

# London Chamber of Commerce and Industry Response

## Airports Commission Discussion Paper: *“Aviation Connectivity and the Economy”*

19<sup>th</sup> April 2013

### Introduction

1. The London Chamber of Commerce and Industry (LCCI) is the capital's largest and most representative business organisation with over 2,600 member companies from across Greater London. LCCI membership ranges from small and medium enterprises through to multi-national corporates. LCCI member companies operate within a mix of sectors, across the 33 London boroughs; genuinely reflecting the broad London business spectrum.
2. As the voice of London business we seek to promote and enhance the interests of the capital's business community through representations to the Mayor and the GLA, central Government, Parliament and the media as well as relevant international audiences. Through member surveys and commissioning research, LCCI seeks to inform, drive and shape the public debate on key business issues.
3. Transport connectivity continually ranks within the top two main issues for our membership in LCCI surveys. LCCI believes adequately resourced, resilient transport infrastructure is a central requirement to guarantee sustainable economic growth in London. The Government must ensure that aviation policy supports the conditions for the UK to thrive. That means having the right connectivity, adequate capacity and appropriate cost structures.
4. Air transport connectivity for businesspeople is about the journey from A to B. They want to make their journey in the most convenient and time effective way. A to B is not airport to airport, but business to business. As well as the importance of daily, direct flights to relevant business locations, surface access connections to airports and visa requirements are all inclusive of the value placed on air transport connectivity. **If the UK does not provide the right air transport connectivity businesses will decide to locate in other EU cities.**
5. LCCI has a major international focus in our work; being an accredited export documentation provider, the LCCI has long been involved in export activity. Furthermore, trade promotion and trade facilitation services form a key part of our annual work programme. **We organise various trade missions every year - all departing from major London airports.**
6. As the leading UK chamber for overseas Trade Missions, LCCI will testify that “Heathrow” is an important international brand for Britain. It is instantly recognisable and people immediately make the mental link; ‘Heathrow-London-UK’. **The connectivity that Heathrow provides is of critical importance to London and of immense benefit to the UK.**
7. Also of note to business, are the welcome additional routes established by the newly independent Gatwick Airport to China, Russia, Vietnam and Indonesia. These are services to important markets that London trades with, and will increasingly do business within, over the coming decades. **LCCI notes Gatwick plans to develop further long-haul routes to other key south-east Asian economies. Our members look forward to these commencing.**

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8. Limited capacity within the London airports system is already shaping perceptions and with that, slowly damaging the international reputation of London as a competitive business centre. If this situation continues that may well impact upon the ability of some London businesses to compete globally. There is an onus on Government to address this matter.
9. The current Transport Secretary accurately identified the problem last year stating,  
*“since the 1960s Britain has failed to keep pace with our international competitors in addressing long term aviation capacity and connectivity needs. Germany, France and the Netherlands have all grown their capacity more extensively than the UK over the years, and so are better equipped, now and in the future, to connect with the fast growing markets of emerging economies. The consequences are clear. Our largest airport and only hub airport - Heathrow - is already operating at capacity. Gatwick, the world’s busiest single runway airport, will be full early in the next decade, while spare capacity at Stansted airport is forecast to run out in the early 2030s.”*<sup>1</sup>  
LCCI and our members agree with him. Therefore now is the time for policy action.
10. LCCI canvasses its member companies extensively. A few findings of interest, on airports, from recent surveys:
  - 80% of member companies polled stated the UK needs a hub airport to have the connectivity to trade successfully in international markets<sup>2</sup>
  - 57% of member companies polled expressed support for maintaining Heathrow as the UK Hub airport<sup>3</sup>
  - 40% of member companies polled expressed support for ‘New Hub’ options to be looked at by the Airports Commission<sup>4</sup>

**Do you agree with the assessment we have made of the UK’s current aviation connectivity and to what extent do you consider that the need for additional connectivity may support the argument that additional capacity may be required?**

11. The Department for Transport has done a number of estimates on the forecasting of future demand. From their analysis the national unconstrained forecasts show that if there were no airport capacity constraints, UK air travel demand would rise from 211 million passengers per annum (mppa) in 2010 to 345mppa in 2030 and by 2050 the forecast is for 520mppa.<sup>5</sup>
12. **However, they also conclude that if there are no new runways in future, by 2050 the number of passengers is forecast to be potentially 50mppa, and up to 185mppa lower than it would have been if there were no airport capacity constraints.** There will undoubtedly be many other forecasts but the underlying trend is for growth in aviation travel.

