1 Introduction

The recent Tourism Policy\(^1\) sets targets for increasing the number of foreign visitors to our shores - and for reducing the imbalance between our tourism spending abroad and domestic tourism spending. It does not make very many concrete proposals for how to achieve either of these things. In the context of aviation policy, it has been assumed in the past that increased airport capacity would be to the benefit of the UK tourism industry. This has particularly been the case for regional airports, which have seen a very considerable growth since the mid-nineties.

This paper examines whether this policy has succeeded over the past decade, whether a different approach is needed to try to fulfil the stated tourism ambitions and the implications this has for aviation policy.

This is submitted as part of the consultation on sustainable aviation policy.

2 Benefits

It is often stated that the benefits of airport expansion are increased jobs in the aviation sector, and induced jobs in the tourism industry. Here we examine the extent to which these are true net benefits to the UK economy, and to what extent they are either fictional or merely the redistribution of jobs from other parts of the country or economy.

2.1 Direct Jobs

If we first turn to direct jobs in the aviation sector, those jobs that directly serve to enable the journey and those on site at airports in the retail and catering sector which directly serve the public.

According to the OEF report “The Economic Contribution of the Aviation Industry in the UK”\(^2\) published in 2006, the number of direct jobs in the aviation sector in 2004 was 186,000 at a time that there were 215m terminal passengers. However, the same body stated that 180,000 were directly employed by the industry in 1998 in their previous report\(^3\), a year in which 159m passengers were handled. From this it would seem that a 34% increase in passengers led to only a 3% increase in jobs. This is not a strong reason to believe that net jobs will increase if aviation expands further.

OEF states:

\textit{There has been very little change in employment in the aviation industry since the 1998 estimates produced in our previous study, despite the 30%+ increase in passengers over this period, implying a substantial rise in passengers handled per person employed. In part this has been driven by the style of no-frills service provided by the low-cost carriers. But it also represents substantial efforts by traditional airlines to cut costs in the face of difficult market conditions.}

In fact in their table 2.3 it is shown that direct employment in air transport and ancillary services had dropped from 103,000 jobs to 94,000 in that period – the growth was in the

\(^1\) “Government Tourism Policy”, John Penrose MP, Minister for Tourism and Heritage, March 2011

\(^2\) “The Economic contribution of the aviation industry in the UK” October 2006, Oxford Economic Forecasting

\(^3\) “The Contribution of the aviation industry to the UK economy” November 1999, Oxford Economic Forecasting
It is also worth noting that some of the data presented in the 2006 report is inaccurate – Bristol Airport is stated as employing 4,747 people when the airport’s own figures state there were 2,284 FTE jobs in 2005. This suggests that some of the figures used by OEF are little more than guess-work.

Overall it is clear that the thrust of the industry is to reduce the number of jobs needed to fly an extra million passengers. The industry often quotes that every million passengers will create a thousand extra jobs but it is clear that this is very rarely the case. Overall the industry seems to support 837 direct jobs per million passengers, using the OEF 2004 figures, but this is not indicative of the number of extra jobs that would be generated for an extra million passengers and this may explain some of the discrepancy in OEF’s figures.

Turning to Bristol as an example, in 2005 it had 2,284 FTE direct jobs and 4.6 million passengers. In 2008 it had 2,693 FTE direct jobs and 6.2m passengers and so 409 jobs were added for an extra 1.6 million passengers. This means jobs were only added at the rate of 256 per million passengers, only a quarter of the figure publicised by the industry. At Luton6 in 1997 there were 7,038 jobs to support 3.2m passengers, but in 2009 there were 7,200 and 9.1m passengers. So over twelve years there were 162 jobs created for an added 5.9m passengers, or 27 jobs per million passengers.

