



THE WIDER ECONOMIC IMPACT OF
UK – US TRAVEL RESTRICTIONS IN 2020

FLYER	DESTINATION	FLYER	DESTINATION	FLYER	DESTINATION	FLYER	DESTINATION
OU 364	DUBROVNIK	2100	02	PEKING			
JA 366	SKOPJE	2100	03				
OU 707	SARAJEVO	2100	04				
OU 342	SARAJEVO	2100	13				
OU 8660	DUBROVNIK	2105	15				
AZ 660	DUBROVNIK	2230	03				
AF 543	MILAN-MALPENSA	0550	02				
LH 2055	PARIS	0635	16				
OU 2485	FRANKFURT	0650	12				
OU 410	FRANKFURT	0655					
SK 9300	FRANKFURT	0655					
OS 7052	VIENNA	0655					



Airlines UK with Heathrow Airport Limited,
International Airlines Group and Collinson Group

Final Report
September 2020



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0. Executive Summary

- 0.1. COVID-19 has led to the near closure of the air transport industry in the UK. All but essential flying was curtailed and, although the UK Government made some progress towards re-opening and the damaging quarantine restrictions have been lifted for some countries, capacity, demand and connectivity is expected to be significantly reduced for some time to come. However, **the USA, the largest long haul air transport market to / from the UK**, remains essentially closed with restrictions on entry and quarantine requirements at both ends of the route.
- 0.2. Whilst there is wide recognition that public health cannot be compromised, there is frustration amongst many aviation and non-aviation stakeholders that blanket country-level travel restrictions are a blunt tool that, in some instances, unnecessarily sever the economic ties between two countries where the overall risk to public health from inbound visitors may be relatively low or where other measures, such as airport testing programmes or more targeted restrictions, could significantly mitigate the risk. This is a particular issue in terms of the UK's links with the USA, a country whose geographic size is around 3.8 million square miles. This compares to the area of the EU, around 1.6 million square miles, or Europe as a whole, 3.9 million square miles. Treating the whole of the USA in the same manner as a country in Europe is not practical or sensible.
- 0.3. The scale and scope of direct air services between the UK and US demonstrate the importance of travel between the two countries. The transatlantic market between the UK and US is vitally important for the aviation sector, as **over 22 million passengers used direct air services between the two countries in 2019**, which represented 8.7% of international air travel from the UK. In 2019, **12 airports across the UK had direct air services to the US**. In the opposite direction, **33 cities in the US had direct services to the UK**.
- 0.4. Business travel is a vitally important component of these routes and as a proportion of the overall total, **the USA is more business orientated than other long haul markets**, particularly in terms of markets out of Heathrow. Similarly, the market is balanced towards inbound travel, with significant numbers of overseas residents travelling to / from the US, demonstrating the importance of this market for the UK tourism sector.

Economic Links

- 0.5. Air connectivity between the UK and USA is fundamental for supporting economic growth and trade on both sides of the Atlantic. In 2018, the **total value of trade between the two nations summed to nearly £200 billion**, including over £120 billion in UK exports.

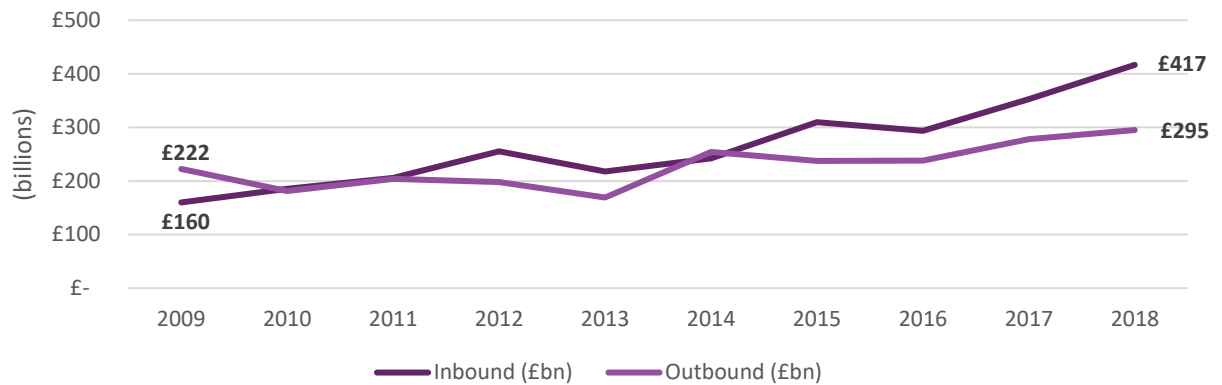
Figure 0.1 - The UK's Top 5 Exporting Partners in Goods and Services (£bn, 2018)



Source: ONS Pink Book 2019

- 0.6. Flows of investment between the two countries are substantial. The UK has been a bigger beneficiary compared to the US, with an **inward investment position of £417 billion** in 2018, which represents an 11% average growth per annum from 2009. This is compared with a growth of 3% from the same period for the US, which received a **total of £295 billion of investment from the UK**. The U.S. Chamber of Commerce reports that the UK is the single largest investor in the US.

Figure 0.2 - Foreign Direct Investment International Investment Positions between the UK and US (£ billions) since 2009



Source: ONS, Inward Foreign Direct Investment (FDI) Involving UK Companies, 2018 (Directional Principle)

0.7. The UK welcomes more visitors from the US by air than from any other foreign country at 3.9 million in 2019. Inbound **visitors from the US account for 12% of total inbound visitors to the UK** who arrive by air. Given this it is no surprise that the US is the largest single source of inbound tourism expenditure for the UK. **Visitors from the US arriving by air spent a total of £3.8 billion** in the UK during 2019.

Figure 0.3 – Top 5 UK Inbound Tourism Markets by Air by Visitor Numbers in 2019

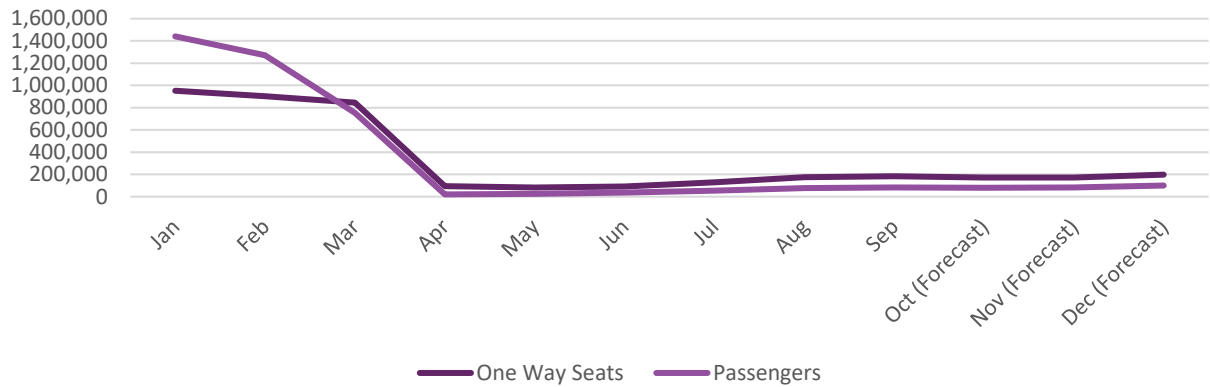


Source: VisitBritain Tourism Survey (2019).

