

Transport Planning Society

TPS response to the Davies Commission on long term proposals

Background

1 The Transport Planning Society (TPS) is setting out its views on long term proposals, but these relate to the creation of a proper framework for aviation investment and management. This should of course be related to an overall strategy for long distance transport, but there is no clear Government statement on this subject at present. Thus TPS is not supporting a particular level and location of demand, and thus a particular location and level of capacity which might be required. Our key point is that such basic inputs to the planning process cannot be made while aviation does not pay its external costs generally, and in particular in relation to carbon. In this context other domestic long distance modes, including coach, rail and car, pay fuel duty (although it is lower for rail). Aviation pays none, although this is claimed to be the result of the Chicago Convention. Air passenger duty in part compensates for this – suggestions for its removal in this context are therefore strongly opposed. However it could be reformed and extended. The key issue therefore is whether the Commission will be able to address these issues of demand in a rational manner before moving to specific competing, and often high profile, claims for major infrastructure investment .

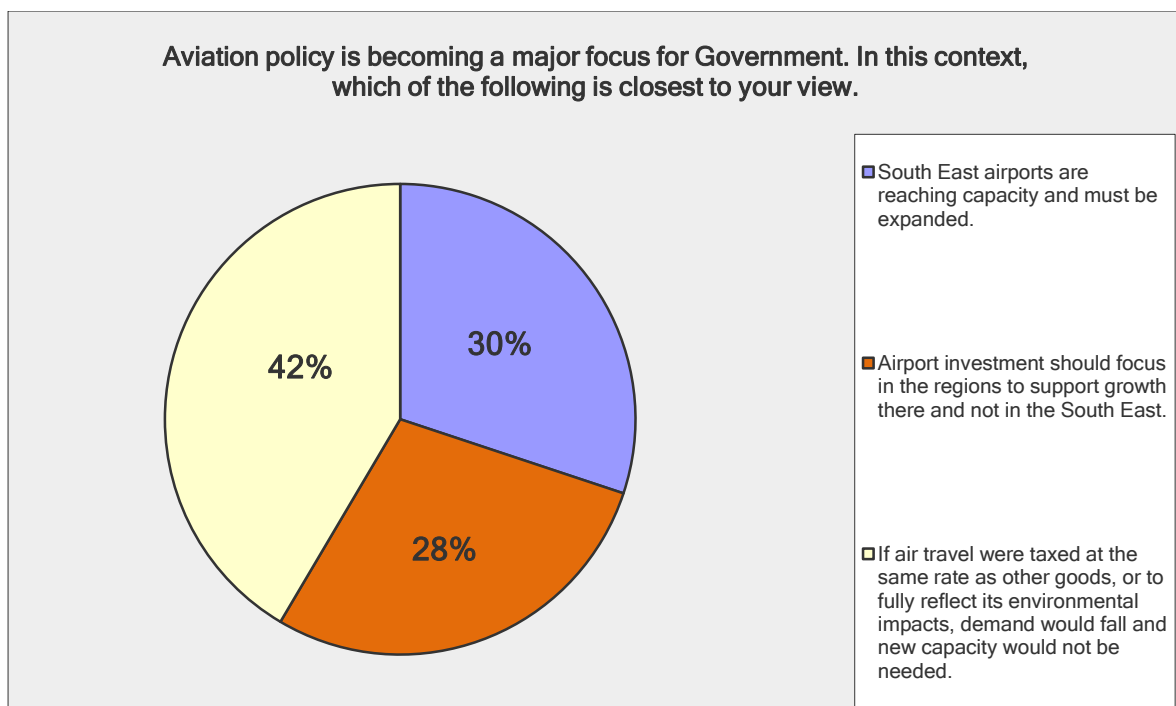
2 TPS has previously set out its views on this subject as follows:

- 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.

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 annual member survey for the last 3 years. These are normally undertaken in September/October each year.

4 Last year we asked a specific question on the aviation framework which informed our response to DfT. Results are set out below.



Source: TPS Member Survey 2012, final results

Comments on the long term approach required

5 It seems to be assumed that all major proposals must be for new capacity. We are neutral on this point until the effects of air travel meeting its true cost is reflected in overall demand. 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 not see in Government policy to date 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 also wish to make the point that on rail and air transport issues 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 scrupulous approach to evidence and analysis, some key areas are as follows:

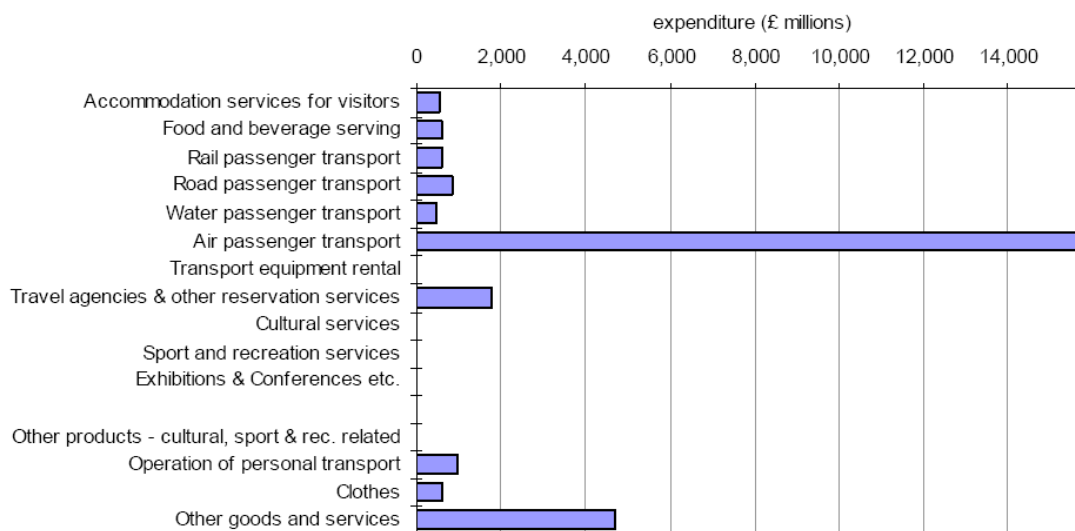
- The majority of aviation travel is for leisure purposes
- The air tourism deficit is a serious matter and must be objectively considered
- There is a significant negative impact of air freight on domestic production (for example agriculture in UK and Europe)
- Account must be taken of the lost tax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

This is not always the case. An example is the Government and industry’s view on the tourism deficit. It is said that high street spending is boosted as a result of people flying abroad – by £27billion a year in para 2.9 of the Government Framework Consultation. This is simply not correct. Apart from the fact two different references are used in the same paragraph the £27billion includes the cost of the air fares, which are the majority - £15.9billion. 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 on such items 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 in that document.

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 published documentation including last year’s 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?
- Why is surface access by sustainable modes not a sufficient priority, indeed a condition, of airport expansion?

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 must take into account air freight. At one point the Government appeared close to making such a reform. 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 future Congestion Charge on 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.

17 Overall there appears to have been little thought so far on how to address these problems and we consider that it is sound economics to do so. Only then can sensible, cost effective improvements to infrastructure be planned and executed.

18 We hope that the Davies Commission will take such an approach, and would be happy to help in whatever way we can, including engaging with the transport planning profession in a less adversarial manner than is usually the case with the proponents of different “magic bullet” solutions.

19th July 2013