights. In particular they would like to see more point to point connectivity. They have exploited opportunities for business connections by using new air routes aimed at the leisure market. As much of their travel is strategic, they don't see Air Passenger Duty as preventing business travel, but nevertheless feel its high levels penalise UK businesses.

IN QUOTES:

ON EXPLOITING LEISURE ROUTES FOR BUSINESS:

"Where routes have grown, where there's a leisure interest and a business interest, we have gained. Whizz Air serving Gdansk and Warsaw from Liverpool; a gift to the business community."

ON AIR PASSENGER DUTY:

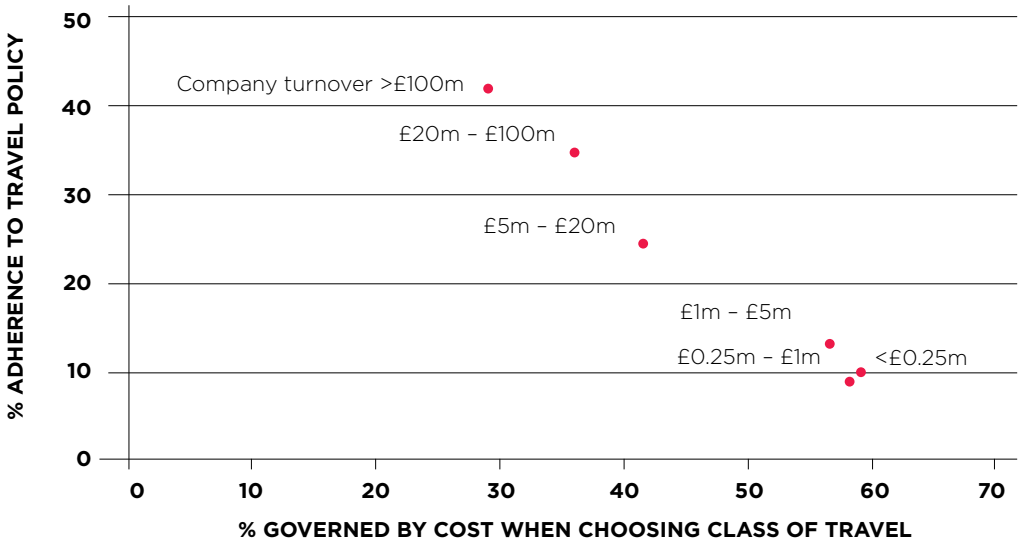
"I regard it as a bit of an insult. Why should I pay extra when I'm working for the good of the economy and making jobs? And where we see this double counting of APD because of the European requirement, it aggravates."

ON AVIATION POLICY:

"To get the choice of routes we need regionally, we need airports better and bigger. Reconsider sustainable, it's not just environmental"

The CAA also shows how smaller companies are more price sensitive, citing a pre-recession survey by Barclaycard on 2000 of its customers. The results are shown below.

FIGURE 9: RELATIONSHIP BETWEEN COMPANY TURNOVER, TRAVEL POLICY AND COST CONSTRAINTS GOVERNING CHOICE OF CLASS OF TRAVEL



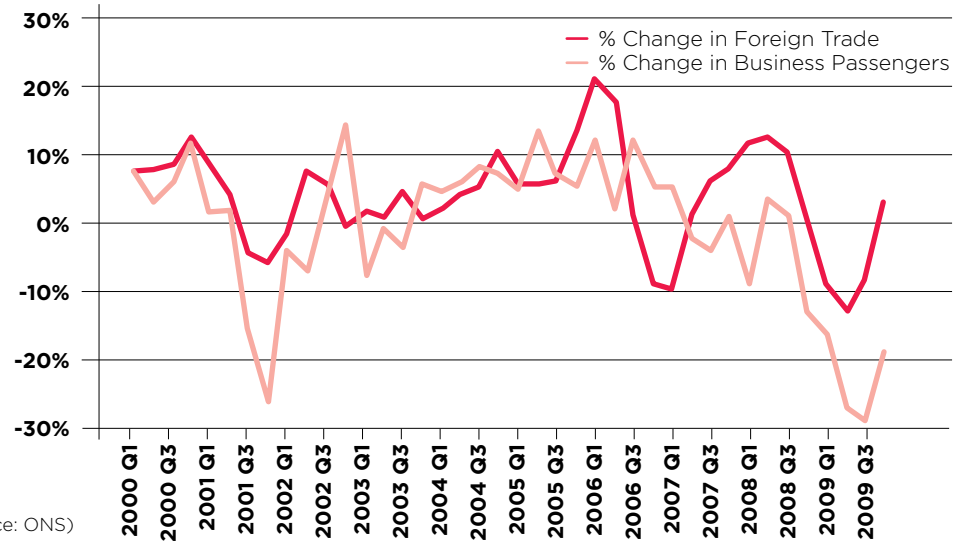
(Source: Barclaycard)

