

## Written evidence submitted by Gatwick Airport Ltd (AAS0043)

### Introduction

1. Gatwick is the UK's second largest airport with a broad mix of airlines flying a range of both short and long-haul point-to-point services. The airport is a vital piece of the UK's national infrastructure and is also a major economic driver for both the South East and the UK as a whole.
2. The Covid-19 pandemic has had a major impact on Gatwick and the wider aviation sector. Gatwick saw just 569,000 passengers in the first six months of 2021, resulting in a £244m loss for this period alone. We are on course to serve fewer passengers this year than we did in 2020, despite the easing of domestic and international travel restrictions.
3. Gatwick Airport Ltd welcomes the opportunity to make written representations to the Transport Select Committee as part of its inquiry into supporting the recovery of the UK aviation sector. We would also like to thank the Committee for inviting our Chief Executive Officer, Stewart Wingate to give oral evidence at the session held on 21st September 2021.
4. We believe that the Government needs to prioritise the following actions to provide greater support to the recovery of the UK aviation sector, which is significantly lagging behind international, and in particular our European, competitors:
  - A return to pre-pandemic slot rules for the Summer 2022 season, reflecting the easing of travel restrictions, vaccination rates and the Government's 'living with Covid-19 approach'
  - Further easing and removal of international restrictions, including the blanket testing and removal of the Passenger Locator Form for fully vaccinated passengers
  - Financial assistance, including full business rates relief for one year, an extension to the CCFF scheme as well as bridging support through the winter
  - Sufficient resourcing at the border
  - Accelerating reform of Air Passenger Duty to help enhance domestic connectivity as we recover from the pandemic
  - Sustained investment in Sustainable Aviation Fuels and electric/hybrid aircraft technology to support the sector's decarbonisation.

## **Background**

5. The Covid-19 outbreak has had a catastrophic impact on the whole aviation industry, as the 'do not travel' order and subsequent international travel restrictions led to a collapse in demand. Aviation was the first sector impacted by Covid-19 and will be the last to recover. Gatwick has been hit particularly hard, given the competitive nature of the London airport system and through airline consolidation.
6. From March 2020, passenger numbers have dramatically declined, reaching close to zero for many airports during the first national lockdown. This had an immediate impact on airport revenues, with Gatwick posting a £465.5m loss for 2020 and a £244.6m loss for the first six months of 2021. Even when we return to profit-making, we will be paying back the money borrowed to sustain our operation during minimal passenger numbers.
7. The huge drop in revenue and subsequent loss-making has unfortunately led to a significant number of job losses at Gatwick Airport Ltd (the company responsible for managing the airport), around 40% since the start of the pandemic. This is exacerbated by losses in other airport companies – airlines, ground handlers and retail – right across the airport campus.
8. The Airport Operators Association (AOA) has previously stated that £1 billion a week is generated towards UK GDP by aviation and one million people work in and around the industry, generating almost £10 billion in tax revenues. It is clear, therefore that aviation plays a key role in the economic success of the UK and that is recognised as the economy recovers, particularly in relation to the Government's Global Britain, levelling-up and net zero agendas.

## **Topic 1: Recovery of the UK aviation sector**

### **Regulatory measures – international travel restrictions and slot rules**

9. The pace of removing restrictions on international travel has been slow and overly cautious, failing to capitalise on the vaccination dividend secured this year. This is most evident in Europe, with the vast majority

of EU countries having more liberal regimes and requiring just proof of vaccination as a condition of travel.

10. In just eighteen months, passengers have experienced 'do not travel' orders; the opening and closing of travel corridors; and the establishment and then removal of a traffic light system. We welcomed the introduction of the 'red' and 'rest of world' system in September 2021 (more information below), but this has come too late to capitalise and see any significant recovery in our summer season. We are unlikely to see passenger numbers approach anything near normality until Summer 2022 at the earliest, given usual winter traffic levels and we are not expected to fully recover until 2024/25.
11. Restrictions, whilst being reduced, have not been eliminated and there is more we can do to facilitate a return to normality in the short to medium term including:
  - a. Removing all testing requirements for fully vaccinated passengers
  - b. Accelerated engagement with other Governments to ensure reciprocal access arrangements for passengers on both sides of the route
  - c. Ensuring 'common-sense' recognition of foreign-issued vaccinations
  - d. Removing the cumbersome Passenger Locator Form.
12. In the longer term, Government should consider whether there is capacity in the system to provide lateral flow tests that can be freely used as they are in other parts of the economy and if the number of vaccinated people testing positive on Day 2 remains so low, whether there is a case for blanket testing at all.
13. We also continue to call for the slot rules to be reinstated at the earliest possible opportunity to incentivise airlines, increase competition and provide passengers with greater choice and flexibility. We understood the need for some form of slot waiver for the Summer 2021 and Winter 2021/22 seasons; balancing the need to discourage 'ghost flights' and encouraging efficient slot use when health conditions allowed.

