

# Aviation Commission: Appraisal Framework Consultation - Response by VisitBritain

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February 2014

## About VisitBritain

VisitBritain is the national tourism agency, responsible for marketing Britain worldwide and developing Britain's visitor economy. VisitBritain plays a unique role promoting Britain around the world, supporting tourism growth. VisitBritain has been directed by Government to run a £100 million marketing programme across a four year period (2010/11-2014/15) to maximise the tourism benefits of hosting the 2012 Olympic and Paralympic Games.

VisitBritain is also a key part of the GREAT Britain campaign, which brings together the Foreign & Commonwealth Office, Department for Culture, Media and Sport, UK Trade & Investment and the British Council to promote the UK as a GREAT place to visit, invest, trade and study. Together these campaigns aim to attract 4.6 million additional visitors, spending £2.6 billion across the UK, sustaining jobs and supporting economic growth.

On the back of a successful Olympic Games, the Government backed our ambition to attract 40 million visitors a year by 2020 (an increase of 7 million on today). This would deliver £31.7 billion annual spend by overseas visitors annually (at today's prices) and support an additional 200,000 additional jobs across the UK. VisitBritain has developed a clear strategy to deliver on this ambition which was launched by the Secretary of State for Culture, Media and Sport in April 2013.

Tourism in this response refers to all inbound travel to Britain, whether for recreational, leisure or business purposes, encompassing people visiting Britain for a holiday, for business or to visit friends and family.

Given the specialised nature of its remit, VisitBritain's response to the questions is focused on those covering the objective concerning the maximisation of wider economic benefits and the impact on tourism.

## Summary of VisitBritain's response

Our response covers questions 1, 2 and 3 included in the consultation document.

### *The importance of tourism as an economic sector*

1. Tourism is a key economic sector. Overseas tourists to Britain spent £21 billion annually and when combined with domestic tourism this spend represents an annual contribution to the economy worth £126.9 billion - it delivers growth and employment across the UK. Aviation is an essential enabler for inbound tourism. 73% of overseas visitors arrive by air and they account for 84% of all inbound visitor spending.
2. As evidenced by the loss of £425 million due to the Icelandic ash cloud in 2010 and the increase in visits from India following liberalisation in 2004-5, there is a strong connection between aviation connectivity and tourism growth.

*The relevance of tourism when considering the impact of air capacity on connections within the economy:*

3. VisitBritain is pleased that amongst the objectives against which the Phase 2 schemes will be assessed is 'To maximise wider economic benefits and support the competitiveness of the UK economy'. Furthermore, it is right that consideration of the connectivity impacts, notably with respect to tourism, associated with a change in capacity will be included with respect to that objective.
4. It is important that the Department for Transport aviation model, to be used by the Airports Commission as the basis for its demand forecasts, includes robust data with regards to future international tourism demand. VisitBritain has significant expertise in this area, conducting forecasts on the basis of International Passenger Survey data. We would be very happy to work with the Airports Commission to ensure the data in this area is as robust as possible.

***Are the objectives stated in Table 3.1 suitable for assessing the short-listed options? If not please explain why not and suggest any alternations you feel would make them more suitable.***

Yes. It is of vital importance that connectivity impacts associated with tourism are covered by one of the objectives, which will form the basis for the assessment for the options for additional air capacity. As such, we welcome the Commission's designation of the objective "To maximise wider economic benefits and support the competitiveness of the UK economy", which covers the impact on inbound tourism of air capacity choices. Tourism delivers – it is a key economic sector which delivers growth and employment and, furthermore, aviation is an essential enabler for inbound tourism. 73% of overseas visitors arrive by air and they account for 84% of all inbound visitor spending.