Following the recession, it is likely that businesses are even more price conscious than they were in the past. In the report cited above, the CAA presents an analysis of the reaction of business travel managers to the recession. It reports that:

It's easy to understand how such reactions affect the ability of UK businesses to operate and trade effectively. There is a strong link (also reported by the CAA) between changes in the number of business trips taken and the UK's overall level of foreign trade.

> "Large firms interviewed for this study reported a general fall in business trips of 15% to 25%, with spend reduced by anything up to 45%..... One large corporate told the CAA that 15% to 20% of its travel was for internal purposes and that 90% of such travel was cut in the first three months of the crisis."

FIGURE 10: CHANGES IN NUMBER OF BUSINESS PASSENGERS USING UK AIRPORTS COMPARED WITH CHANGES IN THE VOLUME OF UK FOREIGN TRADE



(Source: ONS)

HIGHER FREIGHT PRICES DAMAGE EXPORTS

As with all trade, the price of UK exports determines international demand for them. For some types of product, a significant proportion of the price reflects the cost of air freighting them to market. For these sectors, minimising their production costs, including the cost of air freight services, is key to remaining competitive.

Bank of England[58] analysis shows that when higher technology sectors increase their prices relative to their competitors, the effect on exports is especially marked. Oxford Economics[59] used this analysis to calculate that if UK pharmaceutical manufacturers had to raise their prices by 1%, and their foreign competitors did not, the proportional effect on exports would be more than double – some 2.2%.

Similar disproportionate effects would occur in other export sectors. These findings are displayed below, in table 5, which illustrates that higher technology sectors are more vulnerable to changes in the cost of air freight services.

TABLE 5: % CHANGE IN UK EXPORTS (BY SECTOR) ARISING FROM A 1% RISE IN PRODUCT PRICES

INDUSTRIAL SECTOR	% CHANGE
MEDICAL AND PHARMACEUTICALS	-2.2
RADIO, TV AND COMMUNICATIONS	-1.9
SCIENTIFIC AND PHOTOGRAPHIC EQUIPMENT	-1.4
OFFICE, MACHINERY AND COMPUTERS	-0.5
OTHER MANUFACTURING ARTICLES	-0.4
MATERIAL MANUFACTURERS	-0.2

58. Bank of England (2006), 'Q3 Quarterly Bulletin: UK export performance by industry'
59. Oxford Economics (2008), 'Economic Impact of the Proposed Aviation Duty on the Express Delivery Industry and UK Economy'

CHAPTER 3:
DESIGNING AVIATION POLICY TO HELP BUSINESS DELIVER JOBS AND GROWTH

GOVERNMENT AVIATION POLICY AFFECTS AIR TRAVEL'S CONNECTIVITY AND AFFORDABILITY

For aviation to play its full part in helping businesses to stimulate jobs and growth, general talk of increasing connectivity and competitive pricing has to be translated into real activity. Boosting connectivity and business travel has three broad levers:

- Increasing the range and frequency of flights;
- Ensuring sufficient airport and airspace capacity; and
- Keeping ticket and air freight transport prices competitive.

The range, frequency and pricing of routes are all determined by airline economics. For an airline or freight integrator considering the viability of a flight; or whether to start up a new route, the factors it considers are:

- The efficiency of its own operations;
- Other commercial factors (such as airport charges, exchange rates or fuel prices), which it must negotiate, accept, or hedge; and
- Political and regulatory factors, such as overall long term policy choices, the planning and tax regimes, and the burden of red tape.

Businesses can act, and are acting, in the first two of these areas. But it is the Government and Regulators who must act in the third. This chapter deals with the aviation policy choices that now face the Government; what it must do, and what it must avoid, if it is to pursue its goal of boosting the economy and putting the UK on a path to sustained recovery.

