The Challenge to British Air Transport

The British Air Transport Association (BATA) is the UK airlines trade association. Its members produce over 95% of the UK output measured in tonne/kilometres. BATA provides a consensus view of its members on relevant issues to Government, the Civil Aviation Authority, NATS, airports, etc. Its prime purpose is to encourage the safe, healthy and economic development of UK civil aviation.

Over recent years, BATA has become increasingly active in seeking sufficient capacity to meet reasonable needs of the industry. To this end it recently commissioned, with other interested parties and Government, **Oxford Economic Forecasting (OEF)** to undertake a study and produce a report on ***The Contribution of the Aviation Industry to the UK Economy***. By Aaviation@ just the air transport industry is considered.

The main findings of this **OEF** report are as follows:

In 1998, the air transport industry:

- Contributed ,10.2 billion to GDP, 1.4% of the total.
- Directly employed 180,000 people in the UK. This is similar in size to car manufacturing, hotel or telecommunication services. Additionally, another 369,000 jobs are supported either indirectly, induced or by travel agents selling products containing air travel. Thus, 549,000 jobs were supported by transport aviation in 1998.
- Produced around two and half times as much value-added per head as the average across all UK industries, helping to support the government=s vision of a high-productivity economy.
- Exported ,6.6 billion of services, 11% of UK exports of services and 3% of total UK exports.
- Transported a further ,35 billion of UK exports, over 20% of all exports of goods
- Contributed ,2.5 billion to the Exchequer in direct taxes.

By 2015, the industry is forecasted to grow to:

- Contribute ,18 billion to GDP, 2.1% of the total.
- Support 700,000 jobs in the UK through 30,000 additional direct jobs, 90,000 additional indirect, and, 30,000 additional induced jobs.
- Further boost UK productivity, as every 10% increase in transport services leads to a 1.3% increase in productivity.
- Support the growth of tourism - the UK=s fastest growing industry that in 1998 employed 1.75 million people.

To meet 2015 needs, additional capacity will need to be provided, particularly in the South East of England (i.e. terminals, runways, etc.).

The report emphasised that if growth were constrained to present levels, the penalties would be:

- ,33 billion a year less UK GDP - 2.5% less than there would be without constraints.

- 295,000 fewer jobs.

Equally important, the report found that the industry impacts the UK economy through its influence on the performance of other industries and as a facilitator of their growth. And this contribution is likely to be more important in the UK than many other countries given the UK=s geographical position as an island on the edge of Europe.

Typically, it found that sectors of the UK economy which we are likely to depend on for future growth make relatively heavy use of aviation e.g. pharmaceuticals, computers and office equipment, electronic equipment, insurance, inbound tourism, and other business activities such as consultancy. The very fact that these sectors are growing fast means that they represent an even larger proportion of the national output. Thus, the future health of the UK economy as a whole is likely to become more dependent on aviation. Conversely, restriction on the expansion of aviation could constrain overall economic growth.

Good air transport links are one of the key considerations affecting where international companies choose to invest. This was found to be particularly important in a number of high technology sectors such as electronics and life sciences, as well as in many long-established industries that depend on just-in-time deliveries. They are also important in attracting investment in a number of key functions such as head office and R&D. In particular, London's position as **Number 1** city for ***Best external transport links*** and ***Best city to locate business,*** show air transport as key in maintaining that position.

UK tourism is equally dependent on air travel in that 66% of overseas visitors arrive by air, spending 81% of the total spent by foreign visitors. UK tourism has accounted for 1 in 6 of all new jobs created over the last decade.

The ,2.5 billion of direct taxes to the Exchequer per year (equivalent to around 1p on the basic rate of income tax), does not include other taxes like business rates, insurance premium tax on flights and VAT on either sales at airport shops or spending elsewhere in the economy by households employed in the aviation industry. Nor does it include taxes paid by workers in the air transport supply chain.

The report also found that there are wider welfare benefits where transport aviation generates significant non-market benefits to both its customers and non-customers e.g. availability of affordable frequent flights from the UK to most of the world has brought foreign travel and holidays within reach of the majority of the population; has extended the range of choices available to the consumer.

Other recent studies commissioned by BATA have supported the above. ***The economic costs of night flying restrictions at the London airports*** by Coopers & Lybrand in 1997 concluded that keeping night flying restrictions at their present level would impact UK airlines by ,640m loss of turnover in the 5 years to 2003. Indeed, we have already seen an international overnight small package specialist move their base from the UK to Europe.

The latest ***Update of the London Overspill Forecasts*** by Alan Stratford Associates for BATA re-affirms the amount of overspill presently taking place from Heathrow of 10.1 million passengers each year to be a serious threat to the UK. Whilst some transferred to Gatwick, some have been lost to the continental airports like Amsterdam, Frankfurt and Paris who are providing additional runway and terminal capacity.