The Impact of COVID-19 on Traffic

- 0.8. The impact of COVID-19 on the air transport market between the UK and the US was swift and dramatic. As travel restrictions were introduced in late March seat capacity fell by around 92% compared to 2019 in April. Falling slightly further in May before rising slowly through to the present. In September, published seat capacity is around 85% down on 2019 and high capacity summer months have been lost.
- 0.9. Consultations with airlines and simple logic suggests that if there is no change in restrictions that little will change in terms of the seat capacity offered by airlines or the likely take up of this capacity by passengers. For our analysis, seat capacity is assumed to recover to around 20% of 2019 capacity by December, up from 15% in September, while load factors are assumed to recover marginally.

Figure 0.4: Seat Capacity and Passenger Outlook for 2020 Without Action on Restrictions



Source: York Aviation.

Impact on the Economy

0.10. Figure 0.5 shows the estimated impact on trade from the unprecedented reduction in air connectivity. Across the whole of 2020, the **total value of trade lost is estimated to be around £45.8 billion**. This includes a £24.1 billion fall in exports to the US. A significant proportion of this impact, around £12.8 billion in trade, including £6.6 billion in exports, will be lost in Q4.

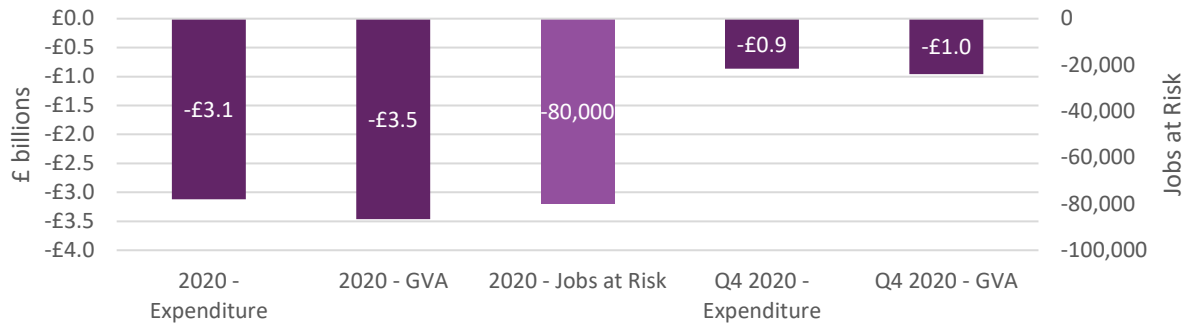
Figure 0.5: Impact on UK – US Trade



Source: York Aviation analysis.

0.11. Throughout 2020, **tourism expenditure from the US is expected to fall by £3.1 billion** compared to 2019, resulting in a **loss of GDP of around £3.5 billion**, putting 80,000 jobs at risk. Again, a significant proportion of this impact is expected in Q4 2020, which will see around £0.8 billion in lost expenditure and £0.9 billion in lost GDP. These impacts are likely to hit sectors such as accommodation services and food and beverage services particularly hard, as these make up more than half of employment in the tourism sector in the UK.

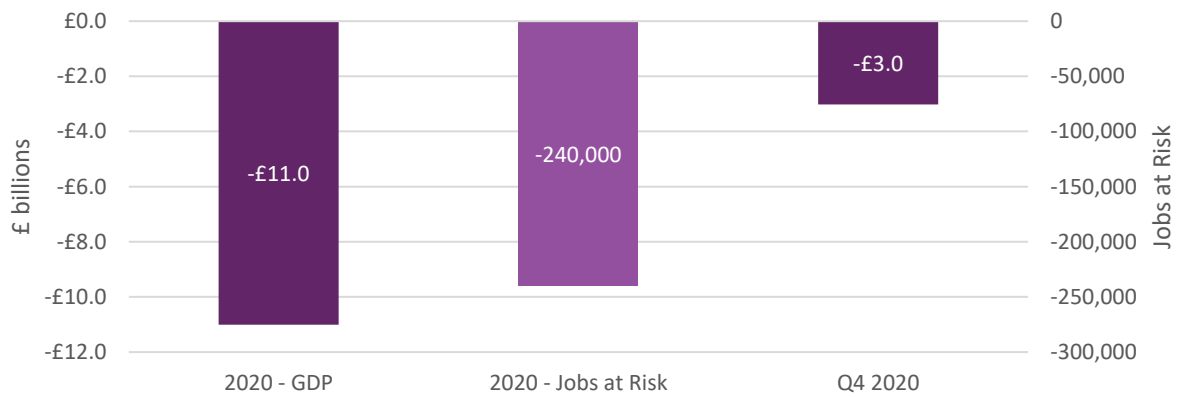
Figure 0.6: Impact on Inbound Tourism to the UK



Source: York Aviation analysis.

0.12. **The overall effect on UK GDP from the near closure of UK – US air links in 2020 is estimated to be around £11 billion or around 0.5% of total UK GDP. This equates to around 240,000 jobs being at risk.** The impact on GDP equates to around £212 million a week or £30 million a day lost to the UK economy. Again, a significant proportion of this impact is expected to be felt in Q4 2020, where there is still some opportunity to reduce losses if effective progress can be made on reopening the air transport market.

Figure 0.7: Impact on UK GDP



Source: York Aviation Analysis.

0.13. The expected economic losses in the last quarter of 2020 are around £12.8 billion in trade, £1 billion in tourism GVA or a total impact on UK GDP of around £3 billion. There is some opportunity to reduce these losses if markets can be opened up in the last part of the year but **the critical issue now is to act to open up the market as soon as possible to allow time for confidence in travel to return and demand to recover so that losses on this scale are not repeated in 2021.**

