



The Demand and Connectivity Impact of a 12 Month Air Passenger Duty Waiver

FLIGHT	DESTINATION	STATUS	TIME	STATUS	TIME
OU 364	DUBROVNIK	2100	02	DEPARTURES	
JA 366	SKOPJE	2100	03		
OU 707	SARAJEVO	2100	04		
OU 342	SARAJEVO	2100	13		
OU 8660	DUBROVNIK	2105	15		
AZ 660	DUBROVNIK	2105	15		
AF 543	HILAN-HALPENSA	2230	03		
LH 2055	PARIS	0550	02		
LH 2485	FRANKFURT	0650	16		
OU 410	FRANKFURT	0655	12		
SK 9300	FRANKFURT	0655			
OS 7052	VIENNA	0655			



Airlines UK

July 2020



Foreword

A strong UK aviation sector is at the heart of a strong UK economy, and will be a cornerstone of our post-Brexit future as a truly global and connected Britain reaching out to new markets and opportunities.

However, our world class aviation sector – whose success is frequently taken for granted - is facing an unprecedented challenge in the face of the catastrophic impact of the pandemic. Global aviation provides tens of thousands of UK jobs and vital connections which are now under threat. Travel and border restrictions are, only now, starting to loosen.

Despite the events of the past few months, it is apparent from this new report that ministers are well-placed to support the sector through this next, critical phase as we look towards recovery. We know that the UK's sky-high rates of Air Passenger Duty (APD) make it harder for airlines from the UK to introduce and grow important air links, even at the best of times.

These are, clearly, not the best of times. It is going to take aviation several years to recover from this crisis, with emergency support needed now in the early stages of recovery, and at a time where passenger demand is expected to be 70% lower in August 2020 compared to 12 months ago.

The report shows how an emergency 12-month APD suspension would strengthen and hasten the recovery of UK aviation, boosting demand and, by doing so, safeguarding connectivity, jobs and the longer-term prospects of a sector that is a lynchpin of the UK's international competitiveness.

The UK's air connectivity is not just about holidays, as important as they are to families everywhere. New connections bring opportunities for tourism, trade and cultural exchange, as well as much needed investment in regional economies. In my own area we have witnessed the transformational impact of the new direct Manchester-Beijing route, which, since its launch, has driven a huge increase in exports and inward investment.

Our major competitors have stepped in to protect their aviation industries. This report shows why it is time for decisive action now from our own Ministers to suspend APD as an emergency measure to get our airlines back in the skies again.

Sir Graham Brady, MP for Altrincham and Sale West

UK aviation is in crisis. This pandemic has been a human tragedy, whose economic effects are being felt by all. Aviation was hit early and hard as travel and border restrictions were imposed around the world. At the time of publication, only a limited number of 'Travel Corridors' from the UK have been established, allowing a tentative restart to operations.

An aviation crisis is an economic crisis for the UK. The sector supports some 4.5% of GDP, translating into 1.6 million jobs across our nations and regions. Some 40% of the UK's non-EU trade by value is transported by air.

For UK airlines, the future remains uncertain. Latest bookings are down some 80% year on year, with demand picking up only slowly even as borders begin to re-open. As this report shows, over the next 12 months UK airports are expected to handle around 170 million passengers, compared to around 300 million that had been expected, a loss of 40%. Our connectivity is likely to be cut by around 40% to 50% for the remainder of the summer season, without even incorporating reductions in frequencies where routes still exist. By July 2021, the number of long-haul destinations served is still expected to be down by 27%.

Against this depressing backdrop, already thousands of frequently high skilled, well-paid jobs have been lost or are at risk amongst airline, airport and aerospace businesses. Many tens of thousands more jobs would be in danger without a recovery in demand.

But there is hope. UK aviation is resilient, and aviation is an integral part of our economic and social fabric. This next critical period will be vital in determining the kind of sector we have at the end of this crisis, including the number of jobs saved, and connectivity maintained. We know that any growth now due to the initial tranche of travel corridors could be temporary, as we enter a tough winter season. With current levels of bookings, airlines will continue to need relief in the autumn and winter.

We believe a 12-month waiver of the UK's uniquely high levels of APD should form the centrepiece of a support package for aviation. Most major economies do not tax air travel like we do. Those that do levy an equivalent tax (such as Germany, France, Austria and Italy) have much lower rates. UK carriers, therefore, are already at a disadvantage, with demand suppressed still further by the weight of the tax.

This report shows how over a 12-month period an APD waiver could be game-changing, resulting in around 21 million additional passengers travelling through UK airports, equivalent to 12% of baseline demand. By July 2021, this would save some 45% of routes that would otherwise have been lost, as well as potentially 8,000 jobs and some £7 billion in GVA – significantly greater than lost tax revenue.

The UK has a world-class aviation sector, whose status is in grave danger. As this report shows, Ministers are not powerless to act to avoid a crisis turning into a catastrophe. The time to act is now.

Tim Alderslade, Chief Executive, Airlines UK

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Contents

	Page
0. Key Points	1
1. Introduction	3
2. Baseline Passenger Demand, Connectivity and APD Revenue	5
3. The Impact of a 12 Month APD Waiver	12
4. Conclusions	19

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0. Key Points

- 0.1. COVID 19 has led to the near closure of the air transport industry in the UK. All but essential flying has been curtailed and, although the UK Government has now made significant progress towards re-opening and the damaging quarantine restrictions have been lifted for many countries, capacity, demand and connectivity is expected to be significantly reduced for some time to come.
- 0.2. APD is one of the highest, if not the highest, tax of its type in the world. It adds a significant amount to the price of tickets departing from UK airports, which ultimately has the effect of dampening passenger demand and / or limiting the operating revenues that can be achieved by airlines from ticket sales. The temporary removal of APD would potentially stimulate demand for travel and / or enable airlines to temporarily support the commercial viability of routes that might otherwise have to be withdrawn.
- 0.3. The baseline forecast sees passenger demand around 70% down in August 2020 compared to August 2019. The situation improves slowly as demand recovers, travel restrictions are lifted and confidence begins to return to the market. However, by July 2021, demand is still around 18% below 2019 levels. Over the next 12 months UK airports are expected to handle around 170 million passengers compared to around 300 million in the last unaffected 12 months, a loss in passenger demand of over 40%.
- 0.4. Our discussions with airlines and previous experience suggests that the London airports are likely to recover faster than the UK's regional airports. Over the period, the London airports are expected to handle a total of 109 million passengers, compared to 60 million at the UK's regional airports.
- 0.5. The number of destinations served by the UK's airports is likely to be dramatically reduced in the short term. Our modelling suggests that the UK's connectivity is likely to be reduced by around 40% to 50% for the remainder of the summer season. The situation is expected to improve over the winter period and into next summer as the market begins to recover. By July next year, the number of regular destinations served is expected to be down around 12%. It should be remembered that it is also likely that routes are likely to experience frequency reductions and that less regularly served routes will also be lost. The majority of lost connectivity is expected to come from regional airports. In 12 months time around 80% of lost routes will be from the UK regions.
- 0.6. In normal times APD revenue for the Government is around £3.7 billion each year¹. Based on our estimates of baseline passenger demand over the next 12 months, we estimate that APD revenue will fall dramatically to around £2.1 billion. This would, by extension, be the cost to the Government of a 12 month APD waiver.
- 0.7. Initially, an APD waiver would boost passenger demand by around 1.2 million passengers in August or 14% of the expected baseline. This gradually grows over time as the market recovers and more passengers return. By July 2021, demand is estimated to be around 2.7 million passengers higher or 11% of baseline demand. Over the 12 months as a whole, the APD waiver is expected to result in around 21 million additional passengers flying through UK airports or 12% of baseline demand. The largest effect is expected at the London airports, with a total of an additional 13 million passengers over the next 12 months, reflecting the larger markets and more rapid recovery. 7.6 million additional passengers are generated at regional airports.
- 0.8. The analysis suggests that an APD waiver would increase the number of routes served each month by between 5% and 6%. Initially, this means around 34 additional regularly served destinations, growing to around 56 by July next year. An APD waiver will have a particularly strong connectivity effect at regional airports, reflecting the severe effect of the pandemic on regional airport connectivity.

