

Additional Tourism Notes

Some questions were asked relating to the fraction of outbound tourism spending that was due to different social classes, and also how much business travel might be avoided by the use of a pervasive video-conferencing system in the UK. The following tries to address these points and others. Conclusions and recommendations are given at the end.

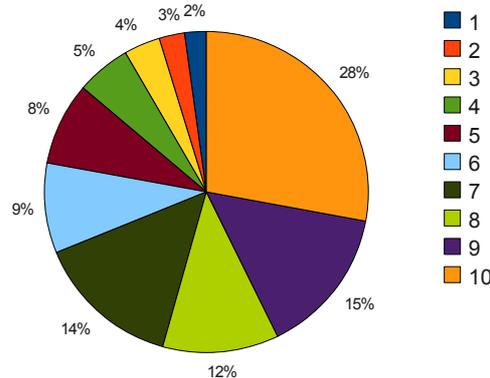
Tourism vs social class

There are various sources for information on this including general economic statistics, surveys gathered at airports and surveys gathered by UK tourism bodies. Each of these may suffer from some faults due to the method of data gathering eg a survey at an airport learns little about those who do not use airports.

From "Family Spending 2009" (a publication of the ONS covering spending in 2008) we can see the following from Table A8 (which covers average weekly family spending by household income decile and spending cause):

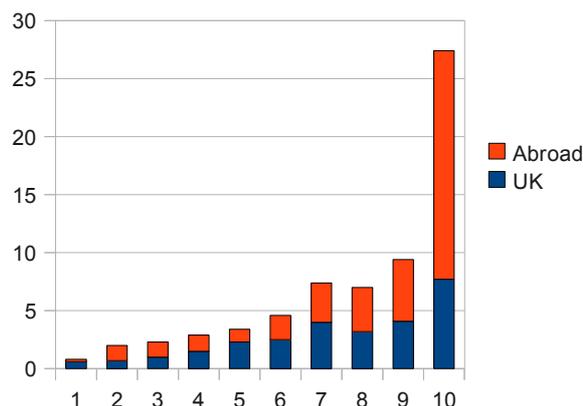
- 1) spending on holiday accommodation within the UK by UK residents. The lowest income deciles spend the least, having the least disposable income and probably only affording a very low numbers of days away, probably holidaying with relatives more than in rented accommodation.

UK Holiday Accommodation spending
By Household Income Decile



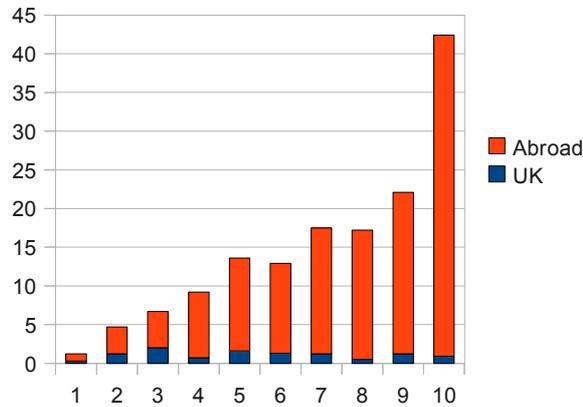
- 2) split of holiday accommodation between home and abroad. From this we can see that overall holiday accommodation spending by the lower deciles is very low. The top decile corresponds to £1400 spending per year, the lowest decile £41 per year. The top decile is furthest from 50% of this spend being domestic.

Holiday Accommodation Spending
By Household Income Decile



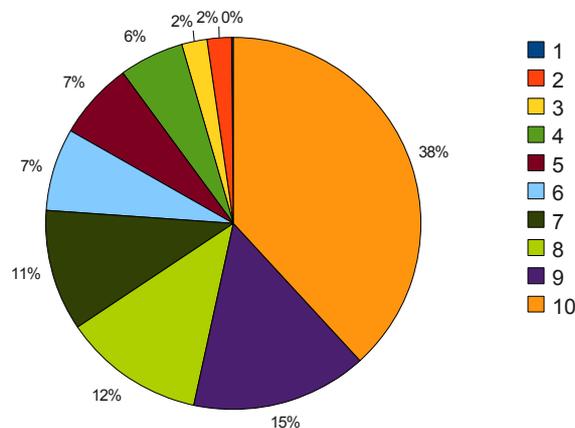
3) for package holidays, the split between domestic and abroad is even worse, with only 2% of the top decile spend being domestic but 25% of the lowest decile's being domestic. Some of this is due to the differing types of “package” that are involved per decile – UK coach and B&B tours at the bottom, luxury all-inclusive cruises or all-inclusive Caribbean resorts at the top. NB a lot of the poorest households are pensioners.