If we look for a cause for this over-estimate of jobs created, it is easy to see that there are two main factors:

a) not all jobs at an airport are directly proportional to the number of passengers, being more directly related to the amount of infrastructure or the number of planes or other factors. For instance, at Bristol, the number of direct employees of the airport company has stayed around 200 for many years, despite a rapid increase in the number of passengers. A large number of jobs are static relative to the passenger count and these will be included in the 180,000 total that OEF estimates - so including them in a calculation for “jobs per million passengers” is erroneous;

b) over the last decade the predominant business model has changed from being full-service plus holiday charter to low-cost. The number of jobs per million passengers in the airline side and its enabling services has been squeezed hard to reduce the cost base and enable profits even at a much lower nominal ticket price. Ryanair has around 110 jobs per million passengers carried7, whereas British Airways8 in 2006 had 1,318 jobs per million passengers. A switch to the lower cost model inevitably means less jobs being added - and potentially a net loss in jobs from established levels.

The low-cost model has further impacts outside its own employees. By moving to on-line check-in and charges for bags, the number of people employed in check-in and baggage handling is reduced, and these are often employees of service companies (such as Servisair) rather than of the airline itself. By aiming to reduce the time passengers spend in the airport the airlines try to capture more of the revenue that would have been spent on retail and catering at the airport - yet keep this within their tightly controlled employee count causing a net reduction in jobs.

A recent announcement by easyJet opening its base at Southend airport states that they expect to employ 150 people at the airport, carrying 800,000 passengers in the first year.

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4 “Bristol International Airport Economic Impact Study” October 2005, Roger Tym and Partners
5 “Bristol International Airport Economic Impact Study” June 2009, Roger Tym and Partners
6 Source, Luton Airport annual monitoring reports
7 Ryanair 2011 financial report
8 British Airways annual report 2006
on three aircraft. This alone would imply 190 jobs per million passengers, but when it is realised that fully subscribed those planes have capacity to carry around 1.5m passengers then again we see around 100 jobs per million passengers. But looking more closely it is clear these are not new planes or jobs, but they have merely been moved from Stansted:

*The second-biggest low-cost carrier in Europe, based on passenger numbers, says it will move 3 of its planes from Stansted Airport and redeploy 150 workers to Southend Airport as part of its plan to target business travellers.*

As the low-cost airlines grow to dominate the industry (Ryanair carries around twice the passengers of British Airways) their leverage with the airports increases and they dominate the opportunities for employment. This is the case at most regional airports and certainly at those where short-haul flights predominate.

### 2.2 Dead-weight and displacement

It is common for airports to state the benefits of expansion in terms of jobs generated but this often conceals that some part of the expansion will be diverting passengers from using another airport and hence instead of adding jobs it is merely displacing them from another airport. If this displacement also involves a change of business model (e.g. from flying on a full-service airline from Heathrow to flying with a low-cost airline from a regional airport) then it may also imply a net loss of jobs due to the differing job intensities involved.

This displacement effect can be seen clearly with regard to Stansted where passenger numbers peaked in 2006 and have been falling since 2008. The regional airports continued to grow for another one or two years before the financial crisis affected their business and their increase was at the expense of Stansted.

The figures above show around 90% of Stansted's passengers come from the local areas of the East of England and the South East, but also that the non-local passenger numbers peaked and dropped sharply well before the financial crisis, due to the expansion of low-cost flights at other regional airports. It also indicates that demand at Stansted was reaching saturation before the crisis.

Other displacement effects can occur. Many of the direct jobs generated by airport expansion are in retail, that is in the shops and cafés on the airport site selling sunglasses, perfume and coffee to the flying public. Much of the expenditure in these establishments would have otherwise happened within the non-airport retail sector had these facilities not been available at the airport, for instance the sunglasses and perfume might have been available at the retail stores in the local town centres.

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purchased on the high street and the coffee on the way to the airport. If the local airport had not expanded its offering to include the chosen route then the customer may have chosen not to fly at all and would instead have used the money in local restaurants and shops or on day trips or short breaks within the UK. So the jobs created at the airport are almost certainly displacing some jobs elsewhere within the UK economy, yet this is not accounted for in the claims of job creation made by the airports.

Looking at the accounts of a regional airport (Bristol) it can be seen that the majority of revenue for the airport operator comes from activities other than getting passengers into the air: 41.8% of revenue was from aeronautical activities but 58.1% was from commercial activities, primarily parking and retail and food concessions. Furthermore, the yield per passenger was falling on the aeronautic side but rising on the retail side due to the dominance of the low-cost airlines.\(^\text{10}\)

At least one airport has employed a tortuous double-think by ignoring any loss to the UK economy due to outbound tourism (by stating that most of the passengers would have flown anyway albeit from another airport), but then claimed all of the jobs and income from those passengers flying from their expanded airport even though by their own logic there would be no net increase in passengers, just a change in the airport used.