¹ Office for Budget Responsibility 2020. Accessed at <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/air-passenger-duty/>.

- 0.9. The impact on the economy from the damage to the air transport sector will be severe. The sector is a major employer and generates significant GVA, as well as supporting the UK's international economy. However, an APD waiver could reduce this damage, potentially saving 8,000 jobs over the next 12 months and enabling the sector to support an additional £7 billion in GVA. This GVA saving is around 3.3 greater than the expected revenue from APD over the next 12 months.
- 0.10. Overall, an APD waiver has the potential to provide significant support to the air transport sector in the UK, aiding its recovery in the short term and enabling it to rebuild the international connectivity that is so important to the UK's international economy and the economic recovery.

1. Introduction

- 1.1. In July 2020, Airlines UK, the trade body for UK registered airlines, commissioned York Aviation to undertake an initial high level review of the potential demand, connectivity and economic effects that a 12 month Air Passenger Duty (APD) waiver would have in helping the air transport industry to recover from the significant damage caused by the COVID 19 pandemic.
- 1.2. COVID 19 has led to the near closure of the air transport industry in the UK. All but essential flying has been curtailed and, although the UK Government has now made significant progress towards re-opening and the damaging quarantine restrictions have been lifted for many countries, capacity, demand and connectivity is expected to be significantly reduced for some time to come.
- 1.3. APD is one of the highest, if not the highest, tax of its type in the world. It adds a significant amount to the price of tickets departing from UK airports, which ultimately has the effect of dampening passenger demand and / or limiting the operating revenues that can be achieved by airlines from ticket sales (depending on the extent to which APD is passed through to passengers). In the context of the air transport industry's recovery from the effects of COVID 19, the temporary removal of APD would potentially stimulate demand for travel and / or enable airlines to temporarily support the commercial viability of routes that might otherwise have to be withdrawn, thus again enabling more people to fly and maintaining the connectivity that is essential to the UK economy. The current rates of APD are set out in Table 1.1 below for reference.

Table 1.1: Current Rates of Air Passenger Duty

Destination bands	Reduced rate	Standard rate	Higher rate
Band A (destinations up to 2,000 miles from London)	£13	£26	£78
Band B (destinations over 2,000 miles from London)	£80	£176	£528

Source: HMRC.

- 1.4. The different rate bands apply as follows:
 - ➔ Reduced rate - for travel in the lowest class of travel available on the plane for seat pitches less than 1.016 metres (40 inches);
 - ➔ Standard rate - for travel in any other class of travel or where the seat pitch is more than 1.016 metres (40 inches);
 - ➔ Higher rate - for travel in planes of 20 tonnes or more equipped to carry fewer than 19 passengers.
- 1.5. This short report provides an initial high level assessment of the potential impact on demand, connectivity and the economy of a 12 month waiver starting in August 2020. The analysis has drawn upon existing secondary research on passenger behaviours, discussions with airlines as regards market prospects and consideration of a range of published research on the potential demand effects of the pandemic on the air transport market. It should be emphasised that the position set out does not reflect the specific views of any one airline and significant judgement has been exercised by York Aviation in considering how baseline demand and connectivity might evolve over the next 12 months. It should also be recognised that baseline traffic and connectivity over the next 12 months is highly uncertain and there are significant downside risks. In the interests of clarity of message, this report does not seek to reflect the range of this uncertainty. What is presented here is a reasonable 'best estimate' for baseline demand and a corresponding assessment of the impact of an APD waiver.

1.6. The report is structured as follows:

- Section 2 sets out a without intervention baseline for passenger demand, connectivity and APD revenue over the next 12 months;
- Section 3 considers the impact of a 12 month APD waiver in terms of passenger demand, connectivity and the economy;
- Section 4 presents the key conclusions from the analysis.

2. Baseline Passenger Demand, Connectivity and APD Revenue

Introduction

2.1. This section sets out a 'best estimate' for UK air passenger demand and the number of regular² routes served from UK airports over the next 12 months from August 2020 to July 2021 without intervention in terms of an APD waiver. We also set out an estimate of the APD revenue that would be collected in this baseline scenario.

Passenger Demand

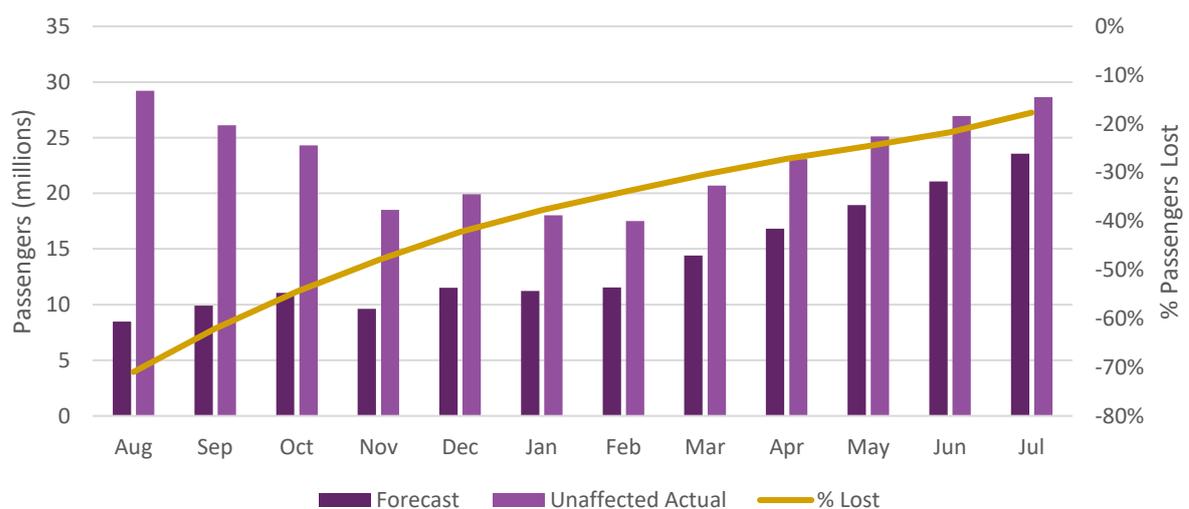
2.2. UK airports and their airline customers are now moving into the recovery phase following the COVID 19 pandemic and the unprecedented travel restrictions that this resulted in. The UK Government has recently published a list of 59 countries which are assessed to be safe to travel to / from and that as a result have been removed from the UK's quarantine list. Flying is now restarting in earnest but is at relatively limited levels in terms of capacity and visibility on the strength of demand is currently limited. It is, however, expected that both capacity and demand will take time to recover.

2.3. Forecasting demand levels over the next 12 months is fraught with difficulty and conventional benchmarks and metrics are of limited value. This assessment has, therefore, focussed on a baseline that has been developed through:

- conversations with a number of key UK airlines around capacity, load factors, demand and yields in different geographic markets;
- examination of forward capacity information from OAG, accepting that this is unlikely to provide significant guidance in current circumstances beyond the immediate term;
- review of commentary from a range of organisations on recovery timescales and scenarios over the 12 months.

2.4. **Figure 2.1** shows the baseline passenger demand forecast by month through to July 2021. This baseline is compared to the last unaffected equivalent month to demonstrate the extent of impact.