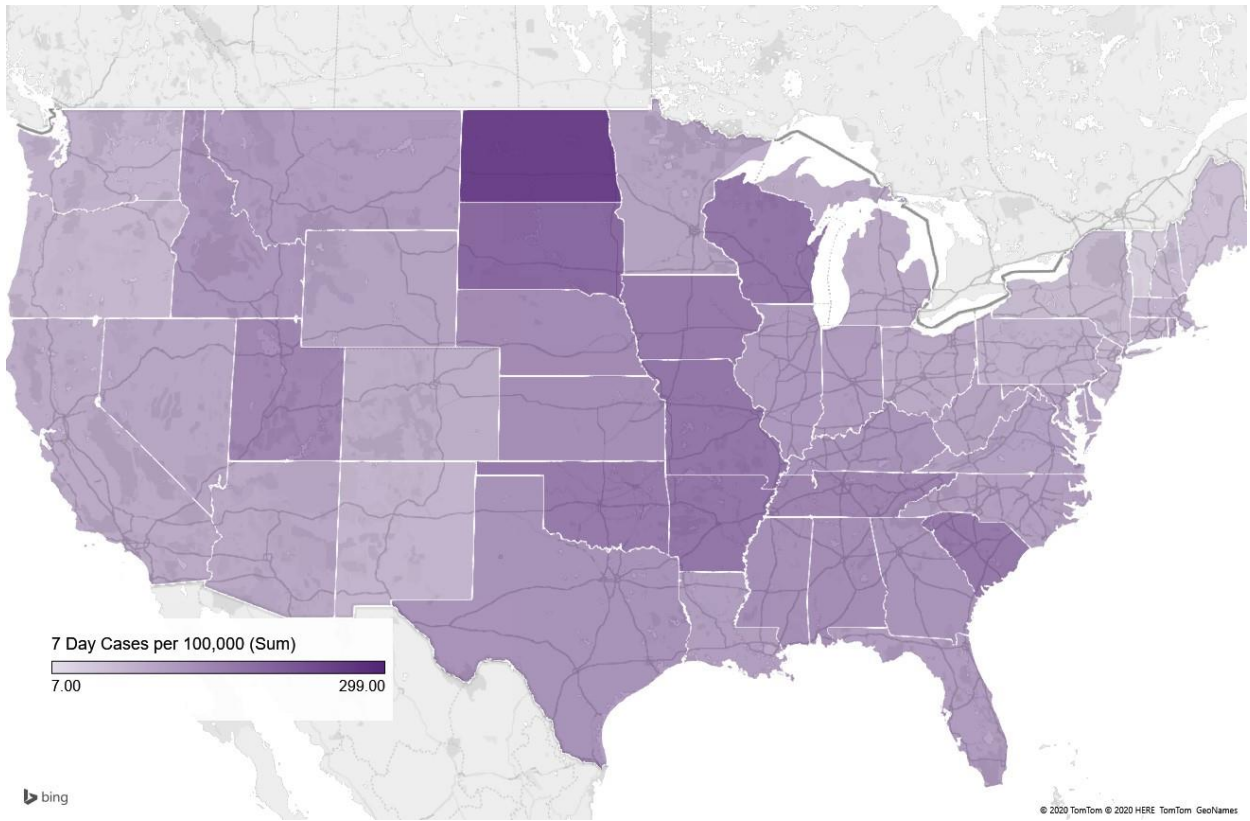
1. Introduction

- 1.1. In August 2020, Airlines UK, the trade body for airlines registered in the United Kingdom, supported by Heathrow, International Airlines Group and Collinson, commissioned York Aviation to undertake a review on the wider economic impact of the current UK - USA travel restrictions continuing until the end of 2020. The review seeks to estimate this impact in terms of the effects on trade, tourism and overall UK GDP.
- 1.2. COVID-19 has led to the near closure of the air transport industry in the UK. All but essential flying was curtailed and, although the UK Government made some progress towards re-opening and the damaging quarantine restrictions have been lifted for some countries, capacity, demand and connectivity is expected to be significantly reduced for some time to come. However, the USA, the largest long haul air transport market to / from the UK, remains essentially closed with restrictions on entry and quarantine requirements at both ends of the route.
- 1.3. Air connectivity between the UK and USA is fundamental for supporting economic growth and trade on both sides of the Atlantic. In 2018, the total value of trade between the two nations summed to nearly £200 billion. Data from the U.S. Chamber of Commerce highlights that 42,000 US firms export to the UK, and more than 7,500 have business operations in the UK¹. The UK is the largest investor in the US, accounting for more than 15% of inward foreign direct investment (FDI) to the US. Similarly, the US is the UK's largest investor, representing 27% of FDI to the UK. Furthermore, an estimated 1.25 million people are employed by UK firms operating in the US, and an estimated 1.5 million people in the UK are employed by US firms.
- 1.4. The UK welcomes substantially more visitors by air from the US than from any other country. In 2019, 3.9 million US visitors arrived by air. The next largest market was Germany with around 2.5 million visitors. Visitors from the USA arriving by air spend more money whilst staying in the UK than visitors from any other country, totalling approximately £3.8 billion in 2019.
- 1.5. The importance of air connectivity between the UK and the USA for its contribution to the overall economy is clear, however, it is also significantly important for the UK aviation industry. In 2019, over 22 million people travelled on direct air services between the UK and USA, which accounted for almost 9% of total international air travel between the UK and foreign countries. Data from OAG indicates that the route between London Heathrow and New York John F. Kennedy (JFK) is the most important route pair in the world for commercial airlines. High yields between London and New York are primarily driven by high levels of business traffic. This is demonstrated by British Airways operating a specific fleet type configured in an all-business class configuration to exclusively operate between London City Airport and New York JFK up until the COVID-19 restrictions on non-essential international travel were introduced.
- 1.6. The Governments on both side of the Atlantic are maintaining their own travel restrictions between the two nations². The UK's Foreign Commonwealth & Development Office (FCO) is currently advising against all but essential travel to the United States, and the United States' Centre for Disease Control and Prevention (CDC) is advising against non-essential travel.
- 1.7. Whilst there is wide recognition that public health cannot be compromised, there is frustration amongst many aviation and non-aviation stakeholders that blanket country-level travel restrictions are a blunt tool, that, in some instances, unnecessarily sever the economic ties between two countries where the overall risk to public health from inbound visitors may be relatively low or where other measures, such as airport testing programmes or more targeted restrictions, could significantly mitigate the risk. This is a particular issue in terms of the UK's links with the USA, a country whose geographic size, is around 3.8 million square miles. This compares to the area of the EU, around 1.6 million square miles, or Europe as a whole, 3.9 million square miles. Treating the whole of the USA in the same manner as a country in Europe is not practical or sensible, particularly as the prevalence of COVID-19 across the country varies considerably (see Figure 1.1). In this context, this analysis considers the economic cost of lost connectivity to the UK economy from the current blanket restrictions to / from the USA.

¹ U.S. Chamber of Commerce, The Transatlantic Economy (2019)

² At the time of writing in mid-September 2020.

Figure 1.1: 7 Day Average COVID-19 Cases per 100,000 Population



Source: New York Times.

1.8. The report is structured as follows:

- Section 2 sets out the connectivity to / from the USA in 2019 in terms of routes served, frequencies and volumes of service and also examines the nature of demand on the key routes identified, providing a baseline picture of the market in normal circumstances;
- Section 3 considers the extent of tourism, trade and FDI links between the UK and the USA on both sides in normal circumstances;
- Section 4 examines the impact that COVID-19 and the associated travel restrictions have had on the travel market and the consequent effect on the UK economy;
- Section 5 presents the conclusions of the analysis.

2. Baseline Connectivity and Passenger Demand

Introduction

- 2.1. This chapter examines the air connectivity between the United Kingdom and the USA. We identify key destinations for UK travellers to the United States, and assess the market characteristics of air passengers travelling between the two countries.

