

Transport and the Economy

An Inquiry by the House of Commons Transport Select Committee

Submission by the British Air Transport Association (BATA)

September 2010

1. The British Air Transport Association (BATA) welcomes the opportunity to submit evidence to the inquiry entitled '*Transport and the Economy*', being undertaken by the House of Commons Transport Select Committee.

2. BATA is the trade body for UK registered airlines. Our ten members cover all sectors of the airline industry . including freight, charter, low fare, regional operations and full service. In 2009, BATA members directly employed over 71,000 people, operated two thirds of the UK commercial aircraft fleet and were responsible for some 80% of UK airline output, carrying 81 million passengers and 1 million tonnes of freight¹.

3. We understand that a number of BATA's member airlines intend to make their own, individual submissions to the Committee. This submission should therefore be seen as supportive of those separate submissions.

4. We appreciate that aviation, given the nature of both its funding and operation, will not be a prime focus of this inquiry. Nevertheless, we do wish to bring to the Committee's attention a number of issues which we believe are of relevance.

5. Unlike other modes of transport in the UK, aviation is virtually all funded and operated by the private sector. Indeed, it receives no subsidy from the taxpayer, apart from a very small number of lifeline services operated in the more remote parts of the UK. Airports are generally privately owned and costs such as air traffic management services, security and the regulatory authorities (Civil Aviation Authority and European Aviation Safety Agency), are paid for by airlines in the form of fees and charges.

6. Aviation raised £1.9 billion in the form of Air Passenger Duty (APD) for the Treasury in 2009/10², a figure forecast by the Office for Budget Responsibility to grow to £3.8 billion in 2015/16³. This ever increasing level of tax is a barrier to the ability of the UK to compete for international investment and inbound tourism on an equal basis with other nations. It is also likely to have an adverse effect in the regions where air services may become unviable. This will impact upon jobs and regional development.

7. We would wish to point out that the 23 million international sea passenger journeys through UK ports in 2009 attracted no equivalent tax to APD. Yet shipping contributes at least as much as aviation in terms of global CO₂ emissions⁴. There is

¹ CAA UK Airline Statistics: 2009 . Annual Tables 1.6, 1.14 and 1.11.2

² HMRC Air Passenger Duty Bulletin Dataset published August 2010, Section 1

³ OBR Budget Forecast contained within Budget 2010 HC 61, published 22 June 2010, p 100 Table C11

⁴ Report to the CCC by AEA Greenhouse Gas Emissions from Shipping September 2008, p11

therefore a glaring inconsistency in the approach taken by government in addressing the %Polluter Pays+principle between these two transport modes, both of which are vital for sustaining the UK's economic recovery.

8. A study of aviation's contribution to the UK economy, published in November 2009, was undertaken by Oxera Consulting Ltd for the Airport Operators Association. The study found that aviation represented 1.5% of the UK economy, contributing £18.4 billion towards UK GDP in 2007⁵.

9. A previous study, by Oxford Economics in 2006, found that aviation directly employed around 200,000 people and supported over half a million jobs either directly or indirectly⁶.

10. We appreciate that the Department for Transport, like other Government departments and public bodies, is facing a significant cut in its budget and this will obviously result in reduced support for transport projects and initiatives that require state funding and subsidy.

11. BATA fully supports the logical argument that effective and efficient transport systems, infrastructure and networks, are required for economic prosperity. Aviation is a critical component of the transport system of an island trading nation such as the UK. 30% of all UK exports by value are transported by air⁷. Over 50% of the UK's exports of manufactured goods that are exported to destinations outside the EU travel by air⁸. The importance of air travel in our modern globalised world was clearly exposed by the consequences of the disruption to flights caused by the volcanic ash cloud earlier this year, with not just people stranded at airports all over the globe but also fresh produce and key industrial components and goods.

12. Air links between the UK regions and also between UK regional centres and European and longer haul destinations play an important part in driving and growing regional economies.