To inform the recommendations made in this report, the BCC asked economic consultants Oxera to carry out analysis on how a range of aviation policy options would affect the wider economy in terms of jobs and growth. This analysis uses a methodology developed and explained in detail by Oxera in its previous work on the value of the aviation sector to the UK economy[60].

The methodology uses three separate, but complementary relationships, derived by economic analysts. It estimates the effect of changes in the amount, or price of, air travel on Gross Domestic Product (GDP) – measured as Gross Value Added (GVA). It then uses data about the productivity of aviation employees, and those working elsewhere in the economy, to estimate effects on employment figures.

60. Oxera (2009), Op. cit.

The three types of relationship Oxera considered are:

- Connectivity – The effect of Government policy on numbers of flights or the cost of air travel is linked to changes in air connectivity, which in turn leads to changes in economic efficiency, GDP and jobs.
- Investment – A correlation between flying and business investment based on 24 European Union countries is used to consider how aviation policy changes drive changes in what businesses invest. This in turn can be linked, using a relationship between changes in business investment and changes in GDP, to jobs and economic growth.
- Trade – The relationship between flying and the amount of foreign trade is combined with expert analysis on how foreign trade is linked to changes in GDP. This combination is used to estimate how aviation policy changes would affect GDP and jobs through the amount of foreign trade taking place.

While each of these tries to analyse the same ultimate effect – policy changes on economic performance and levels of employment – these variables are complex, difficult to isolate and affected by many factors. The estimates are best considered as three different windows on the same world.

CASE STUDY: DUCO LTD

BUSINESS: HI-TECH MANUFACTURING
TURNOVER: £60 MILLION
BASED: NEWCASTLE
DISCUSSION WITH: EMMA MADDISON, COMMUNICATIONS AND MARKETING OFFICER
KEY LEARNING: CONNECTIVITY IS KEY FOR UK BASED MULTI-NATIONALS

Duco is part of the Technip group and employs of 500 people at its site in Newcastle. It manufactures umbilicals for the subsea oil and gas industry. These supply hydraulic control and chemicals to oil and gas wells and subsea manifolds.

Duco makes up part of the UK's subsea sector, which employs about 40,000 people, half of them in Scotland. Subsea is a UK success story and its exports have grown by over 50% in three years, to more than £3bn.

Duco flies skilled engineers internationally to work on projects, installations and repairs. Its sales and business efficiency would be boosted by better and more frequent connectivity to Norway.

IN QUOTES:

ON MOVING ITS PEOPLE:
"We would get there whatever it takes. If the business is there, we can't afford to not be following it and pursuing it....If someone's got to be there for a meeting – they've got to be there."

ON NEEDING MORE CONNECTIVITY:
"Norway's quite a trek for people, it's often two flights, apart from Stavanger now, which I believe, is still one flight, so that makes it a lot easier. It means three days out of the office, because they'll take a day to get there, the next day's the meeting, and then a whole other day to get back".

OVERALL AVIATION POLICY AND AIRPORT INFRASTRUCTURE

The most recent traffic forecasts from the DfT project that, by 2030, passenger numbers at UK airports will grow to 335 million[61]. If aviation is to help UK businesses deliver sustained economic growth, provision of air transport services will need to grow too. This means making the best use of existing airports and the provision of additional capacity through the development of terminals, runways and other infrastructure.

Enabling aviation to support UK businesses will require bold decisions from the Government. Failure to take these will have a price in jobs and growth.

A CAP ON FLIGHTS HAS A PRICE IN JOBS AND GROWTH

Oxera's analysis (see below) for the BCC, has estimated the consequences for the UK economy of a Government cap on flights.

It considers a scenario set-out in a recent Department for Transport report[62] on options to deal with Aviation's carbon emissions. Oxera considered the effect on jobs and growth of capping the number of flights from UK airports at 3% below today's levels[63].

TABLE 6:
ESTIMATES OF GROWTH LOST TO UK ECONOMY BY CAPPING FLIGHTS AT 3% BELOW TODAY'S LEVELS.