Connectivity to the United States of America

- 2.2. The scale and scope of direct air services between the UK and US demonstrate the importance of travel between the two countries. The transatlantic market between the UK and US is vitally important for the aviation sector, as over 22 million passengers used direct air services between the two countries in 2019, which represented 8.7% of international air travel from the UK.
- 2.3. In 2019, 12 airports across the UK had direct air services to the US. In the opposite direction, 33 cities in the US had direct services to the UK. Table 2.1 outlines the annual direct seat capacity from each UK airport to each US city alongside the average weekly number of departures.
- 2.4. London Heathrow had the largest range of services to the US, serving a total of 31 cities across the US. This includes high-frequency services to key business centres, including New York and Chicago, and less frequently served links to second-tier cities such as Nashville, New Orleans and Charleston. London Gatwick follows Heathrow as providing the second greatest range of services to US cities, totalling 16 direct connections in 2019.
- 2.5. The range of direct transatlantic services between the US and UK extends beyond London and the South East. Manchester Airport is the largest gateway to the USA outside of London. Six regional airports across the UK had a direct service to an airport serving New York in 2019. Some of these connections serve relatively niche markets, such as limited services between Newcastle and Newark in December that seek to capture demand from UK Christmas shoppers travelling to New York. Furthermore, nine regional airports had a direct service to Orlando, transporting families and holidaymakers to numerous attractions in Florida. This spread of services across the UK regions and the connectivity this provides for regional economies to the world's largest economy is important in supporting the UK Government's 'levelling up' agenda. Looking forward, York Aviation's previous research for Airlines UK on the potential economic benefits of an Air Passenger Duty waiver, identified the particular risk to connectivity from the UK's regional airports, which would include regional long haul services such as those to US markets.

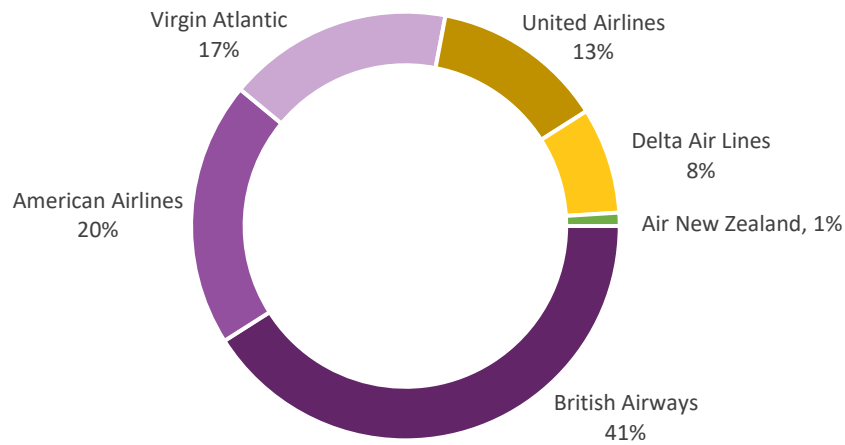
Table 2.1 - Average Weekly Frequencies and Annual Departing Seats from UK Airports to Cities in The United States of America

	Belfast Intl.		Birmingham		Bristol		Doncaster Sheffield		Edinburgh		East Midlands		Glasgow		Leeds Bradford		London Gatwick		London Heathrow		Manchester		Newcastle	
	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats	Av. Weekly Freq.	Annual Departing Seats
Atlanta																		28	376,916	5	118,692			
Austin																	2*	34,814	7	114,645				
Baltimore																		7	88,740					
Boston									2*	17,304							7	123,694	45	609,506	1*	14,630		
Charleston																		1*	12,626					
Charlotte																		13	201,663					
Chicago									3*	26,702							3	55,190	58	759,693				
Dallas																		33	471,246					
Denver																	2	41,245	12	179,624				
Detroit																		12	150,934					
Fort Lauderdale																	4	63,814						
Houston																		27	343,200	5	66,033			
Las Vegas													0*	322			6	105,296	12	194,193	5*	72,827		
Los Angeles																	7	129,816	62	938,092	2*	26,804		
Miami																	5	87,386	37	618,029				
Minneapolis																		7	84,790					
Nashville																		6	64,820					
New Orleans																		5	54,620					
New York								13	117,902	0*	327	6*	48,869	0*	940	25	420,894	189	2,512,856	17	277,401	0	1,308	
Oakland																	1	12,844						
Orlando	1*	11,907	1*	10,035	1*	9,300	0*	6,300	0*	1,200	0*	6,600	3*	55,013		31	586,268			15	311,193	1*	8,100	
Philadelphia									4*	36,608								22	322,067	7	78,850			
Phoenix																		12	190,367					
Pittsburgh																		3	33,388					
Portland																		3*	36,612					
Raleigh																		7	99,099					
Salt Lake City																		4	46,192					
San Diego																		7	105,414					
San Francisco																	4	63,544	41	631,675	1*	18,594		
San Jose																		7	75,384					
Seattle																	2*	40,560	19	248,617	0*	7,230		
Tampa																	9	142,704						
Washington D.C									3*	22,815								42	537,438					

Note: seasonal routes are marked with an asterisk
Source: OAG

2.6. Figure 2.1 presents the breakdown of seat capacity between London Heathrow and airports in the US.

Figure 2.1 Seat Capacity by Carrier from London Heathrow to The United States of America in 2019

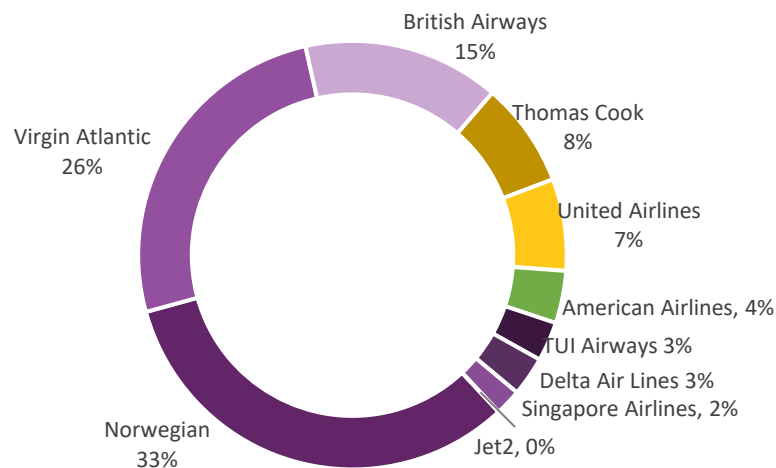


Source: OAG.

2.7. British Airways is the largest single provider of seat capacity to the US from London Heathrow, accounting for approximately 41% of total seats. It should be noted, however, that British Airways and American Airlines operate their transatlantic services under a joint venture agreement, therefore 61% of seat capacity between the airport and the US is supplied by the British Airways and American Airlines joint venture. Similarly, a joint venture operates between Virgin Atlantic and Delta Air Lines, who supply a combined sum of 25% of total seat capacity. United Airlines and Air New Zealand provide the remainder of seat capacity between the airport and the US.

