AIRPORTS OPERATORS ASSOCIATION RESPONSE TO THE AIRPORTS COMMISSION DISCUSSION PAPER: AVIATION CONNECTIVITY AND THE ECONOMY, APRIL 2013

The Airport Operators Association (AOA) is the national voice of UK airports. It is a trade association representing the interests of UK airports, and the principal such body engaging with the UK Government and regulatory authorities on airport matters. The AOA welcomes the opportunity to respond to the Airports Commission Discussion Paper 02, Aviation Connectivity and the Economy.

I. EXECUTIVE SUMMARY

- The AOA believes that the UK requires excellent aviation connectivity right across the country, ensuring the UK has both vibrant point-to-point airports and sufficient world-class hub capacity.
- The AOA has set out the thoughts of its members on connectivity in detail in the paper; 'An Integrated Policy Framework for UK Aviation: Connecting the Economy for Jobs and Growth'. Much of the information and data used in this response is drawn from this document.[1]
- The AOA believes that the UK's performance in terms of its aviation connectivity could be better and that some current policies on capacity mean airlines cannot always fly to destinations they may want to serve.
- Current capacity constraints in some areas means that the UK will struggle to maintain its current connectivity position. Whilst the UK is well connected to the US and Indian markets, it is less well connected to BRIC countries such as Brazil, Russia and mainland China compared to many of our European counterparts. If Hong-Kong is included as part of China in assessments, the UK does fare better in terms of its connections to BRIC economies.
- Aviation connectivity is vital in facilitating the trade of goods and services, contributing to a vibrant tourism industry; and it encourages more business and investment into the UK, improving business productivity. Every year, UK airports serve over 200 million passengers and handle nearly 2 million tonnes of freight. Some 40% (by value) of the UK's exports travel by air, 65% of companies say that the UK's international transport connections are crucial or significant for their future investment decisions, and air travel accounts for 84% of all inbound visitors' spending. 80% of firms indicate that air services are important for the efficiency of their production.

[1] AOA (2013), 'An Integrated Policy Framework for UK Aviation: Connecting the Economy for Jobs and Growth' – http://www.aoa.org.uk/media/7284/aoa-an-integrated-framework-for-uk-aviation-report.pdf

- Without a vibrant aviation network, high value electronics exports would fail to reach their markets on time, food would not arrive fresh, and business passengers, who make UK companies world players, would be limited in their ability to travel in and out of the country.
- There is a growing amount of evidence to support the view that the UK is potentially missing out on trade and investment opportunities if it does not improve its air links with emerging economies. Adding just one additional daily flight to each of the eight largest high-growth markets in the world would increase UK trade by as much as £1billion a year[2]. UK airports are collectively doing all they can support these flights, with some success.
- People of all backgrounds fly and fly regularly. The development of air travel in the UK is one of increasing social inclusion. More and more people can afford to travel where they like, when they like. People travel to visit distant friends and relatives, for personal fulfillment, for leisure or tourism, to attend cultural and sporting events, to be educated, exchange ideas, and carry out research. Modern, large global events, such as the 2012 London Olympics, simply could not take place without the international connectivity air travel provides. Polls consistently show that about half of all UK people take a flight every year[3]; and nearly 90% of people have flown in the last three years.[4] More than a quarter of all passengers travel to visit friends and relatives (VFR) and over 40% of these passengers are from households with less than average incomes.[5]

II. RESPONSES TO THE QUESTIONS POSED IN THE CONSULTATION DOCUMENT ON THE NATURE OF UK CONNECTIVITY (PARA 5.4)

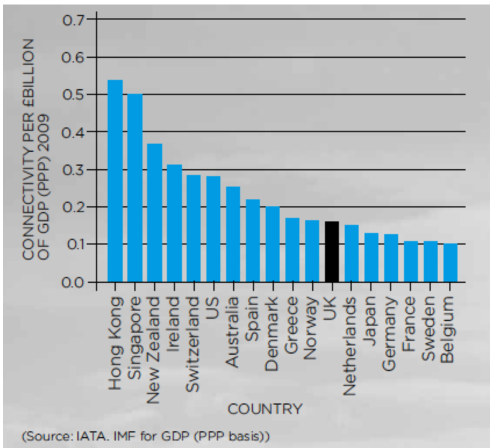
GENERAL COMMENTS

1. The AOA believes that the UK's performance in terms of its aviation connectivity could be better; and with other European airports rapidly expanding, the UK will struggle to maintain its current position without similar ambition. Using 'available Airline Seat Kilometres' as a measure of comparison, since 2008 UK connectivity has declined by 4.9%, whereas Germany's has increased by 4.3% and France's by 3.4%. According to Oxford Economics, in proportion to the