14. However, with the high level of vaccination rates across Europe and the US at similar levels to the UK, and the easing of global travel restrictions and very few countries now on the 'red list' – now is the right time to return to the pre-pandemic '80/20' slot rules. Given the vast majority of markets and destinations are now open to the airlines, the return to the slot rules will help to accelerate the UK aviation sector's recovery and help the UK return to higher levels of flying – similar to those which are currently being experienced in Europe.

### **Financial measures**

15. We have recently made representations regarding the Government's Comprehensive Spending Review and Autumn Budget, to be held later this October. The financial measures outlined below, if adopted, will have a significant impact on Gatwick's recovery and that of the wider aviation sector and we encourage the Committee to consider the merits of further financial support. We believe that there should be a clear principle that financial support should be available whilst international travel restrictions remain in place.

### ***Furlough extension***

16. With a huge drop in passenger numbers, airports have been hit by high fixed costs at a time of reduced revenue. The largest, staff costs, have been helped by the furlough scheme (in March 2021, following a wave of unfortunate loss of jobs at the end of 2020, staffing costs at Gatwick Airport Ltd were £10.4 million each month), but many jobs have still unfortunately been lost as the industry grapples with passenger levels likely to be below 2019 levels through to 2025.

17. The furlough scheme has been invaluable, allowing Gatwick to retain more employees than would otherwise have been the case. We asked in the summer of 2020 for this to be extended to April 2021, the start of the summer season, and we welcomed that extension through to September 2021.

18. However, in light of continued constraints on international travel, we have asked HM Treasury that the furlough scheme for our sector be extended to Spring 2022 to help the sector through the winter season and assist our recovery. An extension will also help ensure those who

are required to practice regularly to retain their licenses can do so, assisting with retaining talent as we recover.

### ***Business Rates relief***

19. Another high fixed cost is business rates. Gatwick Airport has consistently called for business rate relief. Previously, airports in Scotland and Northern Ireland have received business rate relief, leaving those in England and Wales at a distinct disadvantage. We therefore welcomed announcements that airports would be able to access up to £12 million of business rate relief for the 2020/21 tax year and half of the 2021/22 tax year.
20. For the previous financial year, Gatwick had a Business Rates bill of nearly £30 million, despite revenue being considerably reduced. For a single site, this was second only to Heathrow in size. Given international travel restrictions that have been consistently in place since May 2020, we ask that full business rate relief for one year is considered, to assist our recovery.
21. This is substantially lower in real terms to the sums offered to retail, including national supermarkets. The Scottish Government also confirmed in September 2021 that 100% rates relief will continue for their aviation sector for the whole of this financial year, putting airports outside of Scotland at a continued competitive disadvantage.

### ***CCFF repayment terms***

22. We are seeking a sectoral extension to the Government's CCFF scheme, specifically a longer timeframe to repay terms until passenger numbers sufficiently recover and with it, income. The Government should also consider a lower credit rating threshold to be more widely of use to airports compared to previously.

### ***Policing and regulatory costs***

23. The Government should look to provide alleviation from regulatory and policing charges whilst passenger numbers remain so low. These simple, practical measures now could help the sector recover more quickly and

help compensate for initial losses to the Treasury, with more substantial tax contributions as the sector recovers.

### ***Air Passenger Duty reform***

24. We welcomed the decision by HM Treasury to consult on reforming aviation tax, following its commitment to review Air Passenger Duty (APD) in January 2020.
25. UK APD is the highest rate of tax on air travel anywhere in the world and on some routes can represent up to 50% of the ticket price. In the pre-Covid era, we as an industry called for this to be looked at in relation to the UK's competitive advantage, in particular for short-haul travel. Now this assessment becomes a necessity, especially as the Government looks to strengthen union connectivity.
26. Firstly, because of the twin challenges of Covid-19 recovery and EU transition, the UK must be able to compete with other countries and their aviation industries, many of whom have received more generous targeted economic support. In order to deliver on Global Britain, it is important that APD is assessed in relation to other countries, and at the very least is removed for the next 12 months to aid recovery.
27. The second issue is one of practicality. Because passenger volumes are currently so low, a 12-month holiday would have very little impact on HM Treasury as contributions are so much lower than previously. And yet, such a cut would be a boost to the travel industry and would help further stimulate demand. This move could see the aviation sector make a stronger recovery than would otherwise be the case, providing higher tax revenues for HM Treasury.