Figure 2.1: Baseline Passenger Demand in the Next 12 Months (millions)

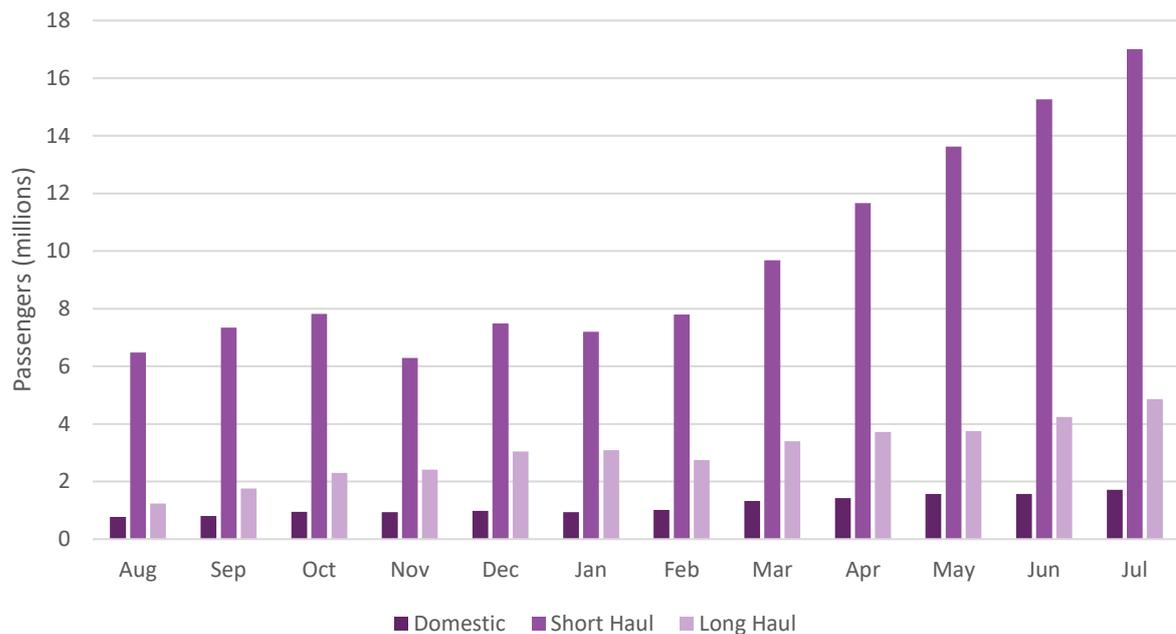


Source: York Aviation.

² Regular routes are defined as those served at least three times per week for long haul services and five times per week for short haul services.

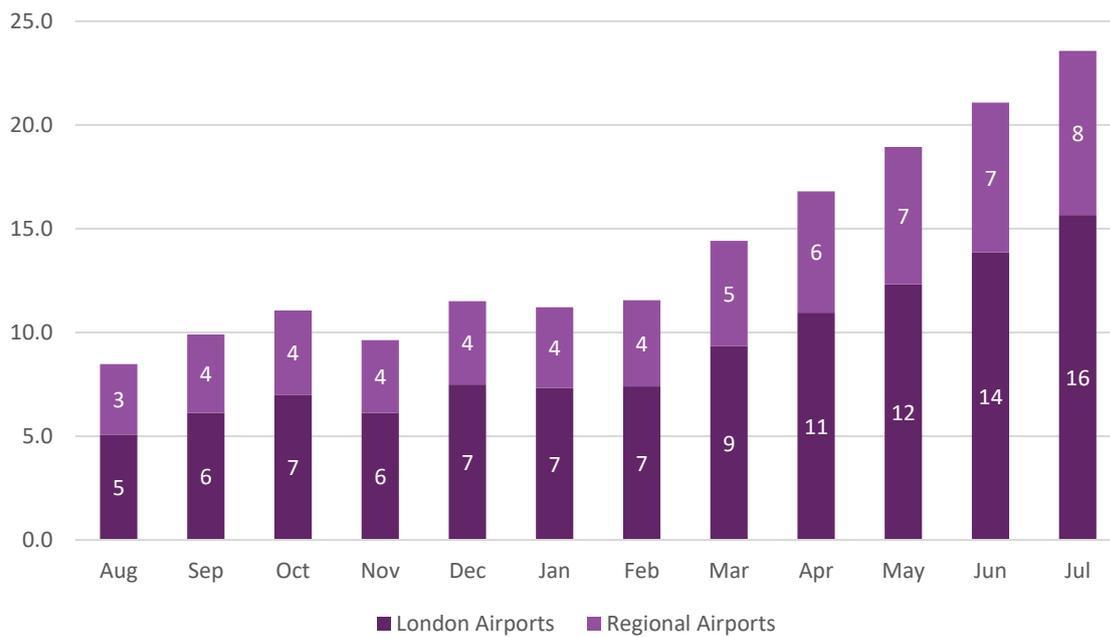
- 2.5. The baseline sees passenger demand around 70% down in August 2020 compared to August 2019. The situation improves slowly as demand recovers, travel restrictions are lifted and confidence begins to return to the market. However, by July 2021, demand is still around 18% below 2019 levels. Over the next 12 months UK airports are expected to handle around 170 million passengers compared to around 300 million in the last unaffected 12 months, a loss in passenger demand of around 40%.
- 2.6. The effect is different in different geographic regions, with domestic and short haul destinations expected to recover more quickly. This is the result of continued travel restrictions in long haul markets, particularly North America, resulting from the continued spread of COVID 19, and views that confidence will return to short haul markets more quickly. **Figure 2.2** shows the baseline forecast by month for domestic, short haul and long haul markets.

Figure 2.2: Baseline Passenger Demand by Geographic Segment



Source: York Aviation.

- 2.7. By July 2021, domestic markets and short haul markets are around 15% below July 2019 levels. Long haul markets remain at around 27% below July 2019 levels, reflecting the longer recovery time expected.
- 2.8. Over the period as a whole, domestic travel is down around 36%, short haul traffic down around 38% and long haul traffic around 46%.
- 2.9. Our discussions with airlines and previous experience suggests that the London airports are likely to recover faster than the UK's regional airports. While continued restrictions in long haul markets may slow this dynamic in the short term, it is likely to appear as the next 12 months progresses. **Figure 2.3** shows the split in baseline passenger demand over the next 12 months between London airports and the UK regional airports. Over the period, the London airports are expected to handle a total of 109 million passengers, compared to 60 million at the UK's regional airports.

Figure 2.3: Baseline Passenger Demand at London Airports and Regional Airports

Source: York Aviation analysis.

Connectivity Baseline

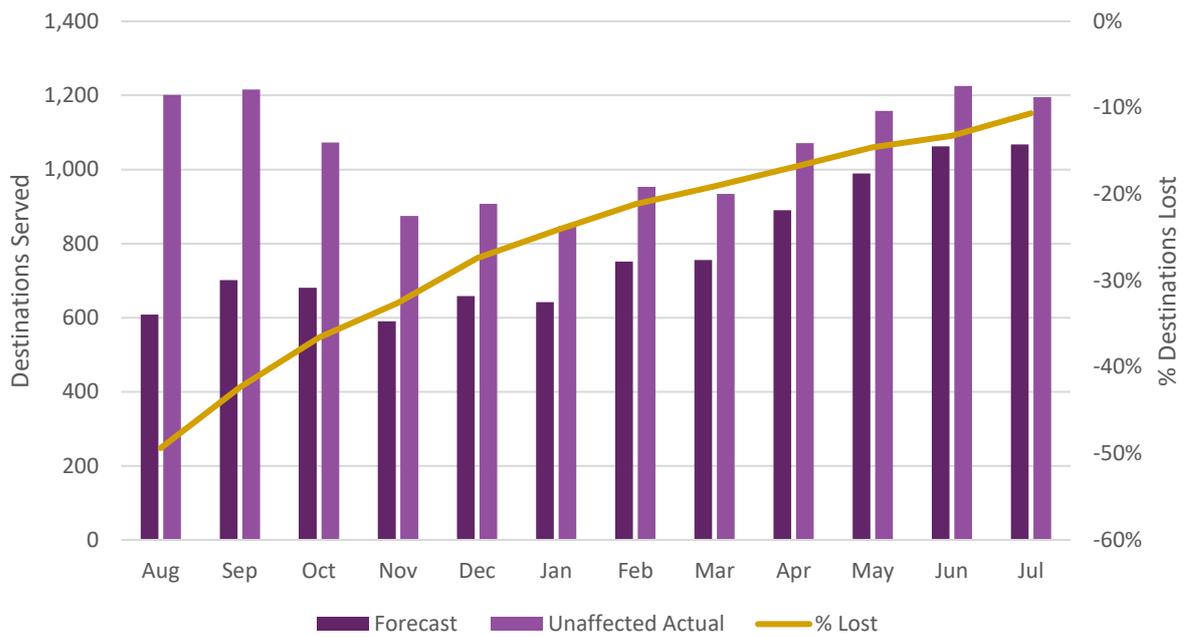
2.10. As with passenger demand, a baseline for UK airports in terms of connectivity has been developed for the next 12 months. This assessment is based on analysing the number of regularly served destinations offered by UK airports in each month over the period.

