

Written evidence submitted by Manchester Airport Group (MAG) (PEG0309)

Overview

- 1.1 We welcome the opportunity to respond to the Business, Energy & Industrial Strategy (BEIS) Committee's inquiry on post-pandemic economic growth and are strongly supportive of the Committee's aims of rebuilding and modernising the UK economy.
- 1.2 MAG owns and operates Manchester, London Stansted and East Midlands Airports. In 2019, these airports supported the travel of more than 62 million passengers and the movement of over 733,000 tonnes of air cargo with a value of more than £27.5bn.
- 1.3 Airports like those owned and operated by MAG will play an important role in levelling up the UK economy and supporting the post-pandemic recovery and future economic growth. The link between direct connectivity, travel and trade is already well-known, and as the Government moves towards a more global trading strategy outside of the EU it will be more important than ever that people across the country can access the connections they need to serve new markets. To do this, particularly in a post-COVID-19 environment, the Government will need to utilise every tool at its disposal to bring opportunity and global trade directly to all regions of the UK, not just via London and the South East.
- 1.4 Post-pandemic economic growth will be a challenge that requires strategic Government support and investment but also, as the Committee recognises, an opportunity to deliver on key priorities, including levelling up, new global economic relationships, and sustainable growth.
- 1.5 In the immediate term, there remains an urgent need for Government to support those sectors needed for post-pandemic economic growth that remain heavily impacted by the pandemic. Aviation will be critical infrastructure for the UK in forging new global economic relationships, and 'regional' airports will be essential in ensuring this also supports levelling up and does not simply reinforce existing economic imbalances.
- 1.6 However, because of the international nature of aviation, it has been particularly badly hit by the pandemic and is one of the hardest hit sectors in the economy. Despite this, UK aviation has not been given the specific support seen in the US and other European countries, particularly Germany and France, which has been exacerbated by the Government's approach to quarantine and testing. As a result, the UK has one of the hardest hit aviation sectors in Europe. A continuation of the current untargeted approach and lack of transparency will effectively render the UK aviation industry unviable over the coming financial year, and could result in the situation where it is more financially viable to mothball UK airports than operate them next year. This runs the real risk that critical aviation infrastructure will be lost to the UK for good as a result of the pandemic, particularly the regional infrastructure needed for levelling up.
- 1.7 MAG and other UK airports have put to Government measures to support the restart and accelerate the subsequent recovery of the UK aviation industry to support the UK's economic recovery and post-pandemic growth, and we will reiterate these in our submission to the Comprehensive Spending Review. Any improvement in the aviation industry's rate of recovery will have significant benefits for the whole UK economy - for example, MAG's airports support the employment of more than 100,000 people and contribute GVA of over £8bn per annum to the UK. Conversely, as the Government support measures that do exist come to an end, the impacts on aviation endure and the risk of redundancy for large numbers of employees working in the sector (potentially millions of people across the economy and right across the UK) remains real and immediate.
- 1.8 It also remains critical that the Government does not miss the opportunity to strengthen the UK economy for the long term to support post-pandemic economic growth. Investment in infrastructure can create jobs and economic opportunity in the recovery, whilst supporting long-term post-pandemic

growth. Policies and initiatives already exist, including strategic rail investment, such as HS2 and Northern Powerhouse Rail (NPR), enhancements of existing transport networks, such as the rail and strategic highways networks, and Freeports. The priority therefore is the fast and effective delivery of these schemes, phased in a manner that ensure benefits support levelling up.

1.9 Longer-term opportunities also exist to support the aviation sector to deliver sustainable growth, including:

- Progressing the aviation net zero consultation, to focus the work of the Jet Zero Council on the delivery of the UK's international carbon commitments
- The continuation of the airspace modernisation programme to deliver carbon and cost efficiencies
- Support for the development of sustainable aviation fuels to facilitate carbon reduction and develop a new global industry for the UK

1.10 It is also important to ensure that the design and implementation of the new UK border supports international connectivity and trade.