### ***Airspace Modernisation***

28. The UK's airspace forms a critical piece of the UK's national infrastructure. Success of the airspace modernisation programme will only be achieved if airports move forward as a collective. This will require the following:
  - Direct funding support for airports (the airspace change sponsors) to follow on from the funding in FY21/22 for stage 2 of the Airspace

Change Process. This will be critical in the coming financial year to consolidate recent progress and maintain the developing momentum. Without this funding most sponsors will be unable to proceed due to the fragile finances post Covid-19.

- Sufficient funding of the CAA to ensure ample resource is available to support the airspace modernisation programme. This should include funding of the team responsible for coordination and oversight of the modernisation programme and any additional funding necessary for the technical/regulatory teams needed to manage the technical aspects of the Airspace change process itself.
- Ensure funding of the Airspace Change Organising Group (ACOG), responsible for coordination of some of the technical aspects of airspace change to ensure airspace changes are effectively integrated into the programme.

### ***Tax-free shopping changes***

29. We know that every funding stream is important to airports to help aid our recovery. We would therefore like to see the introduction of duty-free stores on arrival. This would bring the UK into line with best practice overseas, such as Australia and Singapore, and meet growing consumer expectations. It would make the UK more competitive with European countries, allowing UK tourists to buy goods on arrival in the UK, rather than in a European airport prior to travel. And, given the impact of Covid-19, this would provide an important revenue stream for airports at no cost to the taxpayer<sup>1</sup>.

30. Purchases at arrival duty-free stores have no impact on domestic sales of products and would in effect be a 'repatriation' of duty-free sales that would normally happen outside the UK (where the passenger starts their journey to the UK). There would therefore be no impact on tax revenue, and no increase in the amount of products entering the market as duty free allowances would remain the same. This move would help airports recovering from Covid-19 and would stimulate jobs in the retail sector, as well as reducing the weight of items on board, reducing carbon emissions.

### **Topic 2: The traffic light system for international travel**

31. We welcomed the simplification of the traffic light system into a 'red' and 'rest of world' system as a welcome step towards recovery. Fully vaccinated passengers now have a larger choice of destinations and we believe can book with more confidence, free also from the need to arrange Pre-Departure Tests before coming back into the UK.
32. We have consistently advocated for a system that recognises the varying levels of risk and we must not return to the previous traffic light system, which was so damaging to passenger confidence.
33. We have also called on the Government to set out its plan and timeframe for the removal of all remaining travel restrictions.

### **Topic 3: The cost of international travel**

34. We welcomed the news that Day 2 PCR tests will be replaced with quicker and more affordable lateral flow tests, which will allow us to start catching up with our competitors in Europe and the US – where passenger numbers are already approaching pre-pandemic levels.
35. The cost and complexity of testing however continues to remain a barrier to travel, suppressing consumer demand. We must ensure that the cost of any private lateral flow tests remain at their current levels – around £30 (or cheaper) otherwise they will pose an even greater deterrent to travel.
36. We have also suggested to Government that they consider allowing passengers to use free NHS lateral flow tests as part of the international travel regime. This will be a significant step in ending complexity for passengers, reducing travel costs and restoring demand for international travel.

### **Topic 4: Border readiness**

37. As long as there is a need for a system to help public health officials track and trace potential Covid cases and particularly Variants of Concern/Interest, then it should be streamlined and the border sufficiently resourced to provide good service levels for passengers.

38. That streamlining should include the Passenger Locator Form (PLF), which is overcomplicated and for fully vaccinated passengers, removed all together. We do welcome the work however that has been completed to utilise the e-gates to check the PLF.
39. Whilst checks at the border are mandated, Border Force must ensure sufficient resourcing, so passengers do not receive a poor standard of service when returning to the UK. If not dealt with, experience – and reports in the media of – long queues at the border can be a significant barrier to travel as it impacts consumer confidence.

