

# **ADS SUBMISSION TO TRANSPORT SELECT COMMITTEE CALL FOR EVIDENCE INTO SUPPORTING RECOVERY IN THE UK AVIATION SECTOR**

## **Introduction**

1. ADS is the trade association for the UK's aerospace, defence, security, and space industries. ADS has more than 1,100 member companies across all four sectors, with over 95% of these companies identified as Small and Medium Size Enterprises (SMEs). The UK is a world leader in the supply of aerospace, defence, security and space products and services. From technology and exports to apprenticeships and investment, our sectors are vital to the UK's growth – generating £79 billion turnover a year in the UK, including £45 billion in exports, and supporting one million jobs.

## **Impact of the pandemic**

2. The COVID-19 pandemic has hit the aviation sector harder than most. At the peak of the pandemic, aviation traffic in Europe was reduced by 90% compared to equivalent 2019 levels; aviation will also likely be one of the last sectors to recover to 2019 levels from the impact of the pandemic, and in September 2021 traffic in Europe is still operating 30% below 2019 levels.
3. Aerospace manufacturers generate revenue from manufacturing aircraft, but also from aircraft flying hours and maintenance, repair and overhaul activity (MRO). Some major manufacturers' business models rely heavily on the revenue generated from aircraft flying hours and MRO work. With the aviation sector struggling, demand for new aircraft plummeted. So much so that there were only four new aircraft orders placed in January 2021, all of which were freighter aircraft. In 2020, new aircraft orders fell by 59%, while aircraft deliveries fell to their lowest numbers on record. In response to this, aircraft manufacturers have had to reduce production rates. This has resulted in a sharp reduction in business activity for many supply chain companies, which has had a devastating impact on cash flow at all levels of the supply chain. The aerospace supply chain is responsible for 60-70% of

the value of a finished aircraft and the UK supply chain in particular is home to world leaders in precision engineering.

4. Aircraft production is expected to remain subdued by 40-45% through 2021-22, and recovery to 2019 levels is only expected beyond 2024. As of June 2021, the production output figures for UK aerospace combined manufacturing, service and repair were 39.4% below pre-pandemic levels.
5. It is also important to note the geographic spread of aerospace suppliers – tens of thousands of high value jobs can be found in every region and nation of the UK. These were viable jobs before the crisis and will be viable jobs in the long-term once the sector has recovered. The UK aerospace industry supports more than 100,000 jobs across the UK, and at the peak of the pandemic an estimated 17,000 workers were on furlough.

### **Cost of travel**

6. Since the UK's successful vaccine rollout began to show dividends, ADS has been calling on the Government to deliver a simple, predictable, affordable and safe system of international travel, enabling the restart of tourism, business and family travel to and from the UK. Recent developments, including the simplification of the traffic light system, allowing lateral flow tests for day 2 tests, quarantine free travel for vaccinated passengers and the planned re-opening of travel to the USA are all welcome steps in the right direction.
7. Confirmation of a date for when lateral flow tests will be eligible for day 2 tests would provide certainty for travellers and help drive the recovery of the aerospace sector.

### **Sustainability**

8. The aerospace industry is committed to achieving net zero aviation in the UK by 2050, also known as Jet Zero, with interim decarbonisation targets of at least 15% by 2030 and 40% by 2040. ADS supports the vision to achieve

net zero through a clear and credible plan, listed below, while supporting air travel and maximising the industrial benefits and national opportunities that net zero presents, building back from the COVID-19 pandemic.

9. The industry has a clear and credible plan to achieve net zero through:
  - 9.1. Continued development of state-of-the-art aircraft and engine designs in a relentless pursuit of near-term fuel efficiency improvement and CO<sub>2</sub> reduction.
  - 9.2. Increased production and use of sustainable aviation fuels (SAF) to deliver significant emission reductions over both the short and long-term.
  - 9.3. Development of a radical and disruptive third generation new aircraft and propulsion technologies to move into the age of zero-emission flight, exploring the power of hydrogen and electricity.
  