The longer term analysis is even more serious in that even assuming Terminal 5 at Heathrow is built and anticipated runway capacity of 82 planned passenger aircraft transport movements (PATM) per hours at Heathrow and 50 at Gatwick were achieved, overspill from Heathrow and Gatwick would be 22.8 million passenger movements by 2005, rising to 104.8 million by 2030. Full details are shown in figure1.

Figure 1: Forecast overspill of traffic from Heathrow and Gatwick Airports.

Year:	**2005**	**2010**	**2015**	**2020**	**2025**	**2030**
Total Overspill (millions of passengers)	22.8	34.6	45.1	69.7	90.6	104.8

Source: ASA analysis

Clearly, our members are pushing for additional runways to be provided at both Gatwick and Heathrow, and in the longer term at Stansted, to respond to estimated consumer demands for 2030 and ensure the UK economy as a whole is not unduly constrained. Additional runways could be provided at both Heathrow and Gatwick (without major impact to the environment.) It is interesting to note that no other airport in the world approaches Gatwick=s throughput from a single runway operation. Indeed Gatwick was originally envisaged ultimately to incorporate a second runway; however, the BAA gave away this ability until at least 2019 with a local authority agreement to secure planning for their North Terminal.

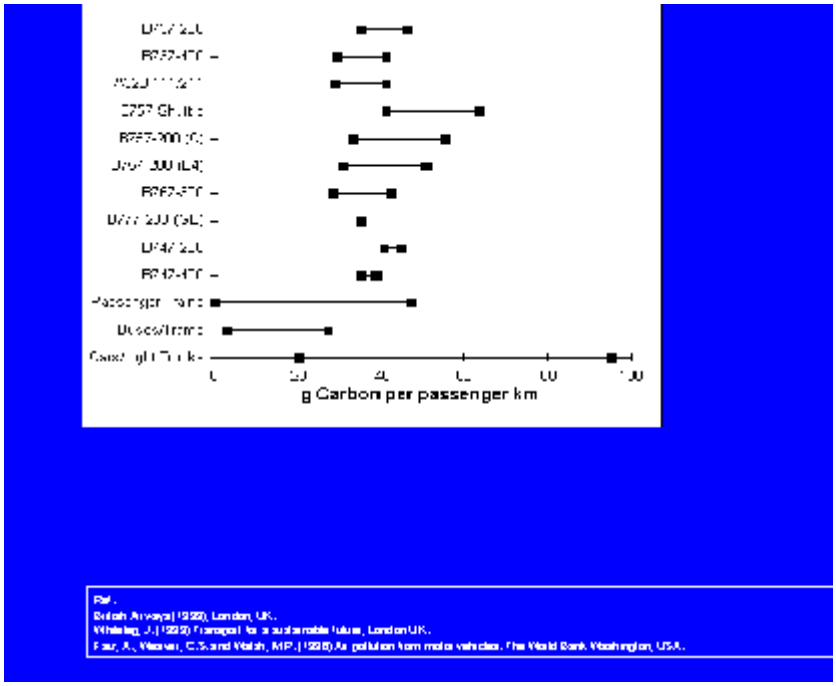
Passengers per air transport movement (PATM) will grow slowly, but already, the PATM at Gatwick and Heathrow of new movements are double that of other major airports in Europe.

Environmental issues are of major consideration both for air transport as a whole and providing new capacity in the UK (particularly the South East). Pressure to reduce fuel usage and noise by air transport operations will continue to dominate future agendas. However, it is important to recognise what has been achieved over the last two decades and is being achieved for the future. Figure 2 shows how the noise footprint around airports has been significantly reduced and is continuing to be improved for the future as delivery of new less noisy aircraft replace older noisier aircraft.

FIGURE 2 Compared Noise contours around Heathrow of past and now

Fuel efficiency and hence lower carbon dioxide emission is also a major factor. Again, over the last two decades, the air transport industry has delivered improvements far greater than those of any other mode of transport. Figure 3 shows comparisons with other transport modes and the fact that long haul air travel is often more efficient than other means.

FIGURE 3 Carbon efficiencies of transport modes. (*source, IPCC*)



These improvements in noise and fuel efficiency have been achieved primarily by the introduction of the high bypass engines, which gave both gains simultaneously. Sadly, a similar step change is unlikely in the short / medium term and future improvements are more likely to be incremental in nature. In reality, a choice will have to be made as to whether fuel **or** noise reduction is the main priority as one generally adversely impacts the other; so a balance will need to be struck. One aspect of aircraft size will be the impact of any new noise requirements. This may well constrain very large aircraft like the Airbus A3XX and future B747 derivatives, which may not be able to comply with the outcome from the ICAO CAEP discussions being supported by the UK government.

Future requirements on noise, emissions, fuel taxes, etc. must be made internationally to ensure competition is not distorted. Clearly, it can be seen that air transport is an essential part of the future of the UK economy and providing sufficient capacity for growth is a major challenge to the UK Government. Failure will impact our economic position in the world economy and would mean giving up UK's leading role in aviation (which was hard won) very early in the 21st century.

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