[2] CBI (2013), 'Trading Places: Unlocking Export Opportunities through Better Air Links'
[3] DfT (2010), 'Public experiences of and attitudes towards air travel' [online]
[4] National Centre for Social Research (2009), 'Flying Decisions Research Report' [online]
[5] CAA (2009), 'International Relations: The Growth of Air Travel to Visit Friends and Relations'

size of its economy, the UK ranks in 12th position on air connectivity, as demonstrated in Graph 1 below.[6]

Graph 1: UK ranks no.12 in connectivity terms when compared to GDP



III. RESPONSE TO QUESTIONS

Do you agree with the definition of connectivity presented in the paper? What other factors, if any, should we take into account and how do they impact connectivity?

2. The AOA believes that connectivity should be considered in terms of: the number of destinations served; the frequency of services; the economic value it drives; and the accessibility of destinations right across the UK.

3. The AOA also believes that while the range of destinations and frequency of flights are important variables in considering connectivity, there are other considerations that need to be taken into account too, such as whether flights take place at convenient times and their availability.

4. Table 2.1 in the consultation document gives a potentially distorted picture since it focuses on destinations that are served by at least a weekly service. This is quite a limited baseline and whilst this may work for holiday travellers who are happy to travel on a week return basis, it would be less useful to business passengers, who require shorter return journeys.

[6] IATA in Oxford Economics (2011), 'Economic Benefits from Air Transport in the UK'

5. So, it is important to balance potential connectivity data, with the purpose in mind. This logic also applies to the data presented in the consultation document in Figure 2.4 and Figure 2.5. Figure 2.5 focuses on the increase in the number of flights to BRIC countries between 1990 and 2010. It suggests that flights from the UK hub airport, Heathrow, have increased the most significantly of the airports that are compared. Whilst that may be true, it does not give a complete picture of connectivity either now or in the future.

6. Figure 2.2, provides a useful analysis of how accessible the UK capital is to other parts of the world; but connectivity is important to the whole UK. For this reason, consideration should be given as to how accessible destinations are to other parts of the UK. In paragraph 2.1 of the consultation, it states that; *'at its heart, connectivity is about making [these] activities as easy as possible, given the geographic separation involved'*. The data that is presented in the report does not correlate with this statement since it uses aggregate numbers and does not consider the full journey time that is taken to get to the destination. For example, connections from point-to-point airports and different parts of the UK to its hub can be an important factor in connectivity terms. A useful analysis in informing the connectivity debate would be to conduct further research into the economic impact of time spent in transit.

7. For these reasons, the AOA feels that the conclusion presented in this section of the report i.e.; *"the UK aviation market appears to offer a high level of connectivity, enabling people and businesses to travel efficiently and linked effectively to a wide range of markets"*, is premature and requires further research.

8. Perhaps the most important factor in connectivity terms are the years ahead. It is not just how connected the UK is to the outside world today, but its connectivity in the future, and how this compares with other key EU and global airports such as those in the Gulf. The key question is whether the UK will require more or less connections with trading markets and holiday destinations in the future than is the case today? If the answer is more, then an analysis in connectivity terms of how many additional destinations may be required is crucial. The AOA would welcome some analysis that looks forward in this way, particularly given the long lead times to expand point-to-point and hub infrastructure.

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

9. The AOA welcomes the work done so far in the discussion paper, but believes there is additional work to do to better understand connectivity.

