

ASSESSMENT OF THE WIDER CONTRIBUTION OF NIGHT FLIGHTS TO THE UK ECONOMY

Aviation and the economy

Air travel plays an important role in supporting and facilitating the growth in overseas trade and investment that the economy needs to flourish. Aviation is one of the UK economy's success stories, punching considerably above its weight. While the UK accounts for less than 5% of total world output and trade, its share of the world's air passengers travelling on scheduled airlines is more than double at over 10%. The number of international scheduled air passengers to and from the UK was more than 111 million in 2002, second only to the US, which saw 130 million passengers.

According to a report by Oxford Economic Forecasting (OEF) (The Contribution of the Aviation Industry to the UK Economy, November 1999), the UK aviation industry contributes directly around 1.4% of the UK's GDP. This represents nearly £14 billion a year in today's prices.

The OEF report found that the aviation industry in the UK employs around 180,000 people directly. British Airways remains a substantial employer in the UK, even after substantial cutbacks in the number of jobs since 2000. In 2003/04, BA employed nearly 52,000 people, of which some 44,000 were located in the UK.

UK aviation also contributes significantly through the knock-on impact on the activities of its suppliers, as well as through second round effects generated by the spending of employees in the aviation industry, and through jobs that depend on travellers, such as those employed by travel agents. OEF estimated that more than half a million jobs are supported by aviation overall, even before allowing for the effects on jobs in the tourism industries generated by visitors to the UK.

The aviation industry also generated more than £6.5 billion for the UK balance of payments in 2003, more than 7% of the UK's total exports of services. The biggest single contribution comes from BA, making it one of the UK's largest exporters of services. Air cargo services are also important, as discussed below.

Trade and investment

More important than its direct contribution however is the role of air travel in facilitating the growth in UK trade and investment. Aviation 'oils the wheels' of the global economy by virtue of its position as a key part of the national transport infrastructure that is essential to so many other parts of the UK economy. By extending market reach and encouraging the establishment of links between far-flung parts of the globe, air transport can enable the potential benefits of global markets to become accessible to companies in the UK. This allows productivity performance to improve, so boosting the profitability of companies' operations, and so encouraging innovation and investment on a global basis.

Infrastructure improvements boost productivity and growth. Sectors of the economy that the UK is likely to depend on to provide future economic growth – sectors such as financial institutions, business services, communications, media, IT, and pharmaceuticals - are all heavily engaged in international transactions, and therefore make intensive use of aviation services. Good air transport links are also a prime factor when international companies come to decide where to locate their facilities.

The UK is a large and open economy, one that is highly dependent on foreign trade and investment. The UK's openness to competition from abroad has been an important factor in driving improvements in underlying economic performance.

Trade in goods – both exports and imports together – is worth 40% of GDP in the UK, a similar proportion to the other major European economies, but much higher than in other highly developed economies such as the US and Japan. And the UK is also a major player in the rapidly expanding field of the international transmission of services. UK exports of commercial services in 2002 have grown to almost 45% the size of its exports of goods, a higher share than in any of the other major global economies.

The UK economy also benefits considerably from its leading role in overseas direct investment, both as a location for foreign firms to establish business and as a source of firms wishing to establish operations abroad. The UK is a magnet for inward investment from other parts of the world, and is consistently rated as one of the best world destinations for investment from overseas, and the United Nations Conference on Trade and Development (UNCTAD) ranks the UK as third in the world in terms of its potential as a location for foreign firms to invest, and although actual investment inflows fluctuate considerably from year to year, the UK has consistently lived up to this high billing.

According to UK Trade and Investment, the government's trade and inward investment operation, the UK was the top investment location in Europe in 2003, with 23% of all foreign inward investment in Europe. The UK was the top European investment location for research, development, headquarters operations, software, electronics, pharmaceuticals, financial services and telecommunications, including call centres. The US accounted for 37% of the stock of total FDI in the UK at the end of 2003.

