

Transport Planning Society

TPS response on the aviation framework consultation

Background

1 The Transport Planning Society (TPS) is setting out its views on the framework for policy, and thus has no position in relation to the level and location of demand, and thus on the location and level of capacity required. The key issue therefore is whether the draft framework allows these issues of demand and capacity to be addressed in a rational manner.

2 TPS has previously set out its views on this subject as follows:

- There is need for a clear policy for aviation within a long distance travel/gateway policy framework, not in isolation.
- Surface access issues (local and national) are crucial and need to be considered in relation to a long distance travel framework for the UK, Europe, and beyond.
- It is a subject where there is no consensus view on some of the facts and this needs to be facilitated by Government.
- The evidence base is obscured by powerful lobbying and the Government's role should be to set out the facts clearly.
- Environmental issues are very important, particularly at Heathrow, which has a far worse noise problem than any other airport in UK or elsewhere in Europe.

Only this final point is dealt with in the draft framework, in particular in para 4.5.

TPS members' views

3 In terms of increasing revenue for transport nationally, increasing the scope and level of aviation charges, together with road user charging, has been first or second priority in our survey for the last 3 years.

4 This year we asked a specific question on the aviation framework. Preliminary results (about 85% of expected respondents) are given below the options.

Aviation policy is becoming a major focus for Government. In this context, which of the following is closest to your view:

South East airports are reaching capacity and must be expanded

(28%)

Airport investment should focus in the regions to support growth there and not in the South East.

(30%)

If air travel were taxed at the same rate as other goods, or to fully reflect its environmental impacts, demand would fall and new capacity would not be needed.

(42%)

Comments on the draft framework

5 The “Call for Evidence” in the draft framework appears to have been overtaken by the Davies Commission, and we would like the Government to make it clear that the Commission will not have a lesser remit in terms of the evidence to be submitted. For example, we would like it confirmed that the Commission will examine the level of demand for both “hub” business traffic and how changes in demand for leisure demand determines the space for such travel. Leisure is 75% of aviation users (Source: CAA 2011 passenger survey).

6 We do not see in the draft an adequate understanding of how a long distance travel framework might influence demand for air travel. We recognise that aviation has a special role in providing international gateways, but this must also distinguish between European and longer distance destinations. This is particularly important in relating policies for High Speed rail (not just HS2) and understanding its potential role in the UK and for European travel.

7 We consider that consultation by fixed questions generally leads to bias and should not be used without independent assessment.

8 There is a need for a scrupulous approach to evidence and analysis, some key areas are as follows:

- The majority of aviation travel is for leisure purposes
- The air tourism deficit is a serious matter and must be objectively considered
- There is a significant negative impact of air freight on domestic production (for example agriculture in UK and Europe)
- Account must be taken of the lost tax revenue from the particular VAT position of air travel.

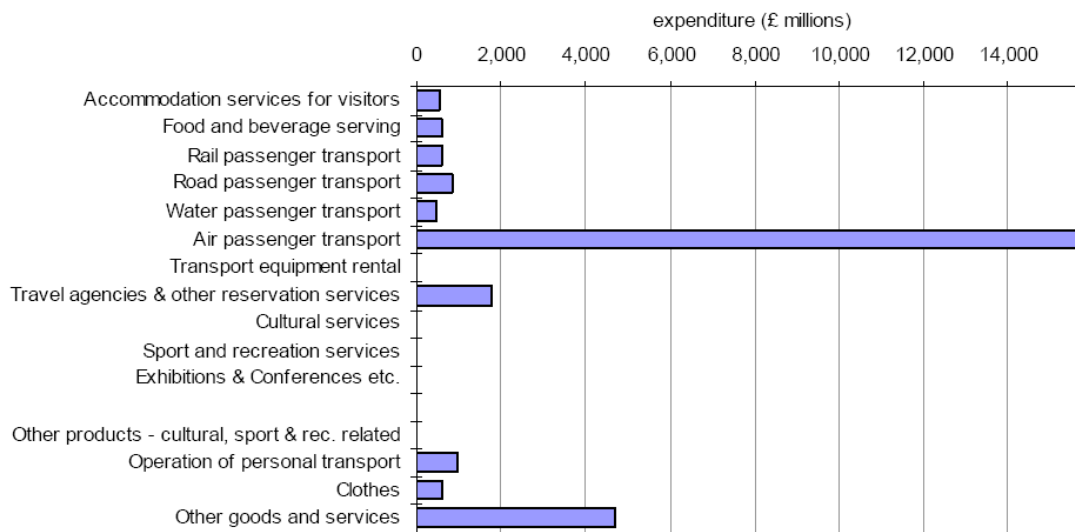
This is not always the case in the draft. An example is the conclusion on the tourism deficit in para 2.9. This appears to state that high street spending is boosted by £27 billion a year as a result of people flying abroad. This is simply not correct. Apart from the fact two different references are used in the same paragraph the £27 billion includes the cost of the air fares, which are the majority - £15.9 billion. This is clear from the actual ONS source for this figure (*The Economic Importance of Tourism. The UK-TSA for 2008*). It includes spending on clothes and other items, and, as one would expect, people actually spend more abroad than before they go.