2.8. Figure 2.2 illustrates the seat capacity from other UK airports (i.e., aside from London Heathrow) to destinations in the US.

Figure 2.2 - Seat Capacity by Carrier from UK Airports (excl. London Heathrow) to The United States of America in 2019



Source: OAG

2.9. The largest provider of seat capacity between other UK airports and the US is Norwegian, who account for approximately 33% of total seats. This is closely followed by the Virgin Atlantic and Delta Air Lines joint venture, who supply approximately 29% of total seat capacity.

2.10. Table 2.2 outlines the top ten city pairs in terms of annual seat capacity from the UK and average weekly frequency from the UK to the US.

Table 2.2 - Top 10 City Pairs from the UK and USA by Annual Seat Capacity and Average Weekly Frequencies in 2019

City Pair	Annual Seat Capacity	Average Weekly Frequency
London - New York	2,933,750	214
London - Los Angeles	1,067,908	69
London - Chicago	814,883	61
London - Boston	733,200	52
London - Miami	705,415	42
London - San Francisco	695,219	44
London - Orlando	586,268	31
London - Washington DC	537,438	42
London - Dallas	471,246	33
London - Atlanta	376,916	28

Note: reflects from the UK to the US (one-way)

Source: OAG

- 2.11. London to New York has the largest volume of seat capacity and average weekly frequency compared to any other city pair between the UK and US. This is followed by London to Los Angeles and London to Chicago. Each of the top ten city pairs between the UK and US are to/from London.
- 2.12. Table 2.3 details the top ten city pairs between the UK and US, excluding London, in terms of annual seat capacity from the UK to the US, and the average weekly frequency on each route.

Table 2.3 - Top 10 City Pairs from the UK (excl. London) and USA by Annual Seat Capacity and Average Weekly Frequencies in 2019

City Pair	Annual Seat Capacity	Average Weekly Frequency
Manchester - Orlando	311,193	15
Manchester - New York	277,401	17
Manchester - Atlanta	118,692	5
Edinburgh - New York	117,902	13
Manchester - Philadelphia	78,850	7
Manchester - Las Vegas	72,827	5
Manchester - Houston	66,033	5
Glasgow - Orlando	55,013	3
Glasgow - New York	48,869	6
Edinburgh - Philadelphia	36,608	4

Note: reflects from the UK to the US (one-way)

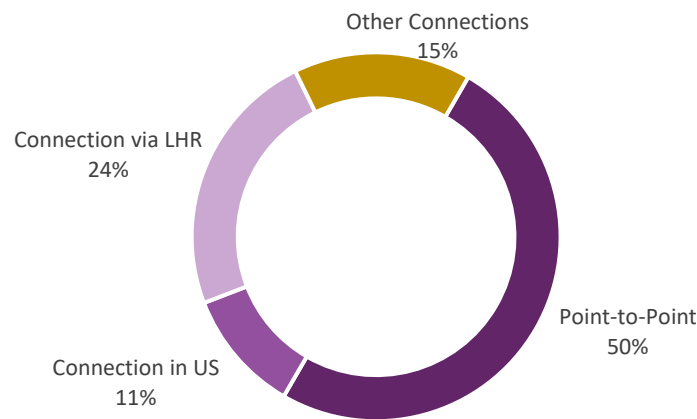
Source: OAG

- 2.13. The city pair with the most annual seat capacity between the UK and US outside of London is Manchester to Orlando, with over 300,000 westbound seats supplied in 2019. However, Manchester to New York has the highest level of average weekly frequencies, which may reflect the prevalence of business passengers on the route who value frequency, compared to the Orlando route which will have a higher proportion of leisure travellers.

Passenger Demand Characteristics

2.14. Thus far we have examined the supply of direct services between the UK and US, however, indirect services between the UK and US, whereby passengers travel between the two countries via an intermediate point(s), account for some of the traffic between the two countries. Figure 2.3 details the proportion of passengers travelling between the UK and US who travel on point-to-point (i.e., a single direct service), those who transit via an intermediate airport in the US, and those who make other connections on their journey (e.g, passengers travelling from Austin to Copenhagen via London).

Figure 2.3 - Proportion of Passengers Travelling Between the UK and US on Direct and Connecting Services

