

Written evidence submitted by the Airport Operators Association (AAS0026)

Introduction

This response is submitted on behalf of the Airport Operators Association (AOA), the trade association representing the interests of over 40 UK airports.

The AOA welcomes the opportunity to respond to the Transport Committee's Call for Evidence. It is timely for this inquiry to be held because summer 2021 was likely worse for airports than summer 2020. In the AOA Recovery Plan,¹ published early this year we urged the Government to provide financial support, including to build back greener alongside setting out a pathway to ease and ultimately remove travel bans and quarantine measures.

The AOA's response will be in two parts. The first part will be focused on the travel restrictions and the second part on the financial support.

The economic importance of aviation

Airports are engines of growth. Pre-pandemic, aviation contributed more than £92bn to the UK economy, supported more than a million jobs and provided more than £8 billion in tax revenues to the Exchequer.

Aviation provides essential connectivity for UK exporters, businesses relying on imports and inward investors. 49% of the UK's non-EU trade by value travelled by air in 2017, predominantly in the belly-hold of passenger planes.² This is higher than most other European countries, who ship between 20%-40% of their goods by value by air. Germany, for example, ships just 25% of its non-EU export value by air. Only Ireland ships a greater share of its non-EU exports by air than the UK.³

Businesses use travel to connect to customers, travel to trade fairs and service their products abroad. In 2019, 10% of UK residents travelling abroad did so for business.⁴ On the inbound side, 21% of visits to the UK by people from other countries were for business purposes (account for 20% of visitor spending in the UK, around £5.7bn).⁵

Tourism businesses rely on aviation, with around 75% of visitors to the UK travelling by air.⁶ As a result, aviation supports more than half a million jobs in the tourism and travel industry.⁷ For example, prior to easyJet's route between

Edinburgh and Hamburg, travelling there was inconvenient as people had to go via a hub airport. Following easyJet's introduction of that route, travel between the Hamburg area and Scotland increased tenfold. 80% of that travel was Germans coming to Scotland.⁸

Furthermore, aviation plays a major role in UK society: 52% of the UK population flew at least once in 2019.⁹ Not only does aviation enable millions to go on holiday, but it is also vital to people visiting family and friends abroad. In 2019, 25.3% of visits abroad by UK residents was to visit friends and relatives¹⁰, while 30.4% of visits by people resident outside the UK were for that purpose.¹¹

However, this once booming sector has suffered its worst crisis in aviation's history due to Covid-19. Between April-Dec 2020, passenger numbers were down nearly 90% year-on-year. This has had some major economic impacts:

- Economic output for the air transport sector between Feb -Dec 2020 reduced by 89%.¹²
- On 31 July 2021, 51% of staff in the air transport sector were still on furlough.¹³
- Research by business consultancy Steer for the AOA shows that by 2025, between £32 billion and £95 billion of industry GVA is projected to have been lost relative to 2019.

The UK Government wants to create a 'Global Britain', trading with the world. The quality of our aviation connectivity is vital to deliver that. There is an opportunity to ensure that aviation builds back better and enables a globally trading UK through an improved air connectivity network compared to 2019 but not at 2019 emission levels. This would build on the UK's existing aviation and aerospace strengths, creating green aviation jobs and expertise that the UK could then export.

The initial impact of the pandemic

Aviation has been at the forefront of the Covid-19 pandemic. Before other UK sectors felt the impacts, aviation was already being affected by travel restrictions and passengers voluntarily choosing not to travel – indeed, it contributed to the collapse of Flybe. That is why airports were asking for urgent support.

After many countries around the world instituted travel bans and closed borders, demand for aviation plummeted and airport traffic flatlined at near-zero or even zero passengers at some airports. This was much worse than the financial crisis: as ACI EUROPE said: “it took Europe’s airports 12 months in 2009 to lose 100 million passengers. With Covid-19, it just took 31 days – the month of March”.¹⁴ In total, across 2020, UK airports lost 75.2% of 2019 passenger levels and saw only 73.8m passengers travelling through terminals – numbers not seen since 1985. With two-thirds of those passengers travelling in January-February, the summer was the worst since 1975 with just 14.2m passengers flying between July-September.¹⁵

We will look at the financial impact later in the submission but suffice to say that a collapse in passenger traffic since the start of this pandemic has resulted in revenue decreases of close to 80% in the second and third quarters of 2020, compared to 2019. The reduction in traffic and passengers meant that airports lost their main source of revenue, both aeronautical (airport charges to airlines) as well as non-aeronautical (retail, car parking, etc.). Throughout this period costs have stayed roughly the same: 70-80% of an airports’ costs are fixed, such as costs for policing, security, rescue and fire-fighting services and air traffic control. Whether one flight departure or a hundred, these remain the same.