Package Holiday Spending
By Household Income Decile



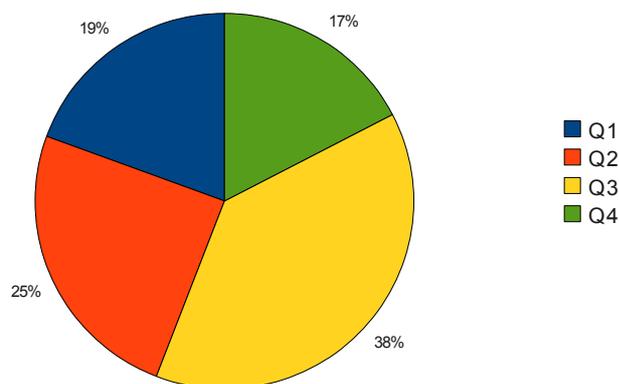
4) as these figures are by income decile, we know that each bar represents the same number of households (but not the number of people involved). This means we can also calculate the percentage of UK accommodation imbalance due to each decile (ie the difference between money spent in the UK and money spent abroad – NB this is not the tourism deficit but does represent net outflow of money). We will lump package holidays and accommodation together here. We show the percentage of the total spending imbalance (ie UK-Abroad difference for the total of holiday accommodation and package holidays) by income decile. We can see that the top decile is responsible for more of this imbalance than the bottom 7 deciles put together, and the top 20% by income cause more imbalance than the other 80%. Measures that encouraged even a fraction of the upper deciles' spending to be UK based rather than abroad would benefit the economy greatly.[NB this does not cover all terms of holiday spending, such as flights, other transport, meals etc, but it is reasonable to assume that these will be in some proportion to the costs included here]

Spending imbalance
By income decile



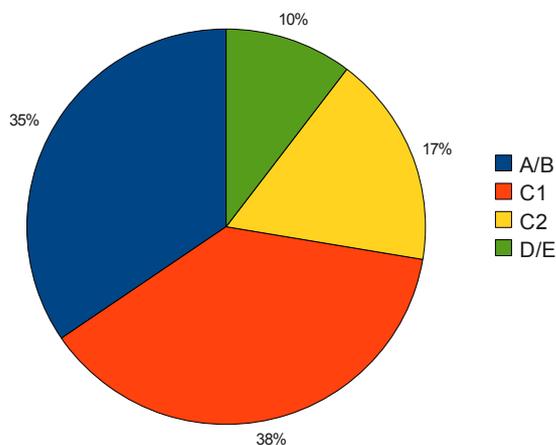
- 5) another indication of social class versus tourism is the time of year when the spend occurs. The “traditional” family holiday is likely to take place in the summer months (Q3), yet as the chart shows below the split of tourism spend abroad by UK residents per quarter (from ONS MQ6 – Transport Travel and Tourism) is far more evenly spread. This may indicate that people with more flexible working arrangements and larger disposable income are able to take holidays more easily around the year than those on lower wages in semi-skilled jobs who may have more firmly fixed holidays (eg during works' shutdowns).

Quarterly Holiday Spending by UK residents

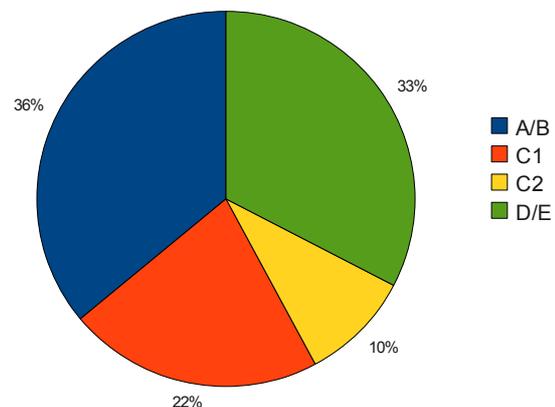


- 6) The CAA conducts passenger surveys each year at various airports, with Gatwick, Heathrow, Luton and Stansted featuring most if not all years, and other smaller airports included less frequently. In 2008 the percentages of passengers flying on leisure by socio-economic group were (for Gatwick, Heathrow, Luton, Stansted, Manchester, Bristol, Cardiff, Exeter and London City) :