	GROSS VALUE ADDED (£m)		
	2015	2020	2030
CONNECTIVITY	110	-180	-560
TRADE	-1,200	-2,000	-2,500
INVESTMENT	-1,700	-2,900	-8,900

TABLE 7:
ESTIMATES OF JOBS LOST TO UK ECONOMY BY CAPPING FLIGHTS AT 3% BELOW TODAY'S LEVELS.

	JOBS (000's)		
	2015	2020	2030
CONNECTIVITY	-2	-4	-13
TRADE	-29	-47	-60
INVESTMENT	-39	-68	-210

61. Department for Transport (2011), Op. cit.
62. Department for Transport (2011), 'Government Response to the Committee on Climate Report on Reducing CO2 Emissions from UK Aviation to 2050
63. Add a note to say it includes permissions not yet in place

Were such a cap on flights, and a consequent restriction on airport infrastructure, to be put in place there would be serious consequences for the economy by 2015 – in excess of £1 billion. These could run into billions of pounds of lost growth by 2020 and hundreds of thousands of lost jobs by 2030. While this analysis considers the overall effects of a flight cap, the consequences for aviation's ability to underpin jobs and growth in the economy would be particularly severe, if a such a cap were applied to express freight industry night flights. Recent work by Oxford Economics[64] has analysed the economic significance of this aspect of aviation. It found that, the UK express freight industry transports more than £10 billion of exports a year and directly contributes £1.15 billion to UK GDP .Moreover, the closure at night of the UK's express freight hubs, including East Midlands and Stansted airports could reduce UK GDP by about £6 billion a year by 2024. The provision of night flight capability will become increasingly important for UK businesses to reach overseas markets. The Government should review current night flight caps in order to ensure that UK business is not disadvantaged in its ability to access the international market place.

RECOMMENDATION 1:

If aviation is to help UK businesses deliver sustained economic growth, provision of air transport services will need to grow too. This means making the best use of existing airports, and the provision of additional infrastructure, while addressing aviation's environmental impacts.

Enabling aviation to support UK businesses will require bold decisions from the Government. These will need to be strategic decisions both on where airports can be expanded and how flights to and from them should be regulated.

A key concern for business is the regulation of night flights, where the Government must ensure that business is not disadvantaged in its ability to access the international market place.

64. Oxford Economics (2008), Op. cit.

THE PLANNING FRAMEWORK

AIRPORT CAPACITY AND PLANNING: THE NEED TO TAKE A STRATEGIC VIEW

The 2008 Planning Act and the creation of the Infrastructure Planning Commission – soon to become the Major Infrastructure Planning Unit (MIPU) – were designed to create a more efficient process for major developments to gain planning permission.

At present there are no planned airport projects that meet the criteria for major infrastructure; and so none will go this route to gain planning permission. Yet many future airport developments will be significant as international gateways, supporting broad geographic areas of the economy.

With the Government's abolition of the regional layer in the planning system, there is a clear tension between local concerns about aviation development and the benefits accruing at regional and national levels. Without careful thinking, this could lead to the delay and rejection of airport developments that could significantly boost the economy, and with it jobs and growth.

FAILURE TO GET PLANNING PERMISSION FOR AIRPORT DEVELOPMENTS WOULD DAMAGE THE ECONOMY

In its analysis for the BCC, Oxera (overleaf) has estimated the consequences for the UK economy of a failure to get planning permission for new airport developments. It used a scenario set-out in a recent DfT report[65] on options to deal with aviation's carbon emissions. Oxera considered the effect on jobs and growth of a Government scenario where the only airport developments to take place in future years are those that already have planning permission[66].

65. Department for Transport (2011) Op. cit

66. Add a note to say it includes permissions not yet in place

TABLE 8:
ESTIMATES OF GROWTH LOST TO UK ECONOMY BY NOT GRANTING NEW PLANNING PERMISSIONS FOR AIRPORT DEVELOPMENT.

GROSS VALUE ADDED (£m)

	2015	2020	2030
CONNECTIVITY	-60	-80	-300
TRADE	-710	-890	-1,400
INVESTMENT	-950	-1,300	-5,000

TABLE 9:
ESTIMATES OF JOBS LOST TO UK ECONOMY BY NOT GRANTING NEW PLANNING PERMISSIONS FOR AIRPORT DEVELOPMENT.

