



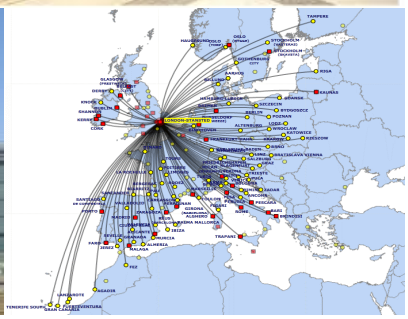

Submission to the Airports Commission

Aviation Connectivity and the Economy

Stop Stansted Expansion ('SSE') was established in 2002 in response to Government proposals for major expansion at Stansted Airport. We have some 7,500 members and registered online supporters including 150 parish and town councils and local residents' groups and national and local environmental organisations. Our objective is to contain the development of Stansted Airport within tight limits that are truly sustainable and, in this way, to protect the quality of life of residents over wide areas of Cambridgeshire, Essex, Hertfordshire and Suffolk, to preserve our heritage and to protect the natural environment.

Stop Stansted Expansion
April 2013
www.stopstanstedexpansion.com

STOP STANSTED EXPANSION

1. Introduction

1.1 This submission by Stop Stansted Expansion ('SSE') should be read in conjunction with our two earlier submissions to the Airports Commission.[1]

1.2 The Commission's *'Aviation Connectivity and the Economy'* discussion paper defines connectivity as

> *'the ability and ease with which passengers and/or freight can reach a given destination by air'*

and it appears that the main thrust of the discussion paper is to seek to demonstrate a strong causal relationship between the UK's air transport connectivity and its economic performance. The paper also appears to assume a direct relationship between air connectivity and airport capacity. We view this approach as simplistic and one which may potentially produce misleading conclusions.

1.3 Connectivity analysis is a relatively recent analytical tool. There is no mention of the word *'connectivity'* in the 2003 *'Future of Air Transport'* White Paper ('ATWP'), nor in the consultation documents which preceded it, and nor - so far as we can see - in any of the 68 studies which underpinned it. We also note that the concept of connectivity analysis has been promoted largely by the aviation industry, its consultants and others working to promote its interests.

1.4 We do not question the existence of a correlation between connectivity and country GDP but we caution against overstatement of its significance. The IATA/InterVISTAS evidence[2] estimates that a 10% rise in connectivity only increases labour productivity - on average - by 0.07%, and by less in countries such as the UK which already have high levels of air connectivity. Moreover, when InterVISTAS carried out a causality test on the correlation, the test was unable to determine whether increased air connectivity led to productivity growth - and therefore, over time, higher levels of country GDP - or whether it was the other way around. In other words, no causality was detected in either direction between these two variables.

1.5 Drawing upon a range of evidence sources, this submission sets out a number of important considerations which have either been overlooked in the Commission's *'Connectivity'* discussion paper, or seemingly misunderstood, or glossed over without being given the significance that we believe they deserve. In particular this paper will address:

- The importance of market considerations;
- Why some connections are more valuable than others;
- Consumer preference for local connections; and
- Other economic considerations.

2. The market will decide

2.1 In the paper we submitted to the Commission on '*Criteria for Assessing Options'* in March 2013, we made the point that *'Governments do not build airports or runways, nor do they provide the funding for airports or runways to be built'.* Our intention was to remind the Commission of the limits of the Government's reach in relation to airports policy, and therefore of the need for any airport development proposal to be market-driven and commercially viable.

2.2 The Government's reach is also limited in relation to connectivity because it is airlines who ultimately decide which of the routes available to them they will operate[3]. They do so - of course - in furtherance of their commercial interests rather than on the basis of what may be in the best interests of the UK economy. The Commission - and the Government - may wish there to be more direct air connections to the BRIC economies - Brazil, Russia, India and China - but whether that happens is ultimately in the hands of the airlines. In short, the market will decide.

[1] *'Aviation Demand Forecasting'*, SSE, March 2013 and *'Criteria for Assessing Options'*, SSE, March 2013.
[2] *'IATA Economics Briefing No 8: Aviation Economic Benefits'*, Mark Smyth and Brian Pearce, July 2007.
[3] Subject to slot availability and an enabling bilateral air services agreement.