UK Leisure Passengers by Social Class



Socio-economic class from 2001 census



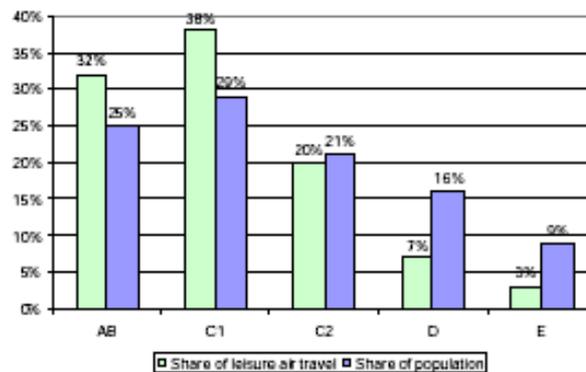
This shows that the proportion of A-C1 groups' flying is far higher than their proportion within the population, and in particular that the D/E group flies significantly less than the other groups.

[The CAA still use very out of date classifications which make comparisons with other data tricky, but we have tried to reconstruct the class categories from the 2001 census categories for comparison]

- 7) The CAA published a report “Demand for Outbound Leisure Air Travel and its Key Drivers” in 2005. It showed the following chart, which shows quite clearly how even

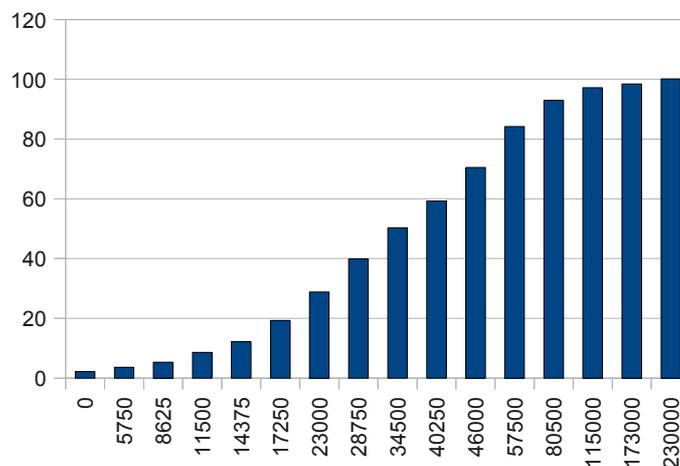
after a decade of low-cost fares, the lower social classes were not flying as often as the richer classes. Even if air fares were zero, that would never make the rest of a holiday abroad much more affordable for the poorer social groups. Yet if aviation was fairly taxed and some of that revenue was rebated back, and some other revenue used to improve the domestic tourism experience, then the poorer social groups would benefit. Many poorer people have been prevented from taking a job due to public transport costs (report by Social Exclusion Unit) so another use of increased aviation taxation revenue might be to make public transport cheaper (at least selectively) and this would in turn lower benefit costs and increase income tax revenue. [Note that the CAA proportions for the social groups within the population are not quite the same as the 2001 census.]

Figure 2 Leisure air trips abroad by socio-economic status (adult population)



- 8) Looking at the household incomes for outbound leisure passengers at Gatwick, we get the following graph. Although this shows that 50% of all outbound passengers have household incomes of £34,500 or more (and the Family Spending survey implies average household income is £34,788), it is clear that very little of the total outbound passengers come from the lower wage bands below £20,000 per year. An increase to APD (or equivalent) if rebated such that one return short-haul flight per year was free of the tax increase, would benefit the lower end strongly, whilst raising useful revenue and increasing domestic tourism spend.

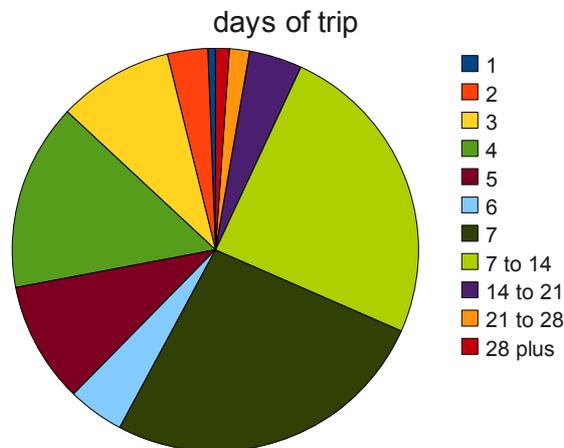
Gatwick outbound leisure passengers 2008
cumulative %, split by household income band



- 9) The CAA data also records the length of trips. For outbound leisure passengers at Bristol, for instance, only 25% are 1-2 weeks long (the “traditional” summer

break), whereas 42% are less than one week long – fitting in with the “city break” concept. So only a small part of the total is the “traditional” summer holiday. According to Travel Trends (IPS) the average stay for a holiday trip to Europe was 8.5 days in 2008, falling from 9.2 in 1995.