2.11. The number of destinations served is based on an assessment of the long term relationship between seat capacity offered by airlines and the number of destinations served over the last 10 years in different geographic regions. Simple regression analysis has been used to identify elasticities of destinations served to seat capacity. These have been estimated as follows:

→ Domestic	1.3
→ Western Europe	0.6
→ Eastern Europe	0.8
→ North Africa	0.5
→ Rest of Africa	1.0
→ Middle East	0.6
→ North America	1.3
→ Latin America	0.8
→ Asia	1.8

2.12. It should be recognised that this represents a high level assessment that is reliant on previous patterns. It should therefore be regarded with some caution given current circumstance. However, in our view, it provides a reasonable assessment of magnitude and strength of effect, particularly once more normal market conditions return later in the period. As in relation to passenger demand, the forecast number of destinations served is compared to the last equivalent unaffected month in each case.

Figure 2.4: Baseline Number of Regular Destinations Served by UK Airports

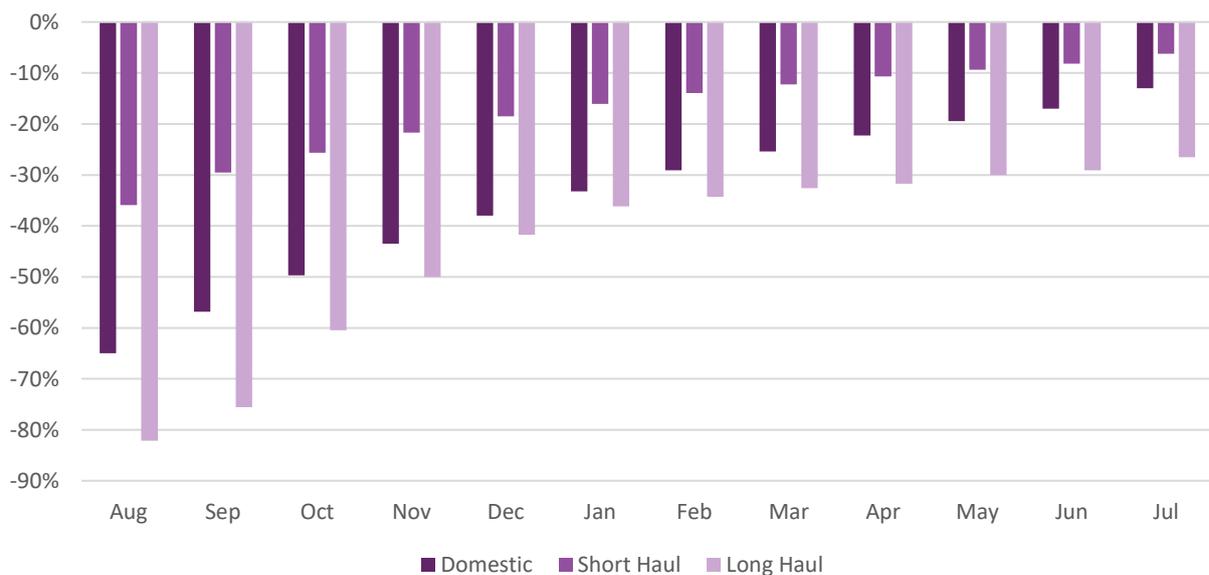


Source: York Aviation.

2.13. The number of destinations served by the UK’s airports is likely to be dramatically reduced in the short term. Our modelling suggests that the UK’s connectivity in terms of regular destinations served is likely to be reduced by around 40% to 50% for the remainder of the summer season. The situation is expected to improve over the winter period and into next summer as the market begins to recover. It should, however, be noted that this assessment is purely in terms of regularly served destinations. It does not reflect reductions in frequency on these routes or the loss of less frequently served routes. It is, therefore, likely to understate the true loss in connectivity.

2.14. Again, the effect is different in different geographic markets. The forecast percentage decline in regular destinations served compared to the last unaffected equivalent month is shown in **Figure 2.5**.

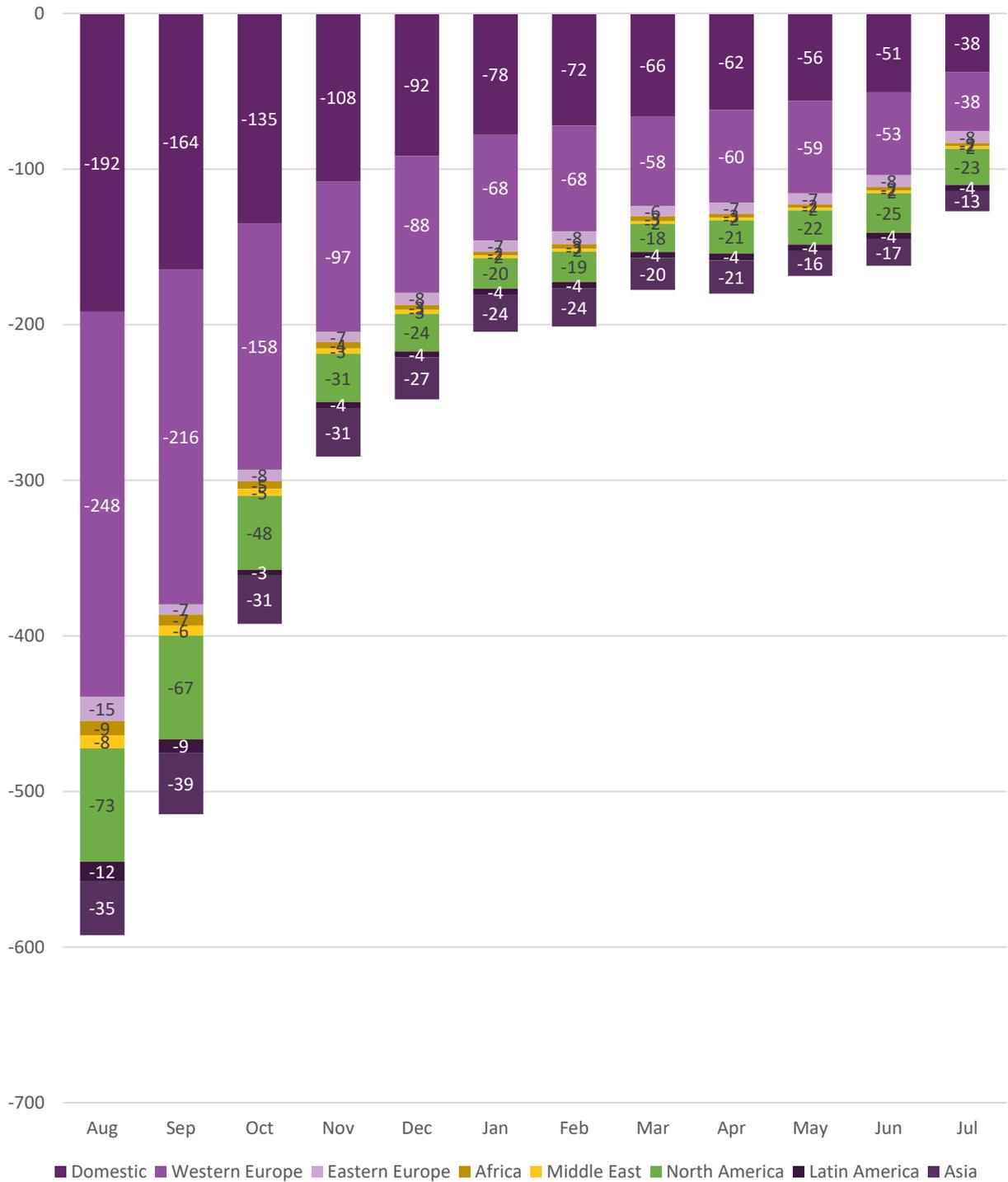
Figure 2.5: Decline in Destinations Served from UK Airports versus the Previous Unaffected Month by Broad Geographic Region