For Bristol Airport, the economic assessment assumed 70% of outbound passengers would be diverted from using other airports yet 100% of the passengers were used to calculate the benefits that accrued including APD and retail jobs, and the 30% that were not displaced from other airports were conveniently ignored in terms of increased outbound spending.\(^\text{11}\)

OEF states that the jobs in the aviation industry can be calculated from three categories: air transport (SIC\(^\text{12}\) 62), ancillary air transport services (SIC 63.23) and “other aviation related employment” which is not defined. Over the period 1998 to 2004 this total of jobs rose from 180,000 to 186,000. But looking closer, the two defined categories fell from 103,000 jobs to 94,000 and it is the ill defined category that grew. This area no doubt is dominated by peripheral services such as catering and retail which are likely to displace similar activities outside the aviation sector.

Using the same ONS data\(^\text{13}\) that OEF draws upon we can track the categorised jobs over a longer period.

\[\text{Air Jobs vs Air Passengers}\]

\[\text{Air Transport Jobs vs Air Passengers}\]

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\(^{10}\) 2008 accounts for South West Airports Ltd, operators of Bristol Airport

\(^{11}\) “Bristol International Airport Economic Impact Study” June 2009, Roger Tym and Partners, 8.53

\(^{12}\) SIC=Standard Industrial Classification

\(^{13}\) Annual Business Inquiry data from ONS using SIC 2003 and SIC 2007 categories
The left hand graph shows how the total of the categorised jobs changed over time. The right hand graph shows how the “air transport” category changed over time. It is clear that direct transport jobs actually fell from 1998 to 2008, and do not rise in line with passenger numbers. The rise in the total jobs from 2007 is partly explained by the change in SIC categories at that point, potentially counting different jobs from before (notably from “Other supporting air transport activities” to “Service activities incidental to air transportation”) hence possibly including some of the uncategorised jobs previously noted by OEF.

It must be clear from this that airport expansion is not a source of jobs even in the direct areas and once displacement is taken into account it is highly likely that no net increase would be seen.

2.3 Summary of Direct Jobs

Estimates produced by the industry of direct jobs generated by airport expansion are greatly exaggerated. They ignore changes in industry practices, displacement from other airports and other industries. Jobs in the sector have stayed flat despite a massive growth in passenger numbers. There is little evidence that further expansion would generate net jobs.

3 Costs

The aviation industry has considerable external impacts which should be taken into account in any economic assessment of the benefits of expansion. These impacts include noise and its health impacts, surface access and congestion, climate change, increased dependence upon oil imports and land use impacts. In addition to these there is a large impact due to outbound tourism, which is the area we examine here.

3.1 Induced tourism jobs

In economic assessments of airport projects the benefits terms often include induced jobs in the tourism sector meaning that increased visitors to the region and country will be generated and this will add jobs due to their spending. When we examine how well this assumption is supported by the facts, it is hard to see sufficient justification. The major reasons for this are two-fold: a) only the minority of passengers are inbound visitors, the majority are British citizens flying abroad, and b) even if there is an increase in inbound spending there is a simultaneous decrease in domestic spending due to more leisure spending on trips abroad.
Let us first look for any direct evidence of a net increase in spending or jobs in tourism related areas. Firstly, using ABI\textsuperscript{14} data for jobs in hotels, we see no sign at all that increased air passengers have benefited the sector, with no net growth in jobs over the decade. As visitors from abroad are unlikely to be on day trips it is reasonable to assume that any mass influx would generate more demand for hotel rooms, yet there is no sign here that a net benefit has been seen. There have been small rises in other forms of accommodation (such as at campsites) but these are far more likely to be due to domestic demand.

In the SIC category covering “travel agency, tour operator and other reservation service and related activities” the jobs increased initially but then fell sharply to a level lower than in 1998, probably due to the increase in direct on-line booking particularly for low-cost flights.