2.3 As matters stand, the market does not appear to have any great appetite for more flights to the BRIC countries. In 2012, Heathrow flew more passengers to Miami than to all of mainland China and more passengers to Nice than to either Beijing or Shanghai[4], and Gatwick flew almost 50 times as many passengers to Spain as to all four BRIC countries combined[5].

2.4 It is also worth noting that when Virgin Atlantic recently acquired 12 pairs of ex-BMI slots at Heathrow, it decided to use all of these for domestic UK feeder services into Heathrow. The importance of feeder services to the success of a hub-and-spoke model is well understood but it is surprising that not even one of these pairs was allocated to China. It was not long beforehand that Virgin's CEO was arguing vehemently that the UK needed more air services to China if we were to avoid falling further behind our European competitors and damaging the UK's economic prospects[6]. Moreover, the new feeder services include three daily flights, each way, between Heathrow and Manchester even though Virgin prides itself on the fast, frequent rail service that it operates between London and Manchester, as the franchisee for the West Coast Main Line.

2.5 It does not therefore follow that increasing airport capacity necessarily improves the UK's connectivity in the way that the Government would like to see. More fundamentally, in a well functioning, competitive, free market economy, such as the UK, the Government should be wary of trying to second guess the commercial decisions of market participants. However, as we shall explain later, there are certain measures which the Government could legitimately and sensibly take in order to influence the future pattern of air travel, even though these are limited in scope.

2.6 According to the Cushman and Wakefield ('C&W') *European Cities Monitor 2011* (the most recent edition currently in the public domain), London continues to be ranked - by some margin - as the best city in Europe in which to do business, a position it has held for 22 consecutive years, since the start of the C&W annual business surveys in 1990.

Table 1 - Best cities for doing business

City	2011 Score	Rank		
		2011	2010	1990
London	0.84	1	1	1
Paris	0.55	2	2	2
Frankfurt	0.32	3	3	3
Amsterdam	0.26	4	6	5
Berlin	0.26	5	7	15
Barcelona	0.25	6	5	11
Madrid	0.25	7	8	17
Brussels	0.25	8	4	4
Munich	0.19	9	9	12
Zurich	0.14	10	13	7

Source: European Cities Monitor 2011, Cushman & Wakefield

2.7 The same 2011 C&W survey report shows that 42% of companies consider international transport links to be an essential factor when locating businesses in Europe, ranking it their fourth most important consideration. This compares to a figure of 52% in the 2007 C&W survey report, as quoted in the Commission's '*Connectivity*' discussion paper, suggesting that

[4] Passenger traffic on the relevant Heathrow routes in 2012 was: Miami = 1.03m, Nice = 0.55m, Shanghai = 0.37m, Beijing = 0.30m; Guangzhou = 0.3m. (Source: CAA Airport Statistics 2012, Table 12.1).
[5] Passenger traffic on the relevant Gatwick routes in 2012 was (total by country): Spain = 5.79m, Brazil = 0.00, India = 0.04m (incl. Goa), Russia = 0.03m, mainland China = 0.04m (Source: CAA Airport Statistics 2012, Table 12.1).
[6] BBC TV Interview with Sir Richard Branson, 16 March 2012: http://www.bbc.co.uk/news/uk-england-17406374.

international air connectivity may have become less important to business in recent years. (Incidentally, we find it strange that the Commission's *'Connectivity'* discussion paper should quote from such a dated version (2007) of the annual C&W survey.)

2.8 It is interesting to look also at what the 2011 C&W survey report had to say about transport links:

> *'Companies were asked which are the top three cities in terms of transport links with other cities and internationally. The top five cities again remain static, although the gap between London, the top ranked location and second placed Paris has widened further.* ***London was the only city in the top five to see its score improve, with perceptions of Paris, Frankfurt, Amsterdam and Brussels all weakening over the year.'*** [7] [our emphasis]

2.9 This assessment by European businesses is very different from the picture painted by the aviation industry, namely, that London's competitive position is being eroded as a consequence of a lack of air connectivity and that Heathrow is losing out to Paris, Frankfurt and Schiphol.

3. Quality matters

3.1 Air connectivity needs to be considered from a qualitative stand-point; it is not simply a numbers game. At Stansted, for example, you can fly every day of the week to Benidorm (Alicante) but there are no direct flights to any of Europe's main business centres such as Paris, Zurich and Frankfurt[8], and there are no direct long haul passenger flights from Stansted to any destination, business or leisure. Plainly, it is more difficult to identify economic benefits for the UK in the case of air connections which exist in order to meet the needs of UK leisure travellers, compared to connections whose principal purpose is to meet the needs of business travellers.