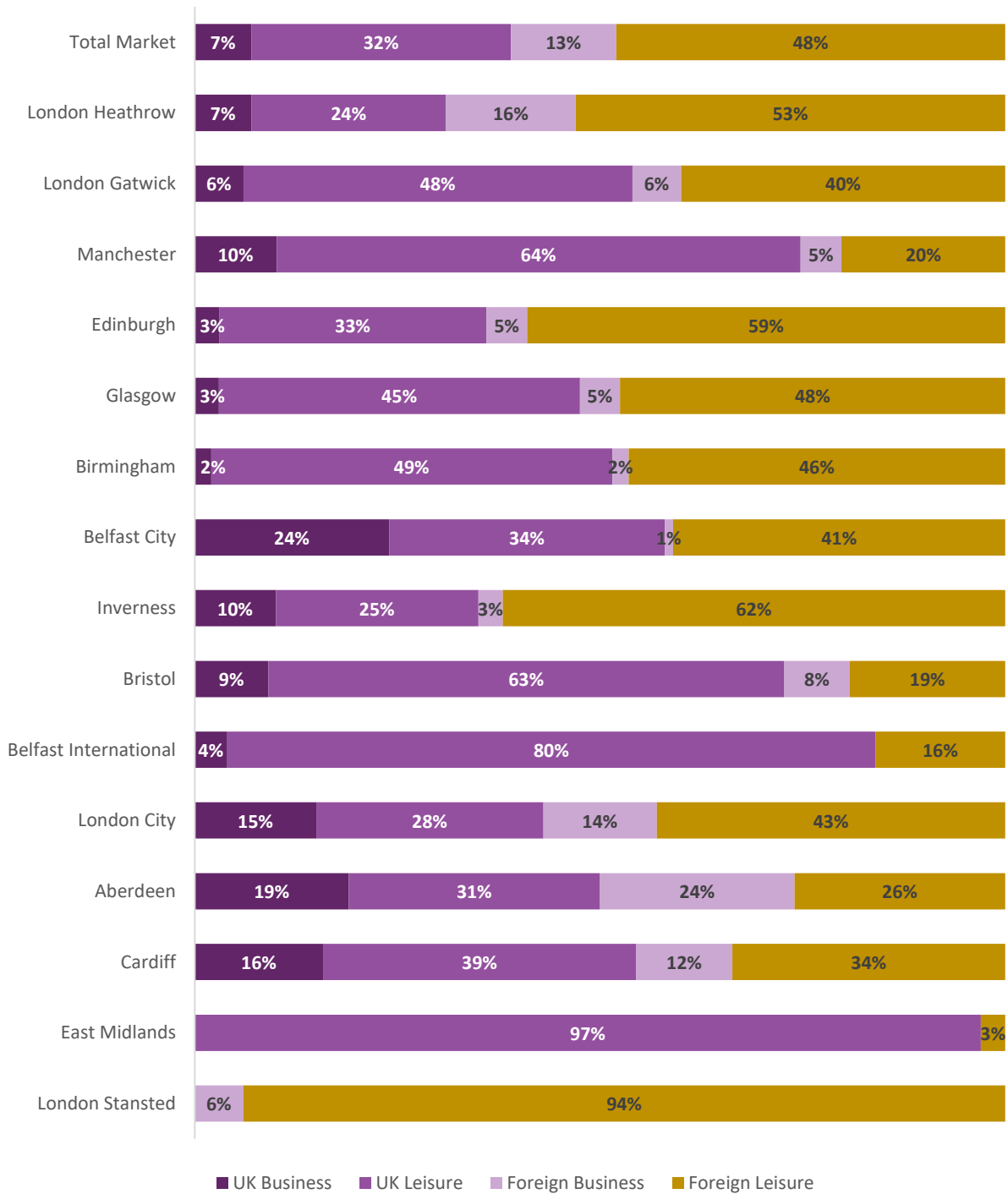


Source: CAA Passenger Survey 2019

2.15. The majority of traffic between the UK and US is carried on point-to-point services. Around 24% of the passengers make connections via the Heathrow hub to get to their end destination in the US. A further 11% of passengers make connections within the US on their journeys between the two countries.

2.16. Figure 2.4 presents the profile of passengers travelling from UK airports to the US in terms of journey purpose (i.e., business or leisure) and nationality (i.e., UK or foreign).

Figure 2.4 - Profile of Passengers Travelling Between the UK and US by UK Airport in 2018 and 2019

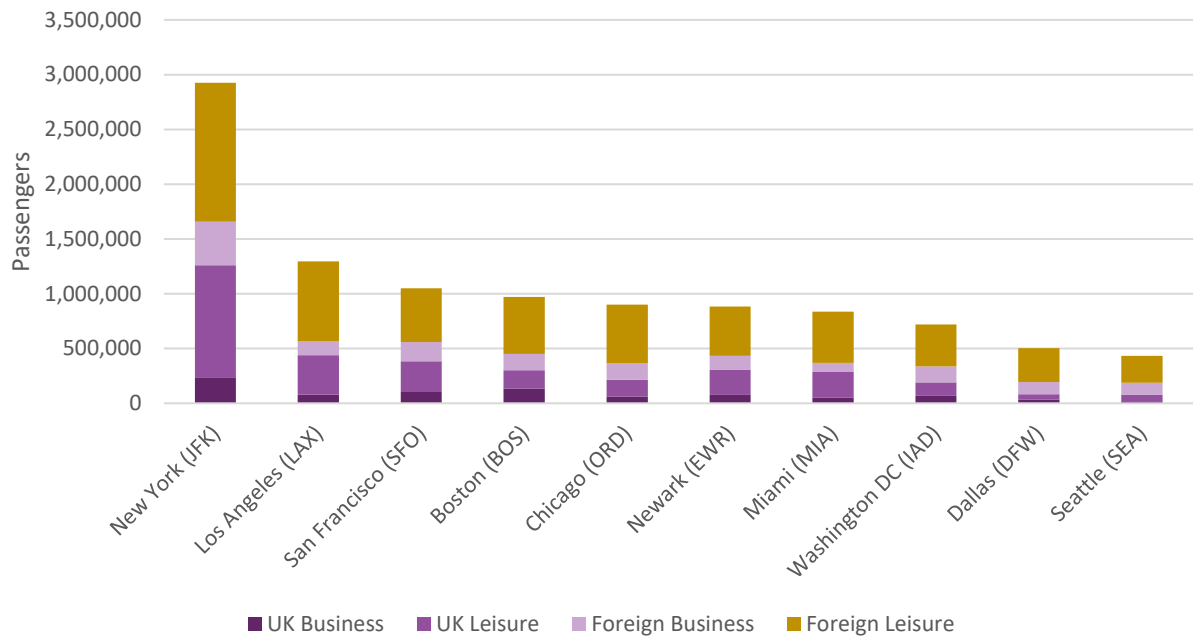


Source: CAA Passenger Surveys.

2.17. Leisure travellers account for the majority of passenger traffic between the UK and US from each airport. Across all airports, leisure travellers represent approximately 80% of traffic. However, the business component is in fact higher than that typically seen on long haul routes at 20%. At airports surveyed in 2019 by the CAA, business travel accounted for 17% on long haul routes on average. It is also notable that the business percentage on US routes at Heathrow is substantially higher than this long haul average at around 23% of traffic. Key users include major corporates operating, in sectors such as banking and finance, pharmaceuticals, IT and professional services, but ultimately users are spread across a broad range of sectors.

- 2.18. Some airports have stronger proportions of business travellers than others, for example, approximately 43% of passengers travelling between Aberdeen and the US are travelling for business purposes, whereas approximately 4% of passengers travelling between Birmingham and the US do so for business purposes.
- 2.19. More foreign passengers are carried on direct services between the UK and the US than UK passengers, reflecting the importance of the US as a tourism market for the UK.
- 2.20. Figure 2.5 outlines the profile of passengers travelling on the top 10 busiest routes between London Heathrow and US airports.

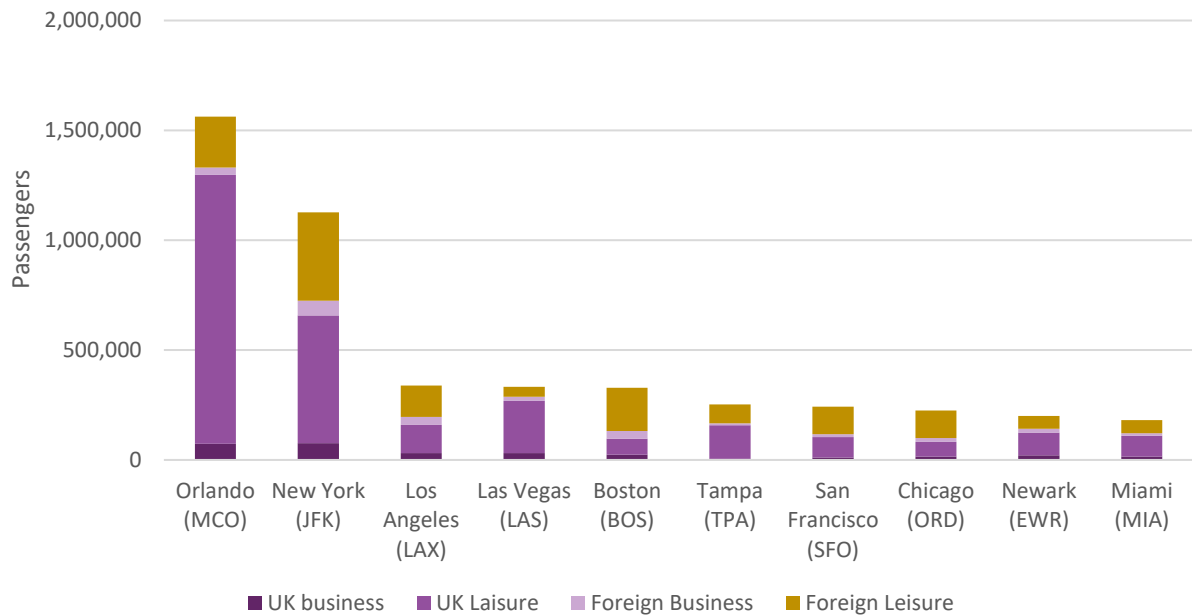
Figure 2.5 - Profile of Passengers Travelling on Routes Between London Heathrow and the US in 2019