If we look at the International Passenger Survey we can see that between 1984 and 1998 there was an increase from 154m inbound visitor nights to 231m, and 251m in 2007. In the outbound direction there were 277m nights in 1984, 509m in 1998 and 689m in 2007. So although there has been an increase in visitor nights of 20m since 1998, there has been a increase in outbound nights of 180m.

If the inbound visitors were all additional demand (assuming the outbound tourists had no effect on domestic demand) then this would imply an increase in demand for hotel rooms of around 54,800 per night which in turn would imply at least some increase in the jobs to service that demand. If a maid could clean 20 rooms per day then that would require 2,700 extra maids alone along with more reception, catering and bar staff. Yet we see no net increase in hotel jobs. This again shows the likelihood that outbound tourism is cutting domestic demand and hence the overall demand for hotel rooms does not grow (see later for regional confirmation of this).

There has been a slight increase in jobs in the museums category over the period (around 10,000 jobs) but how much of this can be attributed to increased demand by foreign visitors is open to debate and it is a very small increase compared with the 300,000 jobs in the hotel area or the 100,000 in the travel agency area. It might even be due to entrance charges to state museums being dropped under the previous government.

To explain why the increase in air passengers is having so little beneficial effect, we can turn to the International Passenger Survey\textsuperscript{15}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{Illustration3.png}
\caption{Air passengers over time}
\end{figure}

\textsuperscript{14} Annual Business Inquiry
\textsuperscript{15} “Travel Trends 2009” produced by ONS from the International Passenger Survey
The first of these figures shows that not only are there more than twice as many outbound visits than inbound ones but that the difference in number of visits has more than doubled over the last decade. The spending imbalance has grown from around £2bn in 1989 to £20bn in 2008, before reducing sharply when outbound passengers fell due to the recession and weak pound. Around a quarter of visitors are on business but only a seventh of outbound trips are business and over 60% are for holidays.

Overall this shows that for every pound brought in by foreign visitors (all categories) £2.30 is being spent abroad by outbound UK residents. If we made the same comparison for just tourism visits the ratio would be even worse. So even if the extra inbound spending helped to preserve a job in a hotel, the massive outflow of money which might otherwise be spent on domestic travel and leisure activities would have a contrary effect.

It is claimed that:\n
\begin{quote}
Tourism is the sixth largest industry in Britain. It generates £115bn p.a. for the UK economy and directly supports over 2m jobs and is the UK’s third largest export earner.
\end{quote}

This is primarily a domestic industry (only around £15bn of the above £115bn is from inbound tourists) and yet the negligible number of extra jobs generated in the aviation sector directly threatens the two million domestic jobs due to the net outflow of tourism spending.

### 3.2 Exported tourism jobs

Increased use of air travel does not just increase the number of inbound passengers but also outbound ones and this leads to a net outbound flow of spending.

Average spending per visit for inbound holiday visitors was £553 in 2009\textsuperscript{17} and the average outbound spend per holiday visit was £566. Overall, 80% of outbound visits and 75% of inbound ones are by air and only 11% of flights are domestic\textsuperscript{18}. Around 60% of all flights are outbound leisure (holiday plus visiting friends and relations) and 20% are inbound although at regional airports the inbound figure is often lower than this (e.g. 11% at Bristol, 9.4% at Manchester, 6.7% at Cardiff and 6.0% at Exeter in 2008).

There is little indication that these current ratios will improve significantly in future,

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\textsuperscript{16} www.tourismalliance.com
\textsuperscript{17} From Travel Trends 2009
\textsuperscript{18} From CAA annual airport data, NB 9% is unaccounted for and is probably international transfer passengers
especially if the pound gets stronger.

This means that for every extra million air passengers UK wide, or every 500,000 return trips, there will be an extra 300,000 outbound leisure trips and an extra 100,000 inbound ones. This would mean an added outbound spend of around £170m balanced against an added inbound spend of £55m, or an increase in the “tourism deficit” of £115m.