<sup>1</sup> Written Ministerial Statement, [Making sure UK airports and airlines are safe, secure and competitive while reducing their impacts on the environment and communities](#) Department for Transport (September 7<sup>th</sup> 2012)

<sup>2</sup> LCCI Survey in December 2012

<sup>3</sup> LCCI Survey in February 2013

<sup>4</sup> LCCI Survey in February 2013

<sup>5</sup> Department for Transport <http://assets.dft.gov.uk/publications/uk-aviation-forecasts-2011/uk-aviation-forecasts.pdf> (last visited 06/12/12)

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13. **Capacity to deliver connectivity is key.** At present Heathrow Ltd state that their hub airport is at 99.2% capacity. This is in comparison to the other EU hubs: Paris (71% capacity) followed by Frankfurt (66%) and then Amsterdam (62%). It is matter of concern to London business that the UK's hub airport is now at capacity. LCCI acknowledges that Gatwick has capacity outside of peak times and that Stansted has significant spare capacity, however it is notable that carriers – both UK and Foreign – choose to remain focused on securing and maintaining slots at Heathrow.
14. Concerned that capacity constraints will impede London business, LCCI believes that as a temporary solution to securing additional capacity - and with that enhancing London's connectivity - **the Airports Commission should consider increasing the number of night-fights at Heathrow and perhaps introducing (seasonal) mixed-mode as temporary short-term measures to increase capacity at the UK's hub airport.**
15. The key global markets that London will increasingly trade with, over coming decades, are located in south Asia and South America, therefore it is of critical importance that the Airports Commission examines how to secure additional capacity at London airports in the long-term. **LCCI is aware that there is a debate on whether a national hub airport or a network of point-to-point airports will deliver connectivity for the UK in the future.**
16. LCCI believes that London's air connectivity must be sustainable over the long-term. This means having air links that are year-round, not periodic or seasonal. **London needs direct, frequent flights to Asia, South America and Africa as our business people seek to initiate or sustain trade and commerce with these important marketplaces.**
17. Over recent decades the economy of London has grown and prospered by business people mainly using the major airport in the West of London. That is because it has provided the direct and frequent flights they need. They have also been able to access the airport relatively easily. It would appear, from our frequent consultations with our members that this will continue to be the case.

**What kinds of impact do you consider capacity constraints to have on the frequency and number of destinations served by the UK? And, if any, are any particular kinds of routes or destinations likely to be more affected than others?**

18. The Discussion Paper identifies a number of factors that affect a location's connectivity. These include direct links, regularity and reliability of flights, accessibility from the airport to the final location, and the cost. London's competitiveness is reliant on businesspeople having access to direct, daily flights to cities across the world. The Commission should investigate why Britain does not have direct, daily flights to many of the high growth cities across the emerging economies.

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19. Figures 2.1 and 2.2 highlight the real concern of LCCI that the UK is reaching fewer destinations and is not creating enough new flights to emerging markets. For instance, there are 26 emerging market destinations with daily flights from other European hubs that are not served daily by the UK’s hub airport<sup>6</sup>. It is notable that the BRIC markets contribute less than Ireland to export value. There is great enthusiasm in Government to encourage the growth of exports to these markets, but they need the aviation policy to match.
20. Table 2.1 in the Commission’s paper highlights the UK has strong connections to Europe and North America but that rival European cities have better links to Asia, Africa and South America. For instance, China is an emerging economic powerhouse. As stated in point 2.8 there are over a 1,000 more scheduled services to China from Paris, than London. This should be a key area of investigation for the Commission.
21. A report by Frontier Economics last year concluded “more direct flights will not automatically lead to more trade. However, our contention is that the availability of direct flights between two countries is likely to facilitate business dealings and trade”<sup>7</sup>. Businesses need daily, direct connections to these markets. Recent analysis showed that by adding one additional daily flight to each of the eight largest high-growth markets UK trade would increase by as much as £1billion a year<sup>8</sup>. **Direct flights matter to trade, a point enforced by the evidence in this section on emerging markets.**
22. A hub airport makes it possible for airlines to fly direct to more destinations, more frequently. This has been evidenced by numerous reports which this paper will not expand on. It is worth noting that the CAA, the independent industry regulator, has listed major routes that would be most likely to disappear without transfer passengers. They are, in order of vulnerability: Mexico City, Lusaka, Beirut, Halifax, Dar-Es-Salaam, Seattle, Phoenix, Chennai, Bangalore, Tripoli, Riyadh, Accra, Ottawa and Dhaka.<sup>9</sup> These are cities across the world that London should continue to be connected too for the UK’s economic interests.
23. Predictions for increased urbanisation and growing populations across emerging market cities by 2050 will mean that if we do not have the direct links we will not be able to compete with European rivals who have the capacity to create the connectivity to be competitive. If we do not create the connectivity to thrive we are at risk of losing out on superior trading relationships in major emerging market centres with high growth rates, as well as key destinations London already has direct flights too.