JOBS (000's)

	2015	2020	2030
CONNECTIVITY	-1	-2	-7
TRADE	-17	-21	-32
INVESTMENT	-22	-30	-112

Were restrictions on planning permission for airport infrastructure development to be put in place, there would be serious short term consequences for the economy – costing hundreds of millions of pounds of lost growth and thousands of lost jobs. Lost growth could run over £1 billion by 2020 and into several billions by 2030.

RECOMMENDATION 2:

The BCC urges the Government to make firm strategic decisions to make best use of existing infrastructure and deliver new aviation capacity. We support the Government's pro-growth approach to planning set out in the draft National Planning Policy Framework (NPPF).

Government Ministers must also adopt the same approach when changes to the major infrastructure planning regime come into force in 2012. Proposed provisions to introduce a duty to cooperate on Local Authorities must be strengthened, in order to ensure that Local Authorities work together to look beyond their own areas and take a wider view of strategic projects.

The Government should set clear criteria to ensure that approval of Local Plans is contingent on Authorities working jointly on matters of strategic economic interest.

RE-THINKING AIR PASSENGER DUTY(APD)

UK AVIATION TAXES ARE THE HIGHEST IN EUROPE

APD has increased between 140% and 325% since 2007, and its top rate is some 8.5 times the average of other countries in Europe that still levy a charge. Many European countries – including Belgium, Holland and Denmark – have abandoned their aviation taxes, due to the negative effects on their economies. Moreover, the Government will receive a new source of direct revenue from the aviation sector in 2012. This will come in the form of auction revenues returned to the Treasury, following aviation entering the European Union's Emissions Trading Scheme (EU ETS), an environmental scheme aimed at addressing aviations carbon emissions.

Airlines collect APD on behalf of the Government. Because it appears as part of the overall ticket price and because business conditions in the sector vary rapidly (fluctuations in the market price for aviation fuel, for example), quantifying its exact effect is difficult. However, the Government's own figures projected 7,000 fewer flights in 2011– 2012 as a result of the last (in 2010) of a string of APD increases. A 2011 report[67] estimates that APD will result in Scotland losing 1.2m passengers, 148,000 tourists and £77m in revenue to 2014.

APD MAKES FLIGHTS LESS VIABLE

There is also is a significant body of qualitative evidence suggesting APD damages the UK's connectivity and airlines' ability to operate business-friendly routes competitively. Research from the insurance sector, shown below, considered the effect on connectivity and routes as the recession took hold. It found that London experienced the most cancelled routes. While there are many possible factors in this, the analysis provides an insight into the financial resilience of UK based routes.

67. York Aviation (2011), 'The Impact of the 2010 APD Increases in Scotland'

CASE STUDY: ANDREW WEBRON LTD

BUSINESS: HIGH-TECH MANUFACTURER
BASED: PRESTON AND BURY
TURNOVER: £15 MILLION
DISCUSSION WITH: JULIAN BICKFORD, DIRECTOR
KEY FINDING: APD IS A BARRIER TO BUSINESS

Webron manufactures and sells specialist media for industrial filters. The company exports to 46 countries, including Australia, Finland, Indonesia, Israel, Morocco, Taiwan and Singapore. A recent £1m investment new equipment and research facilities in Preston and Bury has enabled it to maintain its edge over its German competitors.

Webron uses a dedicated sales team, who fly to trade shows to maintain profile and gain new business. Filtration products have a three year life, and close personal contact with clients leads to repeat business, reduced cost of sales and greater efficiency. In addition, a team of technical experts flies from the UK to customers to advise them on choosing the right products.

Cost of travel is a significant factor and employees fly economy for flights up to ten hours.

IN QUOTES:
ON THE LEVEL OF AIR PASSENGER DUTY:
"My last flight to South Africa, I think over 60% of that was tax. It's not the flight;it's the tax. And in many cases now the tax is greater than the cost of the ticket. So when we went to St. Petersburg the other week, I think the tickets were five or six hundred pounds, but of that, £350 were taxes."
ON THE EFFECTS OF AIR PASSENGER DUTY:
"There's nothing we can do about it; it's an extra cost to the business. It's our cost; there's nothing we can pass on there. They take departure tax - it reduces our profitability.".