10. Using 'available Airline Seat Kilometres' as the only measure, since the recession began in 2008 UK connectivity has declined by 4.9%, whereas Germany's has increased by 4.3% and France's by 3.4%. These figures suggest that the UK is losing ground relative to its competitors in comparison with other countries and demonstrates the importance of direct connections, if UK business is to remain competitive.[7]

11. As a result of its historic and geographic position, the UK still enjoys a strong position in the transatlantic aviation market and to countries like India. By contrast, the UK is linked with relatively fewer locations in other BRIC (Brazil, Russia, and China, in addition to India) economies. This is illustrated in Table 1, page 6 (of this submission), which sets out the annual number of flights from the UK and other countries in Europe to the rapidly developing BRIC economies. Looking at China in detail, in 2011 the UK had daily flights to Beijing and Shanghai, adding a three times a week service to Guangzhou in 2012. France has flights to all these destinations, with a recent connection to Wuhan — the most populous city in central China. Germany's connectivity is better still, with flights to Nanjing (a city with a population comparable to London and a key commercial hub of eastern China) and to Shenyang, cited as an emerging "megacity" in a 2012 report by the Economist Intelligence Unit.[8]

12. Ultimately, it is airlines that determine which routes are flown and therefore overall connectivity; and this depends on long-term route profitability. Airlines must take into account the efficiency of their own operations, and other commercial factors like airport availability and charges, exchange rates and fuel prices. However, political and regulatory factors also play a major role in determining the attractiveness of starting and sustaining routes. In recent years airlines have introduced new routes to BRIC destinations at airports throughout the UK, so the picture is constantly changing.

[7] World Economic Forum (2008-2012). 'Global Competitiveness Report'
[8] Economist Intelligence Unit (2012), 'Supersized cities, China's 13 megalopolises'

Table 1: Direct UK connectivity to BRIC economies could be better (2011)

DIRECT CONNECTIVITY TO BRAZIL			
From:	Connectivity Rank	Departures	Seats
France	1	2373	625849
Germany	2	1537	455940
UK	3	1129	348135
Italy	4	982	264434
Netherlands	5	431	147251

DIRECT CONNECTIVITY TO RUSSIAN FEDERATION			
From:	Connectivity Rank	Departures	Seats
Germany	1	19198	2811650
Italy	2	5110	846229
France	3	5132	767560
UK	4	4127	663007
Netherlands	5	2069	300749

DIRECT CONNECTIVITY TO INDIA			
From:	Connectivity Rank	Departures	Seats
UK	1	5732	1564459
Germany	2	3009	834533
France	3	1358	364181
Netherlands	4	753	220536
Italy	5	470	110792

DIRECT CONNECTIVITY TO CHINA*			
From:	Connectivity Rank	Departures	Seats
Germany	1	3884	1165507
France	2	2566	788144
Netherlands	3	2084	581798
UK	4	1579	444134
Italy	5	985	257971

*Mainland China; not Hong Kong
(Source: Capstats)

13. Business Aviation also has an important role to play in improving connectivity. It provides direct connections to some cities that do not have direct flights and also fills gaps in the scheduled network. In 2011, there were 704,000 business aviation flights across Europe accounting for

7.1% of all European flights. Business Aviation also connects cities that are not served by a daily scheduled service and therefore plays a role in linking cities that are not well catered for by the scheduled network.[9]

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

14. The AOA agrees that the key reasons behind the variation in the UK's connectivity in different regions includes the geographical position of the UK, especially in relation to maintaining transatlantic links, and historical and cultural factors. The economic growth of the destination is also a key driving factor in facilitating links. Furthermore, the UK aviation industry was historically an international leader in civil aviation, and this growth allowed the UK to get ahead of competitors, accounting for some of the well established links to many markets in use today. We should be doing better on connectivity, given the UK is often seen as the bridge between America and Europe.

Given connectivity trends in the UK versus other European countries, how much scope is there for route networks available to UK residents to radically change over the coming years?

15. Currently, the UK faces a number of challenges in radically changing its route network availability. Firstly, since 2010 there has been a policy drift in terms of airport expansion, although the Department for Transport's 2013 Aviation Policy Framework and the forthcoming 2015 Airport Commission Report should eventually rectify this. In addition, the ability to increase connectivity both intra-UK and external to the UK is constrained in some areas by the availability of capacity and taxation such as Air Passenger Duty (APD). APD can restrict connectivity because an airline may choose to abandon routes or reduce their frequency to put their services onto more profitable routes. The British Chambers of Commerce report, *Flying in the Face of Jobs and Growth*, explains the impact that APD has on connectivity and highlights that countries such as Holland, Denmark and Belgium have abandoned aviation taxes due to their negative affect.[10]

16. There are also challenges in terms of airspace design and management which can prevent the full use of capacity. For example, night-flying restrictions.