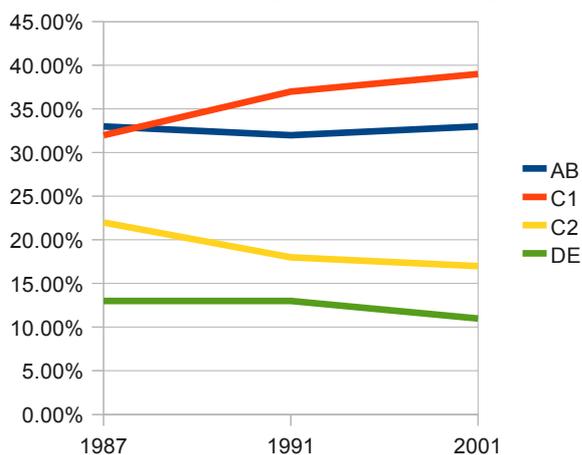
Bristol outbound leisure trips by duration



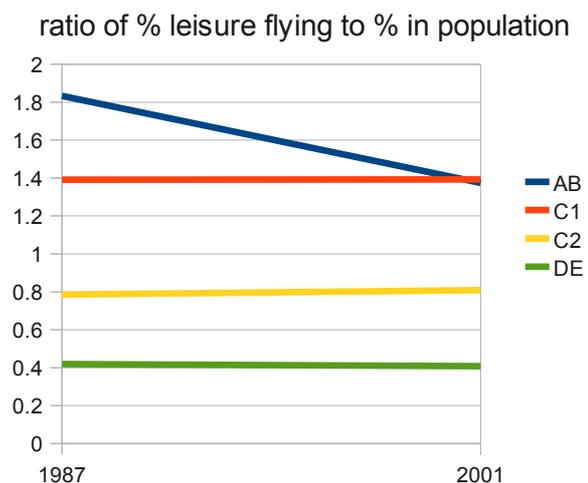
10) The Sustainable Development Commission published a report on Aviation and Social Exclusion (<http://www.sd-commission.org.uk/publications/downloads/AviationandSocialExclusionData.pdf>)

based on CAA and National Readership Survey data, which backs this up. It shows that the proportion of leisure passengers from the different social groups has only changed so that those from group C1 make up a larger proportion of passengers, but when this is corrected for the proportions of the social groups within the population, the ratios are remarkably constant:

Leisure passengers by social group



Propensity to fly



[The 2001 data for the propensity chart is missing because it used a different way to measure the social group within the population, which gives a small bend to the lines]

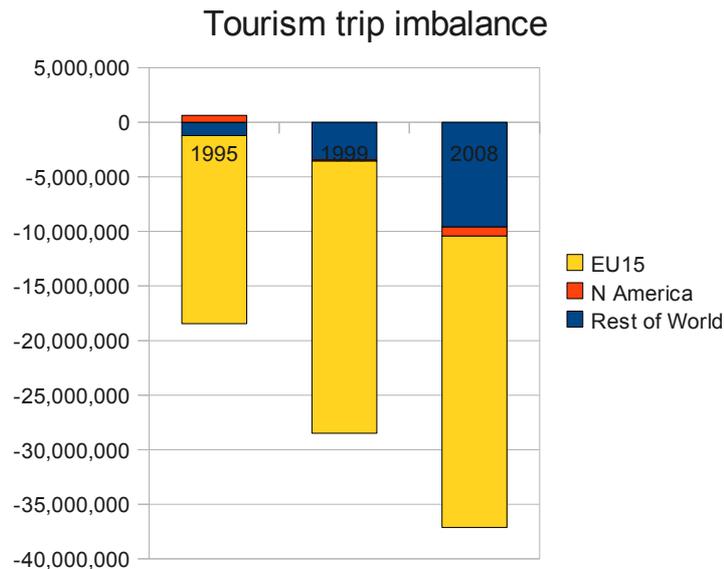
A/B/C1s accounted for 65% of leisure flights in 1987 and 73% of leisure flights in 2004. The low-cost revolution did not democratise air travel.*

The upper social classes grew as a % of the total population over that period, but in a way this is irrelevant - if people got richer, they also became less deserving of protection from taxes on air travel.