TABLE 10: ROUTES LOST FROM EUROPEAN CAPITALS AT BEGINNING OF 2008/2009 RECESSION

CITY	ROUTES CANCELLED (MAR 08-OCT 09)	RESULTING LOSS IN WEEKLY FLIGHTS	RESULTING LOSS IN WEEKLY SEATS
LONDON	76	646	95,500
COPENHAGEN	59	350	44,700
MILAN	47	302	34,250
BERLIN	28	257	23,150
PARIS	33	227	34,800
ROME	36	221	30,160
OSLO	46	184	23,500
STOCKHOLM	36	184	26,500
BARCELONA	28	183	25,250
MADRID	26	155	23,100

(Source: Insure and Go (2008/2009))

APD IS A FACTOR IN ROUTES BEING LOST AND CLOSED

Airports believe that rises in APD have contributed to a number of key routes being lost at UK airports. Peel Airports (which operates Liverpool John Lennon, Robin Hood Doncaster Sheffield and Durham Tees Valley airports) provided analysis of lost routes in a joint submission to the Treasury by the 'Northern Way' – a coalition of Regional Development Agencies in the north of England[68]. Following APD's doubling in 2007 and its subsequent rises, Liverpool John Lennon lost six domestic, five European and two long haul (North America) services; and Robin Hood Doncaster Sheffield lost one domestic service, six European and three long-haul services.

Air Asia X, which recently chose Paris Charles de Gaulle Airport, instead of Manchester Airport, for a new route to Kuala Lumpur, cited APD as the reason for its decision. But it's not just lost routes that affect the UK's connectivity and economy, it's also routes foregone, which in a more favourable business climate might have been started and made viable. Peel Airports, in the submission cited above assessed it had foregone fifteen to twenty short haul routes at Liverpool John Lennon Airport and two to four long haul routes at Robin Hood Doncaster Sheffield Airport[69].

68. Northern Way (2008), 'Aviation Duty Consultation: A Summary of Northern Airports' Reponses'

69. Northern Way (2008) Op.cit

APD AFFECTS JOBS AND TRADE

In its analysis for the BCC, Oxera (see below) has estimated the consequences for the UK economy of a year-on-year 5% (in real terms) rise in APD. This is about the same level of increase the Government plans for next year's budget.

TABLE 11:
ESTIMATES OF GROWTH LOST TO UK ECONOMY BY A 5%-REAL-TERMS RISE IN APD EVERY YEAR.

GROSS VALUE ADDED (£m)

	2015	2020	2030
CONNECTIVITY	-70	-190	-660
TRADE	-390	-1,000	-3,000
INVESTMENT	-1,100	-3,000	-10,600

TABLE 12:
ESTIMATES OF JOBS LOST TO UK ECONOMY BY A 5%-REAL-TERMS RISE IN APD EVERY YEAR.

JOBS (000's)

	2015	2020	2030
CONNECTIVITY	-2	-4	-16
TRADE	-9	-25	-71
INVESTMENT	-25	-71	-250

Were APD to be increased by 5% in real terms every year (about the current rate of inflation), there would be very serious consequences for the UK economy. While the Government would raise more revenue, the increase in ticket prices would have a knock-on effect on jobs and growth.

Growth could be curtailed by over £1 billion as soon as 2015, with a possibility that the loss to the economy could treble to £3 billion by 2020. This effect could reach a staggering £100 billion by 2030. Similarly, up to 25,000 jobs could already be affected by 2015.

RECOMMENDATION 3:

While recognising the reality of public finances, the BCC strongly urges the Government not to raise levels of APD further. We also recommend the Government considers offsetting its overall tax take from APD, by the same amount the Treasury will receive from the aviation sector in new auction revenues, following aviation's entry into the EU ETS in 2012. This will ensure that businesses and travellers are not subject to double taxation.

DEALING WITH CARBON

INTERNATIONAL, NOT UNILATERAL SOLUTIONS ARE NEEDED

The BCC believes that negative perceptions of flying, and especially perceptions of its effects on the environment, have held UK airport developments back. We want to see the aviation sector deal with carbon thoroughly and cost-effectively.

The Government's recent publication in response to the Committee on Climate Change (CCC) Report[70] on aviation emissions shows clearly that UK unilateral solutions are more expensive for aviation, and ultimately for UK businesses, than an international approach.