[9] Eurocontrol and Oxford Economics (2012), 'The role of Business Aviation in the European Economy'
[10] British Chambers of Commerce (2011), 'Flying in the Face of Jobs and Growth: How aviation policy needs to change to support UK business'

17. Constraints to connectivity can also arise from local opposition to increases in aircraft movements or conditions imposed through the planning system.

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

18. The consultation paper focuses primarily on direct connectivity. The AOA believes this is important, but without fully considering indirect connectivity a key part of the picture is lost. Connectivity in aviation terms is a relatively clear term, but what is also important is accessibility. How accessible the UK is to other parts of the world needs to be considered alongside direct connectivity.

19. Indirect flights also provide additional choice and connectivity to UK passengers that would not otherwise be there. For example, most of the world can be accessed non-stop or one-stop from airports throughout the UK. While direct flights are preferable, indirect flights offer an important alternative where they do not exist either via UK hubbing or through continental Europe or Middle Eastern hubs. The AOA believes that to build a proper picture of UK connectivity and the surrounding economic benefits, further research needs to be done by the Airport Commission on indirect connectivity.

20. Airports throughout the UK are delivering additional improvements to airport capacity, airport facilities and the passenger experience as a way of furthering connectivity. For example – and the following list is not exhaustive – **Aberdeen Airport** is relied upon heavily by local businesses as a way of accessing global connections – 56% of its passengers are global travellers. **Birmingham Airport** is in the process of extending its runway which will allow it to reach destinations such as the West Coast of America. **Bristol Airport** has planning permission for facilities to handle up to 10 million passengers per annum (compared to 6 mppa currently). **Gatwick Airport** is in the process of delivering a £1.2 billion investment programme, and has proposals to invest a further £1 billion in the airport from 2014, including making the airport A380 compatible. **Heathrow Airport** has invested £5 billion already in new facilities and will be investing £3 billion over the next five years, and a brand new Terminal 2 is due to open in 2014. **Leeds Bradford Airport** has recently completed a £11 million development of its passenger terminal. **London City Airport** has permission to grow from 70k to 120k movements per year and is submitting a planning application for the infrastructure to support this growth. **London Southend Airport** is extending its terminal by 90 metres, increasing

the number of check-in desks, baggage drop-off points and security screening channels, and has plans to grow its passenger numbers to 2 million. **London Luton Airport** has submitted a development plan to improve passenger facilities and enable the Airport to accommodate up to 18 million passengers per annum by 2028. Over the next 15 years the ambitious plan will see an investment of £100m and the creation of 5,100 additional full-time equivalent jobs. **Lydd Airport** has recently had plans approved to construct a 294 metre runway extension, a 150 metre starter extension, and a new terminal building capable of handling up to 500,000 passengers a year. The final stage of **Manchester Airport's** £80 million terminal redevelopment programme was completed in Terminal 3 in 2011 with the unveiling of £2 million worth of modernisation including new plasma flight information screens, clearer way-finding signage, replacement flooring tiles on the upper level, and the creation of new shops and a catering unit on the upper level. **Newcastle Airport** has terminal capacity to handle 7-8million passengers per year and will publish a Master Plan in 2013 to take it up to 8.5million by 2030. **Stansted Airport** serves over 150 destinations across 30 countries and plans to invest over £230 million over the next five years.

21. The analysis of connectivity by the Airport Commission would also benefit from posing more specific questions about the nature of transport and the importance of accessing particular destinations. There is a focus on the BRIC economies, equally, depending on the nature of the question being explored it may be helpful to strip out some destinations. For instance, if the focus is on connectivity for trade, then an aggregate figure of number of destinations that includes a significant number of purely holiday destinations is not that helpful.

IV. THE RELATIONSHIP BETWEEN AVIATION CONNECTIVITY AND THE ECONOMY (PARA 5.5)

22. The AOA believes that aviation connectivity facilitates all five of the elements highlighted: trade in goods; trade in services; tourism; business investment; and innovation and productivity. The importance of each is highlighted in the paragraphs that follow.

23. **Trade in Goods -** Air connectivity is extremely important for trade in goods and UK exports. The UK is after all an island nation and unsurprisingly 40% (by value) of the UK's exports travel by air.

