IATA

The United Kingdom
Air Transport Regulatory Competitiveness Indicators

SUMMARY

- Air transport is a key enabler of economic activity in the United Kingdom, supporting 1.56 million jobs and contributing GBP 88.8 billion to the UK economy, which is equivalent to 4.5% of UK GDP.

- The United Kingdom has the largest level of air connectivity in Europe (measured by the IATA Connectivity Index[1]). Air connectivity grew by 36% between 2013 and 2018. 143m passengers departed from the United Kingdom's airports in 2017.

- In order to facilitate continued growth of aviation and maximize the benefits of air transport, the United Kingdom should:

   1. Expedite the cost-effective development of additional airport capacity in the South East of England and modernise the UK's airspace;

   2. Abolish, or at a minimum reduce, the Air Passenger Duty – the highest air passenger tax in the world; and

   3. Improve the visa and border experience for passengers arriving in the UK by air.

- With the UK due to leave the European Union, ensuring a competitive air transport market will be even more important for the UK economy.

---

[1] The IATA Connectivity Index 2018 is a composite measure of the number of passengers transferred weighted by a destination measure in all UK airports.

ABOUT AIR TRANSPORT REGULATORY COMPETITIVENESS

The Air Transport Regulatory Competitiveness Indicators (ATRCI) is a framework that measures a country's air transport regulatory competitiveness. Air transport regulatory competitiveness is defined as the set of institutions, policies, and factors that determine the economic benefits that the economy can derive from aviation.

Five key determinants of the ease of doing business have been identified, which contribute to the regulatory competitiveness of a country. These five determinants are the pillars that form the ATRCI and for which performance-based assessments have been made:

Passenger Facilitation (visa requirements, open skies agreements, passenger information and border control processes). Measures to support easier movement of persons around the globe and contribute to economic development and growth. Regulations that allow for easier and more secure movement of people and aircraft are therefore essential in unlocking the economic benefits of aviation.

Cargo Facilitation (trade facilitation and e-freight). Measures to enhance shippers' experience by enabling the seamless cross-border movement of goods

Supply Chain Competitiveness (airport and passenger charges and taxes, airport and air traffic management charging process, fuel supply management, labour efficiency). The competitive, transparent, and reliable supply of services to airlines creates an environment in which passenger demand can be stimulated through more affordable air fares. Effective and clear rules create a stable environment which boost economic growth.

Infrastructure (Available runway and terminal capacity and slots). Air transport depends largely on available infrastructure and how efficiently congested infrastructure is utilized. Without sufficient capacity, airlines cannot enter the market, enhance air connectivity of the country and create seamless connections and short travel times. Effective infrastructure development and management acts as a facilitator of economic growth unlocking benefits that aviation creates.

Regulatory Environment (regulatory framework, legal framework, regulatory implementation). Without stable, clear and transparent regulations, airlines cannot operate effectively and offer competitive ticket prices or air freight rates. A smart regulatory environment and a comprehensive aviation policy are key drivers of positive economic change.

PERFORMANCE OVERVIEW

Index Component	UK	Regional average[2]
Air Transport Regulatory Competitiveness Index[3]	**5.8**	**5.8**
1st pillar: Passenger Facilitation	5.7	4.4
2nd pillar: Cargo Facilitation	6.3	6.1
3rd pillar: Supply Chain Management	6.6	7.2
4th pillar: Infrastructure Management	5.1	5.6
5th pillar: Regulatory Environment	5.6	5.1
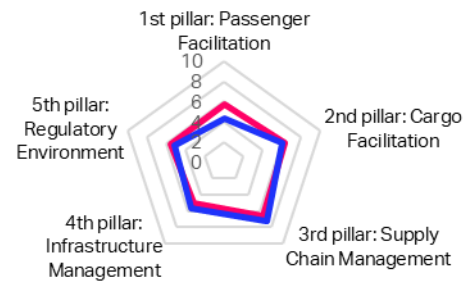
The infrastructure (4th Pillar) represents the weakest point of the UK's air transport competitiveness. Scarce capacity in terms of runways, terminals, and airspace at the largest London airports (Heathrow and Gatwick) are already limiting growth in air connectivity. As a positive element, in spite of the congested capacity, both policies and practice in the UK are fully aligned with the World Slots Guidelines (WSG) creating both transparency and certainty in the slot allocation process.