3.2 The Commission's *'Connectivity'* discussion paper repeatedly emphasises the importance of good air connectivity to the business sector. The reality however is that the amount of business travel by air has been declining for a long time:

- Business travel accounted for 32% of air travel in 1995, 24% in 2000 and 20% in 2011;[9]
- Overseas business trips by UK residents have fallen by a fifth since 2000 and only one in eight overseas trips by UK residents in 2011 was for business purposes;[10]
- Stansted catered for just 2.8m business passengers in 2011, less than a sixth of all its passengers and its lowest number of business passengers for ten years.[11]

3.3 The Commission's *'Connectivity'* discussion paper also points out that the UK's trade with the BRIC nations has increased five-fold over the past two decades. Over the same 20-year period, the volume of air passenger traffic between the UK and the BRIC nations has increased rather less dramatically, from 1.7% of total air passenger traffic to 2.7%[12]. Whilst it is important to ensure that the UK continues to be well connected to the world's fastest growing economies, it is also important to have a proper sense of perspective.

3.4 Again in relation to having a proper sense of perspective, it is worth reflecting on the fact that the location of so many of the UK's leading export businesses is a long way from any major international airport, suggesting that international air connectivity is, at least, not of paramount importance to their success, and certainly not a pre-condition, for example:

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[7] '*European Cities Monitor 2011'*, Cushman and Wakefield, p14 *'Best cities in terms of external transport links'*.
[8] There is a Ryanair route from Stansted to Frankfurt Hahn Airport, but this is 124 kilometres from Frankfurt, so it's analogous to landing at 'London Southampton Airport'.
[9] *'Travel Trends'*, Office of National Statistics ('ONS'), Tables 2.07 and 3.07.
[10] Ibid, Table 3.07.
[11] *'Annual Passenger Survey Report 2011',* CAA, 2012.
[12] In 1992 there were 1.82m passengers to/from BRIC economies out of UK total of 106.0 air passengers (1.7%) and in 2012 there were 6.06m passengers to/from BRIC economies out of UK total of 220.6m air passengers (2.7%).

- The UK's manufacturing heartland in the Midlands - where Rolls Royce, JCB and Jaguar Land Rover are all world leaders and all export the vast majority of their output;[13]
- The UK-based Japanese car manufacturers - Nissan in Sunderland, Honda in Swindon, and Toyota in Derby and North Wales;
- Scotland's financial services industry is the fifth largest in Europe and its Scotch Whisky industry last year accounted for a quarter of all the UK's food and drink exports;
- The UK's largest manufacturing employer and exporter, BAe Systems, has 57 business locations in the UK, just nine of which are within an hour's reach of Heathrow, compared to sixteen in Wales and the South West, eight in Scotland, five in the Midlands, four in the North West and four in the North East.

3.5 A 2006 Oxford Economic Forecasting ('OEF')[14] study commissioned by the aviation industry, the DfT, the CBI and VisitBritain set out to assess the economic contribution of aviation to the UK. As part of the study, a questionnaire was sent to some 6,000 companies with a covering letter from the CBI, headed up: **'SURVEY ON THE IMPORTANCE OF AIR SERVICES TO YOUR COMPANY'**, encouraging companies to complete the questionnaire. The fact that just 165 companies took the time to respond - a response rate of less than 3% - is perhaps more telling than the actual responses, especially since some of the respondents would almost certainly have been airlines, airport operators and others associated with the aviation industry.

3.6 It so happens that OEF was one of the first to promote the concept of connectivity analysis and did much of the early work on this, on behalf of IATA, in 2005/06. However, as we pointed out earlier, the existence of a correlation between connectivity and country GDP is not of itself very meaningful and the causality test carried out by InterVISTAS on behalf of IATA was unable to determine whether increased connectivity led to productivity growth - and therefore, over time, higher levels of country GDP - or whether it was the other way around.