10. To achieve Jet Zero and make rapid progress on the ambitions that the Government has set out, industry is proposing a step-change in investment through the Aerospace Technology Institute (ATI). An investment of £3.8bn to 2030 by Government, alongside co-investment from the industry would unlock further industry investment of up to £27 billion by 2050 to industrialise Jet Zero technologies in the UK:
  - 10.1. Further investment through the ATI would remove over 600m tonnes of carbon through UK developed technology by 2050, representing around 20 percent of the total emissions saved by 2050 through ultra-efficient aircraft improvements and zero-carbon emission technology.
  - 10.2. Realising Jet Zero ambitions will level up opportunities and create an additional 120,000 high-value green jobs across the UK in the aerospace sector by 2050. This level of investment would enable a return to the economy of over £50 for every £1 of investment by Government through to 2050.
  
11. Jet Zero is an opportunity to create a world leading manufacturing value chain with sustainable enterprises in UK aerospace, and the industry will

work with UK suppliers to encourage investment in development of sustainable technologies and processes. The Government should support these actions to enable UK suppliers to transition to a highly productive and low carbon future, aiding recovery from the COVID-19 pandemic.

12. Alongside investment into the ATI and support for the supply chain, which would help stimulate innovation and jobs across the UK, ADS are also supportive of a greater ambition in regard to Sustainable Aviation Fuel (SAF).

12.1. SAF represents a near-term opportunity to decarbonise aviation while delivering investment, jobs and growth across the UK.

12.2. If supported appropriately by Government, UK industry can become a world-leader in the development and production of SAF, with potential for up to 14 UK SAF plants by 2035, creating jobs and levelling up across the UK.

12.3. At present, the price of SAF is uncompetitive in comparison to regular jet fuel, and as such in order to stimulate investment into the industry in the UK, the Government should consider the implementation of a SAF mandate alongside a price stability mechanism, such as a Contract-for-Difference (CfD) scheme, in order to lower the barriers to entry for production and consumption of SAF. ADS would support the hypothecation of funds from the aviation-related UK-ETS revenue to underpin such a CfD scheme.

12.4. A UK-based clearing house for SAF would additionally encourage investment into the SAF industry in the UK, remedying the current situation where testing and certification has to take place abroad in countries such as the USA.

12.5. Schemes such as the DfT's "Green Fuels, Green Skies" are welcome and should be extended in the short-term, alongside an additional £50m in grants for the development of SAF production across the UK.

12.6. The above measures to support a UK SAF industry are short to medium term realities and would provide an additional boost to the UK aerospace and aviation industries that will feel the effect of the COVID-19 pandemic longer than most industries.

13. ADS are additionally supportive of the airspace modernisation programme, which will make air routes over the UK quicker, cleaner and cheaper, keeping the UK aviation industry competitive and helping reduce unnecessary carbon output.

### **Concluding remarks**

14. Through working with UK industry, by implementing the policies listed above in a timely fashion, the UK Government can support the UK aerospace industry to decarbonise while recovering from the COVID-19 pandemic. Action, however, is needed now to ensure that the Jet Zero opportunity is reached. It is vital that in the short-term the Government provides the aerospace sector sufficient support to emerge from the COVID-19 pandemic in a strong position. Any loss of jobs, investment and output now would be detrimental as the industry strives for net zero by 2050.

15. International engagement and cooperation is a key part of re-opening international travel after the COVID-19 pandemic, which has meant working together to identify creative and socially appropriate ways that vaccines and rapid testing can facilitate the recovery of international aviation. A similar approach on sustainability will be required to deliver net zero aviation by 2050. By demonstrating leadership at ICAO, and in collaboration with partners such as the EU and the US, the UK can play a significant role in developing the technology, skills and ideas that will help the UK and the global aviation industry decarbonise.

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