At regional airports this imbalance is even worse due to the lower percentage of inbound passengers. If we estimate that 10% of passengers are inbound at regional airports and 65% are outbound then this implies that an extra million passengers at a regional airport will create £184m extra outbound spend and £28m inbound or an increase in tourism deficit of £156m.

Thus, for every extra air passenger there is a net loss in leisure spending to the UK of around £115, or £156 where the growth is at regional airports.

In terms of jobs, a certain amount of leisure or tourism spending is related to each new or supported job. The amount of spending per job is open to debate, for instance the “South West Value of Tourism” report for 2007 implies the analysis based upon staying visitors (rather than day trip ones) gives a value around £70,900 spend per job created. This will be the value related to most inbound visitors.

The spend per job for day trip visitors is somewhat lower at around £63,400. If outbound spend reduces the disposable income to be spent by UK citizens within the UK then this is likely to reduce day trip spending and thus have a larger impact upon jobs.

If we assume one job would be created for every extra £70,900 spent by inbound tourists, then it is also reasonable to assume that for every extra £70,900 spent by UK citizens abroad and not spent within the UK there is a job foregone within the UK economy, even though that may not be within the tourism sector.

Using this figure, for every extra million air passengers, around 1,600 jobs will be lost or foregone from the UK economy. At regional airports the figure is around 2,200 jobs being lost or foregone.

### 3.3 Regional tourism spending over time

If we now turn to the impact of air travel upon domestic tourism spending within the UK, we can see if the inbound tourism can compensate for any drop in the disposable income of UK citizens available to be spent within the UK due to increased spending on outbound trips.

If we use the South West region and Bristol Airport (the largest airport in the region) as an example, we can see in the graphs below that domestic trips to the region far outweigh inbound trips and that over the period that passengers at the airport tripled (2001 to 2008), the number of domestic trips fell by 23%, before rebounding back mostly due to the weak pound.

In terms of spending, the total tourism spend in the south west region fell by 10% in real terms between 2001 and 2007, at the same time that UK GDP rose by 15% in real terms. To emphasise how the major conflict with domestic tourism is outbound tourism and not a lack of disposable income the situation corrected quite radically in 2009, due to the weak pound. The relatively high cost of travel abroad was the deciding factor, not the lack of money to pay for a holiday. Not only did the overall UK tourism deficit drop by 20%, but the benefits were seen at a regional level too.

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19 From Value of Tourism reports
In the South West, tourism expenditure rose by 13% in 2009\(^\text{20}\) even though air passengers dropped by 10% at Bristol Airport (and dropped by 14% to 20% at the region's other international airports).

According to Visit England\(^\text{21}\), in 2009 13% of the population switched from a foreign holiday to a domestic one (22% of 8+ night holidays switched), and 15% took more domestic holidays without changing their outbound travel plans – and this was in the year when the credit crunch started to affect the UK. This trend continued in 2010 with 20% taking a UK holiday as a replacement for a foreign one, and the major drivers were reduced financial resources and the weak pound.

4 A better balance

It is clear that overall air passenger numbers have dropped considerably since 2008. The main driver for this has been the weak pound, making the cost of trips to both euro-zone countries and the USA considerably more expensive. Can this show a way in which UK tourism can benefit without expanding our airports?

4.1 Comparison with other countries

In 2007, the average exchange rate was 1.46 euros to the pound. In 2008, this dropped to 1.26, and in 2009 to 1.12. Thus an item of holiday expenditure in Europe would have increased in cost - in pounds sterling - by roughly 16% between 2007 and 2008 and a further 12% by 2009.

Visits to the EU15\(^\text{22}\) dropped by 1.6% in 2008 and by 15% in 2009. As summer holidays are often booked early in the year and the full consequences of the financial crisis were not visible until later in 2008, it can be seen that the correspondence between the weakening exchange rate and visits in 2009 is quite close to the -1.0 price elasticity used by the CAA.

The following graph\(^\text{23}\) shows how domestic stays of four or more nights have dropped considerably in the UK since 1997, with a rebound since 2008 but that this trend is not seen in our two nearest European competitors. In fact the domestic sector grew in both cases over the period, but also saw a boost since 2008 presumably due to less trips

\(^{20}\) UK Tourism Survey 2009
\(^{22}\) Source Travel Trends
\(^{23}\) Source Eurostats
Looking at outbound trips we also see a marked difference, some of which is explained by the balmier climates of France and Germany (in the summer at least) but also by the explosion of cheap flights in the UK and the strong pound. Low-cost flights were later to grow in the other countries, and the strong pound at least discouraged foreign travellers coming here.