High passenger charges and taxes (3rd Pillar) also represent a brake on competitiveness and significantly increase the cost of traveling by air to, from and within the UK (more on Supply Chain management on page 3).

The United Kingdom also lags behind in the facilitation of passenger movement across the border (1st Pillar) through their restrictive visa policies. The visa application process for visitors from many countries is often complex, time-consuming and expensive.

Finally, many regulations that apply in the UK are inconsistent with the Smarter Regulation Principles[4] (5th Pillar) that underpin a favorable regulatory environment. Some national regulations do not comply with aviation-related international treaties and apply extraterritorially. For example, consumer protection rules in the UK are at odds with the Montreal Convention 1999 and are overburdening businesses.

As a positive finding, cargo facilitation (3rd Pillar) represents the strongest point of UK air transport competitiveness. The UK has made considerable improvements in a number of key air trade facilitation metrics, facilitating the smooth transport of cargo across borders. Nonetheless, in spite of the good overall performance in terms of trade facilitation, there is still much to do in order to enable full implementation of e-freight (paperless cargo) in the United Kingdom.

---

[2] Regional average consists of scores for 17 European countries: AT, BE, DN, DE, ES, FI, FR, GR, IT, NL, NO, PL, PT, RO, SE, CH, UK.
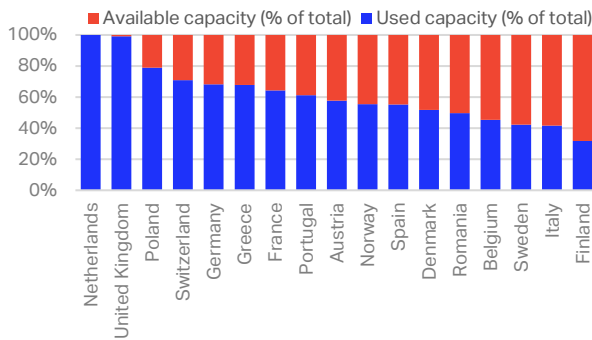[3] The values for the ATCI range from 0 (worst) to 10 (best). The index consists of 5 pillars and 17 indicators and 26 sub-indicators which are combined together using a simple average (sub-indicators are summed together to create a single value for the indicator). These aggregate values form an index score for the country.
[4] Smarter Regulation Principles

KEY CHALLENGES OF AIR TRANSPORT REGULATORY COMPETITIVENESS IN THE UNITED KINGDOM

Aviation brings significant benefits to the UK's economy. However, there are still substantial barriers to the further growth of air connectivity which would help to unlock economic potential of the country. The following page provides an overview of the key challenges of the United Kingdom air transport regulatory competitiveness.
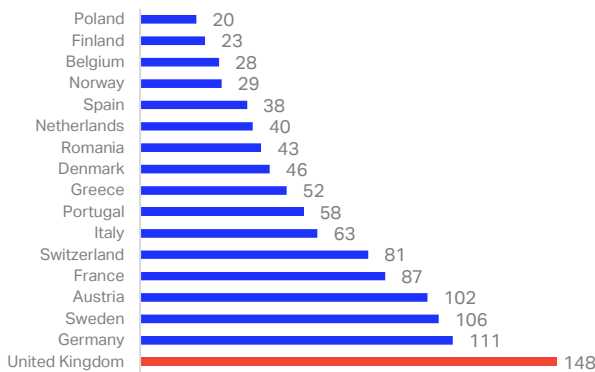
Chart 1. Low runway infrastructure capacity[5]

Source: IATA 2018

Chart 2. Ranking of countries based on airport and passenger taxes and charges

Source: IATA, ACIC, TTBS, IMF 2018
Ranking ranges from 1 to 148 (lowest to highest charges

Chart 3. High visa requirements result in low openness (maximum = 10)

Source: UNWTO 2016

London Heathrow is one of the most congested airports in the world, consistently operating at above 99% of declared capacity (Chart 1). This not only acts as a brake on the development of new connectivity but also means that there is little operational resilience to recover from delays or disruption. London Gatwick is also approaching full capacity and is already the world's busiest single-runway airport. Forecasts suggest that the other London airports will also be full or close to full by the time that any additional capacity could be delivered.
Cost-effective airport expansion is, therefore, a priority, as identified by the Airports Commission. This is critical to maintain the UK's status as a global air transport hub.

