

Written evidence submitted by the Confederation of British Industry (AAS0011)

1. Introduction

- 1.1. The Confederation of British Industry (CBI) welcomes the opportunity to respond to the Transport Committee's consultation on supporting recovery in the UK aviation sector. The CBI is the UK's leading business organisation, speaking for some 190,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as world representation in Brussels, Washington D.C., Beijing, and Delhi, the CBI communicates the British business voice around the world.
- 1.2. The CBI is proud to count among its members some of the largest airports and airlines in the UK, as well as businesses of all sizes that depend on a prosperous aviation sector for their business operations. It is vitally important that as the post-coronavirus economic recovery beckons, aviation is recognised as a key driver of growth and prosperity. The CBI firmly believes that a resilient aviation sector is a core component that will contribute to the government's fundamental priorities – levelling up, net zero and *Global Britain*.
- 1.3. The coronavirus pandemic has had a significant impact on the international travel sector and threatens to cause a long-term decline in the UK's global competitiveness. It is vital therefore that government policy both recognises the need to support the aviation sector in the short term and creates a policy framework for the long term that supports the sector in pursuing an ambitious decarbonisation agenda, and places aviation at the centre of UK connectivity and levelling up.
- 1.4. To achieve this, the CBI recommends that the government:

Short-term:

- Extends the AGOSS until April 2022, to support airports in dealing with high fixed costs;

- Reviews the cap imposed on the AGOSS, to ensure that airport operators are able to benefit proportionate to their size;
- Introduces a bridging grant for the aviation sector, to guarantee that skilled jobs in the sector are protected, and the sector is placed in the best possible position to trade prosperously by the summer of 2022;
- Sets out its planned timeline for the further review of restrictions, with a view to eliminating the remaining testing requirements;
- Reviews the resources available to UK Border Force, and works closely with airports and airlines to ensure the effective processing of arrivals;
- Mandates that freely available lateral flow tests, provided to the general public since April 2021, are acceptable for meeting international travel testing requirements, provided that NHS-required capacity is not compromised; and
- Utilises the forthcoming Union Connectivity Review to demonstrate the role that it expects aviation will play in levelling up.

Long-term:

- Develops, in addition to the Aviation Recovery Plan, a comprehensive plan for the long-term future of the aviation sector, which recognises the economic value of the sector and places it at the heart of the government's fundamental priorities for *Global Britain*;
- Boosts confidence in the market by fulfilling existing commitments on key infrastructure projects where uncertainty remains, including Heathrow, Bristol and Leeds Bradford airport expansions; and
- Considers the virtue of a new Aviation Route Development Fund.

1.5. The CBI believes that taken together, these recommendations will ensure the dynamism of the aviation sector and support the government's long-term objectives. The CBI looks forward to engaging closely with the Transport Committee as it pursues this crucially important inquiry.

2. Recovery of the UK aviation sector

The pandemic has had significant short-term impacts on the UK aviation industry, which could easily result in long-term damage

- 2.1. The COVID-19 pandemic has had a significant impact on the UK aviation industry. As a result of months of restrictions and uncertainty, firms across the aviation and aerospace sectors, including operators, airports, supply chain and aircraft manufacturers have serious concerns about the potential for this impact to be long term.
- 2.2. Airports and airlines in CBI membership have reported significant financial losses since the beginning of the pandemic. One member estimated that daily losses during lockdown were as high as £1m, with total activity down an estimated 90% on pre-pandemic levels. Another airline member reported revenues down 70% in 2020 compared with 2019, and an airport member reported that passenger traffic amounted to only 1.5m passengers in the last nine months of 2020, where it would ordinarily expect to see 500,000 passengers in the first three days of August alone.
- 2.3. This has not only hit firms' finances but their position in the global aviation market. Heathrow Airport has slipped from first to tenth place among the busiest airports of Europe.¹ Seat capacity in the UK has fallen by around 92% compared with 2019 levels, and a 50% cut in traffic from UK airports continues to bolster European hubs at our expense. Data from IATA and Boeing suggests that passenger traffic will not return to pre-COVID-19 levels until 2023/2024, and key regional airports in CBI membership report that transatlantic routes seem unlikely to return before 2023 at the earliest.²
- 2.4. It is therefore imperative that government policy recognises the vulnerable state of the sector and takes steps to support its prompt recovery. Firms are concerned that without support from the UK Government, the damage wrought by the pandemic in the short term will translate into long-term damage and urgent government action is therefore required.