Global Travel Taskforce: the system

Prior to the Global Travel Taskforce (GTT), airports were disappointed that the Government pressed ahead with their blanket, untargeted quarantine proposals in June 2020 when our main competitors were adopting a more risk-based approach as they exited their quarantine measures through requiring testing and targeted regional or country-level restrictions. UK aviation’s recovery lagged its competitors, which continues to this day.

The introduction of the GTT in October 2020 was a welcome first step and a commitment to implement a testing system for international travel. However, testing on its own would still be insufficient to ensure the viability of aviation: financial support was and is still necessary. This was underlined by the reintroduction of quarantine measures and a further lockdown in early 2021. Moreover, due to the emergence of the new variant in the UK, most countries closed their borders to UK arrivals. Effectively international travel came to a near-complete halt again during the first two quarters of 2021.

Summer 2021 then saw the UK lag its competitors again. While within the EU, quarantine measures and testing requirements were quickly stepped down for fully vaccinated passengers through the Digital Covid Certificate, the UK did not differentiate between vaccinated and unvaccinated passengers for quarantine purposes until late July and continued to impose costly testing requirements for all travellers. Moreover, consumer confidence in the UK was fragile due to repeated changes, e.g. France moved to a new Amber Plus. Provisional passenger numbers from ACI EUROPE show that in July the EU/EEA/Switzerland saw 44% of 2019 passenger levels in July 2021, rising to 51% in August while the UK saw only 19% of 2019 passenger numbers in July, rising to a mere 30% in August.¹⁶ This has impacted job levels in aviation, with air transport being sector with the highest use of the Job Retention Scheme (CRJS) over the summer: on 30 June 2021, 58% of staff in the air transport sector were still on furlough¹⁷ and on 31 July this had only dropped to 51%.¹⁸

The Government's easing of travel restrictions announced in September 2021 is a good step forward. By reducing complexity and the cost of testing, it should encourage more people to travel and allow airports to see a further uplift in passenger numbers. However, this last formal checkpoint of the GTT should have been the time to return to restriction-free travel at a time when nearly everyone in the UK has been vaccinated. Instead, we continue to have a more onerous approach to travel than our competitors.

Ultimately, there needs to be a return to normal. Despite the progress made, we have clearly not reached that end point yet. By extension, the review points need to continue until we have returned to 2019 travel conditions. As this latest review took place on 17 September, we believe the next review should be held no later than 1 November and address the following:

- Removing the requirement for lateral flow tests for fully vaccinated travellers to bring the UK in line with our European competitors
- Removing the PLF for fully vaccinated passengers
- Reviewing the process for moving countries to Red that protects passengers already abroad or about to travel.
- Accelerated engagement with other Governments to ensure reciprocal access arrangements for passengers on both sides of the route.

Financial recovery

As set out above, aviation plays a vital economic role and it is thus important for the UK recovery to get the aviation sector moving. Airports remained open throughout the pandemic with little to no income to support freight (including PPE, Covid-19 tests and vaccines), Royal Mail, government services such as the National Police Air Service, HM Coastguard and air ambulances, lifeline flights to remote communities and to keep the lights on through support flights for offshore wind, oil and gas. However, there was no sector-specific support and aviation had to rely upon existing economy-wide support measures. While of some use, particularly furlough, these were not well-targeted to help our airports through government-ordered travel restrictions whose impacts were longer and more intense than those of the domestic lockdowns.

Business rates is a good example of how the Scottish Government and the Northern Ireland Executive decided to include airports early on in their 100% business rate relief. Only in January 2021 did the UK Government publish the details of its more limited rates relief for commercial airports in England (the Airport and Ground Operations Support Scheme - AGOSS). For 2020/21, £65.1m was awarded to commercial airports in England¹⁹, but with losses of airports in England totalling £141.5m in January, or £4.6m a day, the support through AGOSS will last English airports just a fortnight.

In contrast, the US has had several billion-dollar support packages for airports (one under the Trump Administration, and under the Biden administration as part of a stimulus package and through the infrastructure modernisation package), which included \$100m for general aviation (GA) airports. In Europe, Germany, for example, provided €820m in grants to regional airports (separate support was provided through the federal government's shareholding of the three biggest airports)²⁰ and Italy provided €800m in grants to airports and groundhandlers²¹. Our European and US competitors are thus in a better financial position to bounce back post-pandemic and encourage the return of connectivity.