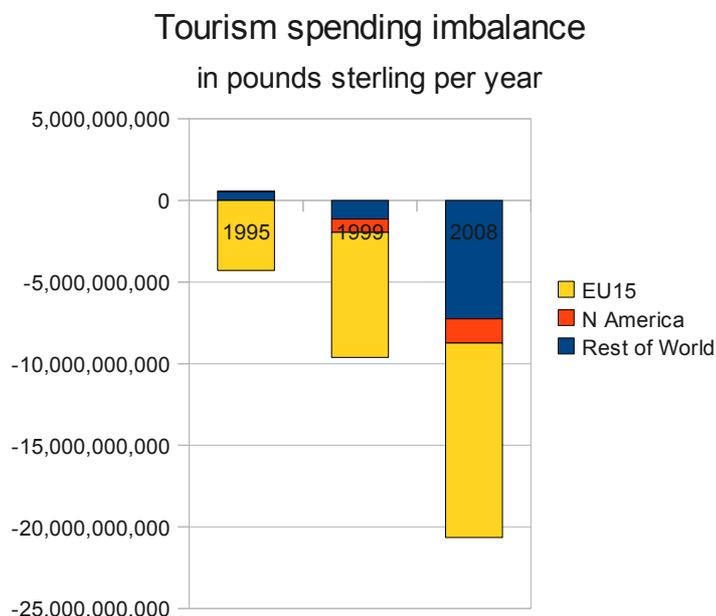
Tourism deficit by country

A major element of the recent change to the tourism deficit is due to the weakening of the pound against the Euro and the US Dollar – making it more expensive to go abroad and cheaper for residents of those areas to come here (eg less dollars to buy accommodation priced in pounds).

- 1) In terms of the imbalance between inbound and outbound trips (of all kinds not just leisure) has doubled between 1995 and 2008. For North America we have gone from having 0.6m extra visitors inbound than outbound, to a deficit of 0.8m. For the EU15 countries the trip deficit has grown from 17m to 26m trips. EU15 countries dominate the overall imbalance in trips.

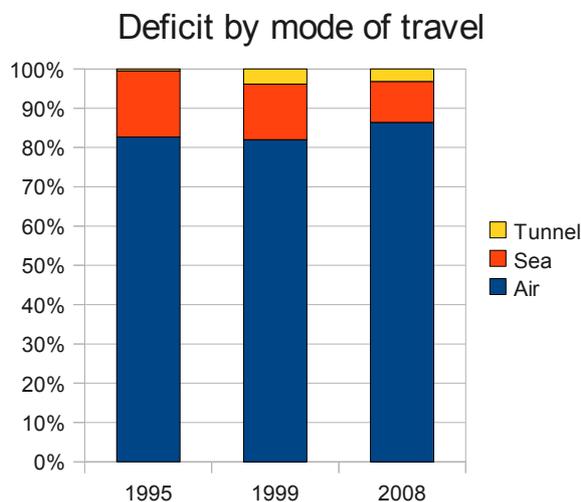


- 2) In terms of the imbalance in tourism spending, the deficit has grown rapidly with both N America and “Rest of the World” changing from a small surplus to a deficit value. The EU15 countries dominate the deficit, as enabled by low-cost short-haul flights, with a further 11% (£2.3bn) being due to the rest of Europe (included in the RoW figure). Measures to constrain the demand for short-haul flights in particular would decrease the deficit considerably. Measures to make UK destinations more attractive to both domestic and foreign custom would reap large rewards.



Tourism by mode of travel

The tourism deficit pattern varies by mode of travel – not only do more people travel by air than by sea or tunnel, but the balance of payments differs too. For instance, in 1995 the Tunnel brought in more tourists than it carried out. Spending patterns also differ by mode of transport – spend on each trip by air is considerably higher than on trips by sea and tunnel.