1.11 The development and implementation of post-pandemic economic growth policies needs to be supported by effective engagement and joint working between Government and industry. This should be supported by independent and transparent scientific, clinical, and economic advice to Government for dealing with the ongoing implications and any resurgence of the pandemic, to minimise the uncertainty that is currently crippling the economy, allowing businesses to recover and support post-pandemic growth.

1.12 We look forward to seeing the outputs of the Committee's inquiry. The remainder of this document contains further details against the Committee's specific questions that relate to our response.

Key Issues

What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?

- 2.1 The Government needs to ensure that critical parts of the UK economy are not irrevocably damaged by the pandemic, resulting in significant unemployment and limiting the long-term post-pandemic growth potential of the economy.
- 2.2 Government should ensure adequate support remains in place whilst the pandemic is still ongoing and for those sectors, like aviation, that will continue to be heavily impacted even as recovery starts to embed. This should include targeted further employment cost support beyond the end of the Coronavirus Job Retention Scheme, and tax and regulatory cost exemptions for specific sectors, such as business rates relief and a temporary Air Passenger Duty waiver.
- 2.3 Government should continue to invest in the maintenance and improvement of existing infrastructure, such as the rail and strategic road networks, to ensure recovery does not hit bottlenecks. And it should also accelerate the delivery of longer-term infrastructure investments that can transform economic growth potential and support levelling up and environmental goals. Examples of this include the accelerated delivery of new rail infrastructure in the North and Midlands, such as HS2, NPR and the Midlands Rail Engine, and the implementation of Freeports.
- 2.4 Targeting support in this way can optimise the balance between minimising short-term economic impacts and ensuring long-term economic growth potential is maximised, whilst avoiding deadweight.

How can the Government borrow and/or invest to help the UK deliver on these principles?

- 3.1 Beyond Government investment to ensure future resilience, such as testing, Government should focus its investment where it can deliver long-term transformational change and unlock further private investment. Infrastructure should be a key priority as it can support significant economic activity and employment over the delivery phase (which will be a decade or more for major projects) whilst leaving a lasting legacy and enabling transformation.
- 3.2 In the current context, Government should leverage its borrowing ability to support infrastructure investment, but can also look to partner with the private sector where commercial revenue opportunities can be made available.
- 3.3 Government also needs to deliver on its commitment to overhauling the economic appraisal system to break the historic tendency for investments to be skewed towards already successful areas, exacerbating regional imbalances. The appraisal system can be designed to take into account wider benefits and strategic priorities so that Government investment can support levelling up and economic transformation.
- 3.4 Beyond infrastructure, Government should focus on enabling investments that can unlock further private sector activity. A good example of this is sustainable fuels, which are a key component of the net zero agenda and can help drive a green recovery for the UK, particularly for aviation, where the need for high energy density rules out many alternative fuel sources. The biggest barrier currently is investor confidence. The cross-industry ask is for £500million of Government funding, matched by industry, to get the first production plant up and running and to pave the way for further plants.

What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?

- 4.1 As already highlighted above, the aviation industry is critical infrastructure for the economy's long-term growth potential but has been and continues to be seriously affected by the pandemic. In part, this position is the product of the UK Government's more stringent and restrictive policies relating to aviation. At the same time, these short-term impacts are accompanied by a real longer-term impact on the confidence of passengers and airlines, which unless restored will have a major impact on the pace of recovery in 2021 and beyond. Adopting a risk-based approach to quarantine decisions and implementing a testing regime are urgent priorities. A continuation of the current approach and lack of transparency will effectively render the UK aviation industry unviable over the coming financial year, and could result in the situation where it is more financially viable to mothball UK airports than operate them next year.
- 4.2 The Government therefore needs to act quickly to support the restart that the industry has initiated, and follow this with focused measures to accelerate the industry's recovery over the longer term. These include:
 - Introducing risk-based regional travel corridors based on transparent criteria and informed by independent scientific and clinical advice to avoid blanket quarantine of areas with lower infection rates than the UK, giving confidence to travel and restoring demand
 - Implementing testing of arrivals to shorten isolation periods for those arriving back from areas subject to quarantine, supporting the continuation of services on these routes
 - Facilitating the development of travel guarantees and health support to ensure travellers are supported if travel restrictions change, giving confidence to travel into and out of the UK
 - Waiving APO on a temporary basis to support the recovery of routes, particularly the restoration of long-haul routes from regional airports
- 4.3 Support is not only important economically but will also enable the aviation industry to deliver on its environmental commitments. Government can support this by:
 - Progressing the aviation net zero consultation to focus the work of the Jet Zero Council on the delivery of the UK's international carbon commitments