*Tourism's Economic Contribution to UK plc.*

Tourism delivers growth. It is a key economic sector and is well placed to deliver the high-value export-led recovery sought by the Government. As such, it is entirely right for the Airports Commission to set out an objective, "To maximise wider economic benefits and support the competitiveness of the UK economy" that includes the consideration of the impact of air capacity changes on the tourism sector, against which the chosen schemes will be judged

Overseas tourists spend £21 billion annually in Britain, this sum, when combined with domestic tourism represents an annual contribution to UK GDP of £126.9 billion and employment for 3.1 million people – around 9% of the UK economy on both measures.<sup>1</sup> It is an important job creator, generating jobs at all skill levels right across Britain. It has proven to be particularly resilient in the recent difficult economic context - a third of the net job increase between 2010 and 2012 was in the tourism economy and every £54,000 spent by overseas visitors to Britain can support a new FTE job.<sup>2</sup>

Furthermore, the contribution of inbound tourism to the UK economy is growing:

- Overseas visitors spent a record £21 billion in the UK in 2013, 13% more than in 2012.<sup>3</sup>
- Britain welcomed 32.8 million overseas visits last year, representing a 6% rise on 2012 and the best year since 2007.
- VisitBritain forecasts that the volume of international tourism to Britain will grow by 2% in 2014 and that spend from international tourism will grow by 4.2%.

In April 2013 the Culture Secretary Maria Miller spoke at the launch of VisitBritain's Tourism Strategy to 2020, which sets an ambition for Britain to attract 40 million visitors a year by 2020.<sup>4</sup> Crucially, this would mean that the

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<sup>1</sup> Deloitte 2013

<sup>2</sup> Deloitte 2013

<sup>3</sup> International Passenger Survey 2013, ONS (Provisional).

UK would earn £31.5 billion a year from inbound tourism. Achieving 40 million visits by 2020 represents a considerable increase compared with current levels and would deliver significant economic benefits:

- £31 billion in overseas visitors spend.
- Support for 200,000 additional jobs across the UK per annum.

Tourism also delivers wider economic benefits, helping to improve the UK's image overseas and in turn enhancing soft-power. Tourism is one of Britain's strongest sectors both for creating soft power in showing the most attractive side of the UK, as well as translating soft power into hard economic benefit for the UK through visitor spend. Britain's image influences not just whether people come for a week's holiday, but whether they choose to invest in British companies or relocate their businesses here.

#### *Aviation & Tourism*

The UK's island geography is the overriding factor in determining how tourists travel to Britain and makes aviation an essential enabler for tourism. 73% of overseas visitors to the UK arrive directly by air. The only tourism markets where non-aviation modes of transport have a significant share are France, Belgium, Germany, Ireland and the Netherlands where ferries or the Channel Tunnel provide viable alternatives to flying (Figure 1 & 2).<sup>5</sup> For most visitors the choice is to fly to Britain, or fly elsewhere.