### **Topic 5: Regional and global connectivity**

40. Gatwick currently serves 9 UK destinations (Aberdeen, Belfast, Edinburgh, Glasgow, Guernsey, Inverness, Jersey, Isle of Man and Newquay) and is one of the best-connected of the UK's major airports in terms of catchment area and travel links.
41. We have long called for a cut or change to Air Passenger Duty (APD) for domestic flights as a way of enhancing domestic connectivity as it reduces the price of airfare, and this should be considered as part of HM Treasury's review of APD and a future Regional Air Connectivity Review.
42. Of course, there are those who argue we should be reducing air travel for domestic trips in favour of rail but given the profile of newer-generation aircraft (the A320 neo has demonstrated an 18% reduction in emissions compared to the previous generation of aircraft) there is an argument that we can have more direct flights to the regions and nations without an increase in emissions. This could be a crucial element to support the Government's levelling-up agenda as these additional flights can create jobs and economic growth at both ends of the route.
43. In terms of global connectivity and supporting the Government's Global Britain agenda, facilitating a more coordinated effort for mutual recognition of vaccination status in the short term and accelerating the global vaccination effort in the medium to longer term will naturally lead to the removal of all travel restrictions.

### **Topic 6: Sustainability**

44. Based on careful research and analysis, Gatwick has set out its commitment to becoming net zero before 2040 in our Sustainability programme, known as our Decade of Change. In some ways Gatwick has led the sector, becoming the first airport to be certified as carbon neutral in London and the first to receive Zero Waste to Landfill accreditation. We are also playing our part in the sector's wider net zero transition in line with the Sustainable Aviation decarbonisation roadmap.
45. We recently responded to the Government's Jet Zero Consultation and set out our views on how we can decarbonise air travel in a way that still allows for sustainable growth of aviation, whilst accelerating technological innovation and the efficiency drive of the sector. Attracting investment in the development of Sustainable Aviation Fuels and zero emission engine technology will be key to this.
46. Production of Sustainable Aviation Fuels is a tremendous opportunity for the UK to build a truly world-leading industrial sector, creating jobs and opportunities and showing real leadership on the world stage, whilst also supporting the UK on the path to net zero emissions.
47. There is a pressing need to make finance available for first-of-a-kind projects (including SAF) through the UK Infrastructure Bank. Support in the form of equity, debt or loan guarantees has been demonstrated to stimulate private sector investment, most notably in the US.
48. The UK SAF framework should include the development of a UK clearing house. We appreciate the Government's support and recognition of the barriers to market entry for SAF and that it will set up a SAF clearing house to enable the early-stage testing of new SAF. The £3m investment announcement in 2020 is for one year and the Government needs to ensure the longevity of a testing programme to truly realise the SAF ambition. Recognising the importance of the right policy measures and investment in plant construction and R&D; a clearing house is a critical piece of the jigsaw to expedite a UK SAF industry.

49. The aerospace sector also has a strong partnership with the Government through the Aerospace Technology Institute (ATI). The ATI will play a significant role in furthering the progress towards zero emission flight – the key to the longer term decarbonisation of the sector – and the Government should reiterate its support for the ATI by committing an investment of £3.8 billion through to 2030. The ATI's FlyZero must be continued beyond its initial one-year plan, in order to build on the work already done and harness the momentum of significant R&D investment, as well as other projects funded through the ATI, such as GKN's H2GEAR and ZeroAvia's HyFlyer.
50. Finally, Air Passenger Duty (APD) could be an effective tool to help finance the decarbonisation of the sector. As a country, we should consider ringfencing APD for Government investment in Sustainable Aviation Fuels and electric aircraft development.

## **Conclusion**

51. Support for the aviation sector, whether financial or regulatory, is not just crucial for Gatwick's future. Any assistance given to the airport helps support the national recovery and that of the South East regional economy. At Gatwick, the scarring effect of job losses has been felt particularly in our community, where the airport acts as an 'economic anchor' within the region.
52. Indeed, the Centre for Cities thinktank has identified Crawley as the place in Britain at highest risk of widespread job losses amid the Covid-19 crisis. It reported that more than 53,000 jobs are classed as vulnerable and very vulnerable in Crawley, of about 94,000 in the area<sup>2</sup>. We believe that there is a very strong case to extend support for aviation, without which severe and long-term unemployment in particular pockets of the country will remain for years to come.
53. Rather than levelling-up, pockets of high unemployment could see areas around airports move backwards. Help provided to the aviation sector would help protect jobs and stimulate job creation in the short to medium term as we Build Back Better.

54. We support the submissions made by the Confederation of British Industry (CBI) and the Airport Operators Association (AOA) to this inquiry.

**October 2021**

## **Endnotes**

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<sup>1</sup> See Gatwick Airport's response to the HM Treasury consultation on the potential approach to duty-and tax-free goods arising from the UK's new relationship with the EU, May 2020.

<sup>2</sup> Kathrin Enenkel, Centre for Cities, "What does the Covid-19 crisis mean for the economies of British cities and large towns?", April 2020, <https://www.centreforcities.org/blog/what-does-the-covid-19-crisis-mean-for-the-economies-of-british-cities-and-large-towns/>