Source: York Aviation.

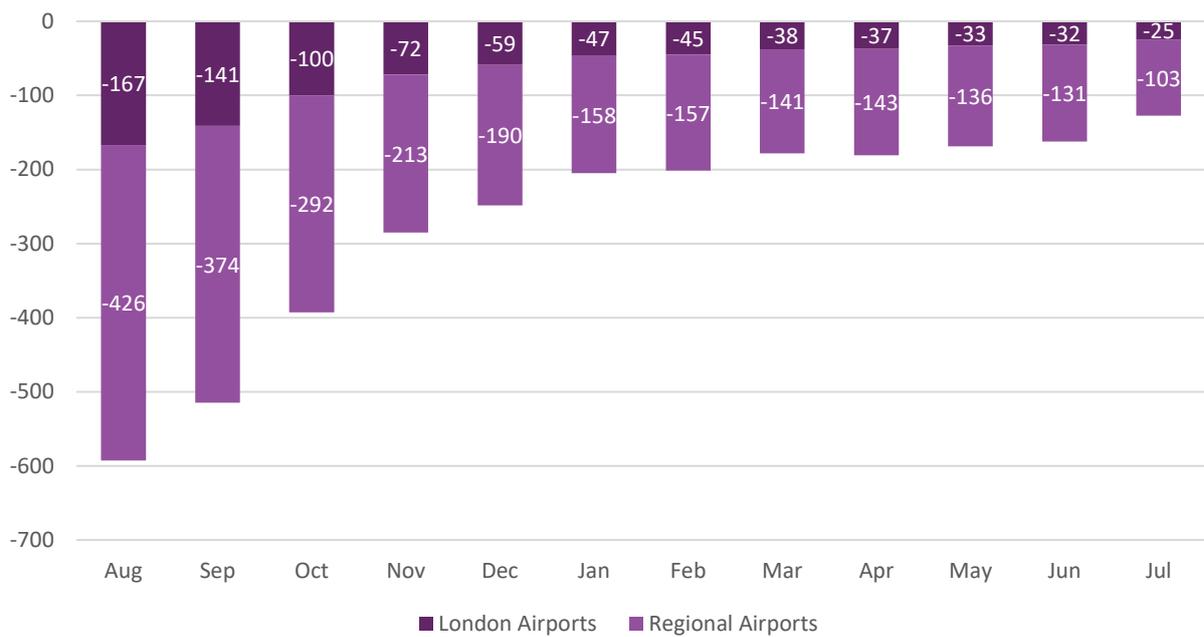
- 2.15. Domestic connectivity and long haul connectivity are forecast to suffer the most significant declines. Long haul connectivity is expected to be down over 80% initially and is still down over 40% by December. By July 2021, the number of long haul destinations served is still down by 27%. Domestic routes are expected to be down by around 65% initially, improving to around 14% down by July next year. Short haul connectivity is severely affected but less so than the others. The numbers of destinations served are down by around 35% initially, improving to around 6% by next July. We would again emphasise, however, that this does not reflect potential reductions in frequencies, which may be significant, or the loss of less regularly served destinations.
- 2.16. **Figure 2.6** provides a more granular estimate of the number of destinations lost by world area. These estimates are based on the same approach described above and, given the additional disaggregation, should be treated as a broad assessment of magnitude of effects. The impacts in terms of connectivity to North America and Asia in the short term is particularly notable and persist over the period.

Figure 2.6: Number of Destinations Lost by World Region versus the Previous Unaffected Month



Source: York Aviation analysis.

2.17. Forecasting how route losses might play out at individual airports is highly complex. However, in **Figure 2.7** we have set out a broad estimate of the split of losses between the London airports and the UK regional airports. This demonstrates that the majority of lost connectivity is expected to come from regional airports. In 12 months time around 80% of lost routes served will be from the UK regions.

Figure 2.7: Number of Regular Destinations Lost London Airports vs Regional Airports

Source: York Aviation.

APD Revenue

2.18. The significant reduction in the number of passengers flying will also result in a large fall in the amount of APD that is paid by passengers. In normal times APD revenue for the Government is around £3.7 billion each year³. Based on our estimates of baseline passenger demand over the next 12 months, we estimate that APD revenue will fall dramatically to around £2.1 billion. This would, by extension, be the cost to the Government of a 12 month APD waiver.

Conclusions

2.19. The UK aviation sector has suffered an unprecedented shock. Passenger numbers are massively reduced compared to 2019 and connectivity has been decimated. The situation will improve as markets start to recover and a degree of normality returns. However, even in 12 months time demand and connectivity are still massively reduced. This represents a significant threat to the air transport industry itself but also a potentially significant drag on the recovery of the wider economy that is reliant on the UK's level of international connectivity. Support for the industry is required to limit this damage and, importantly, protect and help build back the UK's connectivity.

2.20. It is also noticeable that the impacts are focussed at UK regional airports with these airports experiencing slower bounce back, with greater lost demand and lost connectivity.

³ Office for Budget Responsibility 2020. Accessed at <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/air-passenger-duty/>.

3. The Impact of a 12 Month APD Waiver

Introduction

3.1. In this section, we analyse the potential effect of a 12 month APD waiver on passenger demand over the period, on the UK's connectivity and on the UK economy. At the outset, it is important to recognise that this high level assessment uses a number of core assumptions and simplifications:

- for the purposes of this analysis and consistent with economic theory, we have assumed that the removal of APD from ticket prices is passed through to passengers. This is in reality likely to be a simplification. In many cases it is likely that the saving is passed on to passengers to enable airlines to stimulate demand for services. However, equally on other occasions, the removal of APD might be used to improve the operating margins achieved on a route, such that it is able to continue operating. This, of course, has a demand effect in itself, as these passengers are able to continue to fly but it is not through the same mechanism. Overall, we believe that, in reality, the difference between the two effects is not likely to be significant. Consequently, we have assumed a simple pass through of APD savings to passengers and a consequent price reaction from passengers;
- the model assumes that there is an instantaneous effect on the market. APD is waived in August and this affects levels of demand immediately. In reality, there is likely to be a lag as bookings are made for later in the year. This would reduce effects in the immediate term but increase them in the medium term. Overall, across the 12 months, we believe that the magnitude of effects is reasonable and provides robust guidance on likely impacts;
- the price elasticities used in the analysis are based on those identified in the Department for Transport Aviation Forecasts 2017 and on research undertaken by IATA⁴. Our discussions with airlines have identified a view amongst some airlines that demand may be more price elastic than usual at present. However, there is no strong evidence on which to make an assessment. We have, therefore, adopted relatively conservative assumptions in relation to price elasticities, as set out in **Table 3.1**;

Table 3.1: Passenger Price Elasticities

Domestic	-0.6
Western Europe	-1.2
Eastern Europe	-1.2
North Africa	-1.2
Rest of Africa	-1.1
Middle East	-1.1
North America	-1.0
Latin America	-1.0
Asia	-0.7

Source: York Aviation analysis of DfT and IATA.