Instead, UK airports are supporting current cash flow needs to survive the last 18 months through running down capital expenditure funds and taking out commercial loans or securing additional funds from investors. Some have taken out government loans, but these have broadly not suited the needs of the airport sector. All will need to be repaid over time once business returns, and these repayments, combined with the highly leveraged situation of airports currently, make raising further funds difficult.

At the end of 2020, the AOA asked consultancy Steer to project anticipated recovery scenarios for UK aviation. The central one of these indicated that the UK would not return to normal levels of traffic until 2025, with airport finances recovering later due to the expected Europe-wide competition for airlines' routes through discounting airport charges and other incentives schemes. Consequently, the scope to invest in other projects has been decimated. This affects the transition to sustainability, improving airspace and even restoring routes that have been lost.

Steer also showed that aviation's recovery outside London and the Southeast and in the three devolved nations will be the slowest, having suffered the worst impacts from the decline in traffic. This will impact the UK Government's levelling-up agenda and the devolved governments' economic priorities, such as inclusive growth.

This why financial support is needed to navigate this loss-making period, boost the recovery of connectivity and thus the UK economic recovery and ensure the coming years are not lost years in our journey to net zero.

The AOA's immediate asks until April 2022:

1. Extend AGOSS for a further six months to cover period to April 2022, remove the £8m cap and open to all to airports (including business/GA airports) to ensure all English airports benefit.
2. Urgently implement the planned domestic APD cut while delaying the long-haul increase as this would bring forward the restoration of routes and help restore finances as well as consumer and investor confidence.
3. A furlough-style scheme should be used for roles in aviation. This could be at the low percentages of wages that furlough will represent by its end point. There are many airport roles that will be needed to provide full service in summer 2022 but that are not needed until then.
4. Sectoral extension of the Covid Corporate Financing Facility: a longer time frame to secure finances to ensure CCFF is more widely of use to airports than currently.
5. Alleviation from regulatory and policing charges for 2020/21 and retain this in 2021/22, as our European competitors have done. This would help airports survive the continuing low-revenue period.

Medium to long term:

1. Aviation Recovery fund to cover airport charges for one year for restarting routes lost through Covid that have not otherwise returned. Northern Ireland has attempted something similar through their Domestic Aviation Kickstart Scheme (NIDAKS), while the Republic of Ireland has operated another similar scheme. This will help re-establish connectivity and boost confidence in the market.
2. Upgrading airspace is vital to future-proof UK national infrastructure and would deliver important UK-wide environmental benefits, as well as business cost/efficiency gains. Government has previously committed funding to Stage 2, and it is imperative that this funding is delivered in full to ensure progress is not lost. This will particularly affect smaller airports' plans to progress their reviews, as finance will be more difficult to secure here. Failure to progress airspace modernisation at all airports would prevent a single coordinated national plan from being created. Going beyond Stage 2, further airport investment will prove difficult for several years due to the financial impacts of the pandemic. Therefore, Government should additionally commit to fund through to Stage 3 to ensure progress is made in the UK national interest.
3. Upgrades to Next Generation Security Checkpoint would enhance the UK's place as the lead in aviation security. However, Covid-19 has severely impacted airports' ability to pursue these in a timely fashion. Government assistance is required to fund these upgrades to ensure timely delivery. An alternative approach would be to delay the deadline for these upgrades.
4. Open and/or funded PSOs for connectivity for key development areas / desired links / areas with no suitable transport alternative (e.g. separated by water). PSOs should include international routes as well as domestic where this is justified and would benefit the local economy.
5. Arrivals Duty-Free: York Aviation have found that arrivals duty-free stores would increase passenger spend by 20-30%, which would be of significant benefit to airports, particularly regional airports, some of which get as much as 40% of their revenue from retail sales. Given that it would be competing for foreign pre-departure shopping, this would be a net benefit to UK retail, with all the economic benefits that entails. This is particularly important to compensate for the loss of the airside extra-statutory concession on VAT-free sales, which leaves the UK as the only developed economy without VAT-free sales airside for international passengers.

Sustainability funding for infrastructure

Airports need to continue to reduce their direct emissions, and the Government has set out a clear intention in this regard. Many environmental projects have had to be cancelled or delayed due to Covid-19 so financial support for emission reduction projects is necessary. Types of projects would include: energy efficiency; electricity decarbonisation; decarbonising ground mobile equipment; decarbonising backup power sources; and electric vehicle charging projects (for staff and passenger).