- Supporting the continuation of the airspace modernisation programme to deliver carbon and cost efficiencies for the sector and maintain the positive momentum to date
- Supporting the development of sustainable aviation fuels to facilitate carbon reduction and develop a new global industry for the UK

Whether the government should give higher priority to environmental goals in future support?

- 5.1 The aviation industry has already made a number of commitments to support the delivery of the UK's international carbon commitments, and looks forward to working with the Government on the aviation net zero consultation and with the Jet Zero Council on delivering these commitments. MAG itself already has plans to fully decarbonise, with our 2020 CSR Strategy setting an ambitious target to achieve net zero carbon emissions for our operations no later than 2038 - at least 12 years ahead of the national target.
- 5.2 It should be remembered that aviation is international by its very nature and therefore action to deal with emissions and deliver environmental goals also needs to be international if it is to be meaningful and effective. Unilaterally capping emissions at the UK level risks seeing traffic lost to overseas airports with no benefit to reducing global emissions. UK aviation is signed up to the international CORSIA agreement which limits emissions to 2020 levels and begins next year.
- 5.3 Within the UK, setting local targets for carbon emissions fails to reflect that airport catchment areas extend well beyond local boundaries, and have the potential to disadvantage the regions that should benefit most from the levelling up agenda. Local emissions caps also run the risk of unintended consequences, forcing travellers to make unsustainable surface journeys to other airports or encouraging indirect flights with higher overall emissions.

Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?

- 6.1 As detailed above, the Government needs to ensure that its recovery package is targeted to those sectors of the economy that will continue to be heavily impacted even as recovery starts to embed. In determining which sectors to target, it should prioritise those at risk of permanent damage that would limit the long-term post-pandemic growth potential of the economy. This would include critical infrastructure, of which aviation would be a component.
- 6.2 Where support is temporary, conditions should not typically be required. Government should also focus on non-discriminatory measures across sectors and avoid measures that benefit some businesses over others, especially where these benefits are likely to endure. For example, a temporary waiver of Air Passenger Duty would allow any airline to respond positively to market demands, in contrast to the State aid granted to specific airlines by some European countries. It should more generally be remembered for international sectors, such as aviation, that are competing with businesses overseas, that Government support should be considered relative to the support provided by other Governments if the UK is not to be left at a competitive disadvantage internationally.

How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?

- 7.1 It is important that the Government acts now to ensure the survival of critical sectors during the pandemic and through recovery to avoid mass redundancies and the loss of key skills. Support will also enable companies like MAG to continue to take on apprentices, provide opportunities for some of our most deprived neighbouring communities, and support the ongoing development and upskilling of our workforce. These activities are all central to MAG's CSR strategy and our commitment to being a good neighbour.

7.2 There is also a role for Government support to incentivise airlines to retain based aircraft and maintenance facilities at UK aviation bases, through short-term relief from taxes, business rates and regulatory charges. This would avoid skilled work being lost permanently overseas and maintain an important revenue stream for airports, supporting the recovery in European aviation being built from the UK rather than continental airports.

Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post-pandemic growth?

8.1 The Industrial Strategy development process has been positive where it has involved the active engagement of and inputs from businesses, as in Greater Manchester, and this collaboration should not be lost. However, national and regional Industrial Strategies should be reviewed in the light of the pandemic and likely future post-pandemic trends to assess their continued relevance. They should be updated as appropriate to ensure their consistency with national strategic goals around levelling up and building back better.