3.7 The 2008 York Aviation ('YA') report for the City of London[15] reached the important conclusion that, so far as businesses in the City of London were concerned:

> '*it is not so much the breadth of the air service 'offer', i.e. the absolute number of destinations, that is of importance but rather the ability to reach key destinations at a high frequency of service'*

3.8 We agree with this conclusion. We agree also with YA's recognition that some air connections are more valuable than others, which YA illustrates with the example that:

> *'a flight to New York is, on average, of considerably more importance to a business traveller than a flight to Alicante.'*

3.9 We would in fact go further than this and submit that a flight to New York is, on average, of considerably more importance *to UK plc* than a flight to Alicante. The key point however is that a qualitative weighting needs to be applied to connections; it is not simply a matter of counting the number of connections. In this regard, we endorse YA's rationale in seeking to develop a *'connectivity index'* to score destinations according to their importance to business. YA relied on scoring analysis carried out by the Globalization and World Cities ('GaWC') research network[16] and, whilst this is somewhat limited in its scope and coverage, it does at least provide a starting point for developing qualitative weightings for air connections. (See Annex B for an illustration.)

3.10 We would submit that where an air connection is established to meet demand for outbound leisure flights, which is predominantly the case in the UK, then it is GDP growth which is driving the increase in connectivity, not connectivity which is driving GDP growth. On the other hand, where an air connection is established primarily to serve the needs of business - either passengers or freight - or to facilitate inbound tourism, then the improved connectivity should help to bring about improvements in labour productivity which will lead to GDP growth.

[13] These companies do not, of course, (generally) export their products by air but any company with a large export market will have significant international air travel for its senior executives, sales personnel, after sales service, etc.
[14] *'The Economic Contribution of the Aviation Industry in the UK'*, OEF, October 2006.
[15] *'Aviation Services and the City'*, York Aviation for the City of London, July 2008.
[16] *'Firms and their Global Service Networks'*, PJ Taylor, DRF Walker and JV Beaverstock, GaWC, 2002.

3.11 To illustrate this point, one might take the example of a notional Caribbean island which, as an LDC[17], is offered a loan by the World Bank to develop an airport capable of handling large jet aircraft. The airport would open up the island to tourists from the Americas and Europe and would facilitate the export of its tropical fruits. One can easily see that the economic benefits of improved air connectivity would almost certainly be very significant in this particular case.

3.12 However, in the case of a mature, wealth-based economy such as the UK, which is already one of the best connected countries in the world, the economic benefits of additional connectivity will be proportionately much less. Moreover, whilst some of the additional connectivity should have a positive effect on UK labour productivity and GDP (for example, more flights to China), some may not (for example, more flights to Benidorm).

3.13 Although it is clear that some air connections are more valuable to the UK economy than others, we very much doubt that the Government would wish to start dictating to airlines which routes they should prioritise. There are however some levers available to Government which could be used to change airline and consumer behaviour. For example, a single band of Air Passenger Duty ('APD'), rather than the present four bands, would make long haul flights relatively cheaper and short haul flights relatively more expensive.[18]

3.14 By a happy coincidence, a single band of APD would improve the market attractiveness and commercial viability of connections to the BRIC nations, with the exception of Russia, and to almost all other emerging economies - i.e. the connections the Government would presumably like to encourage. Conversely, it would reduce the market attractiveness and commercial viability of short haul connections. However, these cater predominantly for the leisure market, and for twice as many UK tourists making overseas visits as foreign tourists visiting the UK.[19]

3.15 Another happy co-incidence is that long haul flights generate significantly lower emissions per passenger kilometre than short haul flights and there is far less scope to substitute a long haul flight with another mode of transport. A single band of APD would also solve the problem of APD 'leakage', identified by the industry, whereby high rates of APD on long haul routes from the UK are said to create an incentive for passengers to travel via a hub airport in mainland Europe.

3.16 On a revenue neutral basis a single band of APD would result in a standard rate of about £56.00 and a reduced rate of £28.00 (see Annex A for the basis for these calculations), which compares to the current APD rates as shown below.