- average ticket prices for different world regions have been estimated based on CAA Passenger Survey data. These have been adjusted downwards following discussions with airlines to reflect the likely pressure on yields caused by reduced demand. These reductions taper over the 12 months to reflect market recovery;
- in assessing the impact on the UK's connectivity, we have assumed that increases in passenger demand resulting from an APD waiver result in a mixture of increased provision of seat capacity (and by extension within the model, the number of routes served) and improved load factors. This dampens the effect of an APD waiver on connectivity but, ultimately, is likely to prove a more accurate reflection of behaviour.

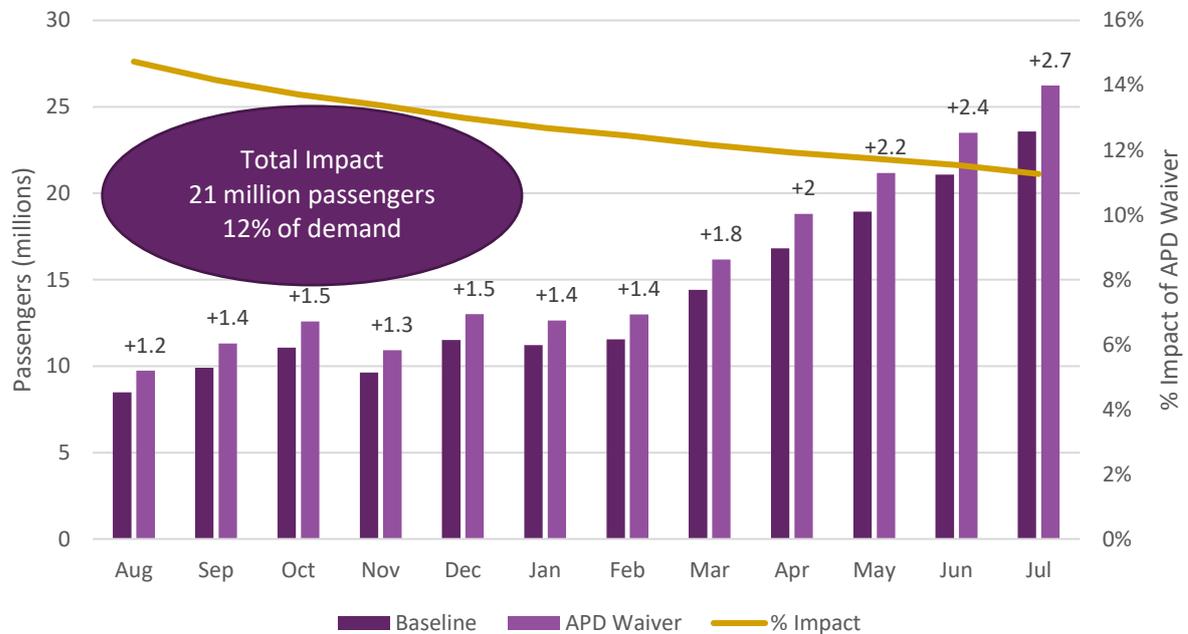
⁴ IATA Economics Briefing No. 9: Measuring the Responsiveness of Air Travel Demand to Changes in Prices and Income (2008).

3.2. The results of the modelling work undertaken are set out below.

Impact on Passenger Demand

3.3. **Figure 3.1** shows the impact of a 12 month APD waiver on overall passenger demand compared to the baseline set out above.

Figure 3.1: The Impact of an APD Waiver on Passenger Demand

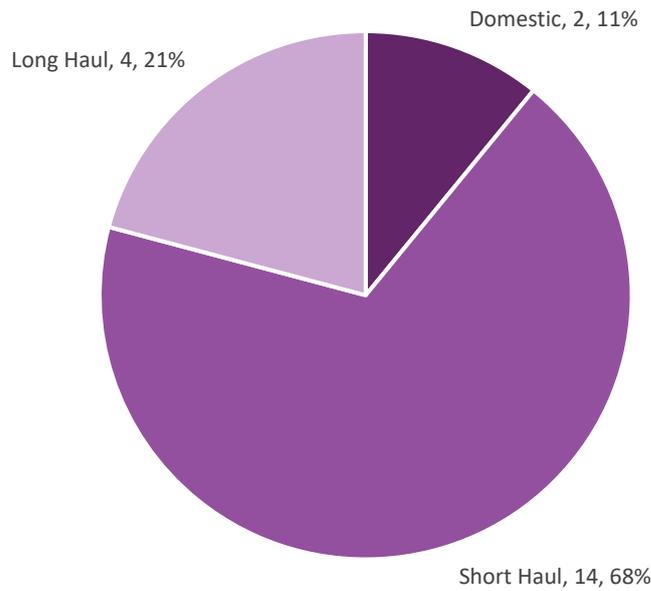


Source: York Aviation.

3.4. Initially, an APD waiver would boost passenger demand by around 1.2 million passengers in August or 14% of the expected baseline. This gradually grows over time as the market recovers and more passengers return. By July 2021, the impact is estimated to be around 2.7 million passengers or 11% of baseline demand. Over the 12 months as a whole, the APD waiver is expected to result in around 21 million additional passengers flying through UK airports or 12% of baseline demand.

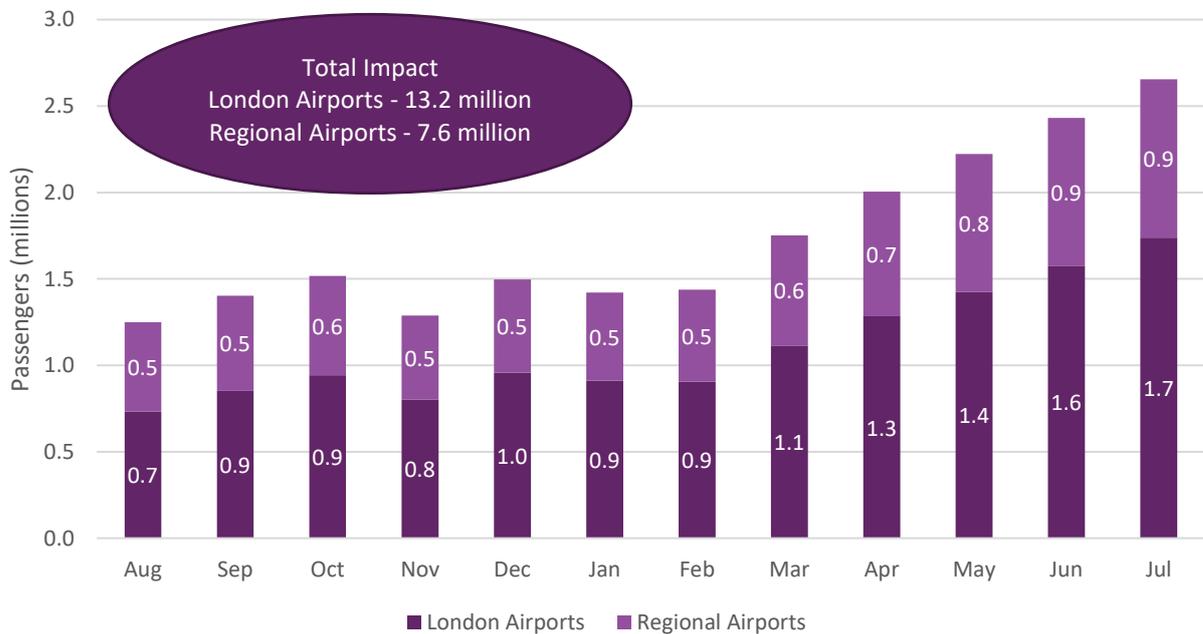
3.5. **Figure 3.2** shows the make up of the additional passengers flown with an APD waiver in terms of the geographic market segment served. The largest impact is on short haul markets at around 14 million passengers over the period. This reflects both the relative size of this market and also its more rapid recovery in general. Long haul travel accounts for around 4 million passengers and domestic markets around 2 million passengers.