Airfreight between Europe and Asia has grown by an average of 10% a year since 1991.[11] Moreover, express freight services, often taking place during the night, allow 'Just in Time' (JIT) delivery, which has added over £6 billion a year to the economy through reduced stockholding.[12] There is some evidence to suggest that not having this connectivity could have an impact on the local and national economy. For example, an Oxford Economics survey found that 10% of firms would relocate from their strategic location close to the East Midlands Airport freight hub if international next day delivery services were no longer available.[13]

24. **Trade in Services -** Aviation connectivity is essential in facilitating trade in services. As the discussion paper indicated, the UK continues to be a major international centre for financial services. Research by the Civil Aviation Authority (CAA) found a strong correlation between the travel by businesspeople to and from and the UK and the success of UK companies in trading with them.[14]

25. **Tourism -** Aviation connectivity is vital in boosting tourism right across the country. A study by Deloitte concluded that tourism boosted the UK economy by £115 billion in 2009, about 8% of UK GDP.[15] In terms of the proportion of air travel this involves, official UK statistics show that while air travel accounts for 73.5% of all visitors to the UK, they account for 84% of all inbound visitors' spend (£15.1 billion in 2011) and on average spend more per visit**.** Air travel also accounts for two-thirds of holiday visitors.[16]

26. **Business Investment and Innovation** - The level of Foreign Direct Investment (FDI) in the UK has increased from £324 billion in 2002 to £766 billion in 2011.[17] Aviation connectivity plays a crucial role in securing foreign investment. A CBI Infrastructure survey reported that two thirds (65%) of respondents highlighted the UK's international transport connections as crucial or significant for their future investment decisions.[18] A European Cities Monitor survey showed that 60% of companies thought that easy access to markets, customers, or clients were an important factor in deciding where to locate its business.[19] In addition, Oxford Economics found that 8% of

[11] Boeing (2010), 'World Air Cargo Forecast 2010-11'
[12] Sir Rod Eddington (2006), 'The Eddington Transport Study'
[13] Oxford Economic Forecasting (2006), 'The Economic Contribution of the Aviation Industry in the UK'
[14] CAA (2010), 'Flying on Business: A Study of the UK Business Travel Market'
[15] Deloitte (2010), 'Economic Contribution of the Visitor Economy: UK and the Nations'
[16] ONS (2011), 'International Passenger Survey'
[17] ONS (2011), 'Business Monitor MA4'
[18] CBI/KPMG (2012), 'Better Connected, Better Business: Infrastructure Survey 2012'
[19] Cushman & Wakefield (2011), 'European Cities Monitor'

companies reported that the quality of air transport links had been material in a decision not to invest in the UK.[20] Airport City at **Manchester Airport** will become one of the most significant development project in the UK since the regeneration of East London began in 2005 for the Olympics. The aim is to attract global corporate occupiers that would not previously have located in the region, or even the UK. Similarly, there are numerous other examples of airports becoming involved with LEPs. 'Aerohub @ **Newquay Cornwall Airport** Enterprise Zone' plans include an ancillary hotel and retail and leisure facilities, which will be developed via a simplified local planning process over the next 20 years, boosting employment and growth in Cornwall. Similarly – and the following list is not exhaustive – many other airports are closely involved with LEPs, including: **Aberdeen Airport** (Aberdeen City & Shire Economic Futures); **Birmingham Airport** (Greater Birmingham & Solihull LEP); **Blackpool Airport** (Lancashire Enterprise Partnership); **Bristol Airport** (West of England LEP); **Gatwick Airport** (Coast to Capital LEP, Gatwick Diamond Initiative); **Leeds Bradford International Airport** (Leeds City Region LEP); **Liverpool John Lennon** (Liverpool City Region LEP); **London Luton Airport** (South East Midlands LEP); **Manston Kent International Airport** (Kent**,** Essex & East Sussex LEP); **Robin Hood Doncaster Sheffield** (Sheffield City Region LEP); **Newcastle International Airport** (North Eastern LEP); and **Stansted Airport** (West Essex Alliance, a sub group of the South East LEP).

27. **Productivity** - Connectivity is also important in improving the way business works. Oxford Economics found that 80% of firms reported that air services were important for the efficiency of their production, with higher scores in China and the US.[21] In addition, 'Just in Time' delivery has contributed to UK productivity gains.

Are there other channels through which aviation connectivity might facilitate economic growth? What are they and what evidence is there to support this?