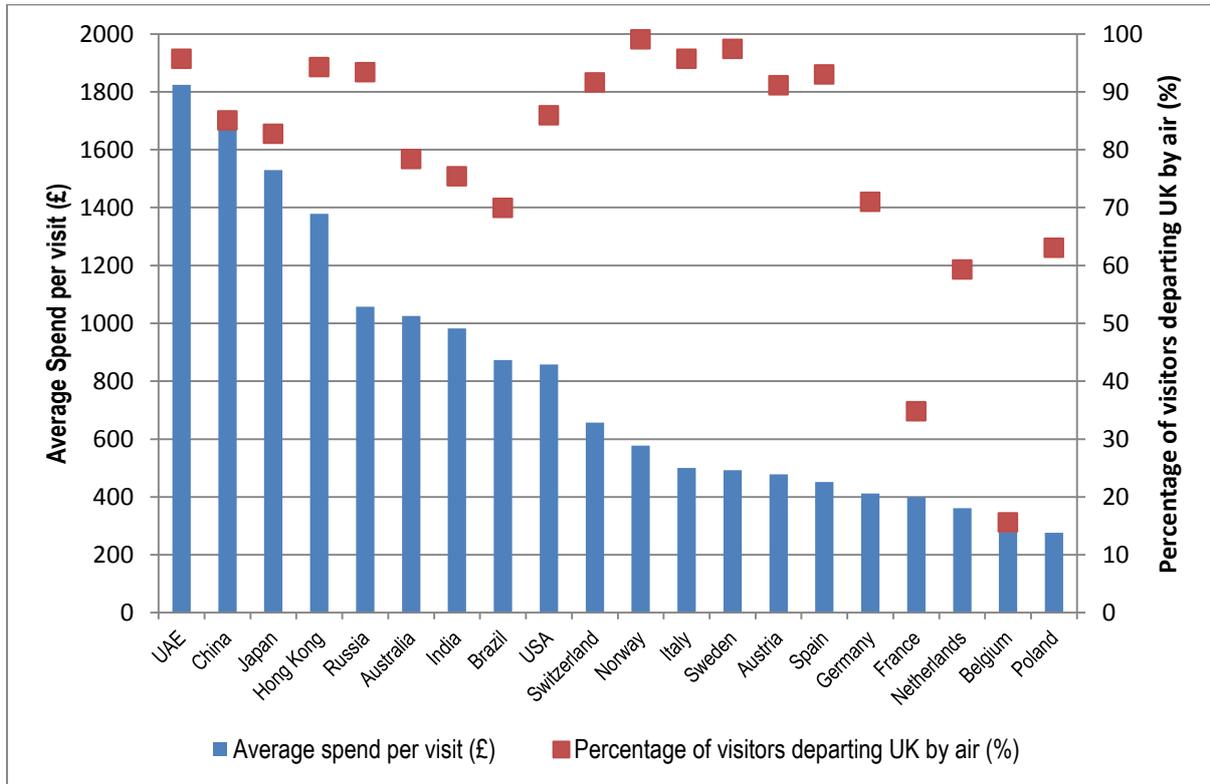
Tourism Economics have found that if connectivity is constrained, only a small proportion of the travellers that are unable to arrive by air are still likely to travel to the UK by ferry or tunnel. Potential mode substitution is higher for short-haul European origin markets, but as Figure 1 demonstrates, visitors from these countries tend to have a much lower spend per visit.

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<sup>4</sup> 'VisitBritain's Tourism Strategy' Maria Miller, 30 April 2013

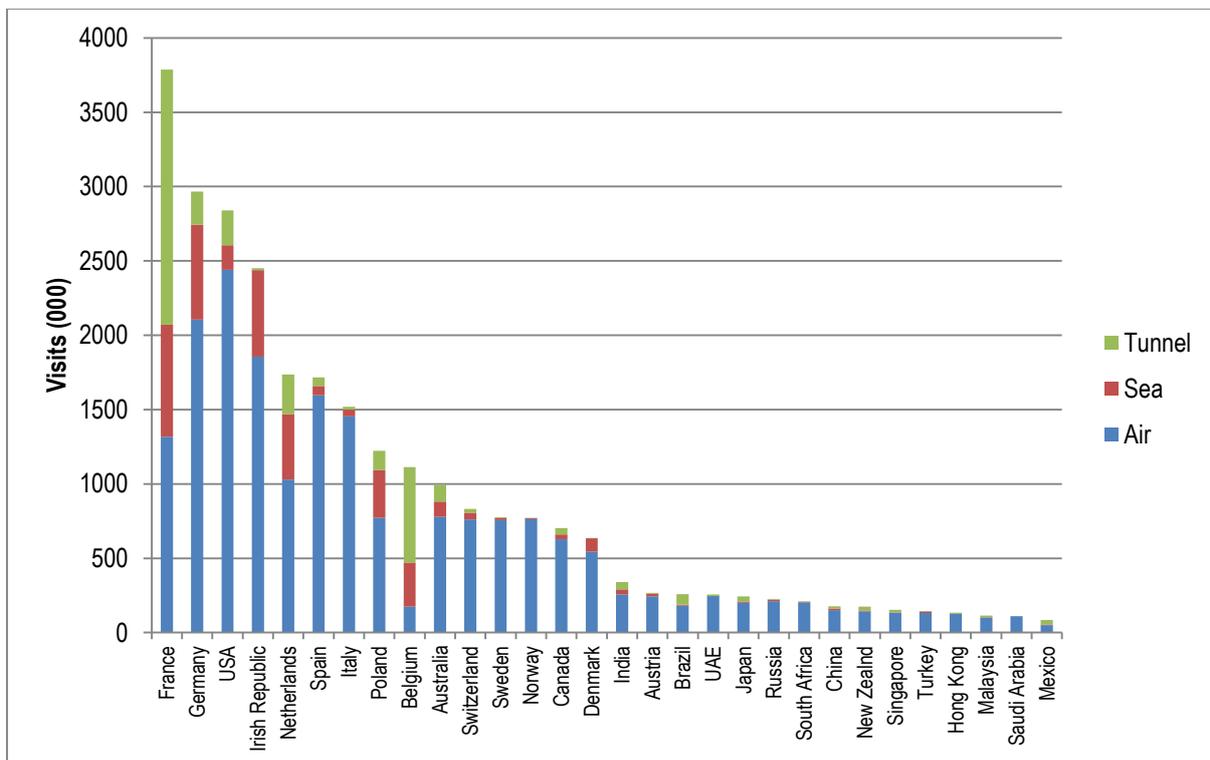
<sup>5</sup> Some long haul-markets have a lower proportion of visitors travelling by air than is perhaps expected. This is because visitors from these destinations often favour multi-country tours, travelling to continental Europe by air and continuing to Britain by ferry or the tunnel. 80% of holiday trips by Australian visitors for example are multi-country tours.