How should regional and local government in England (including the role of Powerhouses, LEPs and Growth Hubs, Mayoralties, and Councils), be reformed and better equipped to deliver growth locally?

9.1 MAG provided a full response to this question to the BEIS Committee 'Levelling up' inquiry. Local and regional governance structures will have a significant impact on the successful delivery of the post-pandemic economic growth agenda. Levelling up will require pan-regional cooperation and governance, meaning local and regional governance structures, Powerhouses, LEPs, Growth Hubs and many others will need to work together to grant permissions, plan new infrastructure and deliver growth. This is likely to present a significant challenge and will require change and reform.

9.2 At a local level there are many positive examples of how local leadership can deliver change. The Greater Manchester Combined Authority (GMCA) and the Mayor of Greater Manchester have successfully worked with transport bodies like Transport for Greater Manchester (TfGM), investment agencies like MIDAS, national bodies like Network Rail and Highways England, and private businesses like MAG, to plan and improve city-region infrastructure. At the same time, they have successfully worked with pan-regional transport bodies like Transport for the North (TfN) to develop the first route plans for NPR.

9.3 Despite these positives this cohesion cannot always be replicated across a region. The number of governance, delivery and funding structures to navigate across an entire region is significant. Decision making powers, access to funding, planning and delivery can all vary markedly between regional geographies. With this in mind, there are three main policy areas which should be examined to support levelling up at a local level. These are simplification, funding, and consistency in governance and delivery timeframes.

9.4 **Simplification:** The GMCA is able to deliver positive change in large part because it has clear and consistent decision making and delivery structures. TfGM is answerable to GMCA but brings together the governance and transport policies of Greater Manchester's ten boroughs under one coordinating body. Doing so creates a simple vehicle for decision making and delivery which should be replicated to coordinate improvements across all regions of the UK (e.g. under TfN and Midlands Connect in the North and Midlands respectively), as currently there are significant complexities in funding, delivery and decision-making structures across different localities.

9.5 **Funding:** Transport for London (TfL) has both scope, accountability, and funding to deliver infrastructure investment in the capital. These same powers have not been replicated for bodies like TfN or Midlands Connect, meaning their ability to meaningfully plan for and accelerate infrastructure delivery is limited. Funding for delivery bodies will need to be rectified in the future to allow the implementation of infrastructure to be accelerated.

9.6 **Consistency:** While TfN had been created to deliver NPR, the Government recently announced that the Northern Transport Acceleration Council was created to speed up delivery of projects like these. Similarly, it had been reported that HS2 Ltd would only remain responsible for the delivery of HS2

Phases 1 and 2a from London to Crewe. This change means that, at the time of writing, it is not clear who is responsible for the planning and delivery of high-speed rail projects in the North. The Government needs to be clear in setting out responsibilities for decision making and delivery for projects like these that are so key to levelling up the UK. It must then ensure that these bodies are accountable and held to clear and consistent timeframes, but also have the powers to fund and deliver the project.

- 9.7 If these three principles can be adhered to, which will need to be led at a national level, then the infrastructure required to level up the UK will be more easily coordinated with local authorities like GMCA and transport bodies like TfGM.

What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) net zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