Table 2: Current APD rates (2013/14) and estimated APD rate if just one band

Band	Standard Rate	Reduced Rate	Comments
A	£26.00	£13.00	77% of passengers paid the Reduced Band A rate in 2011/12. Band A applies to country destinations whose capital city is less than 2,000 miles from London. This includes Russia.
B	£134.00	£67.00	B applies to country destinations whose capital city is 2,001 to 4,000 miles from London. Includes USA and Canada.
C	£166.00	£83.00	C applies to country destinations whose capital city is 4,001 to 6,000 miles from London. Includes Brazil, China, and India.
D	£188.00	£94.00	D applies to country destinations whose capital city is 6,001+ miles from London. Includes Indonesia and Malaysia.
Single Band	£56.14	£28.07	See Annex A for details of the calculations which underpin the APD single band estimates of £56.14 and £28.07.

[17] LDC = Least Developed Country, a United Nations classification which applies to the world's poorest economies.
[18] There would be nothing to prevent this from operating alongside a policy of differential rates of APD, by airport, as described in our earlier submission on *'Aviation Demand Forecasting'* .
[19] *'Travel Trends 2011'*, ONS, Tables 2.7 and 2.8.

3.17 Thus the Government could act to encourage qualitative improvements in the UK's air connectivity although ultimately it will be the market which decides which routes are viable.

3.18 As we showed in our submission on '*Aviation Demand Forecasting'*, there is a great deal of surplus airport capacity currently available at UK airports and, although this is mostly at regional airports, there is also a significant amount of unused capacity at airports in the South East. If there was market demand for an additional 100 flights a day to China, there is ample capacity in the South East to accommodate this.

3.19 It will however be important for the Commission to look at the issue of connectivity, not just in UK terms or in terms of meeting the needs of London and the South East, but also from a UK regional perspective. The Commission's *'Connectivity'* discussion paper touches on this (para 2.13) but appears to assume that the UK's regional connectivity needs are best met by a London hub. We would encourage the Commission to take a less London-centric view.

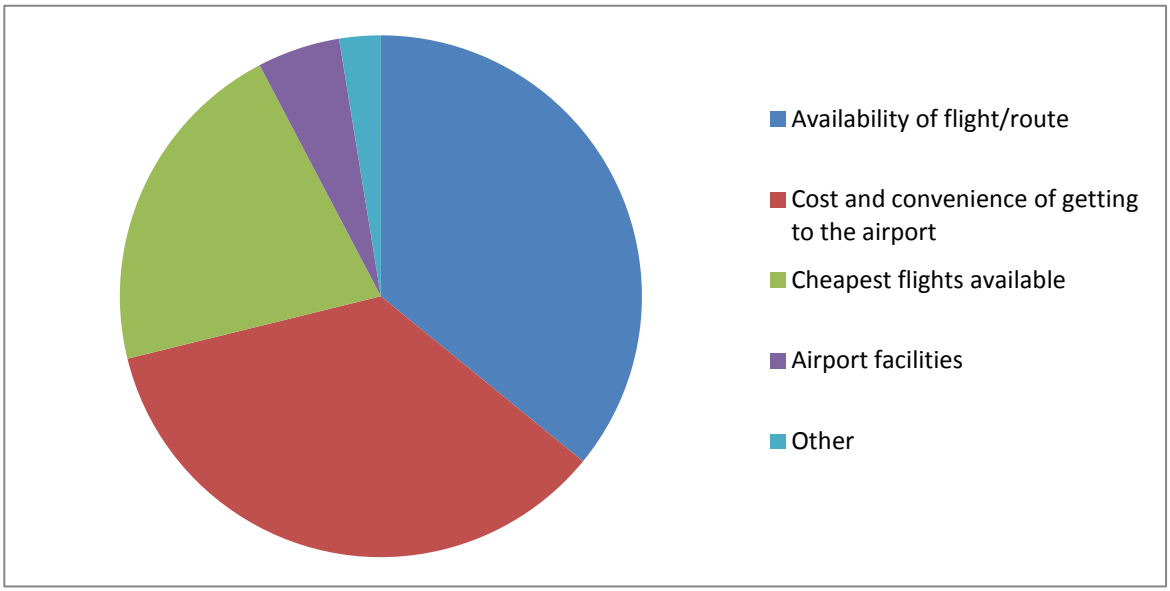
3.20 A paper published in June 2012 by Birmingham Airport[20] argues that the UK's larger regional airports are quite capable of being hubs in their own right and have more than enough spare capacity to perform this function. It also argues that the UK's larger regional airports are capable of providing far more point-to-point connections, including long haul. The paper appears to be well-evidenced and we trust that the Commission will give it due consideration.

