

Airport Operators Association submission to Treasury Select Committee call for evidence on the Government's Coronavirus Financial Package

Introduction:

1. This response is submitted on behalf of the Airport Operators Association (AOA), the trade association representing the interests of more than 50 UK airports. The AOA is the principal body the UK Government, Parliamentarians and regulatory authorities consult with on airport and related aviation issues.
2. Aviation contributes more than £92bn to the economy, supports a million jobs and provides more than £8 billion in tax revenues to the Exchequer. It is important to emphasise that it is aviation that provides essential connectivity for exporters, inward investors and other businesses, including tourism. 40% of the UK's non-EU trade by value travels by air, predominantly in the belly-hold of passenger planes. Nearly three-quarters of inbound visitors arrive by air, accounting for more than 80% of all inbound visitors' spending. While in the wider aviation and aerospace sector, more than a million people are employed (including those in the tourism sector who rely on aviation bringing visitors), airports and ground services employ an estimated 165,000 people.
3. The AOA welcomed the Chancellor's unambiguous statement on 17th March 2020 of support for UK businesses and the announced measures, such as the unlimited loans to support businesses manage cashflows. We also welcomed the announcement of the Government's intention to put together a package of support measures for the UK aviation industry and further support on 20th March 2020 relating to employment retention scheme, and deferral of VAT payments.
4. However, airports are at the forefront of the impacts of COVID-19, as domestic and international air travel has all but come to a halt. Airports are expecting up to 95% fewer passengers than normal this week, continuing the steep decline of the past few days and weeks. Following the Chancellor's commitment to an aviation support package on 17th March, airports have worked hard with the Department for Transport (DfT) to set out their needs and held off taking further drastic steps pending the promised Government support.
5. While Government has been receptive, as of today, the sector still has not heard any detail of the package Government intends to bring forward. As a result, airports now face the prospect of making extremely difficult decisions.
6. The AOA calls for urgent action, via a coordinated and joined-up approach within government departments as airports struggle to operate. In particular, we believe the DfT and HM Treasury must ensure they are linked up with each other, other departments, such as the Department for Business, Energy and Industrial Strategy, as well as their agencies and regulators, such as HMRC and the Civil Aviation Authority.
7. Moreover, it is vital that the support package applies across the devolved nations as well. AOA members in Scotland, Wales and Northern Ireland are concerned about the lack of capacity in some of the devolved administrations to take the necessary measures forward in a timely way.
8. As we await details of the Chancellor's aviation support package, it is important to reiterate that the Chancellor needs to be as bold as he was on some of the measures announced on Tuesday 17th and 20th March 2020. This is to ensure airports can reassure staff and passengers

that they will be there to provide the connectivity the UK needs after the COVID-19 pandemic has receded. However, we are clear that airports will shut down in weeks unless action is taken to support the industry.

The Impact of COVID-19 on the airports and the wider supply chain:

9. On 5 March 2020 the airports/aviation sector suffered the collapse of Europe's largest regional airline, Exeter-based Flybe. The AOA had already made clear to Government its frustration with the lack of progress and engagement from the Government on its planned Regional Air Connectivity Review and APD review, which were announced in January. No terms of reference had been published for either and while the Department for Transport (DfT) had been discussing the Regional Air Connectivity Review in private with the AOA and airports, HM Treasury had not spoken to a single airport representative ahead of the Budget.
10. Following the Budget, the AOA, the Board of Airline Representatives in the UK (BAR-UK) and IATA sent a joint letter to the Prime Minister on 6th March 2020 about the collapse of Flybe, in which COVID-19 was a contributing factor, and how this posed an immediate threat to the rest of the UK (and indeed international) aviation system. Government said it would take action to minimise the economic damage inflicted as a result of this virus – the aviation sector being at the forefront of this impact we called for immediate supporting measures to support the industry. The simplest and most effective measure would have been for the Government to introduce an immediate waiver from Air Passenger Duty for the next six months. This would have helped to support the sector in reaching the busier summer season and see out the effects of the COVID-19 outbreak, while boosting the recovery of the sector in anticipation of demand for air travel returning.
11. Events have however, moved on since 6 March 2020, and now airports and aviation more generally have not only been at the forefront of the impacts of the COVID-19 outbreak, but with travel bans, people choosing to travel less and travel advice from governments across the world, global air traffic has declined steeply.
12. In the UK, we're expecting significantly lower traffic next week than we would normally have – at some airports we could see up to 95% fewer passengers. The UK's airports are critical national infrastructure, fulfilling a vital public service, and employing thousands of people across the UK. Airports have successfully navigated economic and financial crises previously but never a complete decline or sustained halt to air traffic. UK airports need action within days, not weeks, to reassure our staff and passengers. This package of measures needs to include financial support and regulatory alleviations
13. This would sit alongside the immediate and drastic action airports are taking to cut costs, including reductions in rostered working hours, temporary pay cuts, asking staff to take unpaid leave and laying off staff. However, due to the fixed costs of operating airports, the sector will need Government support in the absence of income from air traffic to prevent airports shutting down in the coming weeks. Airports have put off some of the more drastic steps, pending clarity on the Government's support package. In the absence of further detail, it is likely airports will announce such action in the coming days. Already, airports including Edinburgh, Manchester and Gatwick have announced (temporary) job losses and reduced pay, including for the most senior executives.
14. The whole of the aviation sector faces pressures as a result of declining passenger traffic. This decline in demand directly affects airlines but the knock-on financial impact affects all actors