Figure 1: Visitor Spend vs. % Travel to Britain by Air



Source: ONS, 2012

Figure 2: Visit Data by Mode of Transport and Size of Market



Source: ONS, 2012

Visitors arriving by air spend more per night and more per visit on average than those arriving by other modes of transport, accounting for 84% of all inbound visitor spending. As Figure 3 shows, on average visitors arriving by air have a higher spend per night and a substantially higher average spend per visit.

**Figure 3: Visit Data by Mode of Transport**

	Visits	Nights	Spend	Av spend per visit	Av spend per night
<b>Air</b>	73%	81%	84%	£688	£84
<b>Sea</b>	14%	11%	8%	£345	£60
<b>Tunnel</b>	13%	9%	8%	£378	£77

Source: ONS, 2012

**Evidence from the ash-cloud in 2010 and the liberalisation of air services between India and the UK in 2005 suggest there is strong connection between connectivity and tourism.**

The importance of air travel to the UK inbound visitor economy was evident in April 2010 when volcanic ash from Iceland resulted in the closure of airspace for approximately 10 days. VisitBritain assessed the financial impact on the tourism industry as £425 million.

Conversely, the loosening of regulatory constraints governing scheduled air services between the UK and India in late 2004 and mid-2005 shows that increasing connectivity fosters inbound growth.<sup>6</sup>

The memorandum of understanding liberalised a market that had been substantially constrained for a number of years:

- The capacity limit on airlines operating between India and the UK on the routes between Delhi-Mumbai and London Heathrow more than doubled between 2004 and 2006.
- One new destination in the UK (Birmingham) and two in India (Amritsar and Bangalore) increased the number of different city pairs with direct services from five to eight.
- The increase in capacity and competition also resulted in average fares for leisure passengers falling by 17%.<sup>7</sup>

Figure 4 illustrates corresponding increase in inbound visits to the UK over this period:

**Figure 4: Connectivity and Inbound Visits following the India/UK bilateral air agreement**

	Airline seats	Aircraft departures	Inbound visits to UK (000)	Year on Year Increase	Inbound visits rest of world (000) <sup>1</sup>	Year on Year Increase
<b>2004</b>	781,335	2,135	255	-	27,500	-
<b>2005</b>	1,222,791	3,672	272	7%	29,697	8%
<b>2006</b>	1,819,098	6,102	367	41%	32,346	16%

1) Not including India

Source: Capstats and ONS, 2004-2006.