3.21 It is also clear that London's air connectivity is immeasurably better than the connectivity in any other part of the UK. As the Commission's '*Connectivity'* discussion paper points out, London's airports serve more passengers than any other world city (para 2.3) and more destinations than any other European city (para 2.6). Airports in the South East accounted for 62% of passengers handled by UK airports in 2012 although the South East accounts for just one third of the UK population.[21]

4. The importance of 'localism'

4.1 Consumer research carried out for the CAA in 2011[22] identified two dominant reasons for passengers' choice of their departure airport, namely: (i) the availability of a flight to the place the passenger(s) wanted to travel to; and (ii) the cost and convenience of getting to the airport (see Figure 1 below).

Figure 1 - Reasons for choice of departure airport



[20] *'Don't put all your eggs in one basket: a challenge to aviation orthodoxy'*, Paul Kehoe, Birmingham Airport, June 2010. http://www.birminghamairport.co.uk/meta/news/2012/06/birmingham-airport-challenges-uk-aviation-policy.aspx.
[21] CAA UK Airport Statistics, 2012.
[22] *'Consumer Research: Final Report'*, Accent (for the CAA), May 2011. http://www.caa.co.uk/docs/2107/2131ConsumerResearch06122011.pdf.

4.2 The availability of a flight to where the passenger(s) wanted to go is such a fundamental requirement that it needs no further comment. It is however noteworthy that passengers attach such high importance to the cost and convenience of getting to the airport, in fact, significantly more importance than even the cost of the flight, and this is equally true for business and leisure passengers. Both are keen to use their local airport.

4.3 These survey findings, highlighting consumer preference for flights from their local airports, are consistent with the evidence we can see at many regional airports across the UK. We referred to some of this in our March 2013 submission on *Aviation Demand Forecasting,* where we commented upon:

> *'the growing tendency for long haul passengers living outside the South East to start their journeys from their local airport. An increasing number of regional airports in the UK now have direct flights to the Gulf, with Dubai in particular becoming a significant hub, enabling passengers from the regional catchment areas of Glasgow, Newcastle, Manchester and Birmingham airports to obtain connecting flights to onward destinations in the Indian sub-continent, China/SE Asia, Japan/the Far East and Australia/New Zealand.'*

4.4 Closer to home, there are currently 77 connections per day from 19 UK regional airports to Amsterdam's Schiphol Airport and a further 45 daily connections to Schiphol from the six London airports, i.e. in total, there are 122 (return) daily flights between Schiphol and airports in the UK, serving 25 different UK destinations[23]. This clearly increases the opportunity for UK passengers to fly to/from their local airport and for passengers travelling to the UK from Schiphol to arrive closer to their final destination.

4.5 Consumers' preference for their local airport is also borne out by anecdotal evidence, whether it is the leisure traveller whose starting point when choosing a leisure trip is to find out what is available from his/her local airport, or whether it is the business person from the North West, planning a long haul flight and keen to use his/her local airport.

4.6 Even in the South East, we know of regular business travellers locally who, rather than face the stress and uncertainty of the M25 - even when a direct flight to their final destination is available from Heathrow or Gatwick - prefer to take a flight from Stansted to Schiphol and travel onwards from there. Apparently, the benefits of this journey plan are even greater on the return leg, arriving back close to home as opposed to the prospect of having to tackle the M25 on a busy, wet Friday evening.

4.7 The underlying point we are making in this section is that the Commission, when examining air connectivity, should not underestimate the importance of the surface access component in the end-to-end journey, especially in the South East.

5. Other economic issues

5.1 The Commission's *'Connectivity'* discussion paper states that the aviation sector employs *'about 120,000 workers directly'* (para 3.2) and it applauds the industry's contribution to job creation in the UK but there is no mention of the fact that employment in the UK aviation sector has declined by 40% over the past ten years, from the 200,000 direct jobs reported in the 2003 ATWP[24], despite a 17% increase in passengers over the same period. This is a remarkable productivity increase, especially since there has been a large increase in airport security manpower during this time.