28. It is important to remember that the aviation sector is a significant economic industry in its own right, making a crucial contributing to UK plc. A 2011 study by Oxford Economics found that aviation supports nearly a million jobs, contributes £49.6 billion to the economy, which equates to 3.6% of UK GDP, and provides £8bn tax revenues to the Treasury.[22] Moreover, express freight creates about £1 billion of economic value in its own right and employs around 40,000 people

[20] Oxford Economic Forecasting (2006), Ibid.
[21] IATA (2006), 'Economic Briefing No 3 – Airline Network Benefits'
[22] Oxford Economics (2011), 'Economic Benefits from Air Transport in the UK'

directly.[23] It is also important to stress that the benefits airports bring to our economy and society come largely at no cost to the public purse. Aviation is unique in that it plays a key role in improving the UK's infrastructure and national assets with little or no public funding.

How effective do you consider that the aviation connectivity of the UK may facilitate economic growth now and in the future? What risks and opportunities does it present?

29. This submission has established that aviation connectivity is vital and potentially highly effective at facilitating economic growth. As the balance of the world's economy moves East, playing to our comparative advantages will become more critical. A recent report by the CBI concluded that adding just one additional daily flight to each of the eight largest high-growth markets in the world would increase UK trade by as much as £1billion a year. This means that an increase of 1,000 passengers a year between two countries could result in trade increasing by as much as £920,000. Furthermore, for each and every additional average flight to one of the high-growth markets, the value of trade could rise by as much as £175,000.[24]

How important do you consider connectivity for each (1)-(5)?

30. Connectivity is important to all of 1 to 5 in that greater connectivity leads to increased opportunities. Specifically, the relationship between time, mobility and economic growth has been explored by many academics and in broad terms has shown that over time, increased mobility leads to greater economic growth. It would seem relevant for the Airports Commission to explore this area of work to inform some of its current thinking.

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

31. **Aviation Taxation** - Levels of aviation taxation can potentially deter passengers and businesses from travelling to the UK. For example, Air Passenger Duty (APD) has increased between 160% and 360% (depending on flight distance) since 2007. APD for short haul flights can now account for approximately a third of the ticket price, and a typical UK family now pays more than £115 in APD a year[25], which increased again recently following the Chancellor's April 2013 Budget increase. A family of four flying to the US will now pay £268 in APD in addition to the cost of the trip, whereas flying from France they would pay a total of £38. For economy passengers flying long haul, APD rates are some six times the average of other countries in Europe that still levy a

[23] Oxford Economics (2011), Ibid.
[24] CBI (2013), 'Trading Places: Unlocking Export Opportunities through Better Air Links'
[25] A Fair Tax on Flying (2012), http://www.afairtaxonflying.org/facts/

charge. Some countries, such as Belgium, Denmark, and the Netherlands have abandoned Air Passenger Duty altogether due to the harmful impact it had on their economies. Only five other EU countries other than the UK levy APD.

32. There is evidence to suggest that the UK's high rates of APD are damaging connectivity and the UK economy. For example, Air Asia X ceased operations in the UK in 2012, citing APD levels as a cause.[26] The Chancellor of the Exchequer had to intervene to permit special low APD rates on long haul flights from Northern Ireland as Continental Airlines intended to end its Belfast to New York service. The now merged United Continental airline would like to start more long haul flights, but sees high APD levels as a barrier.[27] Following the doubling of APD in 2007 and subsequent increases Liverpool John Lennon Airport has lost six domestic, five European and two long haul (North America) services. Robin Hood Doncaster Sheffield Airport lost one domestic service, six European and three long haul services.

33. The British Chamber of Commerce estimates that were APD to increase every year by 5% as it did in 2012, over £10 billion in UK economic growth could be lost by 2030, and £1 billion could be lost by as soon as 2015.[28]

34. The AOA believes that further macro-economic modelling should be conducted to better understand the effect of APD on the UK economy. The Airports Commission may wish to encourage HM Treasury to research this area as part of its investigation.

35. **Bureaucracy and Red Tape** - This is also a major issue, as aviation is a heavily regulated sector. AOA analysis has shown that regulatory costs can account for 15% of controllable costs at airports. At many airports there is now simply no scope to absorb increasing regulatory costs. The nature of the local planning system can also impede airport development and growth.