- 2.5. Within this climate, the pace of reopening international travel and removing restrictions has been slow. Characterised throughout the pandemic by an abundance of caution, and a failure to recognise both the importance of aviation and the dividend of the successful vaccine rollout, the government has only just reviewed restrictions in a way that will give the sector an opportunity to begin to trade its way to recovery.
- 2.6. The industry has broadly welcomed the government's recent decision to fundamentally overhaul the traffic light framework for international travel, and move instead to a two-tier structure, prioritising vaccination status as the key determinant of restrictions. Additionally, the sector has been heartened by the US Government's decision to allow UK and EU travellers to enter the country from November. However, the long wait for the easing of restrictions has meant that unlike our EU rivals, UK airlines and airports have not had much of a summer season.
- 2.7. The slow pace of easing restrictions and the uncertainty that the traffic light policy has caused has damaged passenger confidence and prevented a quick bounce back that has been enjoyed by some areas of the economy. While the CBI recognises the need to balance public health considerations with economic considerations, for the aviation sector, government policy has not achieved this balance, and as the domestic economy has reopened, aviation has remained largely closed, dealing additional financial damage upon airlines and airports.
- 2.8. In addition to the financial pressures that the pandemic has placed upon airports and airlines, continued uncertainty about the future of aviation in the UK continues to damage industry confidence and stymie the industry's ability to plan for the future. Specific consideration should therefore be given by the UK Government **to a comprehensive and detailed plan for the future of UK aviation**, one that demonstrates the government's firm commitment to aviation and its role in the levelling up and *Global Britain* agendas.
- 2.9. As outlined in our submission to the Comprehensive Spending Review/Budget, the **government should also work to boost confidence**

in the market by fulfilling its commitments on key infrastructure projects where uncertainty remains. This includes tackling delays to key projects like airport expansion at Heathrow, Bristol and Leeds Bradford. A long-term plan, that outlines a clear path for the future of the sector, is needed now more than ever, and can help to offset potential long-term damage from the coronavirus pandemic.

As furlough has ended, the employment situation in the aviation sector remains precarious

- 2.10. The end of the furlough scheme is the right decision for the economy as a whole, where trading conditions have largely returned to normal. However, for the aviation sector, which remains burdened by trading restrictions and has not been able to benefit from the usually profitable summer season, further job support is necessary.
- 2.11. CBI members in the sector have managed to keep redundancies relatively low due to the support provided by the furlough scheme. Several businesses report that upwards of 60% of their staff were on furlough by the end of the scheme, covering both operational and non-operational roles. Therefore, there had been significant concern about what the end of furlough might mean for these roles, as trade has not yet been able to reach the level needed to guarantee these roles remain secure. Fortunately, as yet, additional redundancies have not been necessary.
- 2.12. However, while the end of the furlough scheme has not immediately been accompanied by further redundancies in the sector, businesses remain concerned that unless trade rapidly improves, redundancies may still be necessary.
- 2.13. Additionally, the sector is greatly concerned that the trading environment will mean that the sector is unable even to sustain critical roles which require specialist training or accreditation – including air traffic control centre staff, engineers, and airfield operators. To lose these roles in the near future and needing to recruit them again in time for summer 2022 will greatly damage the industry's prospect of a strong

summer season, a vital component for the long-term recovery of the sector.

- 2.14. As restrictions are eased, demand will recover, but it must be emphasised that this process will neither be automatic nor necessarily strong enough in the immediate future to stave off the threat of substantial redundancies. It is for this reason that the CBI **recommends that the government extends the AGOSS to April 2022**, to support the sector in dealing with fixed costs. The government should also review the cap on the AGOSS to ensure that all airports and airport operators are able to benefit fully relative to their size.
- 2.15. Additionally, the government should **consider the introduction of a bridging grant to help the sector deal with labour costs**. This will help ensure that by April 2022, the sector has a strong workforce, ready to make the most of a busy summer season.
- 2.16. The CBI believes that these measures will position the sector well for a strong summer 2022 recovery.