13. Aviation is a global industry and as such it exists in an extremely competitive environment. If the UK decides not to meet demand by limiting capacity and infrastructure at our key international gateways, other competing airports in Continental Europe and further afield will prosper at the UK's expense. This will have a direct impact on UK jobs and future economic growth.

14. Offering air services to key developing markets such as India and China is crucial for the future health of the UK economy.

15. The vast majority (74% in 2009) of inbound visitors arrive in the UK by air⁹. These visitors spent nearly £13.8 billion (over 83% of total visitor spend)¹⁰ and many were from places such as North America, Australia, China, the Indian sub-continent and

⁵ Airport Operators Association Press Release, 9th December 2009 (http://www.aoa.org.uk/media/news_show.asp?NEWS_ID=162)

⁶ Oxford Economic Forecasting, 'The Economic Contribution of the Aviation Industry in the UK' October 2006, Executive Summary, p 5

⁷ Ibid, p 33

⁸ Ibid, p 33

⁹ Office for National Statistics Travel Trends 2009, p 37, Table 2.08 'Spending in the UK: by mode of travel and purpose of visit 2005 to 2009q'

¹⁰ Ibid, p 27, Table 1.07, 'Overseas residents' visits and spending in the UK: by mode of travel 1984 to 2009q'

the Middle East . where there no realistic alternative option of travel to the UK other than by air.

16. Good air links are vital if the UK is further increase its attractiveness to overseas visitors, something the Prime Minister in his speech about tourism on 12th August 2010 indicated he wants to happen, when he said;

"[Tourism is] fundamental to the rebuilding and rebalancing of our economy. It's one of the best and fastest ways of generating the jobs we need so badly in this country."

17. Later in the speech, he talked about the importance of the UK being competitive and attractive destination:

"Want to see us in the top five destinations in the world. But that means being much more competitive internationally. Take Chinese tourists, for example.

We're their 22nd most popular destination. But Germany is forecast to break into their top ten. Why can't we?

*Currently we only have 0.5 per cent of the market share of Chinese tourists. If we could increase that to just 2.5 per cent this could add over half a billion pounds of spending to our economy and some sources suggest this could mean as many as 10,000 new jobs. Currently we have 3.5 per cent of the world market for international tourism. For every half a per cent increase in our share of the world market we can add £2.7 billion pounds to our economy, and more than 50,000 jobs."*¹¹

18. Heathrow, the UK's main international air hub and gateway, currently offers services to just three cities in China (including Hong Kong), which is the same number Helsinki airport serves, while Paris Charles De Gaulle and Amsterdam Schiphol both have services to four cities and Frankfurt provides services to seven.¹²

19. For the UK economy to continue its recovery and be able to return to strong sustainable growth, we believe that it will be important to stimulate inward investment, improve connectivity and increase productivity. Aviation will be integral to this.

20. It seems sensible to us, that at a time of deep public spending cuts and reining in of capital investment in infrastructure, the provision of a positive policy agenda on capacity and taxation could protect and enhance those transport links which cost the public purse nothing; offering the greatest return for least expenditure.

21. We therefore call on the Government to;

- Publish as soon as possible a coherent, comprehensive policy which supports and facilitates the sustainable development of UK aviation
- To reconsider government decisions which will result in capacity constraints and limitations on infrastructure being imposed upon the industry and travelling public

¹¹ <http://www.number10.gov.uk/news/speeches-and-transcripts/2010/08/pms-speech-on-tourism-54479>

¹² Source: Websites of Heathrow airport, Helsinki airport/Finnair, Aeroports de Paris, Schiphol Amsterdam airport and Frankfurt airport, accessed 22nd September 2010

- To reduce and then phase out tax on air travel (whether in the form of the current Air Passenger Duty or any new per plane tax) with the entry of aviation into the EU ETS in 2012.

22. BATA would be pleased to provide oral evidence to expand on the points made in this submission.

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