Scope for video conferencing

Many business flights, particularly those within the UK and those visiting colleagues and established rather than new customers, could be avoided by investment in the infrastructure for high quality video-conferencing / tele-presencing. For this to be effective, a dense network needs to be present ie so a potential caller can expect both to be near a system himself and for his callee to be similarly near. This could take the form of increasing access to universal high speed broadband, hence using “skype” type calls from the desktop – this would be suitable for many routine colleague to colleague calls, or investment in state of the art tele-presence suites which would facilitate many-to-many calls with the feel of actual “presence” (ie high quality, low delay, high reliability communications).

Having such a network in place would displace many car, rail and domestic air journeys, saving time overall, making British industry more efficient, and avoiding the much higher costs of increasing capacities in transport networks. Having established such a network within the UK, it would be easier to then link selectively to other countries with dense networks eg the US, Germany, Japan and so saving considerable cost and time in international journeys. Use of such facilities would be on a commercial basis, but Government backing is probably required to ensure that a compatible and widespread network is deployed rapidly.

WWF published a study called Travelling Light on this subject in 2008.

(www.wwf.org.uk/filelibrary/pdf/travelling_light.pdf)

Its key findings were:

- 89% of the FTSE 350 companies surveyed expect they will want to fly less over the next 10 years
- Business flights are expected to decline from 2009, with companies on average aiming for 3% cuts per year

- 85% of companies believe that videoconferencing has the potential to reduce their business flying
- 89% of companies believe that videoconferencing can improve their productivity
- 84% aim for fewer meetings that require air travel
- 75% of companies believe the government should be encouraging investment in videoconferencing
- Surveyed companies also want more government investment in high speed rail as 77% of companies expect they will travel more by rail
- 62% of companies already reducing their business travel footprint, with a further 24% developing plans to do so
- for non-manufacturing companies, business travel can be 50% or more of the carbon footprint

There is no definitive number for how much impact videoconferencing will have on flights and other forms of travel, the same way it was hard to quantify the impact of email on use of fax and post before it happened, but some case studies are illustrative:

1. RBS has installed 800 video suites across its group, and in 2007 they hosted 35000 participants in 13000 calls. Many of these calls avoided the need to travel, much of this otherwise would have involved flights (eg Edinburgh to London).
2. Man Group believe they have cut 20 long haul and 15 short haul flights per month due to use of videoconferencing, saving around 750 tonnes of CO2 and around \$1m in flight costs each year.
3. Hewlett Packard manufactures and uses telepresence systems and has made a major reduction in its travel as a result:

“A team responsible for transferring manufacturing responsibility for an HP product from North America to Asia cut an estimated 44 international employee trips from the project. In that example alone, eliminating those trips utilizing Halo [the HP telepresence system] prevented 143 metric tons of carbon dioxide emissions from being released into the environment. It would have taken 127,000 mature trees (or 181 acres) a full year to offset that amount of emissions via photosynthesis. ”

(h20338.www2.hp.com/enterprise/downloads/Enviro_CsStdyUS_5_16_LR.pdf)

To estimate the cost of a dense network of telepresence systems: £250k per unit is a reasonable estimate (high if a large order generates a discount). On the basis of providing one per 100,000 inhabitants for all cities with populations over 200,000. So 70 in London, 10 in Birmingham, 7 in Leeds etc, giving a total of 166 in 28 cities down to 2 each in the likes of Swansea, Southampton, Salford and Aberdeen. This gives an overall density of one per every 360,000 of the population. This would come at a capital cost of around £40m. Or a similar cost could provide a much larger number of lower quality VC systems. Alternatively, for that money you could... widen one mile of the M1!

Expansion project Cost Benefit Analysis flaws

One problem faced by those dealing with expansion plans is that the economic analysis provided by the airports (and DfT) tends to ignore major externalities which far outweigh the benefits stated for the project. These externalities are largely:

1. climate change costs

2. tourism deficit costs
3. local congestion and noise costs
4. wider surface access improvement costs

In the case of Heathrow, the DfT included climate change costs but underestimated them, and ignored several of the other costs (as found by the recent "Heathrow Judgement"). For regional airports, these other costs are either not calculated at all, use faulty methods or are totally discounted.

Many airports ignore climate change altogether, or only calculate emissions for landing and take-off but ignore the main part of the flight.