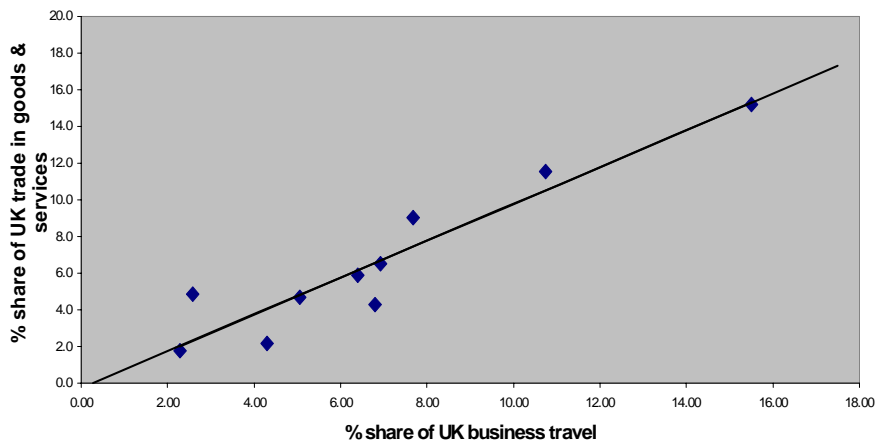
FDI inflows into the UK have fallen sharply since 2000, reflecting the sharp downturn in cross-border mergers and acquisitions. But this is in part a cyclical phenomenon, an inevitable reaction to the stock market bubble that built up in the late 1990s. The UK remains a highly attractive destination for foreign direct investment, with a stock of such investment worth \$672 billion in 2003, second only to the US. Cross-border merger activity has started to pick up again in 2004.

Good airline connections to international locations are a vital part of the economic infrastructure that companies need to carry out their business in overseas markets. British Airways' services connect the UK with countries accounting for more than 93% of the output of the entire global economy, and this network forms the backbone of London's importance as a major centre for international air transport, thereby cementing London's place as one of the world's major business centres. The breadth of air transport links available from London, irrespective of airline operator, is unsurpassed among the major European capitals. In April 2004, there were flights from London's five airports to more than 330 cities worldwide.

The demand for business travel by air is therefore closely correlated with the geographical pattern of the UK's overseas trade and investment, as businesses need to travel abroad to make contacts and construct deals. It is no coincidence that the three largest business travel markets to and from the UK – the US, Germany and France – are also the UK's biggest trading partners, in terms of both export markets and sources of imports. The 20 biggest markets account for 80% of all business travel to and from the UK, and a similar share of the UK's exports and imports.

Business travel reflects trade patterns

Correlation between business travel and trade - top 10 UK business travel markets



Business travel also shows a close relationship with the geographical pattern of overseas direct investment. At the end of 2002, the Netherlands and the US accounted for the largest stock of UK direct investment overseas, worth more than £270 billion between them. In 2003, these two countries alone generated an estimated 4.2 million business travel trips to and from the UK, more than 22% of the total business travel market.

The economic benefits from night flights

The contribution of night flights is vital in allowing many of the benefits of good air services to be realised. Without an attractive schedule of air services to many distant countries, the ability of firms to service those markets from the UK would be severely impeded.

Night flights are especially important in providing links with the furthest distant parts of the globe. In summer 2004, 40% of all BA's longhaul flights to Heathrow arrived before 0700 hours, and a similar proportion of longhaul flights by other carriers. In terms of the numbers of longhaul passengers carried, the importance of night flights will be even greater, as most of BA's night flights use Boeing 747-400 aircraft, the largest in the fleet.

Heathrow's economic role is inextricably linked with its ability to handle a large number of passengers given its role as a major international hub airport. Restricting night flights there would have a disproportionate impact on British airlines and would affect the relative attractions of London and the UK as a location for international investment, especially in view of the intensity of competition among airlines and airports across Europe.

Airlines operating night flights purchase goods and services, such as catering, cleaning and ground handling, some of which would be lost if night flights were restricted or banned. There would be consequent adverse knock-on effects for the firms providing such services.

The airlines using Heathrow would lose large numbers of passengers if the airport could not compete on the same terms with other European airports. This is especially true for transfer passengers who can deliver substantial incremental contributions to airport revenues and make or break the profitability of an individual airline's route. Some flights, especially short haul flights, would not be viable without transfer passengers.

In estimating how many passengers would be lost if the number of night flights were reduced or banned, account must be taken of the advantages enjoyed by competitor airports. Paris, Frankfurt and Amsterdam all have fewer restrictions than Heathrow and operate in a time zone one hour ahead of the UK. Their night flights can therefore arrive up to an hour earlier than in the UK. Why should passengers choose Heathrow as a transfer hub when competitor airports could offer a better service and more competitive timings?