4.2 Tourism deficit

If we look at the deficit in both trips and spending due to the imbalance between inbound and outbound trips to the UK, we see that both deficits grew very considerably from 1986 with a steep increase beginning in 1997 when low-cost flights became available. The correction in both after 2008 is very large.

It is worth noting that the trip deficit seems to have reached a much slower rate of change after 2002 reflecting the fact that the larger airports had reached saturation and the subsequent growth in regional airports had not made much increase in the total and to

24 From International Passenger Survey data
some extent had been at the expense of numbers using the larger airports.

This effect is unlikely to continue far into the future as the passengers at Stansted are already mostly from the East and South East regions, and the flight offerings from Heathrow are not easily replaced by regional airports due to short runways, terminal limitations and insufficient catchment.

4.3 Regional impacts

The South West region is by far the most popular domestic destination (with 42% of visits in 2008\(^{25}\)) and with most tourism revenue coming from domestic sources\(^{26}\):

Most of domestic visitors arrive by car (81%), and only 14.9% of foreign visitors to the region arrive through the region's largest airport.

Overall this means that the domestic visitor will be balancing the cost of travel within the UK by car against the cost of travel abroad by plane. The taxation of car travel in the UK is around 5p per passenger kilometre and most of this is made up of duty and VAT on petrol.

The only significant tax on air travel is Air Passenger Duty and for typical European short-haul trips this works out as between 0.3p and 1.2p per passenger kilometre. This means that taxation is working currently to make domestic tourism less attractive, and this is especially so for the South West car travel is the only practical way to reach many

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25 “Holiday taking in 2010” SW Tourism
26 SW Value of Tourism report 2007
destinations.

The recent rebound in domestic trips has been mostly driven by the weak pound. If UK interest rates rise in future relative to the euro-zone, or the financial services industry makes the UK an attractive investment again, or faith is lost in the euro, the pound will strengthen and this is likely to drive away inbound visitors, to reduce domestic visits again and increase outbound ones. This would have a detrimental effect on regional tourism.

4.4 Outbound versus domestic stays

If we turn to the South West region we can see the impacts that increased outbound tourism has had. Using the reports prepared by South West Tourism\textsuperscript{27} we can see that the nights stayed by domestic visitors dropped considerably between 2001 and 2008, whilst the growth in inbound visitor nights only partially compensated for this drop. If this trend was repeated across the country it would tally with the lack of a net increase in hotel jobs despite the extra inbound visitors.

This is an important issue when you consider that in Cornwall there was more than ten times as much revenue from domestic staying visitors as those visiting from abroad, and

\textsuperscript{27} “Value of Tourism” prepared in various years by southwesttourism, the regional tourist board
fifteen times as much if day-trips are taken into account.

It is clear that over the same period (2001 to 2008) that UK outbound staying nights increased by 20%, the SW domestic nights dropped by 20%. It seems very likely given the finite amount of leisure time and disposable income that the extra spent on outbound trips directly reduced that spent on domestic ones.

4.5 Conflicts with localism

It is quite common for airports to be situated outside the urban areas that they serve and for them to fall under the planning control and even ownership of other local authorities. In the case of Bristol Airport, the relevant authority is North Somerset council, for Bournemouth Airport it is Christchurch council and so on. As has already been stated, many of the jobs that may exist at an airport parallel roles within retail in the local urban areas - most airports have branches of Boots, WH Smiths, Starbucks, Burger King etc. Because the major element of employment growth at airports is in the retail and catering sector, extra jobs at airports are often at risk of reducing jobs in the urban retail sector.

This conflict is exacerbated by the local authority boundaries because the planning authority cares about jobs created within its area and has no duty to examine if this is just a displacement of jobs from an adjoining area's retail sector, or indeed from a more distant airport's aviation sector. This situation is likely to be made worse by too rigid a definition of “localism”, in fact it is likely to encourage a culture of “beggar thy neighbour” to the detriment of the economy as a whole.