<sup>6</sup> Memorandum of Understanding. Government of India and Government of the United Kingdom of Great Britain and Northern Ireland. New Delhi, 13 April 2005. Available at [http://www.dgca.nic.in/bilateral/MoU\\_UK\\_0405.pdf](http://www.dgca.nic.in/bilateral/MoU_UK_0405.pdf)

<sup>7</sup> UK-India Air Services: A Case Study in Liberalisation. Civil Aviation Authority.

Civil Aviation Authority (CAA) analysis supports this, showing that overall direct business traffic (both directions) between the UK and India increased by 37% while direct overall leisure traffic increased by 48%.<sup>8</sup>

Whilst direct causality is hard to prove, the evidence suggests that the increase in the frequency and range of flights was a strong contributory factor.

## 2) Are there any other objectives that the Commission should consider and if so, what are they?

No. VisitBritain feels that the current objectives are sufficient, as the impact on inbound tourism of changes in capacity will be considered in the framework of the objective “To maximise wider economic benefits and support the competitiveness of the UK economy” (as outlined above).

## 3) Will the appraisal modules described in Appendix A be sufficient to construct business cases and sustainability assessments to enable to Commission to make recommendations and the Government to act on these? If not please explain why not, and provide examples or evidence to support your answer.

Yes, providing the projections of international tourist demand are based on robust figures.

The appraisal module outlined for the Commission phase 2 objective “To maximise wider economic benefits and support the competitiveness of the UK economy” states that connectivity impacts on tourism associated with a change in capacity will be considered, particularly with regards to how these filter through the economy. The principal input to this analysis is outlined in the consultation response to be the Airport Commission’s demand forecasts, which will be produced using a version of the Department for Transport (DfT) aviation model.

It is vital that the figures used for projections of international tourist demand over the coming years are robust, through ensuring they are consistent with relevant statistics from the Office for National Statistics (ONS). VisitBritain has, as shown below, at its disposal considerable data relating to projecting the future progression of international tourist demand and VisitBritain would be very happy to work alongside the Airports Commission in ensuring that the data inputted into the DfT’s aviation model is as accurate as possible.

The consultation document also states that the Commission will undertake further research to a more detailed level including the possible segregation of markets to improve understanding of the impact of schemes on types of users. We would be very happy to discuss further in detail with the Commission as it builds on the work it has already undertaken to improve its understanding of the impact of aviation connectivity on the wider economy, particularly with regards to segmentation analysis or econometric and general equilibrium modelling. A summary of recent research we have commissioned in this area follows below:

### *Existing projections of international tourist demand:*

Research commissioned by VisitBritain shows that by 2030 the UK could earn £78 billion a year in spending (in nominal terms) from inbound visitors if there is sufficient aviation connectivity to meet demand from international visitors. Failure to provide sufficient connectivity means part of this economic benefit will be lost.