5.2 The 40% reduction in employment in the UK air transport sector over the past decade needs to be explained, not least because the opportunity of a job at the local airport is one of the few benefits that airports can offer to their local communities. It will be important for the Commission

[23] Aberdeen (5); Belfast International (1); Birmingham (8); Bristol (6); Cardiff (3); Durham (3); East Midlands (1); Edinburgh (8); Exeter (1); Glasgow (6); Humberside (3); Inverness (1); Leeds Bradford (5); Liverpool (3); London City (10); Gatwick (8); Heathrow (18); Luton (4); Southend (2); Stansted (3); Manchester (8); Manston (2); Newcastle (6); Norwich (4) and Southampton (3). Based on Schiphol summer schedule 2013, Channel Islands excluded.

[24] *'The Future of Air Transport'*, DfT, December 2003, para 2.6.

to consider and comment upon the employment prospects in the UK air transport sector over, say, the next 10 years.

5.3 When commenting upon the economic benefits of aviation in the *'Connec*tivity' discussion paper, the Commission uses language which is uncannily similar to that used by the DfT to gloss over the very substantial trade deficit which the UK runs on overseas air travel and tourism. Any proper assessment of the economic benefits of aviation must have regard to its impacts on the real economy and, in 2011, the UK's £14bn trade deficit on overseas air travel and tourism must rank as a material economic consideration[25]. That is not to say that UK citizens should not take leisure trips overseas or that such trips - whether visiting friends and relations or the beach - do not have an important social value. It is merely a question of taking into account all of the economic effects of the British penchant for overseas leisure trips.

5.4 The UK's trade deficit on overseas air travel and tourism has grown from £2.0bn in 1995 to £14.0bn in 2011, having peaked at £19.6bn in 2008, prior to the impact of the economic down-turn on discretionary leisure travel. The effect of an ongoing trade deficit is to transfer economic wealth out of the country. There are, of course, certain adjustment mechanisms, for example, the exchange rate, but there is a price to be paid for a weaker exchange rate in terms of more costly imports and lower export prices – i.e. a lower standard of living for UK residents. The other main adjustment mechanism is interest rates where the price to be paid is higher borrowing costs, lower levels of investment, lower domestic economic activity and lower employment levels. In short, the fundamental macroeconomics of an ongoing trade deficit cannot be ignored. One way or another it has an impact upon the economic wellbeing of every UK resident and business.

5.5 The Commission's *'Connectivity'* discussion paper argues that *'outbound tourism may have positive economic impacts on the UK economy'* (para 3.40). However, it is the net economic impact that we are interested in, and the examples of positive impacts which the Commission cites are small by comparison with the size of the UK deficit on overseas travel and tourism.

5.6 It is particularly disappointing to note that one of the examples cited by the Commission as a UK benefit of outbound tourism (in para 3.40) is based on a wholly misleading statistic which had its origins in a June 2012 report by the Association of British Travel Agents ('ABTA')[26], namely, the claim that outbound tourism:

> *'...boosts high street consumer demand before trips are made – the latter has been valued at around £27 billion per year'.*

5.7 The DfT made the same misleading claim last year in its Draft Aviation Policy Framework (para 2.9) and we wrote pointing out that the ONS source that was quoted to support the claim[27] (precisely the same source as quoted in the ABTA report) clearly shows that £16bn of the £27bn represented the cost of the air fares, £7bn of which was spent with foreign airlines. In fact, a close look at the ONS analysis shows that less than a quarter of the £27bn could be described as High Street spending, in the commonly accepted meaning of the term. Thus, after the DfT recycled this misleading claim last year, the Commission has recycled it again. It would not have taken long to check the veracity of the ABTA claim and, if the Commission is to be viewed as carrying out its work in a thorough and independent manner, this should have been done.

[25] Comprising £11.4bn trade deficit on expenditure during visits by tourists by air and £2.6 bn trade deficit on air tickets. (Sources: '*Travel Trends 2011'*, ONS, Tables 2.9 and 3.9, and the '*2012 Pink Book'*, ONS, Table 3.2.)
[26] *'Driving Growth: The Economic Value of Outbound Travel'*, CEBR report for ABTA, May 2012. http://www.abta.com/resource-zone/publication/driving-growth-the-economic-value-of-outbound-travel.
[27] The UK Tourism Satellite Account, ONS, 2008. The relevant table is included in the ABTA report as Figure 7, p19.