**To what extent do you agree with evidence that aviation connectivity supports the UK’s economic growth through facilitating each of (1)-(5)? Are there other channels through which aviation connectivity might facilitate economic growth? What are they, and what evidence is there to support this?**

<sup>6</sup> One hub or None (February 2013) <http://mediacentre.heathrowairport.com/imagelibrary/downloadmedia.ashx?MediaDetailsID=1105&SizeID=-1>

<sup>7</sup> Missing Trade Opportunities – Frontier Economics (November 2012) <http://mediacentre.heathrowairport.com/imagelibrary/downloadmedia.ashx?MediaDetailsID=1104&SizeID=-1>

<sup>8</sup> Trading Places Report – Aviation, CBI (March 2013)

<sup>9</sup> [http://www.caa.co.uk/docs/5/Connecting\\_Passengers\\_at\\_UK\\_Airports.pdf](http://www.caa.co.uk/docs/5/Connecting_Passengers_at_UK_Airports.pdf) table 7-1, p. 25

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24. LCCI primarily views aviation as a means to providing the environment for businesses to create economic growth. London has seven airports, including its hub airport, Heathrow, four significant sized airport's City, Luton, Gatwick and Stansted, and two specialist airports, Southend and Biggin Hill.
25. Aviation is a major UK industry, carrying over 235 million passengers a year and over 2.3 million tons of freight.<sup>10</sup> It is worth noting the UK aviation industry employs 234,000 staff, contributes £18.4 billion to the UK Gross National Product and £7.8 billion in taxation to the Exchequer.<sup>11</sup> Point 3.18 indicates the importance to aviation of business passengers and this should be a focal point for UK policy-makers.
26. There are far wider benefits to the UK economy than the figures above. Firstly, the UK and London are world leaders in knowledge based business services. This sector accounts for over 20% of UK GDP<sup>12</sup> and provides net exports of over £20 billion<sup>13</sup>, making a significant positive contribution to the UK's export economy<sup>14</sup>. **These service based companies are reliant on high quality international air links to an array of markets.**
27. Table 3.1 details the air intensity of some of these sectors including financial services, insurance and computer and information related services. The UK is also world leaders in research and development sectors such as pharmaceuticals and aerospace. **These industries provide the UK with a sizeable supply of high-skilled, well-paid jobs.** Furthermore, the Department for Business, Innovation and Skills is creating industrial strategies for many of these sectors. If Government is backing resource to develop strategies for these sectors to succeed, a coherent aviation policy is essential.
28. In addition to scheduled air services, Business Aviation provides another channel to facilitate connectivity, because by definition it connects where and when scheduled flights do not. The Aviation Policy Framework recognises the contribution of Business Aviation (paragraphs 1.12 and 1.86 to 1.91) and the Commission should therefore also take it into account.
29. Secondly, another element to consider is the importance of air freight. Point 3.8 *trade in goods* and point 3.26 accurately identifies these services as a vital ingredient in the UK economy allowing it to function as an international centre of business and high value manufacturing. The volume of UK freight travelling by air is only about 0.5% of the total however it contributes about 25% of the UK's trade by value<sup>15</sup>.

<sup>10</sup> Department for Transport <http://www.dft.gov.uk/aviation> (last visited 04/05/12)

<sup>11</sup> British Air Transport Association <http://www.bata.uk.com/> (last visited 04/05/12)

<sup>12</sup> ONS Blue Book. GDP in Renting and Business Services (Broad Industrial Groups L and M) had a GDP of £299 billion in 2009, equal to 23.8% of UK GDP

<sup>13</sup> ONS Balance of Payments first release data. All figures in 2010 prices

<sup>14</sup> *Business services in the knowledge economy*, Work Foundation (May 2011)

<sup>15</sup> Memorandum from Freight Transport Association (FOA 21), Transport Select Committee Evidence, *Future of Aviation* (December 2009)