Source: CAA Passenger Survey 2019

- 2.21. The route between London Heathrow and New York’s John F. Kennedy is the most popular, with nearly 3 million passengers using the route in 2019. This is followed by routes from London Heathrow to Los Angeles, San Francisco and Boston. Passengers travelling for leisure account for the majority of traffic on each route between London Heathrow and the US, but again there are significant numbers of business travellers on a number of these routes and the numbers of overseas residents on the services is notably greater than 50% in most cases.
- 2.22. Figure 2.6 presents the profile of passengers travelling between UK airports other than London Heathrow and the top 10 most popular destinations collectively from these airports.

Figure 2.6 - Profile of Passengers Travelling on Routes Between UK Airports (excl. London Heathrow) and the US in 2019



Source: CAA Passenger Survey 2019

2.23. Away from Heathrow, the US market is different. It is more leisure focussed and the proportion of overseas residents is generally lower. However, there is still a strong core of business travellers on these routes and many of the primary city markets, such as New York, Los Angeles, Boston, San Francisco and Chicago also have significant inbound components.

Air Cargo

2.24. The importance of air cargo links should also not be forgotten. Nearly 60% of the UK’s goods trade by value with the US was carried on aircraft in 2019 according to HMRC Regional Trade Statistics. While air cargo links have not closed, it should be recognised that in the UK market the majority (70%) of air cargo is carried in the bellyhold of passenger aircraft. Hence, re-opening services passenger services will be important moving forward to support the shipment of traded goods.

Conclusions

2.25. Prior to the onset on the Pandemic, the USA was one of the most important and buoyant air transport markets to / from the UK. The market was centred on Heathrow but a significant number of other airports in the UK also have direct links.

2.26. Business travel is a vitally important component of these routes and as a proportion of the overall total, the USA is more business orientated than other long haul markets, particularly in terms of markets out of Heathrow. Similarly, the market is balanced towards inbound travel, with significant numbers of overseas residents travelling to / from the US, demonstrating the importance of this market for the UK tourism sector.

2.27. It should also be recognised that there is a competitive element to the need to restore links with the US. The UK’s air links with the US are substantially greater than those from key competitor countries and this is reflected in its economic links. If the UK is not able to re-establish links quickly and effectively to allow recovery, there is a danger that others will fill the void, eroding the UK’s competitive position and particularly London’s position.

3. Economic Linkages between UK and the US

Introduction

3.1. This section explores the economic ties between the UK and US in terms of trade, tourism, foreign direct investment. The extent of the economic ties between the two countries supports the context as to why sustained air connectivity between the two nations is so vital. At the outset, it should be said that in terms of maintaining these types of economic linkages, air services are key. They represent the only practical way to travel quickly over the distances required to maintain relationships and move goods.

Trade

- 3.2. The US is the UK's most important trading partner. In 2018, the total value of trade between the two nations summed to nearly £200 billion.
- 3.3. Figure 3.1 illustrates that exports from the UK to the US totalled to approximately £121 billion, of which £52 billion was traded in goods and £69 billion in services.

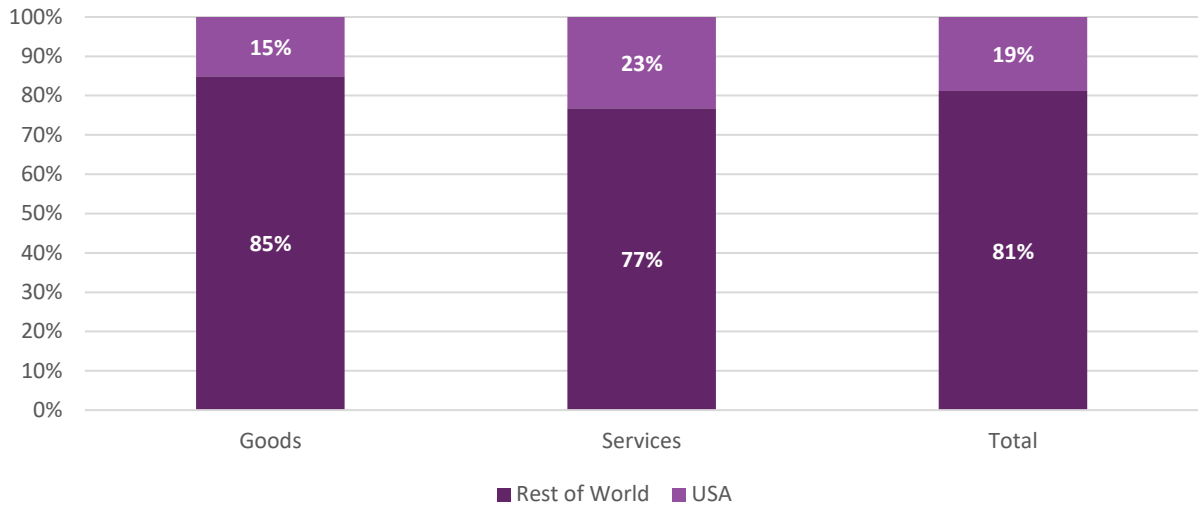
Figure 3.1 - The UK's Top 5 Exporting Partners in Goods and Services (£bn, 2018)



Source: ONS Pink Book 2019

3.4. Exports to the US represent a large proportion of the UK's total exports. This is demonstrated in Figure 3.2, which outlines the US as a proportion of the UK's global exports in goods and services. Approximately 19% of UK exports are to the US. This total also needs to be considered in the context of BREXIT. The EU as a group accounts for around £291 billion (45%) of UK exports. However, trade with the EU is going to become more challenging after December and it is unclear at present to what extent. This will increase the importance of the UK's trading relationships with its other major trading partners.