in the aviation system, including airports, ground-handling agents, air navigation service providers, airport retailers and airport hospitality providers, and the wider aviation industry supply chain. The wage bill is the main area of concern and a number of such support and ancillary businesses have already started to lay off hundreds if not thousands of staff, which will be difficult to upscale quickly once the crisis is over.

AOA members' main urgent asks

15. The AOA has written and spoken to Government on numerous occasions to underline the urgency faced by airports and set out in detail the necessary measures and asks of Government. Below is an overview of our main requests, but it is important to bear in mind that schemes need to meet the differing needs of the aviation industry, which vary between not only the different sizes of airports but also the types of operations they support.

- a. **Financial alleviation:** we need Government to set out the details for getting liquidity into businesses, which the Chancellor outlined on 17 March 2020, and require banks and bondholders to temporarily not enforce financial performance-based banking covenants.
- b. **Regulatory alleviation:**
 - i. The industry needs the Government to defer upcoming deadlines that have cost implications for airports, such as Next Generation Security and airspace modernisation.
 - ii. To ensure airports can downscale and then rapidly upscale operations, we would welcome relaxation of mandatory training periods and frequencies as well as working restrictions and a common sense approach to requirements for competency assessments and refresher courses for staff returning to work after a period of absence, for regulated and licensed staff, such as security staff, air traffic controllers and airport fire services.
- c. **Cost alleviation:**
 - i. To support airports in managing cashflow through cost reductions, we would welcome agreement to defer of payment of taxes including: business rates; Corporation tax; VAT; PAYE; pension costs; and Section 106 contributions, as well as relief from CAA charges, Passenger with Reduced Mobility (PRM) costs, infrastructure liabilities and the costs incurred for airport policing.
 - ii. To enable airports to continue to support their staff, some airports in particular may need to seek specific assistance with employment costs. While the employment measures announced by the Chancellor on 20th March were welcome, they have the unintended consequence of incentivising companies to send staff home. This causes problems for an airport business which is required by regulation to have a range of critical staff in-post in order to continue operations. The initial employment scheme could be expanded to cater for these varying staff scenarios.

16. On the regulatory alleviations, the type of measures we have in mind in addition to the help with airport costs at this challenging time should include:

- a. Alleviations on the Airport Access Pass scheme.
- b. Alleviation for non-aviation security level 1 qualified staff to carry out basic security functions (passenger presentation/loading).
- c. Reduction of current explosive trace detection (ETD) and liquid testing ratios.

- d. Extension to regulatory implementation dates for the increase in the proportion of passengers to be scanned through a body scanner.
 - e. Extension on the revalidation of role competences for all Rescue & Fire Fighting staff every six months until after the crisis has abated.
 - f. Temporary reduction in the level of Rescue and Fire Fighting Services cover to two categories below that promulgated for specific aircraft types.
 - g. CAA understanding on Air Traffic Controllers extending their duty periods where they are not fatigued.
 - h. CAA examining what measures can be taken to alleviate pressure on ATCO validations, and whether these can be temporarily extended to prevent some falling into expiry (e.g. due to an inability to travel to simulators for training).
 - i. Airspace modernisation programme: Many airports are now holding off any work on airspace change proposal under the Airspace Modernisation Strategy so a rethink of how that is funded would be welcome.
17. As stated in section 10-13, while the support for airports is vital, no airport can operate without its supply chain which enables airport operations and generates vital non-aeronautical revenues for airports. Therefore, in refining this support package, Government should draw its definition of “aviation” widely to incorporate essential providers such as airline ground handling companies. More broadly, we would also welcome Government’s recognition that airport hospitality operators do not pay business rates individually and can thus not benefit from all of the measures announced by the Chancellor on 17 March 2020.
18. We urge the Committee to press the Government in the strongest possible terms, given the scale of disruption faced, to explain why they have not yet announced how they will support the UK aviation sector, including airports and the vital companies that ensure an airport can operate such as ground handling agents, air traffic controllers and airport retailers.

Further information

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