At Bristol the climate change costs were calculated using realistic emissions numbers but used low and out of date carbon costs, then dismissed the issue by stating that it was dealt with at a national level and the ETS would cover the costs. This ignores many aspects, including the EU commission stating that flanking instruments would be needed to make the ETS work including a floor to the carbon price, potential for other fuel/carbon taxes and methods to cope with the non-CO2 elements of emissions. The ETS has also largely failed in its aim to reduce emissions for the industries it currently covers.

On the issue of tourism deficit, the Bristol Airport economic impact study discounted it entirely by assuming that all the outbound tourists would have flown anyway just from other airports, whilst assuming all of the inbound visitors would have only arrived in the region if they used Bristol as the airport. This ignores the evidence that only 15% of the foreign visitors to the South West come through Bristol airport, many of the others coming through Heathrow, Gatwick and the sea ports. It is also clear that a very large element of the increase in passengers projected would be generated demand ie new local passengers who are not currently flying from other airports and would not probably fly from further airports anyway. The expansion of an airport generates demand, not least through access to new destinations from the local airport (even though those same destinations might be accessible from another UK airport already) and through heavy local advertising of the new routes, and low fares which rise as the route becomes established. To ignore the extra outbound spending flow whilst claiming all of the increased inbound flow is bad economics as well as being dishonest.

Economic assessments also often claim that the increase in APD is a local benefit, despite it being a nationally gathered tax. It is questionable if APD is a net benefit seeing that it is also a cost to the passenger, but it certainly is not a locally attributable one. The argument used that all outbound passengers would have happened anyway would mean, if true, that the APD would have happened too and thus it is not a benefit of the expansion project itself.

Planning is meant to presume in favour of sustainability, and at least balance environmental and other costs against economic benefits. If the economic analysis is flawed then decisions made based upon it will also be flawed.

No quantification is made of the costs of increased local congestion, air pollution and noise although all of these are assessable, nor is the wider cost of surface access improvements included in the cost-benefit balance. So the cost of contributing to the South Bristol Link road (£4m) might be included in the balance (although it is not clear that it is), but not the cost of the rest of the road (~£46m) which is largely justified on the needs of an expanding airport.

Government needs to set and enforce clear standards for what items should be included in a cost benefit analysis of a project of this scale including full construction, operating and decommissioning elements. In addition it should be stated that only projects that are

clearly beneficial in the round, rather than marginally so, will be allowed. This allows for a precautionary approach to elements where assessment of impacts and costs is difficult or evolving, such as is the case for climate change.

Tax burden of holidays

One element which might drive the decision making process when choosing whether to holiday in the UK or abroad is cost. This seems to be borne out by the drop in outbound trips last year when the effective cost increased due to exchange rate fluctuations. The same is true for the balance between the cost of flights versus the cost of motoring in the UK. As we have seen, most of the domestic tourism in the UK, and the vast majority to the South West, is by car so the cost of motoring is an important element.

If a family of four fly abroad on a short-haul trip, the total tax burden is currently the APD component (and a small amount for the car journey to the airport). As APD is only on departures this amounts to £44 for the family. Note that there is no duty or VAT on aviation fuel, no VAT on tickets, no VAT on the purchase of the planes or on many other related costs.

If the family chose to holiday in the UK and drive 200 miles to their holiday plus a further 100 miles during the stay (a total of 500 miles) this costs around £76 for the fuel, of which £47 is tax (both duty and VAT). So even on this basis it is clear that aviation is undertaxed if we want to balance outbound and domestic tourism spending. If a group of two is travelling, the tax burden for flying is £22 but for driving to a UK resort is still roughly £47 (car fuel efficiency does not vary much by passengers because cars weigh so much). When advertised air fares are often £10 (although the true cost is higher) the difference in taxation is significant.

Conversely, if air travel was taxed to reflect the amount of fuel used (and hence the carbon dioxide emissions, but not the extra impact of other gases released) in line with the taxation on cars then the tax burden would be considerably higher. A round trip to a destination 500km away by air releases at least 100kg of CO₂ per passenger due to burning 38.75 litres of fuel per passenger. The current tax burden on this fuel is zero, but if the same duty and VAT rates used for cars applied (56.2p/litre and 17.5% VAT) the tax would be £25.58, of which we can assume half should be levied by the UK and half by the destination country. If this was to be modelled through APD (or per plane duty) then this would imply at least doubling the current charge.

Note that the climate impact of flying is roughly double that of the carbon dioxide alone, hence if the charge is intended to model environmental impacts then it would need to be higher again.