Government could also provide grant funding to prepare infrastructure for hydrogen/electric power for planes as these future aviation options are still in development but facilities at airports will be necessary as projects evolve. Funding should be provided to enable airports to host and support such a process. This would also help secure such projects and initiatives within the UK given the fixed nature of ground infrastructure.

Border Readiness

Quality of journeys will be one of the non-cost factors determining UK desirability as a place to travel to/through. This will be especially the case for frequent short-visit travellers, e.g. business travel. The UK has the opportunity to take a world-leading role in high-quality border management. Recent Covid-related disruption, whilst exceptional, demonstrates the vulnerability of borders to disruption. The 2025 UK Border Strategy is a welcome first step in this direction. However, without the requisite funding, the Strategy will not deliver the competitive advantage that the UK needs in border crossing for trade and people. Our competitors, such as the US, offer a better service and this means the UK is falling behind on the global stage.

Government should ensure that a world-class pandemic management system is in place, both to ensure Covid-19 / future infections are better managed and that aviation investors have the confidence that this is the case and thus the confidence to invest in UK aviation instead of in our competitors. Much of this will come through leadership of international initiatives, but an investment programme in the UK could help ensure travel/border systems are fit for purpose in the eventuality of another pandemic. There is scope here for collaboration between the Home Affairs Select Committee and the Transport Select Committee to ensure there is a competitive border.

Conclusion

The UK continues to have a more onerous approach to travel than our European competitors. Ultimately, we need to return to a situation like prior to the pandemic, in which people can travel without further tests or forms to fill out. With the UK's ambition to become a global actor after we have left the EU, aviation will be more important than ever to realising the Government's long-term goals. Equally, the UK's communities and visitors will see their fortunes restored more rapidly, if aviation can quickly recover from the current pandemic. The UK Government has an opportunity to make both those things possible, if it acts decisively now.

October 2021

Endnotes

- ¹ Airport Operators Association, [A UK Airport Recovery Plan](#) (London: AOA, February 2021)
- ² Steer, [Assessment of the value of air freight services to the UK economy](#) (London: Steer, October 2018), p. i
- ³ Steer, p. i
- ⁴ Office for National Statistics, [Travel trend estimates: UK residents visits abroad](#), 2019 ed. (London: ONS, 2020)
- ⁵ Visit Britain, [2019 Snapshot](#)
- ⁶ In 2019, this peaked at 79%, see: Visit Britain, [2019 Snapshot](#)
- ⁷ IATA, [The importance of air transport to United Kingdom](#) (Madrid: IATA Economics, 2019), p.1
- ⁸ Scottish Parliament, [Finance and Constitution Committee: Official Report](#) (Fifth Meeting, 1 Feb 2017, col. 48)
- ⁹ [2019 National Travel Survey Factsheets](#) (London: Department for Transport, 5 August 2020), p. 4
- ¹⁰ ONS, [Travel Trends](#)
- ¹¹ Visit Britain, [2019 Snapshot](#)
- ¹² Office for National Statistics, [Coronavirus and the impact on output in the UK economy: December 2020](#) (London: ONS, 12 February 2021)
- ¹³ HM Revenue & Customs, [Coronavirus Job Retention Scheme statistics: 29 July 2021](#) (London: HMRC, 1 September 2021)
- ¹⁴ ['Unprecedented impact of pandemic on European airports clear as March passenger numbers are released'](#), *ACI EUROPE* (9 April 2020)
- ¹⁵ Civil Aviation Authority, [UK Airport Data](#) (1975-2021)
- ¹⁶ Olivier Jankovec, '@grantshapps Easier testing fails to align with the rest of Europe & reality of epidemiological situation. Our @ACI_EUROPE data shows how UK airports @AOA_UK keep underperforming along with @airlines_UK due to unwarranted travel restrictions' [Twitter] ([@OJankovec, 18 September 2021](#))
- ¹⁷ HM Revenue & Customs, [Coronavirus Job Retention Scheme statistics: 29 July 2021](#)
- ¹⁸ HM Revenue & Customs, [Coronavirus Job Retention Scheme statistics: 9 September 2021](#) (London: HMRC, 9 September 2021)
- ¹⁹ House of Commons, Daily Report (7 July 2021), 26104W
- ²⁰ ['Bund einigt sich auf Finanzhilfen für wichtige Flughäfen'](#), Rheinische Post (Düsseldorf, 12 February 2021)

²¹ 'State aid: Commission approves €800 million Italian scheme to compensate airports and ground-handling operators for the damage suffered due to the coronavirus outbreak', *European Commission* (Brussels, 26 July 2021), <https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3809> [accessed 27 September 2021]