[26] The Telegraph, (12 January 2012), 'AirAsia X scraps Gatwick flights due to APD' – http://www.telegraph.co.uk/travel/travelnews/airpassengerduty/9010288/AirAsia-Xscraps-Gatwick-flightsdue-to-APD.html

[27] BBC News (27 September 2011), 'George Osborne confirms NI air passenger duty cut' – http://www.bbc.co.uk/news/uknorthern-ireland15072772

[28] British Chambers of Commerce (2011), 'Flying in the Face of Jobs and Growth: How Aviation Policy Needs to Change to Support UK Business'

36. **Factors affecting Passenger Experience** - The overall passenger experience and convenience is also important to where businesses decide to locate. This includes ensuring good surface access to airports, an efficient security regime, and a more welcoming passport control process.

To what degree can causality between connectivity and (1) – (5) be established? Are there any particular research methods that we should be looking at and why?

37. Business representative organisations have been vocal in highlighting the link between connectivity and growth opportunities. In its recent report, the CBI proposed that direct flights open doors to new trade and that a new daily flight to the eight largest high-growth economies could generate as much as £1bn of additional trade a year. The report says that, *"Analysis of global patterns illustrates the symbiotic relationship between air links and trade flows: they fuel each other's growth. Where the UK's connectivity has grown, new trading links have been forged, and vice versa".* [29]

38. The Airport Commission will need to consider whether air connectivity increases economic growth, or whether economic growth causes great levels of air service and connectivity. It is likely to be a two way relationship, with economic growth stimulating demand for air services while at the same time, air services open up new opportunities for tourism, trade and business development. This in turn can stimulate further demand for air services in a virtuous cycle. Thus, while air connectivity alone is not sufficient for trade, tourism, investment and productivity, it is an important contributor.

V. THE FUTURE UK'S OBJECTIVES FOR AVIATION CONNECTIVITY (PARA 5.6)

39. The AOA supports a comprehensive approach to measuring connectivity. The measure, for example, which the Government adopted in the draft Aviation Policy Framework using only 'Airline Seat Kilometres' (ASKs) statistics recorded in the World Economic Forum's *Global Competitiveness Report*, was insufficient. This measure relates to the degree of UK connectivity, rather than its value. Furthermore, while the range of destinations and frequency of flights are important variables in considering connectivity, factors such as flights taking place at convenient times and their capacity are also a crucial factor.

40. It is also important to remember that as well as considering the present level of UK connectivity, trends over time are important.

[29] CBI (2013), Op. Cit.

41. Boosting connectivity, and with it economic activity, means increasing the range and frequency of flights. This relies on ensuring there is sufficient airport infrastructure, good transport links to airports, and competitive air transport prices. Ultimately, it is airlines who determine which routes are flown and therefore overall connectivity; and this depends on long-term route profitability. This is affected by many commercial factors; however political and regulatory factors play a major role in determining the attractiveness of starting and sustaining routes.

What kinds of impact do you consider capacity constraints to have on the frequency and number of destinations served by the UK? And, if any, are any particular kinds of routes or destinations likely to be more affected than others?

42. It is crucial for the UK to maintain its air links with existing close trading partners such as the US and EU, and to be able to take advantage of opportunities emerging from the BRIC and other growing economies. It is also important that the UK continues to develop both its point-to-point and its hub capacity. A recent CBI report stated that since 1993, demand for flights from hubs increased by 98%, whilst demand for non-hubs grew by 119%.[30]

43. This increasing demand will continue to place even greater challenges on the ability of UK airports to meet it. The Department for Transport's (DfT) demand forecasts suggest that, without taking any action, all London's airports could reach capacity as early as 2025. Birmingham could follow in 2040. Heathrow already operates at 99% capacity. Yet in comparison to our European counterparts, the UK capacity expansion rate is poor. Over the past 20 years, Heathrow's growth rate has been significantly slower (by 53%) than EU hubs such as Frankfurt (84%), Paris Charles de Gaulle (142%), and Amsterdam Schipol (160%); and the growth at the latter two have been unconstrained. When slots are full, airlines face a choice between existing business or developing new routes, which may be higher risk.[31]

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

44. In addition, demand for air transport is growing with the DfT forecasting that, despite the economic crisis, demand for flights will rise from 219 million passengers a year at present to 335

[30] CBI (2013), Op. Cit.
[31] Ibid.