Holiday tourism flows to the UK would stand to be particularly hard hit by the imposition of any restrictions on night flights at Heathrow and the other London airports. If as a result of a reduced availability of flights, overseas tourists find it difficult to reach the UK, then they will probably choose to fly to another destination for their holiday. UK holidaymakers would on the other hand still in most cases find a way to fly abroad, even if by using an alternative airport, mode of transport, or final destination. Restrictions on night flights would therefore be likely to hit the UK's tourist industry.

The OEF report looked at the economic implications of reduced passenger numbers by 25 million by 2015. This methodology can be relatively simply applied to estimate the impact of a complete ban on movements in the night period.

BA accounts for 35- 40% of scheduled movements in the night period at Heathrow, generating 6 million passenger journeys, including passengers on the return sectors and passengers who transfer from/to other flights. Assuming that BA's operations are typical of the night flights operated by other airlines at Heathrow, this would imply that the night flights of all carriers generate a total of some 16 million passengers. Applying this to the OEF analysis, night flights support directly more than 12,000 jobs in aviation and a further 20,000 jobs in the supply chain and induced employment. The overall contribution to GDP is some £2-2.5 billion per year in today's prices. There would be an additional cost in terms of GDP and jobs from the inability to operate night flights at LGW and STN.

Many of the UK's trade and overseas investment flows are directly linked to destinations served by night flights. Analysis of long haul arrivals in the night period shows the importance of these destinations as trading partners of the UK. Some 28% of all UK exports of goods and services are accounted for by these countries, as follows: US (18%); Canada, Australia (2% each); Hong Kong, Singapore, India, South Africa, and Saudi Arabia (1% each); and Thailand, Brazil, and Argentina.

Even leaving aside the current demand for longhaul travel to and from the UK, the economy will see its trade links – and therefore the demand for business travel – with these regions continuing to expand in future. British business has been well placed to take advantage of improved access to overseas markets but can only develop them further if an attractive network of international UK flights is maintained and developed. This issue affects not just the future of UK airlines but UK national competitiveness generally.

For instance, there are several night flights from Asia, which is an important and rapidly growing part of the world economy. Its share of world merchandise exports rose from less than 22% in 1990 to more than 26% by 2000, and this can be expected to rise further in future as Asian economies catch up with their more advanced western counterparts.

The growth in overseas investment flows is also becoming more focused on service industries, such as business services, finance, hotels and restaurants, IT industries and call centres. Services accounted for two-thirds of all foreign direct investment inflows during 2001-2002, valued at some \$500 billion. As an important services-based economy, the UK will need to be actively involved in this trend if it is to remain globally competitive.

Asia is also becoming an increasingly important player in the rapidly growing area of international trade in services. Asia's share of world trade in commercial services has risen from less than 17% in 1990 to more than 20% in 2000.

Cargo

An efficiently operating air cargo industry is also critical for the UK's economic well-being. Some 40% of world trade in goods by value is carried by air. As globalisation makes the economy more dependent on international trade, so firms in the UK are exposed to intense competitive pressures from abroad. In order to avoid the costs of storing unnecessary materials and products, they rely increasingly on 'just-in-time' stock control techniques. The economy is therefore increasingly dependent on the express freight industry to deliver critical supplies in good time to avoid disrupting production, and some two thirds of CBI members consider next-day express delivery services to be very important for meeting their commitments. Express freight therefore contributes to productivity and competitiveness of other sectors of economy, allowing them to compete effectively in the global market.

According to a report by The Aviation and Travel Consultancy Limited (A&TC) and Oxford Economic Forecasting (OEF) (The Economic Impact of Express Carriers for UK plc, June 2002), the express industry makes a significant contribution to the UK economy. It transports more than £8.5 billion of UK exports a year, 4.5% of total goods exports. It is one of the fastest growing sectors of the economy in its own right, having doubled its share of UK total output during the 1990s, and now contributes directly more than £0.5 billion to GDP. The industry is also estimated to contribute a further £1.2 billion a year through its impact on the performance of the rest of the economy. It is expected to grow by 7% pa over the next ten years, nearly three times as fast as GDP growth.

The air cargo business relies heavily on the ability to fly goods in at night in order to be able to deliver to their customers during the next working day. The A&TC/OEF report estimated that the loss of night flights by the express industry would reduce UK GDP by more than £5 billion a year by 2021. The specialist major express freight integrators use Stansted as one of the main cargo hubs. However, most air cargo is carried in the bellyhold of passenger aircraft, and Heathrow is the major contributor to the airfreight industry in the UK, accounting for 55% of the market, well ahead of East Midlands, Gatwick and Stansted airports.