Figure 3.2: Additional Passengers from an APD Waiver by Geographic Segment



3.6. **Figure 3.3** provides an assessment of how an APD waiver would impact on airports in London and those in the UK regions. The impact increases over time as demand generally recovers, with a total of an additional 13 million passengers at the London airports and 7.6 million at regional airports.

Figure 3.3: Additional Passengers at London Airports and UK Regional Airports from an APD Waiver

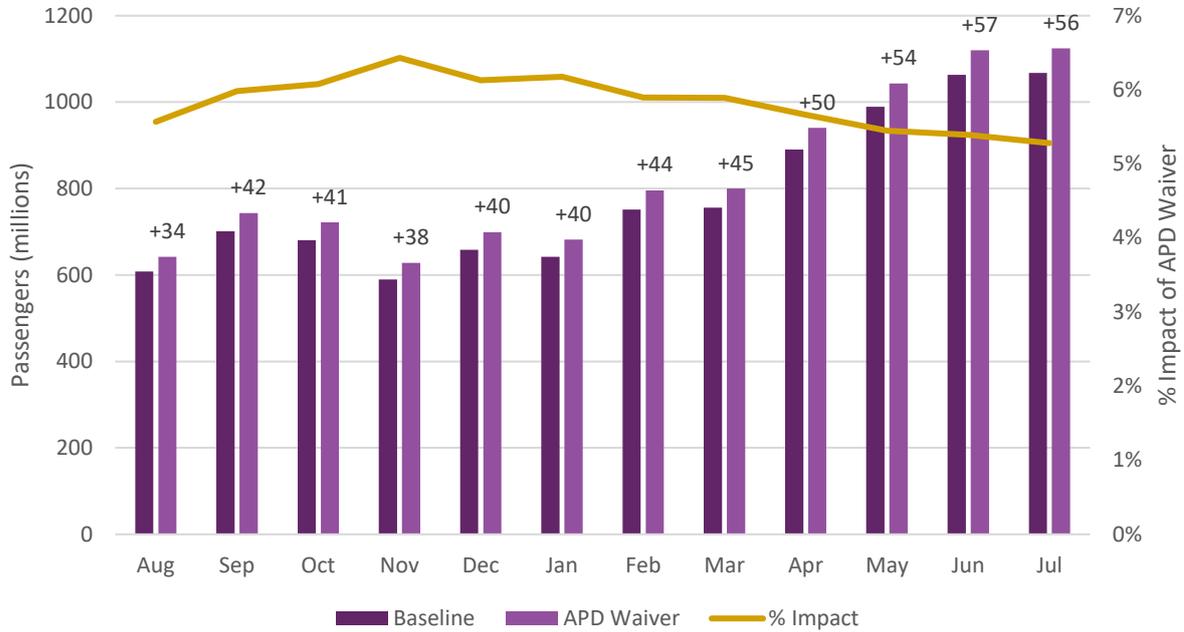


3.7. Overall, the analysis suggests that an APD waiver would result in a significant boost to passenger demand over the next 12 months that would undoubtedly support the air transport sector and also help to get trading parts of the UK economy moving again.

Impact on Connectivity

3.8. **Figure 3.4** shows the forecast number of routes served by UK airports over the next 12 months, with and without an APD waiver.

Figure 3.4: Number of Regular Destinations Served by UK Airports

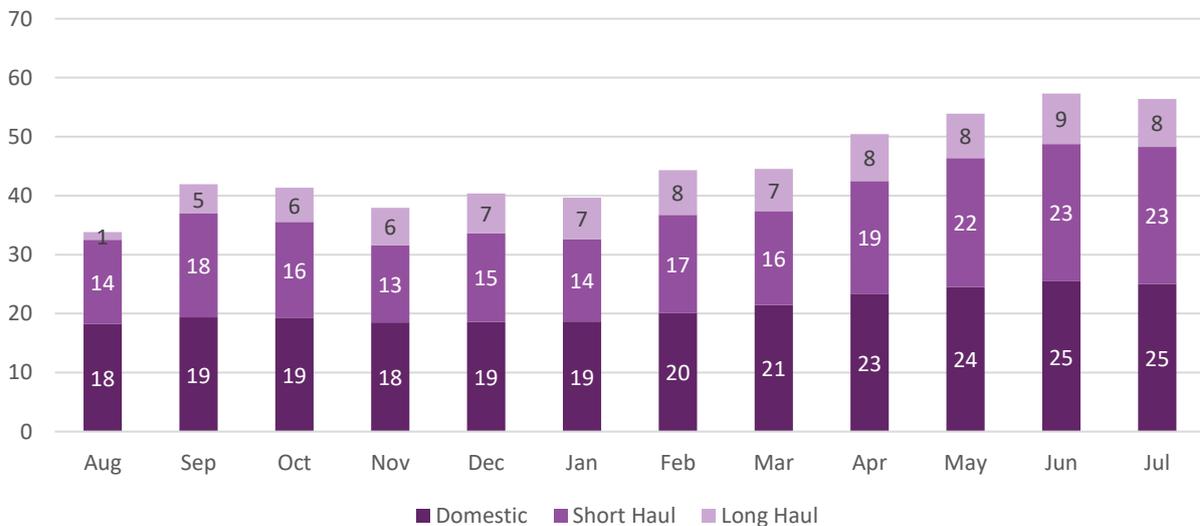


Source: York Aviation.

3.9. This analysis suggests that an APD waiver would increase the number of routes served each month by between 5% and 6%. Initially, this means around 34 additional regularly served destinations growing to around 56 by July next year. Again, we would emphasise that this is a top down analysis based on past behaviour and our discussions would suggest that this effect may be conservative, especially in the short term, as airlines may have reduced viability criteria for operating routes in short term, with a greater focus on simply generating cash.

3.10. **Figure 3.5** shows a breakdown of the additional routes served in terms of the geographic market segment.