- I 0.1 As detailed above, the first priority needs to be securing the future of those sectors that have been severely impacted by the pandemic and that are critical to long-term post-pandemic economic growth. This will also help mitigate the uneven impact of the pandemic that will otherwise exacerbate regional imbalances.
- I 0.2 Aviation is critical infrastructure for the UK and has a key role to play in building new global economic relationships outside of the EU, by facilitating trade, investment, collaboration, education, and tourism. Manchester Airport is the key international gateway for the North and Midlands, offering a range of long-haul destinations outside of the EU not available from any other airport outside of London, and the airport and improved rail access to it from across the North and Midlands is a key component of the levelling up agenda.
- I 0.3 COVID-19 has seen air routes out of the UK being lost. Analysis by York Aviation shows that without support around 600 routes will be lost for the remainder of the summer season. Over the recovery period, there will be competition between airports worldwide to bring back routes that have been cancelled or suspended .
- I 0.4 The high rate of Air Passenger Duty in the UK in comparison with other countries mean airlines will see lower profitability from UK routes, making them uncompetitive in this process. As such there is a real risk that the UK will experience a significant permanent loss of connectivity that has taken decades to establish and on which the UK's future relies. York's analysis shows that over the next year, around four-fifths of the lost routes will be in the UK regions. It cannot be assumed that recovery will be automatic, or that even previously successful routes are likely to return.
- I 0.5 There is a particular risk of long-haul routes being permanently lost from the UK, including to key global markets that will be of increasing importance post-Brexit. This is particularly the case for direct routes from the North via Manchester Airport, since these face significant competition from equivalent routes into Heathrow and other European hubs.
- I 0.6 Finally, as detailed above, support for aviation is not only important economically but will also enable the aviation industry to deliver on its environmental commitments. Government can support this by:
- Progressing the aviation net zero consultation to focus the work of the Jet Zero Council on the delivery of the UK's international carbon commitments
 - Supporting the continuation of the airspace modernisation programme to deliver carbon and cost efficiencies for the sector and maintain the positive momentum to date
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What lessons should Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including - but not limited to - health, financial, domestic and global supply chains and climate crises)?

- 11.1 Government needs to undertake transparent contingency planning for a range of risks and outline the likely measures needed across the economy. For critical infrastructure, Government should adopt the precautionary principle that this needs to be kept operational, with support as appropriate, to continue to support the wider economy and ensure supply chains remain open.
- 11.2 From a health perspective, Government needs to establish independent scientific and clinical advisory groups with appropriate business representatives to analyse and interpret relevant data and provide clear policy recommendations to Government. This will give transparency and consistency to decision-making, allowing industry to plan and mitigate, ensuring confidence and minimising economic impacts whilst securing public health. Robust testing and contact tracing needs to be put in place promptly to enable far better mitigation of the economic impacts of health crises and more targeted interventions, avoiding blanket shutdowns .
- 11.3 Stabilisers should be built into the Government revenue collection and support systems, such as business rates and furlough mechanisms, to temporarily account for external shocks without the need for sector-by-sector lobbying .

What opportunities exist for the UK economy post-Brexit and the pandemic for export growth?

- 12.1 Aviation is critical infrastructure for the UK and has a key role to play in building new global economic relationships outside of the EU, by facilitating trade, investment, collaboration, education, and tourism. Brexit provides a range of opportunities to put in place policies that will allow UK companies and ports to compete more effectively with international competitors, generating economic value and growing exports.
- 12.2 Confirming the reintroduction of duty & tax-free shopping for arrivals from and departures to the EU from 1 January 2021 will provide a benefit to consumers and effective revenue support for airports and retailers, reducing the need to take other steps to survive.
- 12.3 Freeports offer the opportunity to retain and develop international trade links. East Midlands Airport is the largest dedicated airfreight gateway in the UK - playing a significant role in the pandemic in the movement of medical supplies and PPE. It is located adjacent to a railfreight interchange and on the strategic highway network, with a geographical position that makes it ideal for onward movement of goods to every part of the country. The East Midlands therefore offers a unique opportunity for the UK to develop a multimodal Freeport that can reach across the globe. Government should progress this agenda rapidly and ensure a broad focus is taken to incorporate the benefits that can arise from different types of ports.

What role might Government play as a shareholder or investor in businesses post-pandemic and how should this be governed, actioned and held to account?

- 13.1 Government's key focus should be on facilitating post-pandemic economic growth and investing in infrastructure and other assets that can underpin this. Governments should only invest in businesses as a last resort, and be very mindful of not unduly distorting competition or seek to create national champions to the detriment of other UK businesses.

MAG

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