6. Concluding points

6.1 In our March 2013 submission on *Aviation Demand Forecasting*, we pointed out that the capacity of the UK's airports was at least twice and probably three times what was needed to meet the DfT's unconstrained demand forecasts to 2030 and that:

> *'...the UK has more commercial runways than either Germany, France, Spain or Italy. The UK has more runway capacity than Japan even though Japan – which is also an island trading nation – has twice our population and twice our GDP.'* [28]

6.2 It is a similar situation with regard to connectivity. As the Commission's discussion paper points out, London's airports serve more passengers than any other world city and more destinations than any other European city. Thus, the UK has neither a capacity crisis nor a connectivity crisis.

6.3 However, just as there is scope to make better use of the UK's airport capacity, so also there is scope to align the UK's air connectivity more closely with the needs of UK business and the wider interests of the UK economy. Also, when considering the UK's air connectivity, it is vital to consider the interests of all of the regions of the UK. Indeed, we would submit that the need for - and the potential benefits of - improved air connectivity and economic growth is far greater in the UK's regions than in London and the South East.

6.4 Finally, it may be useful to consider connectivity in a pan-European, Single Market context and not simply a UK context and to look upon the main EU hub airports not so much as as the UK's competitors (the traditional DfT view) but as potential partners. There may, for example, be scope to develop complementary networks of air connections at the EU's main airports, in much the same way as airlines form global alliances to build on one another's market strengths. Such an approach might help the EU aviation sector to compete with the emerging 'superconnector' airlines and airports of the Gulf states. However, whilst governments may have a role to play in facilitating this type of pan-European cooperation, the determination of where airlines should fly to and from must ultimately be a commercial, not a political, determination.

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[28] SSE research, the main reference sources being the Boeing Airport Directory, CIA World Factbook 2011, CAA airport statistics, NATS AIS (Aeronautical Information Service) and azworldairports.com.

Annex A

Estimation of single band APD rates on a revenue neutral basis.

Actual figures for 2011/12	**Applicable rate of APD in 2011/12**	**Passengers paying APD ('000)***	**Revenue (£m)**	**If single band APD**	**Revenue (£m)**
Band A Reduced Rate	£13.00	75,575	982	£27.58	2,084
Band A Standard Rate	£26.00	1,115	29	£55.16	62
Band B Reduced Rate	£65.00	10,024	652	£27.58	276
Band B Standard Rate	£130.00	2,273	295	£55.16	125
Band C Reduced Rate	£81.00	5,563	451	£27.58	153
Band C Standard Rate	£162.00	1,152	187	£55.16	64
Band D Reduced Rate	£92.00	1,830	168	£27.58	50
Band D Standard Rate	£184.00	395	73	£55.16	22
Totals/averages	**£28.97**	**97,927**	**2,837**	**£28.97**	**2,837**

** Source: HM Revenue and Customs, Air Passenger Duty Bulletin, Dec 2012.*

Applying 2013/14 APD rates to the 2011/12 air passenger data	**Applicable rate of APD in 2013/14**	**Passengers paying APD ('000)**	**Revenue (£m)**	**If single band APD**	**Revenue (£m)**
Band A Reduced Rate	£13.00	75,575	982	£28.07	2,121
Band A Standard Rate	£26.00	1,115	29	£56.14	63
Band B Reduced Rate	£67.00	10,024	672	£28.07	281
Band B Standard Rate	£134.00	2,273	305	£56.14	128
Band C Reduced Rate	£ 83.00	5,563	462	£28.07	156
Band C Standard Rate	£166.00	1,152	191	£56.14	65
Band D Reduced Rate	£94.00	1,830	172	£28.07	51
Band D Standard Rate	£188.00	395	74	£56.14	22
Totals/averages	**£29.48**	**97,927**	**2,887**	**£29.48**	**2,887**

Note 1: APD rates depend on the final destination of the passenger and the class of travel. The four-band structure applies based on geographical distance from London to the capital city of the destination country. Each band is 2000 miles wider than the previous, i.e. 0-2000 miles, 2001-4000 miles, 4001-6000 miles and 6000+ miles.

Note 2: APD is not chargeable on passengers leaving specific airports in the Scottish Highlands and Islands and during 2011/12 was not chargeable on private aircraft carrying no paying passengers or on small aircraft weighing less than 10 tonnes or with fewer than 20 seats. Private and business jets became liable for APD from April 2013.

Annex B

GaWC Inventory of World Cities