

Increasing the UK's Aviation Capacity

January 2012

1. Introduction

Tourism and aviation are two of the largest sectors of the UK economy. Overseas visitors to the UK generate £20bn per annum in export earnings and support 320,000 tourism sector jobs, while the aviation sector sustains almost 1m jobs and contributes £50bn to GDP and £8bn per annum to the Exchequer (Oxford Economics, 2011). These sectors also represent considerable opportunities for growth with the UNWTO estimating that, despite the global economic downturn, international tourism will increase at a compound rate of 3.3% per annum between 2011 and 2030.

The Government has recognised that inbound tourism provides a significant opportunity to rebalance and rebuild the UK economy.

I 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. At a point when our economy is coming back from the brink – we just can't let this sort of opportunity pass us by.

David Cameron speech on tourism, 2010

However, as the table below shows, the UK is currently at a considerable competitive disadvantage to other European destinations in terms of flights from China. The lack of available capacity at UK airports, especially in the South East where Heathrow is currently operating at near capacity and Gatwick is the world's busiest single runway airport, means that there is limited scope for addressing this disadvantage by increasing the number of flights to China. Therefore, for tourism to provide the long-term sustainable growth and employment required to help support the UK economy, constraints on aviation capacity need to be resolved.

Flights and Seat Capacity from China

2010	China		
	Seats	Flights	Rank
To Germany	1281880	4639	1
To France	894189	2979	2
To the Netherlands	630438	2245	3
To the UK	443104	1579	4

(www.capstats.com and VisitBritain)

The tourism and aviation sectors are committed to sustainable growth with aviation incorporated into a robust global policy framework that achieves stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous man-made interference with the climate system. An example of this commitment is the support for aviation to be included in the European Emissions Trading Scheme. The sector also believes that sustainable growth in aviation can be achieved within existing carbon constraints.

The Government policy is currently developing a new aviation strategy for public consultation in March 2012. This briefing is intended to provide a set of principles, agreed across the tourism sector, on which to base the Government's Aviation Policy.

2. Background

While the UK is one of the most popular tourism destinations in the world, the simple fact that it is an island means that there is, and will continue to be, limited alternatives to air transport for most people wanting to visit the UK. At present, 72% of visitors and, more importantly, 83% of the revenue and employment generated by inbound tourism is generated by air travel.

The only markets where non-aviation modes of transport comprise a significant proportion of inbound tourism numbers are France, Belgium, Germany, Ireland and the Netherlands, where ferries or the Channel Tunnel provide viable alternatives to air travel. For all non European markets, and more importantly, all the major future growth (eg., China, India, Brazil and Russia) air transport is, and will continue to be, the only way that people can get from these countries to the UK.

The need for increased aviation capacity is evidenced by the growth of visitors from China and India. While revenue from Chinese visitors has increased by 125% over the past 10 years, UN World Tourism Organisation (UNWTO) figures show that, since 2000, Chinese outbound tourism expenditure has risen by over 400%, meaning that the UK is significantly underperforming its competitors in this market. A similar situation is occurring in the Indian outbound market where outbound tourism visitor numbers have grown by 250% since 2000, yet visitors to the UK have only increased by 80% over the same period.

One of the main reasons for this underperformance is the lack of connectivity due to constraints on aviation capacity. For example, Germany has three airports that connect with six airports in China while the UK currently only has one airport that connects with three airports in China. As a result, the UK significantly underperforms its European competitors in these markets with Germany receiving six times as many visitors from China than the UK receives. Of even greater concern, France receives 50% more visitors from India than the UK.

The UNWTO forecasts that outbound tourism from China will increase from 58m to 100m per annum by 2020, while outbound tourism from India will increase from the current 9m to 50m per annum over the same period.

Continuation of constraints to the UK's aviation capacity will exacerbate this situation. It will not stop people from India and China flying, it will simply mean that they fly to other countries which will gain the economic benefit rather than the UK. Also, econometric modelling by VisitBritain has shown that constraining aviation capacity will see UK residents outcompete inbound visitors for available seats, meaning that the UK's tourism deficit will increase. By contrast, an increase in capacity would increase revenue for the UK and decrease the tourism deficit.

The Department for Transport's current forecasts for aviation demand growth are that, without additional capacity being provided:

- By 2030 all the major London airports will be full
- By 2040, given Government has ruled out expansion in London, the only growth will be at regional airports outside the South East
- By 2050 the UK would be able to welcome 50 million fewer passengers per year.

This means that by, 2050, the UK would be forgoing £28bn per annum in visitor expenditure and over 560,000 jobs in the tourism industry alone if no additional capacity is provided.

3. Principles to Guide the UK Aviation Policy

The UK is beginning to suffer from a lack of competitiveness in terms of connectivity compared to our European competitors. This is especially so in the emerging growth markets of China and India. To ensure that the UK goes not forgo the economic and employment opportunities afforded by global tourism growth, the tourism industry has therefore agreed that the aviation policy should adhere to the following principles.

1. Additional aviation capacity is needed throughout the UK, including the South East.
2. Additional point-to-point capacity is needed throughout the UK, including the South East. All options for achieving this should be considered.
3. Action is needed now to maintain and grow a world-class international hub airport . If a third runway is ruled-out at Heathrow, and the short-term options are similarly ruled-out to operate its runways more efficiently to release capacity for resilience and the provision of new services, the Government would be well advised to begin planning now for a new hub airport, given that delivery is likely to take 20-30 years.

4. The Content of the Aviation Policy

To provide the long-term direction and support required by the industry, we believe that the Aviation Policy should:

1. Acknowledge at the outset that increased capacity and a major hub airport are vital for the UK's sustainable long-term economic growth.
2. Acknowledge that increasing aviation capacity is compatible within the UK's commitments to prevent climate change.
3. Acknowledge that High Speed Rail is a complementary component of an integrated UK transport strategy rather than a substitute for increased aviation capacity.
4. Acknowledge that trying to manipulate demand away from the South East will simply cause overseas visitors to go to competitor destinations overseas.

5. Comprise a three-phase plan to increase UK aviation capacity. The three phases should be:
 1. **Short-term**
Improve the management of existing capacity in order to increase efficiency
 2. **Medium-term**
Develop additional runway(s) at existing airports
 3. **Long-term**
Develop a new international hub airport if capacity is not increased at Heathrow in order to meet forecast long-term demand. This airport must be located somewhere that has a high yielding passenger catchment of sufficient size to support the hub with very good transport connections. It is probable that the hub would be close to London/SE, given its catchment area and comprehensive transport links to the rest of the UK for both people and freight.
6. Have cross-party support so that it is not revisited by successive Governments. This gives the policy stability and certainty for large infrastructure investment.
7. Be co-ordinated with the reform of the planning system. Land identified for future aviation expansion needs to be safeguarded, while planning process reforms need to take place to ensure that major airport projects can go ahead (there cannot be a repeat of the type of delay experienced in developing T5, for example).

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