In its analysis for the BCC, Oxera (see below) has estimated the consequences for the UK economy of measures to meet a unilateral aviation target. To do this, it compared the cost of cutting carbon through the current EU ETS targets, with the additional cost of cutting UK aviation's carbon according to the target set by the previous Government. The unilateral cost was estimated using the upper limit for the mid-range of costs of the UK-only policy levers set out in the Government's response to the CCC.

TABLE 13:
ESTIMATES OF GROWTH LOST TO UK ECONOMY BY SETTING A UK UNILATERAL CARBON TARGET.

GROSS VALUE ADDED (£m)

	2015	2020	2030
CONNECTIVITY	-1	-37	-31
TRADE	-17	-410	-140
INVESTMENT	-23	-590	-490

TABLE 14:
ESTIMATES OF JOBS LOST TO UK ECONOMY BY SETTING A UK UNILATERAL CARBON TARGET.

JOBS (000's)

	2015	2020	2030
CONNECTIVITY	-	-1	-1
TRADE	0	-10	-3
INVESTMENT	-1	-14	-12

Were the Government to adopt a UK-only aviation carbon target, along the lines it sets out in its recent document[71], the UK economy would pay a price in jobs and growth. The extra cost of dealing with carbon unilaterally, rather than through international mechanisms, such as the EU ETS, could run into hundreds of millions of pounds and thousands of jobs by 2020.

70. Department for Transport (2011) Op. cit
71. Department for Transport (2011) Op. cit

The Government could assist the aviation industry to decarbonise through the use of incentives, as it has other industries. Oxera (see below) has estimated the benefits to the UK economy if the Government incentivised technology (in the way set-out in its response to the CCC) to develop of greener aviation fuel[72].

While choosing the correct incentives would need more a more detailed analysis than the DfT carried out, the results give an indication of how using incentives, rather than taxes, to deal with carbon could boost both aviation and the wider economy.

TABLE 15:
ESTIMATES OF BOOST TO UK ECONOMY BY GOVERNMENT INCENTIVISING GREEN AVIATION FUEL.

GROSS VALUE ADDED (£m)

	2015	2020	2030
CONNECTIVITY	+50	+50	+140
TRADE	+570	+560	+650
INVESTMENT	+760	+810	+2,300

TABLE 16:
ESTIMATES OF JOBS LOST TO UK ECONOMY BY A DOUBLE INFLATION RISE IN APD EVERY YEAR.

JOBS (000's)

	2015	2020	2030
CONNECTIVITY	+1	+1	+3
TRADE	+13	+13	+15
INVESTMENT	+18	+19	+54

RECOMMENDATION 4:

The aviation industry is pursuing a global cap and trade deal and its entry into the EU ETS in 2012 will cap emissions from flights in and out of Europe. Should the industry want to emit above this cap, it must pay for emissions reductions elsewhere in the economy.

The Government must avoid a UK unilateral solution to dealing with aviation's emissions. If it adopts one, the associated costs will have a knock-on effect to UK business competitiveness. This in turn will affect jobs and growth. The Government should go further and look in detail at incentives to bring forward technologies that will deal with emissions from flying. This would free the sector to develop more quickly and better serve UK business in the process.

72. Oxford Economics (2008), Op. cit.

REDUCING RED TAPE

The BCC is encouraged by the Government's signals that it is serious about cutting 'red tape' for UK businesses. The 'one-in, one-out philosophy' is an early sign of this commitment. But the approach needs to be more focused and it's too early to see any material effect on the ability of businesses to deliver jobs and growth.

The challenge is to get beyond rhetoric about the need to cut red tape and understand what can be achieved to reduce the regulatory burden. This is difficult, because modern economies tend to result in complex regulation, often for good reason. Aviation, where safe operation is vital, is heavily regulated. The BCC wants to see red tape reduced across all sectors, including aviation. The South East Airports Task Force (SEAT) set up, and chaired, by the Minister of State for Aviation, to look at London airports, has begun this work and the Government should ensure that it continues.

RECOMMENDATION 5:

We urge the Government to develop and broaden red tape reduction across the country. Reducing red tape in the aviation sector will free it to increase connectivity and improve its competitiveness. This in turn will help all our members, including those in the aviation supply chain and beyond, to deliver jobs and growth in the economy.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