9 There is a second problem with this, in that about 30% of the cost of flights is the fuel, and nowadays the UK is a net importer so this really should not be counted as a balance against foreign spending. Equally, the payments for air fares to foreign companies via travel agents or brokers (specifically shown in the data) should not be counted. This of course should be balanced by payments from foreign tourists to UK airlines.

10 The conclusion of the draft framework, that the issue is complex is correct. The conclusion that it is probably beneficial and therefore not going to be considered further is not correct and is a serious failing. No sensible framework should proceed without fully considering this issue and

making all the facts clear to people reading the document. For completeness, we reproduce the table from the reference referred to in the draft framework, but not shown.

Figure 3.4 **Domestic outbound tourism expenditure in the UK by product 2008**



Sources: International Passenger Survey 2008, Morgan Stanley survey of airport spend 2005, Household Final Consumption Expenditure 2005-2008

11 In this context, it is important to distinguish between the aviation industry (which builds aeroplanes), and the air travel industry. Within air travel it is also important to distinguish between business travel and leisure travel. The draft framework seems to conflate these and confuses rather than clarifies the issue.

Unanswered questions

12 There are several operational and technical issues which also need to be considered further, and we presume will be a key part of the Davies Commission. For example:

- Is the hub and spoke approach still appropriate as air travel has grown (is the old US model outdated)?
- If hubs are needed, can there be more than one in the UK? How does this relate to regional growth?
- If a European level hub is needed, is it likely that a UK SE airport could fulfil this role?
- If a hub is critical for city growth (as said in the draft framework), why should it be located in the SE?
- How can we better measure the real costs of the nuisance and damage caused by aviation. This includes the use of noise contours and the Heathrow issue – the problem is very plain in the draft framework.
- Why is air travel (a facilitating good) seen as crucial to economic growth in preference to more direct ways to facilitate growth?
- What are the tax losses from the current taxation framework, and how does this inhibit economic growth?

- Do transfer passengers support a wider range of routes at hubs or do they impose more costs than benefits?

Way forward

13 Our conclusions on the draft framework are that it fails to clarify the issues or provide a road map for the future. However, there are some general points to be made about the next steps in the essential process of developing an aviation framework, and then a strategy.

- We support an independent review, but it must have a full remit.
- This remit must include the consideration of surface access, and the associated environmental problems, the Heathrow area is again a stand out problem in this regard.
- We would support the approach of fully inclusive multi-interest meetings.
- We think the Government should identify if there is a need for any further evidence or analysis, and how to ensure this has the confidence of the public and not just the aviation industry.

14 We also consider that the framework should address the issue of Air Passenger Duty (APD). This is criticised by the air travel industry, but is at least easy to understand and simple to collect. It does have the perverse effect of making flights with fewer passengers, and empty seats, pay less tax.

15 The current position is, however, distorting both passenger and freight markets, and thus has negative effects on the wider economy. Replacing APD with a charge per plane, related to maximum permitted take-off weight (a known figure for every aircraft: MPTOW) plus existing APD bands, would be a simple improvement and take into account air freight. However, we would wish to see a proper review of the many possibilities for bringing air travel into a financial regime which addresses these imbalances.

16 Among these we include the assessment of:

- The lost tax revenue caused by the beneficial VAT position of air fares.
- How greater taxation of air travel could benefit the economy, for example by reducing business taxes elsewhere.
- The benefits of removing distortions caused by the undervaluing of environmental damage.
- The impact of a noise charge imposed on flights in relation to the number of people affected.
- The impact of a Congestion Charge to reflect the stress caused on air and surface transport systems.

The latter two would have important regional effects in making airports outside the South East more attractive and allowing the market to create a wider range of services from elsewhere in the UK. This might help to address the question of whether a single UK airport hub is the most efficient way forward.