Financial support is critical to help the sector through a tough winter ahead

- 2.17. The aviation industry believes that compared with other sectors of the economy, government financial support for the sector during the pandemic has been small. An airport operator in CBI membership has said that the support received from the AGOSS covered less than one month of the cash burn experienced during periods of national lockdown. AGOSS thus covered a small proportion of the total business rates bill, but by comparison, sectors such as retail and hospitality received full rates relief for 2020/21, and the first three months of 2021/22.
- 2.18. Equally, the sector is concerned that the level of support offered by the UK Government is far below that which has been offered by other governments. The devolved administrations of Scotland and Northern Ireland have provided for full business rates relief for airports, and the US has offered targeted support aimed at staff costs and staff retention

for the future. The industry is particularly concerned that the low level of support offered in comparison with other governments is yet another means for our European competitors to gain an advantage at our expense.

- 2.19. The CBI believes that an extension to the AGOSS, as well as a review of the cap on the scheme should be a key facet of government financial support for the aviation sector. By supporting airports with their fixed costs, they will be able to focus their efforts on investment in the net zero technologies and infrastructure needed to improve international connectivity and support decarbonisation.

A consistent regulatory environment is a fundamental ingredient for the long-term recovery of the sector

- 2.20. The CBI believes that one of the most important mechanisms for supporting the sector is a clear, consistent regulatory environment, one that makes clear the centrality of aviation to the government's ambitions in terms of levelling up, net zero and *Global Britain*.
- 2.21. The government has already committed to publishing an Aviation Recovery Plan. However, while recovery in the short term is obviously a pressing need, the sector needs a clear roadmap, set over period of at least 30 years, which outlines the role that the UK Government envisages for aviation, and demonstrates the role that the government expects aviation to play in the delivery of its key objectives.
- 2.22. Indeed, a long-term plan for the development of aviation is also fundamental to addressing the challenge of decarbonising aviation further details of which can be found in our response to the sustainability section of this consultation and our recent input to the DfT's Jet Zero consultation.

The aviation sector is key to the UK's wider economic recovery after the COVID-19 pandemic

- 2.23. Airlines UK research suggests that the aviation industry directly supports over half a million jobs in Great Britain alone, including 66,000 in the North East and 48,000 in the South West. Put another way, only three constituencies in Great Britain have less than 100 residents working in an aviation job. Aviation already contributes to the economic prosperity of parts of the country where social deprivation is already a concern, and a prolonged recovery, and a weaker aviation sector, runs the risk of doing irreparable damage to already deprived communities.
- 2.24. In 2020, a report commissioned by London City Airport on the importance of aviation to the UK economy made clear the centrality of the aviation sector in supporting the UK's post-coronavirus economic recovery.³ Among its key findings, the report states:
- The aviation sector was worth an estimated £97bn in 2019, with domestic aviation alone accounting for £15bn.
 - The aviation sector directly or indirectly supports over 1.3 million UK jobs.
 - 64% of UK business leaders see air travel as key to their future prospects.
 - 88% of leaders of businesses with over 250 employees believe air travel is important to the future success of their business.
- 2.25. Additionally, three key facets of the government's agenda undoubtedly depend on a robust aviation sector – levelling up, net zero and *Global Britain*. To be a global free trading powerhouse requires an efficient and prosperous air freight sector, and aviation has a significant role to play in levelling up communities across the UK. Government must recognise this key role.

3. The traffic light system for international travel

The operation of the government's 'traffic light' system has seriously inhibited the ability of the sector to trade, and has damaged consumer confidence in the sector

- 3.1. The aviation industry has expressed serious concerns about the implementation of the DfT's 'traffic light' system and the CBI therefore

strongly welcomed the recent reform to the system, which, by moving away from the three-tier traffic light system, will likely help to boost confidence in the sector, and will recognise the vaccine dividend that the successful rollout has provided.