The level of taxes and airport charges in the UK are significantly higher than its regional peers (Chart 2). Air Passenger Duty (APD) is the highest passenger tax in the world and charges for using Heathrow are also among the highest in the world. High taxes and charges on air travel influence both demand and route viability affecting the UK air connectivity. A study by PwC estimates that eliminating APD would lead to the creation of 61,000 jobs and a boost of 0.5% of GDP for the UK[6].

Another competitive challenge for the UK concerns visa and border processes (Chart 3). As a non-member of the Schengen area, visitors to the UK from most non-European countries must obtain a separate visa to visit the UK. The visa application process is costly, complex and time-consuming.
Similarly, border entry times are also a challenge. During the summer of 2018, immigration queues at Heathrow airport, the UK's major international gateway, regularly exceeded 2 hours. Taken together, the visa and borders experience act as a deterrent for travel to the UK and a brake on competitiveness.

---
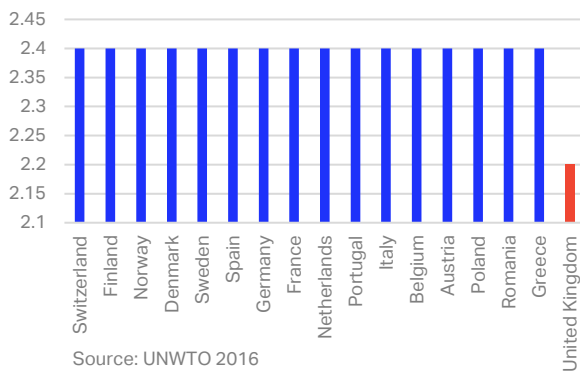
[5] The main hub for each country: AMS, ARN, ATH, BRU, CDG, CPH, FCO, FRA, HEL, LHR, LIS, MAD, OSL, OTP, VIE, WAW, ZRH

[6] PwC. 2013

FROM PERFORMANCE MEASURES TO RECOMMENDATIONS

The UK's current aviation strategy has an objective to increase air transport connectivity; It is important to create an environment where existing businesses can flourish, and new business opportunities are created. The UK should therefore focus on:

1. Infrastructure capacity
Further cost-effective development of additional airport capacity in the South East of England is key in order to accommodate the passenger growth. Respectively, the UK should move forward with expansion of Heathrow Airport and support airport commissions to look at new airport capacity, subject to the condition that charges will stay cost-related. Moreover, the UK needs to modernize its airspace management to cope with predicted growth in the number of passengers travelling by air.

2. Airport and passenger charges and taxes
The Government should eliminate, or at least reduce, the Air Passenger Duty in order to make the UK more cost competitive. As noted with regard to Heathrow expansion, particular care should be taken to ensure that charges are moderated, and that necessary investment does not increase costs for consumers

3. Visa and border policy
The Government should take steps to make the visa application process quicker, simpler and cheaper in order to make the UK a more attractive destination for overseas visitors. The UK Border Force should be adequately resourced to ensure that immigration queue times are kept within reasonable limits.

Chart 4. Forecast scenarios for passenger traffic, jobs and GDP footprint*

		Passengers	GDP	Jobs
2017		142.8 m	£88.8 bn	1.56 m
2037	Current trends	190 m	£118.2 bn	1.64 m
	Upside	204 m	£126.7 bn	1.76 m
	Downside	167 m	£103.8 bn	1.44 m

* Passengers are counted as departures, including connections. The passenger forecasts are based on the IATA 20-year passenger forecast (October 2018). Data on GDP and jobs are from Oxford Economics. GDP and jobs forecasts are from IATA Economics.

In 2017, almost 143 million of passengers departed from the UK's airports. The robust air connectivity is an enabler of economic activity in the UK creating 1.56 million jobs and supporting GBP 88 billion to the economy in 2016.[7] In the next 20 years the number of departing passengers from the UK will increase by 33%.[8] However, if the UK is able to implement the policies noted in this report, there is an upside potential to substantially increase this value and ultimately deliver wide economic benefits through the higher number of jobs and contribution to GDP.

[7] ATAG 2018   [8] Oxford Economics 2017