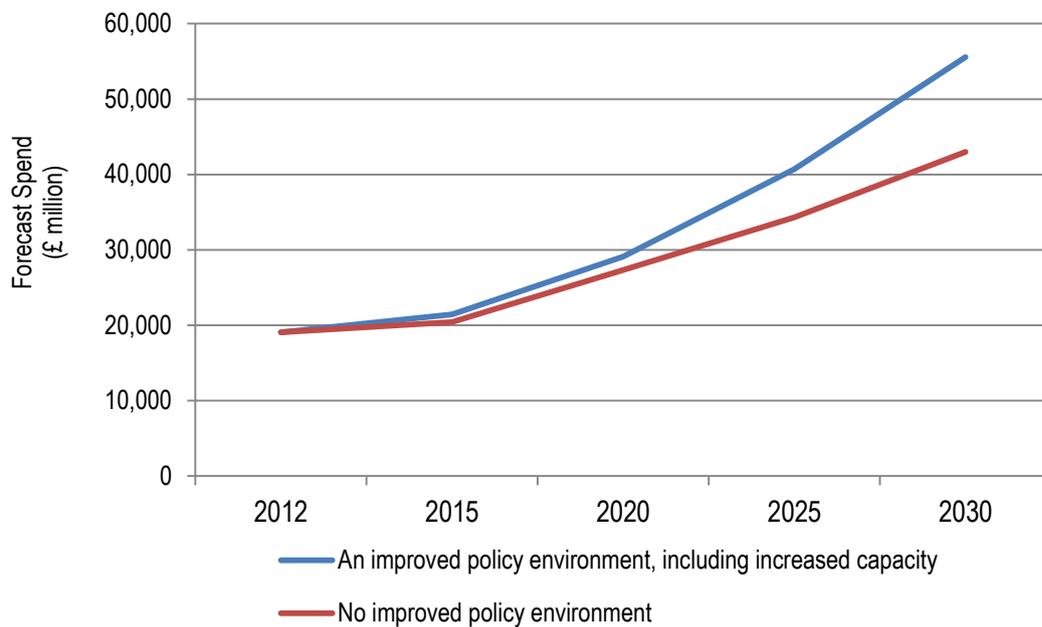
Tourism Economics has modelled future inbound demand for British tourism under a number of different scenarios (see Annex 1 for more details).<sup>9</sup> The first assumes that the policy environment becomes more favourable – with the removal of the Air Passenger Duty (APD) tax and the liberalisation of the UK visa regime. It also assumes increased airport capacity, which would allow the UK to strengthen its connectivity to key and new markets (for example as of February 2014 there are no direct flights to the UK from Indonesia, Chile or Colombia). The second assumes that no policy changes are made.

<sup>8</sup> UK-India Air Services: A Case Study in Liberalisation. Civil Aviation Authority.

<sup>9</sup> International Demand for British Tourism: Alternative Outlooks. Tourism Economics, and Oxford Economics Company, September 2012.

Figure 5 illustrates the extent of the influence that policy decisions exert on visitor spend:

**Figure 5: Projected Real Spend by Inbound Visitors (2012 Prices)**

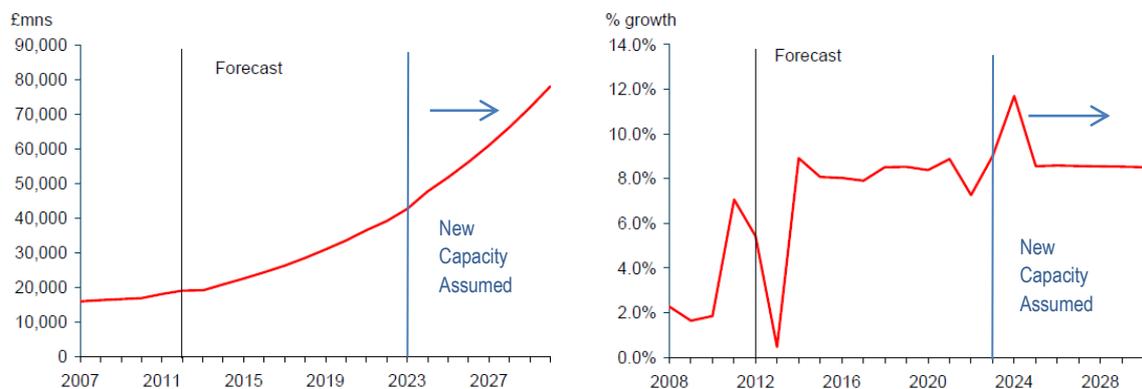


Source: Tourism Economics, 2012

Total visitor spend is forecast to rise to nearly £43 billion by 2030 should policy remain the same (2012 prices). If policy improvements are implemented, this could rise to over £55 billion. This is over £12 billion additional spending, with a resultant potential for more than 315,000 additional jobs, right across the UK. To put this into context, the UK's current level of unemployment stands at 2.34 million.<sup>10</sup>

The modelling assumed that additional runway capacity, and therefore the potential for enhanced connectivity, would come online at the earliest in 2013 and could become fully operational by 2024. As can be seen in Figure 6 below, the forecast suggests this would generate a one off acceleration of growth of visitor spend as connectivity is brought online during 2023, before returning to trend. Growth in spend would then level as no new connectivity is added, continuing at 8%. Growth however would begin from a higher baseline, meaning a greater increase in total spend by visitors.