- 3.2. The international travel sector remained hampered throughout the pandemic by a lack of consumer confidence which was caused, in large part, by the traffic light system. Consumers, highly concerned about a green list country being moved onto the amber list, or an amber list country being moved into the red, often with little notice, were reluctant to consider foreign travel. This summer, government decisions on France and Portugal added to the confusion and complexity of the system and scenes of chaos at European airports, showing British travellers desperately racing to return to the UK before the government's deadline to avoid quarantine, further depressed passenger confidence.
- 3.3. While the sector appreciates that the logic for treating international travel restrictions separately to domestic restrictions was to tackle the arrival of new variants of coronavirus, the differing restrictions have remained in place long after the Delta variant of the virus had established itself as the dominant variant in the UK and around the world. The government's approach remained that international travel should be subject to controls over and above domestic restrictions but failed to provide adequate rationale to support this being the case.
- 3.4. CBI members have also expressed their frustration that the government did not, despite repeated requests for greater transparency and better engagement with the industry, publish the metrics being used to determine the categorisation of countries. We believe that the government's approach should have been characterised by much greater transparency and collaboration with industry, to mitigate the impact of restrictions. By providing further insight into the decision-making process, the Department for Transport could have inspired greater confidence in the sector, allowed passengers to make choices with greater certainty, and, in all likelihood, provided a more stable trading environment for the summer months. In addition, airlines and

airports would have been able to plan and anticipate customer demand with much greater certainty.

- 3.5. With the last GTT review, the government has reduced, but not eliminated restrictions on international travel. The sector expects that continued restrictions, although decreased significantly in expense and inconvenience, look likely to depress passenger confidence and trade. The government should **now set out its planned timeline for the further review of restrictions, with a view to eliminating the remaining testing requirements**. Doing so will provide the sector with greater clarity regarding when it can expect a return to normal.

4. The cost of international travel

The cost and process of requiring a PCR test has further suppressed consumer demand

- 4.1. At the beginning of the pandemic, international travel testing was used to identify and isolate positive cases of coronavirus, to prevent community transmission in the UK. With the successful rollout of the vaccine, the focus of PCR testing changed to tackling the entry of new variants of the virus.
- 4.2. Throughout the pandemic, the cost of testing has been a significant barrier that has depressed customer demand. Despite large growth in the private testing market, and despite government efforts to intervene in the market to tackle price gouging behaviours, PCR test costs have remained high, and in many cases, prohibitive. CBI member analysis suggests that the cost of PCR testing has often exceeded the standard air fare to popular travel markets.
- 4.3. The soon-to-be-introduced shift to require lateral flow tests for fully vaccinated passengers is a significant improvement, but the industry remains concerned that the cost and complexity of testing will continue to suppress demand. The government must act to prevent the same sort of unscrupulous price gouging behaviours that characterised the PCR testing requirement from being repeated, which would drive up the

cost of lateral flow tests and result in them acting as just as much of a deterrent as their PCR counterparts did over the course of the summer.

- 4.4. As a further measure, the government **should mandate that the free NHS lateral flow tests, which have been made generally available to the public since April 2021, are acceptable for international travel.** This will have the effect of preventing any form of price gouging behaviour, further reducing the cost of international travel, and further stimulating trade in the sector.

5. Border readiness

Passenger waiting times have caused serious concerns for the sector

- 5.1. The CBI has been concerned by member and media reports of long queues at key airport locations. Images of the queues, widely shared on social media, have undoubtedly further depressed passenger confidence and willingness to travel.
- 5.2. The simplification of testing requirements and the removal of the amber and green lists should ensure that the processing of inbound travellers is conducted with greater efficiency, and the excessive queues and waiting times seen this summer are not repeated. As restrictions are eased, the government **must ensure that sufficient resources are provided to UK Border Force to deal with the expected increase in passenger traffic.**
- 5.3. Additionally, the government should work closely with airports, airlines and UK Border Force to ensure adequate co-ordination, and ensure that the processing of passengers is made as simple and efficient as possible. This will be particularly important as trade increases, and larger volumes of passengers at the UK Border test the readiness of the system.

6. Regional and global connectivity

Air travel is vital for UK-wide connectivity, and increasing connectivity supports the government's 'levelling up' agenda

- 6.1. Increased connectivity between the regions and nations of the UK is undoubtedly a vital component of the government's levelling up agenda. Aviation is an important part of ensuring UK-wide connectivity, which adds significant value to all regions of the UK.
- 6.2. Air travel remains the quickest way to travel between many of the UK's main cities. While HS2 will undoubtedly improve Union connectivity and may decrease the need for aviation between certain destinations, it will not be completed for many years to come. Additionally, travel to the most distant parts of the UK, including Northern Ireland and parts of Scotland, is likely to remain practical only via air travel.
- 6.3. Moreover, aviation is an essential component of freight traffic across the UK. Edinburgh and Aberdeen airports are the UK's third and fourth largest by freight tonnage respectively. In order to ensure that the government's strategy for *Global Britain* is realised, continued development of freight capacity in critical regional airports will be necessary.
- 6.4. The industry looks forward to the publication of the Union Connectivity Review. This review must demonstrate the government's understanding of the centrality of the aviation sector to UK connectivity. Additionally, as part of the Aviation Recovery Plan, the UK Government should consider how it can ensure the robust recovery of the UK's internal aviation market, which has a key role to play.