A parallel might be drawn to large out of town shopping developments and superstores. Airports now resemble out of town shopping areas, albeit with more expensive parking. It has been shown that these have reduced the net jobs in the retail sector, by concentrating them at single sites and within a small number of employers where economies of scale and increased automation and centralised production and distribution can reduce jobs:

>`A 1998 study by the National Retailer Planning Forum (NRPF) examining the employment impacts of 93 superstore openings between 1991 and 1994 found that they resulted in a net loss of more than 25,000 jobs`\(^{28}\)

To protect against this conflict, clear rules on economic assessments must be implemented by central Government which make it clear that projects need to be to the net benefit of the UK economy and not just shifting jobs and spending from one airport to another or from shops in urban areas to shops on airport sites.

4.6 Balancing taxation

To counteract this, an increase in taxation on air travel would help to reduce the demand for outbound travel and would provide a significant fund to be invested in improvements in domestic travel and destinations thus increasing domestic tourism and helping to retain inbound visitors who might otherwise be put off by an increased trip cost. For the regions, this might take the form of strengthening the rail links to the South West extremities, investment in tourism attractions and in holiday packaging and guide services to make a larger part of the UK attractive and accessible to foreign and domestic visitors alike.

There has already been mooted a “tourist tax” of £1 per night for hotels\(^{29}\). Although this form of tax is common in other parts of the world as a source of local revenue, it seems more logical to raise tax that benefits the local economy by reducing losses to outbound tourism rather than by discouraging both inbound and domestic tourism. So instead of a

\(^{28}\) [http://www.nrpf.org/pub.htm](http://www.nrpf.org/pub.htm) - The Impact of Out-of Centre Food Superstores on Local Retail Employment

bed tax helping to subsidise council owned airports we should be examining air tax helping to support the domestic tourism economy.

For air travel to have a similar tax burden to domestic car travel, APD would need to rise to around £50 per outward journey and this would increase the total cost of an outbound visit by around 6% on average (based on average trip spending of £566 and average return fare of around £100 and in increase in APD of £38). Given the evidence on cost elasticity for leisure travel provided by both the weakening of the pound and previous CAA analysis\textsuperscript{30}, this might imply a reduction in demand for leisure air travel of around 6%, without a significant reduction in inbound visits. This would raise a further £3.8bn per year in APD revenue, reduce the tourism deficit by around £0.8bn and increase domestic tourism spending by around £1.8bn which would in turn generate around £0.3bn in tax.

Because the air fare price elasticity is different for inbound and outbound tourists, a 10% rise in the cost of travel would reduce outbound spending by 10% but only reduce inbound spending by 2% hence reducing the tourism deficit strongly (by about 15% on 2008 levels).

Use of some fraction of this revenue for improvements to the domestic and inbound tourism experience would benefit regional tourism economies which have suffered greatly over the last decade. In contrast, expanding regional and other airports will not generate net jobs and will cause an increased outflow of leisure spending which will lose jobs elsewhere in the economy.

\section*{5 Conclusions}

Expansion of airports has not increased the number of direct jobs in the aviation sector, nor has it induced jobs in the inbound and domestic tourism sector. The massive increase in outbound visits has had a largely detrimental effect on the UK economy, which has only been partially rebalanced by the recently weaker pound.

Positive measures to restrain airport expansion, and to curtail the demand for increased air travel which may follow the recovery if the pound strengthens, could have major benefits for regional tourism economies and the UK economy as a whole whilst at the same time reducing the environmental impacts of air travel.

\footnotesize Written by Jeremy Birch, AirportWatch South West Coordinator, published by AirportWatch, info@airportwatch.org.uk; Tel: 020 7248 2223; www.airportwatch.org.uk August 2011

\footnotesize \textsuperscript{30}‘The UK leisure sector showed a strong price elasticity of -1.0, while the foreign leisure market was found to be lower, at -0.2.’ ‘UK Air Passenger Demand & CO\textsubscript{2} Forecasts’, DfT, Jan 2009, para 2.17