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30. Air freight is of huge importance to the UK economy as it serves industries which are core to the UK's future as a service economy. These include industries mentioned above such as telecoms, financial and business services, as well as sectors where urgency is a key factor such as pharmaceuticals, biotech and food products. It is estimated that the vast majority, 70%, of air freight and parcels is carried in the baggage holds of passenger aircraft<sup>16</sup>. It is important to note that the value of air freight is not just in the value of the component delivered but the value added to the product and the cost of not adding this component to the product in a timely manner.
31. Moreover, tourism is a sizeable market segment for London. Total employment in tourism related industries in 2009 was 3.2 million<sup>17</sup>. As figure 3.5 shows, tourists from emerging markets have a much higher spend per visitor than European and American tourists. A booming middle-class in China and other BRIC countries is a potentially lucrative industry for the UK. For instance, a middle-class tourist base of 5% in China would be roughly equal to the population of the UK, a huge market.
32. Furthermore, **a vibrant aviation hub provides a vibrant business community in the vicinity of that airport.** In London, the M4 corridor is well known as hive of technology and other international businesses to the west of Heathrow. The economics of agglomeration are well known and this short paper will not expand on them further other than to note that air links play a vital role in bringing many international businesses to London, which in turn lays the foundations for clusters to grow in different sectors.
33. LCCI is not convinced of the suggestion in point 3.21 that improvements in technologies will lessen the need to travel. Research conducted by LCCI and other organisations on new ways of working has not supported this suggestion and improvements in technology over recent history have significantly increased the need for businesspeople to travel. **The more business you do overseas, the more you travel internationally.**
34. As the introduction outlines, connectivity is about more than the breadth and depth of flight destinations. As point 3.20 states, visa regimes, languages and market cultures all play a role in the export potential of the UK. LCCI also identifies the importance of surface access and cost structures, such as the high rate of Air Passenger Duty levied against UK outbound passengers as policy issues that the Government can improve for business. **However, capacity increases are essential.**
35. The evidence above highlights how aviation is vital to a number of important economic sectors and consequently UK plc. **Britain's economic success is dependent on high quality international air-links.**

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<sup>16</sup> Memorandum from Freight Transport Association (FOA 21), Transport Select Committee Evidence, *Future of Aviation* (December 2009)

<sup>17</sup> *Tourism*, House of Commons Standard Note, House of Commons Library (January 2013)

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### Conclusion

36. Our objective is simple: to motivate and encourage greater numbers of British businesses to forge trade relationships with new overseas partners and for those partners to see the UK as a receptive market-place. It's vital that the Government develop a coherent strategy that details how the UK will create the capacity and connectivity to make London and the UK the most competitive place to do business. This needs a short and long term solution to our current problems.
37. LCCI regard overseas trade as an important component of the British economy going forward. Without the capacity to create the connectivity the UK will diminish as a global location for businesses whilst European rivals who continue to invest and value aviation prosper. As advocates for business LCCI believes such a course of action would have the potential to be highly damaging to future British economic interests.

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### Annex: LCCI Member Case Studies

"As an International development consultancy that employs about 400 people in the UK, direct international transport connections are very important to our business. A great deal of international travel is required to emerging and developing economies as they form a core part of our work. For instance over the last year I've travelled to Asia, Africa, and also North America on several occasions. Business requires a hub airport in London that provides direct connections to core and emerging markets."

**International Development Consultancy, London**

"I run two businesses, an International Marketing Consultants that takes Western companies to a number of Central and Eastern Europe and brings inward investment from those countries to the UK, and a new start up that brings the Russian State TV and radio Archive to other countries. These two companies combined employ over 20 people.

"These businesses have different travel needs but both require regular connections to international markets. The marketing business needs regular connections from London to a number of eastern European countries such as Poland, Czech Republic, Russia and Hungary. Visitors from those countries need quick and reliable connections, particularly in the early morning and late afternoon/early evening. The start-up is focused on Russia, a key emerging market classed in the BRICS group and requires early morning connections to Moscow and late afternoon/early evening connections to London. These connections are vital for our business and London as a destination for international investors who need quick throughput through the terminals and fast road connections to the centre of London.

**Mr Anthony S Gould International Marketing Consultants (ASG/IMC) & RussiaTeleRadio  
Worldwide Ltd, London**

"We run a Management Training business with a small office of less than ten staff as well as more than fifty expert and highly experienced trainers. International connections are vital to our business for both incoming delegates that join our training courses and for overseas sales missions. New markets are opening up all over the world and we have people joining our courses from more than 50 different countries. The more direct connections, especially to emerging economies, the more attractive London becomes as a destination to do business."

**Mr Ian Mann, Managing Director, London Corporate Training Ltd**