Figure 3.5: Additional Routes Served by Geographic Market Segment

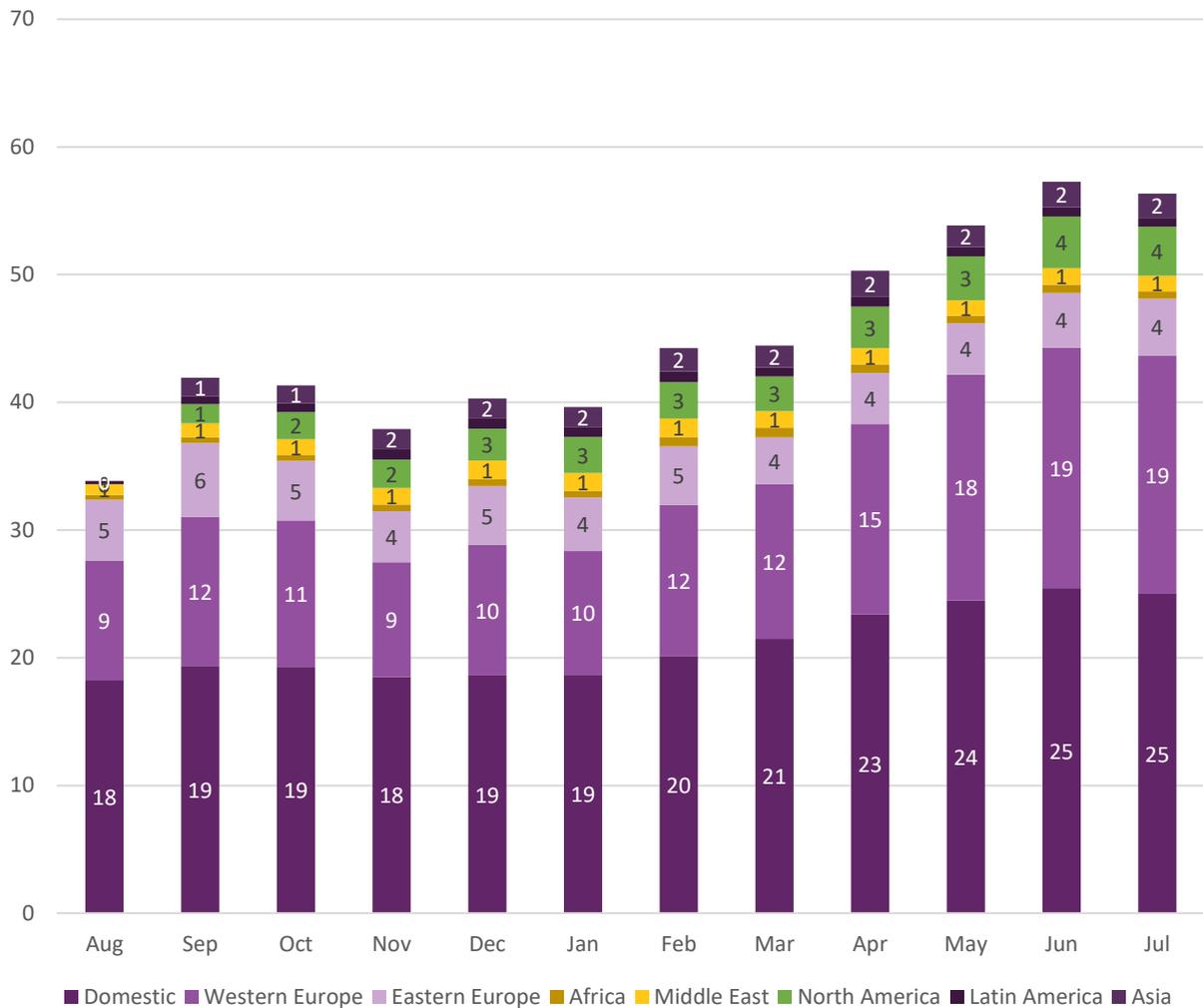


Source: York Aviation.

3.11. The largest impact is on domestic routes, with 25 additional routes served by July 2021. This is followed by short haul routes, with 23 additional routes served by July 2021. Long haul connectivity suffers in the short run as the market takes time to recover but a growing number of routes are supported over the 12 month period.

3.12. **Figure 3.6** provides a more granular assessment of the additional routes served with an APD waiver in place. Again, we would re-emphasise that this analysis should be treated with some care given the high level nature of the analysis and the degree of granularity. Domestic and Western European routes are the most impacted, but there are a significant number of long haul routes that are operated with the waiver that would not be operated without.

Figure 3.6: Additional Routes Served by World Region



Source: York Aviation.

3.13. The additional routes served at London airports and at regional airports as a result of the waiver is set out below in **Figure 3.7**. It shows that an APD waiver will have a particularly strong connectivity effect at regional airports, reflecting the severe effect of the pandemic on regional airport connectivity.

Figure 3.7: Additional Routes Served at the London Airports and Regional Airports

Source: York Aviation analysis.

The Economic Impacts of an APD Waiver

- 3.14. Air transport is a major industry in the UK, supporting a significant amount of employment and Gross Value Added (GVA) directly and through supply chain (indirect) and consumer expenditure (induced) effects. It is also an essential component in the UK's trading economy, supporting other economic sectors in accessing global markets, attracting inward investment, driving productivity and supporting tourism.
- 3.15. The collapse of global demand for air travel has significantly impacted on the sector's ability to support economic prosperity and we have already seen significant redundancies announced by a number of major UK airlines and airports. Below, we have set out some high level estimates of the impact on the UK economy with and without an APD waiver over the next 12 months.
- 3.16. In 2018, the Annual Business Survey estimated that the GVA generated by the air transport sector⁵ in the UK was around £10.7 billion and the Business Register and Employment Survey suggested that it employed around 79,000 people. When supply chain (indirect) and consumer expenditure (induced) effects are included, the GVA impact of the sector increases to around £25 billion and 380,000 jobs.
- 3.17. The reduction in demand as a result of the pandemic is likely to result in around 50,000 lost jobs and £13 billion in lost GVA over the next 12 months, even allowing for the recovery of the sector. If an APD Waiver were to be implemented it would lessen these impacts, saving around 8,000 jobs across the economy and reducing GVA losses by around £2.1 billion.
- 3.18. In addition, the role a waiver plays in protecting connectivity will support recovery in the wider economy by facilitating international economic links. Without action, the negative impact in the wider economy from lost connectivity is estimated to be around £32 billion. With an APD waiver, this effect is reduced to around £27 billion. A positive impact on GVA from an APD waiver of around £5 billion.
- 3.19. Overall, an APD waiver would potentially save around 8,000 jobs and £7 billion in GVA.

⁵ The definition of the air transport sector here is tightly defined and reflects purely companies directly involved in the movement of passengers and freight, as described by SIC code 51. It does not include, auxiliary airport services or aerospace manufacture.

Conclusions

- 3.20. A 12 month APD waiver has significant potential to support passenger demand growth and connectivity across the UK. Our analysis suggests it would result in around 21 million additional passengers over the period and 56 additional routes being served by July next year. The London airports benefit most in terms of additional passengers, ultimately reflecting the larger markets and faster recovery, but the connectivity impacts are more balanced towards regional airports.
- 3.21. The economic impact of an APD waiver is potentially significant, saving around 8,000 jobs and £7 billion in GVA.

4. Conclusions

- 4.1. The COVID 19 pandemic has caused extraordinary damage to the normally vibrant air transport sector in the UK, with unprecedented declines in demand and the near shutdown of the UK's connectivity. With borders reopening and airlines starting to fly again there is a need for support to bring back passenger demand and protect the UK's connectivity for the long term.
- 4.2. Waiving APD for the next 12 months is estimated to result in around 21 million additional passengers travelling through UK airports over the next 12 months, providing a substantial boost to airports and airlines. This represents around 12% of expected baseline traffic over the next 12 months. This impact is spread across domestic, short haul and long haul markets.
- 4.3. This boost in demand will help airlines restore the UK's connectivity, supporting route viability and bringing back regular connectivity. We estimate that an APD waiver would result in between 5% and 6% more regular routes being served from UK airports over the period. By July 2021, this would be around 56 additional regular destinations.
- 4.4. The positive impacts on passenger demand are greatest in London, reflecting the size of the market and an expected faster recovery, but connectivity effects are most strongly felt at regional airports, which have been affected more heavily in terms of lost routes so far and are expected to take longer to recover.
- 4.5. The impact on the economy from the damage to the air transport sector will be severe. The sector is a major employer and generates significant GVA, as well as supporting the UK's international economy. However, an APD waiver could reduce this damage, potentially saving 8,000 jobs over the next 12 months and enabling the sector to support an additional £7 billion in GVA. This GVA saving is around 3.3 greater than the expected revenue from APD over the next 12 months.
- 4.6. Overall, an APD waiver has the potential to provide significant support to the air transport sector in the UK, aiding its recovery in the short term and enabling it to rebuild the international connectivity that is so important to the UK's international economy and the economic recovery.

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