**Figure 6: Impact on Total Spend, Net and % Growth**



Source: Tourism Economics, 2012

<sup>10</sup> Office of National Statistics Labour Market Statistics, February 2014. <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/february-2014/index.html>

Connectivity comprises more than the seat capacity or number of flights from one location to another, and that the strength of a connection is determined by a number of factors such as relative cost, the availability of flights and the airports accessibility from passenger's origin and destination.

Tourism is a fiercely competitive business and leisure travel is highly discretionary: potential visitors can choose from a host of different destinations. If a destination proves difficult to access, they can simply choose to fly elsewhere. Connectivity therefore needs to be considered in an internationally competitive context.

When gauging the strength of the UK's overall connectivity the importance of destinations served in terms of their value to UK plc. also needs to be considered.

**Further Information:**

Thank you for taking our comments into consideration. We would welcome the opportunity to discuss any points raised in our response further with the commission.

For further information please contact:

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## Annex – Tourism Economics Modelling

Tourism Economics modelled four potential scenarios:

- A1: Best case scenario (good marketing strategy, improved policy)
- A2: Status quo extended scenario (good marketing strategy, current policy)
- B1: Mixed scenario (bad marketing strategy, improved policy)
- B2: Worst case scenario (bad marketing strategy, current policy)

The modelling assumed that additional runway capacity is constructed and comes into operation in 2023, and is fully operational by 2024. No explicit assumptions were made about where the runway capacity would be added but it was presumed likely that it would be in South-East England where airports are under greatest pressure and running at higher utilisation rates.

While improved air capacity, including new runway construction, is not the only policy improvement this modelling accounts for (the others being visa liberalisation and APD tax), it was deemed to be necessary to fully realise the benefits of other policies.

	2011	2012	2015	2020	2025	2030	
<b>A1: An improved policy environment, including increased capacity</b>	<b>Visitors ('000)</b>	<b>30628.6</b>	<b>32480.8</b>	<b>35197.3</b>	<b>42091.0</b>	<b>51576.9</b>	<b>61932.6</b>
	- annual average % growth		6.0%	1.6%	3.6%	4.1%	3.7%
	<b>Total spend (£million)</b>	<b>18091.7</b>	<b>19073.8</b>	<b>22555.9</b>	<b>33563.3</b>	<b>51820.6</b>	<b>78102.3</b>
	- annual average % growth		5.4%	3.4%	8.3%	9.1%	8.6%
<b>A2: No improved policy environment</b>	<b>Visitors ('000)</b>	<b>30628.6</b>	<b>32480.8</b>	<b>33752.3</b>	<b>39832.1</b>	<b>44540.7</b>	<b>49713.2</b>
	- annual average % growth		6.0%	0.8%	3.4%	2.3%	2.2%
	<b>Total spend (£million)</b>	<b>18091.7</b>	<b>19073.8</b>	<b>21477.3</b>	<b>31486.3</b>	<b>43670.8</b>	<b>60387.5</b>
	- annual average % growth		5.4%	2.4%	8.0%	6.8%	6.7%
<b>Difference</b>	<b>Real spend (£million, 2012 price)</b>	<b>18591.6</b>	<b>19073.8</b>	<b>20416.8</b>	<b>27318.3</b>	<b>34318.0</b>	<b>42980.9</b>
	- annual average % growth		2.6%	1.4%	6.0%	4.7%	4.6%
	<b>Visitors ('000)</b>		N/A	1445.0	2258.9	7036.2	12219.5
	- annual average % growth			0.8%	0.3%	1.9%	1.5%
<b>Difference</b>	<b>Total spend (£million)</b>		N/A	1078.6	2077.0	8149.8	17714.8
	- annual average % growth			1.0%	0.3%	2.3%	1.9%
	<b>Real spend (£million, 2012 price)</b>		N/A	1025.4	1802.1	6404.4	12608.6
	- annual average % growth			1.0%	0.3%	2.3%	1.8%