million by 2030 and 480 million by 2050.[32] In the 2012 CBI/KPMG infrastructure survey, almost half of respondents (46%) expressed dissatisfaction with the UK's air links to emerging markets. Only 46% of companies who deem direct flights to China as crucial are satisfied with their current availability. There is also a growing and potentially damaging perception in the business community that the UK is not well placed to serve new air links as it should be. 33% of companies in the CBI/KPMG survey also believe that international air links have deteriorated over the past five years. A similar proportion (35%) also believe that the situation will get worse over the next five years, meaning that more people expect it to get worse than better (19%).[33]

V. ADDITIONAL QUESTIONS ON MEASURING CONNECTIVITY (PARA 4.11)

45. Aviation connectivity is principally driven by market demand. However, there are some areas of the UK, where 'lifeline' aviation services are provided, for example, the Scottish Highlands and Islands where Public Service Obligations are in place to ensure that those areas are not cut off.

46. Connectivity is important for growth and the perception of the UK as an international trading nation. Increasingly, the UK is operating in a global race and as other nations grow and expand it is likely to increase even further the need for greater connectivity. In trade terms, there are UK exports and the desire to attract inward investment. The Government is investing considerable resource into improving the skills of UK employees through investing in training and apprenticeships and part of the reason for this is to attract inward investment to the UK. Ensuring that global multi-national businesses can get to the UK is therefore vital to the success of the UK internationally. So it is not just about defining the existing destinations of today, but also about providing the right policy environment that enables the market to respond flexibly to new emerging markets wherever they arise over the next 20 to 30 years.

What is the impact of providing indirect flights (i.e. flights involving a transfer) rather than direct ones on connectivity of the consumer/freight? Which consumers are most affected?

47. Direct flights are important. The recent CBI/KPMG Infrastructure survey found that specific sectors find direct connections to emerging markets particularly important. 54% of

[32] DfT (2013), 'UK Aviation Forecasts'
[33] CBI/KPMG (2012), 'Better Connected, Better Business: Infrastructure Survey 2012'

manufacturers said it is crucial or very important that they have access to direct flights to China, while 53% of professional services firms need direct flights to the Middle East.[34]

48. A key consideration in addition to connectivity is time spent in transit and frequency of flights. Connectivity is key, but how routes are operated and run should be determined by the market. Constraints on the market from capacity, tax and red-tape all add to costs incurred by passengers.

How should connectivity for leisure passengers be valued?

49. Leisure passengers have an important role in measuring connectivity, given the importance of tourism to the economy and of short haul leisure travel from Europe. The role that aviation plays in enhancing social well-being should also not be forgotten. Aviation plays an important role in enabling friends and family to stay in touch. More than a quarter of all passengers now travel to visit friends and relatives (VFR) and over 40% of these passengers are from households with less than average income.[35]

How does providing flights at the right time of day and day of the week impact connectivity? Which consumers are most affected? What about freight?

50. It is always important to ensure that aviation is the most efficient it can possibly be for passengers. This includes flying at convenient times. It is also important not to forget the importance of night flights.

51. The express industry in the UK transports more than £10 billion of exports a year and its flights often take place at night. The type of goods transported are usually high-value items, including for example: electronics; components for the immediate repair of goods from computers to aircraft; pharmaceuticals; and important financial services documents.

52. Research by Oxford Economics has shown that night flights at Heathrow Airport alone have a value to the economy of more than £1 billion. The closure at night of the major freight hub airports, including East Midlands and Stansted, could mean the loss of several billion a year to

[34] CBI/KPMG (2012), Op. Cit.
[35] CAA (2009), 'International Relations: The Growth of Air Travel to Visit Friends and Relations'

the UK in the near future. Moreover, night flights are important to the UK's ties with the emerging markets of the Far East. At present passengers in the Far East depart for the UK in the evening and arrive in the early morning UK time.

53. The AOA will be submitting a paper to the Department for Transport Night Flights Consultation and will send a copy to the Airports Commission in May.

What is the impact of airport congestion on consumer connectivity? Should reliability be taken into account?

54. The AOA's views on the important roles of capacity and the passenger experiences have been set out in this paper.

What is the impact of ticket costs to the consumer? How price-sensitive are business and leisure travellers? How can this be captured in measuring of connectivity?

55. Airlines set the price of tickets; however, the costs of Air Passenger Duty cannot be avoided and are passed on to every consumer. See paragraph 26 to 28.

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