Re-establishing global connectivity is vital to the government's Global Britain agenda

- 6.5. The Aviation Recovery Plan, which the government intends to bring forward in the near future, must have consideration of how to support the establishment of new global routes at its heart. A number of airports in CBI membership have expressed concern that transatlantic routes, cancelled as a result of the pandemic, may not return until 2023

at the earliest. This represents a potential disaster for UK competitiveness and connectivity. The government should therefore **consider the virtue of a new Aviation Route Development Fund**, to help ensure the reestablishment of routes vital for competitiveness and connectivity.

- 6.6. The development of new routes through direct flights has the potential to act as a major catalyst for economic growth. The establishment of direct flights between Manchester and Beijing clearly demonstrates this, with a 38% increase in the number of Chinese visitors to the North of England since 2016, export values from Manchester to China growing by 41% to £1.29bn, and the average spend per visit in the North West increasing by 94%.⁴ The aviation sector is keen to ensure that this success is replicated by other UK airports, and connections are increased to encompass other high-growth economies.

7. Sustainability

- 7.1. In our response to the Department for Transport's Jet Zero consultation, we outlined the key measures that the government should take to ensure that the aviation sector achieves net zero greenhouse gas emissions by 2050, while maintaining a competitive and innovative aviation sector.
- 7.2. Achieving substantial and sustained emissions reductions from the aviation sector and developing a growing but sustainable aviation market requires:
- **A long-term, practical net zero aviation strategy, with clear, ambitious objectives that are reviewed every five years;**
These objectives should be drawn up through existing mechanisms like the Jet Zero Council, which should play a leading role in reviewing progress.
 - **Robust policy frameworks and increased funding to support the development of a domestic Sustainable Aviation Fuel (SAF) market;**

This should include consideration of how a Contracts for Difference (CfD) or similar scheme could be used to provide a stable and competitive market, as well as increased and long-term public investment to bolster confidence at this early stage of market development. The government should extend the funding committed in the Ten Point Plan into a multi-year programme to support SAF production.

- **Investing in wider aviation and aerospace technologies including electric and hydrogen;**

This should include increasing domestic R&D spending allocated to the Aerospace Technology Institute programme to £3.8bn through to 2030.

- **Supporting consumers to make informed decisions in the transition to zero emission flight;**

Business sees a possible role for the government in setting out a framework or principles for a single credible information source or commercial tool to help consumers to make informed decisions and reduce the environmental impact of their aviation choices.

- **Showing global leadership in the year of COP26 and beyond; and**

COP26 should be used as a key moment to show coordinated leadership, with the UK and its world-leading aerospace sector at its heart. This coordinated leadership will be particularly necessary ahead of discussions with global policymakers at the ICAO Aviation General Assembly in 2022, where long-term CO2 targets for global aviation are to be agreed.

- **Revising the membership and terms of reference of the Jet Zero Council.**

The Council's membership should be expanded, its remit broadened, and the goal of net zero transatlantic flight, while a worthy pursuit, should not detract from other broader and long-term aviation net zero policy goals.

7.3. These recommendations are outlined in full in our Jet Zero consultation response, a copy of which the CBI would be happy to share with the Committee.

October 2021

Endnotes

¹ <https://news.sky.com/story/heathrow-says-it-has-slipped-from-number-one-to-tenth-place-among-europes-airports-12406929>

² <https://www.sundaypost.com/fp/direct-flights-from-scotland/>
<https://www.bbc.co.uk/news/business-58560821>; <https://centreforaviation.com/news/iata-forecasts-european-traffic-to-reach-to-2019-levels-in-2024-1090790>

³ <https://media.londoncityairport.com/business-air-travel/>

⁴ <https://mediacentre.manchesterairport.co.uk/new-report-shows-manchester---beijing-service-is-a-major-catalyst-for-the-northern-economy/>