It is clear from this that the tax treatment of aviation positively encourages travel abroad rather than use of domestic tourism resorts. The Treasury not only misses out on the tax raised upon aviation, but also only the VAT from the tourism spending going abroad, the income tax of those employed in the tourism industry, and the benefits paid out to those underemployed due to this imbalance.

Conclusions

The rapid expansion of UK airports has mostly served to increase the flow of outbound UK tourists, and the outflow of money with them. This has caused the tourism deficit (a major element of the balance of payments deficit) to grow to £20bn per year in 2008.

This boom has not noticeably benefited the poorer social classes – they are no larger a proportion of passengers now than they were in 1987, although this does mean more flights overall.

The aviation industry is small compared with the UK domestic tourism market (having only one tenth of the jobs of the latter) yet the expansion of aviation has drained money from the domestic sector. Measures that discourage such growth in the aviation sector will benefit domestic tourism and reduce the tourism deficit.

If one of these measures is a rise in APD (or the equivalent through a per plane tax, or fuel taxes, or VAT on tickets etc) and of the revenue raised a proportion is rebated to the public through tax allowances, tax credits, an increase in the pension etc so that the net cost of one return short-haul flight per year is no more expensive than today, but extra flights will bear increased taxation, then this will be progressive by benefiting the poorest in society most. They will have extra money in their pockets which they can choose to use for that one return flight, or domestic tourism or for any other expenditure. Currently, with an undertaxed aviation industry, the poor bear the highest burden by paying for an effective subsidy of £10bn per year whilst not realising any rewards from it.

Video conferencing (VC) has the ability to cut UK domestic passengers considerably whilst making UK industry more competitive. When a dense network of VC suites is available, this will also enable UK businesses to reduce their use of long-haul travel, especially for visits within a company, or to areas sufficiently sophisticated to have a similar network of facilities. This is a cheaper option than high speed rail, or roads, and more efficient and less damaging than expanding air travel.

Many airport expansion projects currently being considered suffer from flawed economic assessments. These claim all of the benefits and disown many of the costs, particularly the environmental and tourism deficit ones. This means that planners and decision makers are making planning decisions on the basis of flawed data. The Government needs to set out and enforce a clear policy on the cost-benefit analysis of such projects which requires assessment and inclusion of such externalities.

The Air Transport White Paper is no longer fit for purpose, setting targets based on flawed analysis and out of date information. The Government should aim to replace this policy with one of demand management – the UK already has the highest flights per capita of any comparable nation, it needs to rebalance the use of aviation to reduce the impacts and increase the net economic benefits.

Increasing UK holidays around the domestic city break, entertainment, culture etc both by UK residents and others is a very effective way of reducing the balance of payments deficit and increasing tax revenue.

Recommendations

1. Establish clear cost benefit analysis procedure for airport expansion (and other major projects) which takes into account life-cycle costs and externalities such as climate change, noise, congestion and tourism deficit
2. Use a raised APD (or equivalent per-plane duty, VAT on tickets, fuel taxation etc) to

increase the cost of flying with the aim of managing demand and rebalancing outbound versus inbound and domestic tourism spends

3. Use a proportion of revenue raised from the above to rebate to the population so that the cost of one return short haul flight per year is not increased – this will benefit the poorest in society most whilst penalising frequent fliers
4. Consider using another portion of revenue thus raised to establish the infrastructure for videoconferencing, thus reducing the demand for domestic business flights and increasing the efficiency and competitiveness of British industry
5. Consider using another portion to help improve the domestic tourism experience, thus encouraging more domestic tourism spend and attracting inbound visitors, the product of this being increased tax revenue and lower tourism deficit
6. Use the remaining revenue for deficit reduction measures
7. Explore ways in which (at least) a Europe-wide taxation of aviation fuel and tickets can be implemented, thus avoiding leakage and perverse tax evasions and perceived loss of competitiveness
8. Examine the way in which agencies such as VisitBritain act so that it is consistent with the above. Up to now these agencies have often been in favour of airport expansion because it enables more foreign visitors to come to the UK, but ignoring the much larger loss of domestic tourism revenue by increasing the outbound flow.
9. Replace the Air Transport White Paper with a policy of demand management , based upon up to date science and full economic analysis, avoiding unnecessary expansion of airports to serve outbound tourism
10. Set the taxation on aviation so that it rebalances the costs seen by domestic tourists, as well as modelling the environmental impacts of aviation.