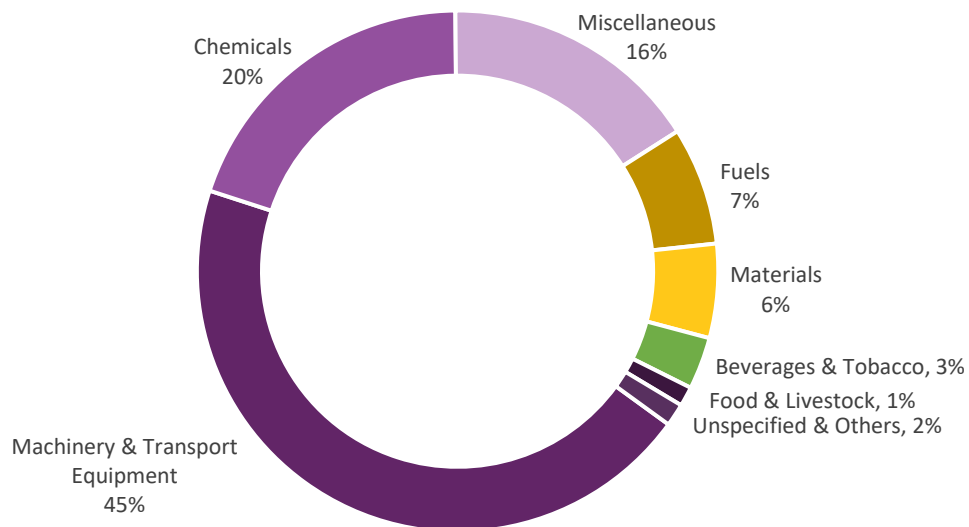
Figure 3.2 - The US as a Proportion of the UK's Total Exports in Goods and Services in 2018



Source: ONS Pink Book 2019

3.5. Figure 3.3 illustrates the UK's goods exports to the US by export broad commodity. Exports of machinery and transport equipment forms the largest commodity type, which includes cars and high-value bespoke mechanical power generators. Exports of chemicals forms approximately 20% of the UK's exports to the US, this includes pharmaceuticals, for which rapid air transport services are essential to ensure the efficacy of medicines that may have a short shelf-life.

Figure 3.3 - The Value of UK's Goods Exports to the USA in 2018 by Broad Commodity

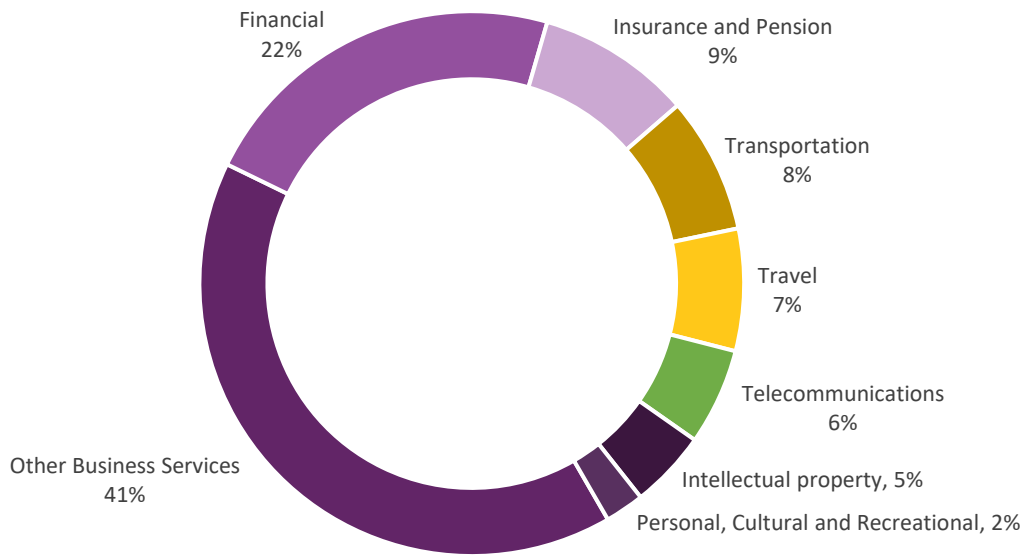


Source: ONS Pink Book 2019

3.6. The Office of the United States Trade Representative declared that the UK was the US' 7th largest supplier of goods imports in 2018.

3.7. Figure 3.4 presents the UK's trade in services to the US by sector. An aggregate of other businesses services represents the largest sector of services by value that are exported from the UK to the US. This includes a range of business disciplines such as legal services, accountancy, management consultancy, architecture, engineering, and research and development. Financial services represent the largest standalone sector in terms of the UK's exports in services to the US, followed by insurance and pension services.

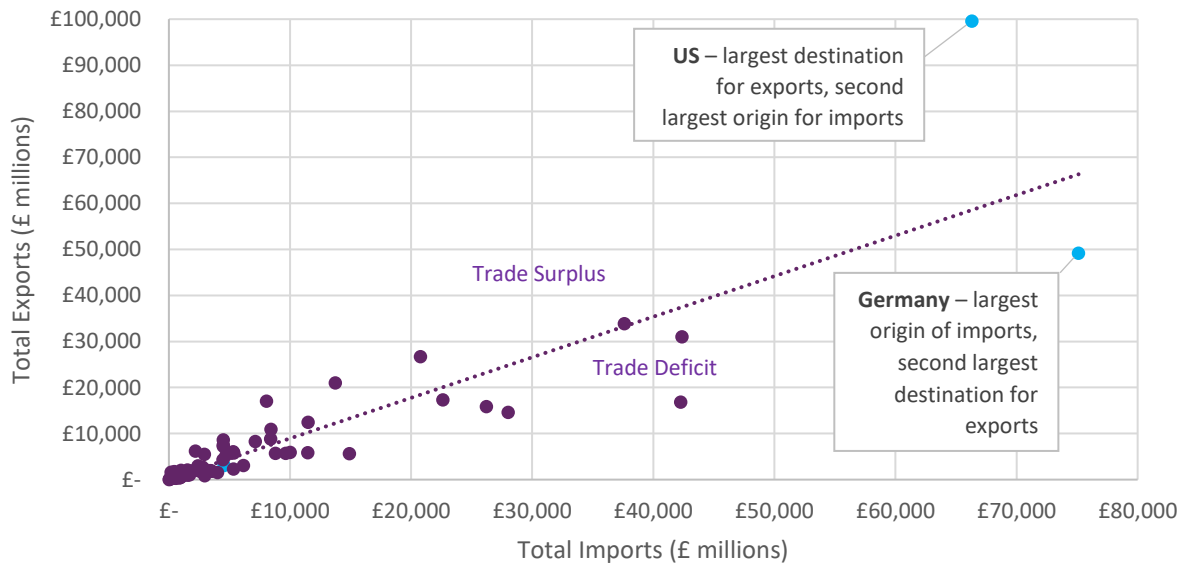
Figure 3.4 - The Value UK's Services Exports to the USA in 2018 by Service Sector



Source: ONS Pink Book 2019.

3.8. The US represents the UK's most important standalone trading partner with a significant trade surplus (exports minus imports). Figure 3.5 illustrates the position of the US relative to the UK's trade deficit and surplus by each trading partner.

Figure 3.5 - UK Trade Deficit and Surplus by Country (2016)



Source: ONS

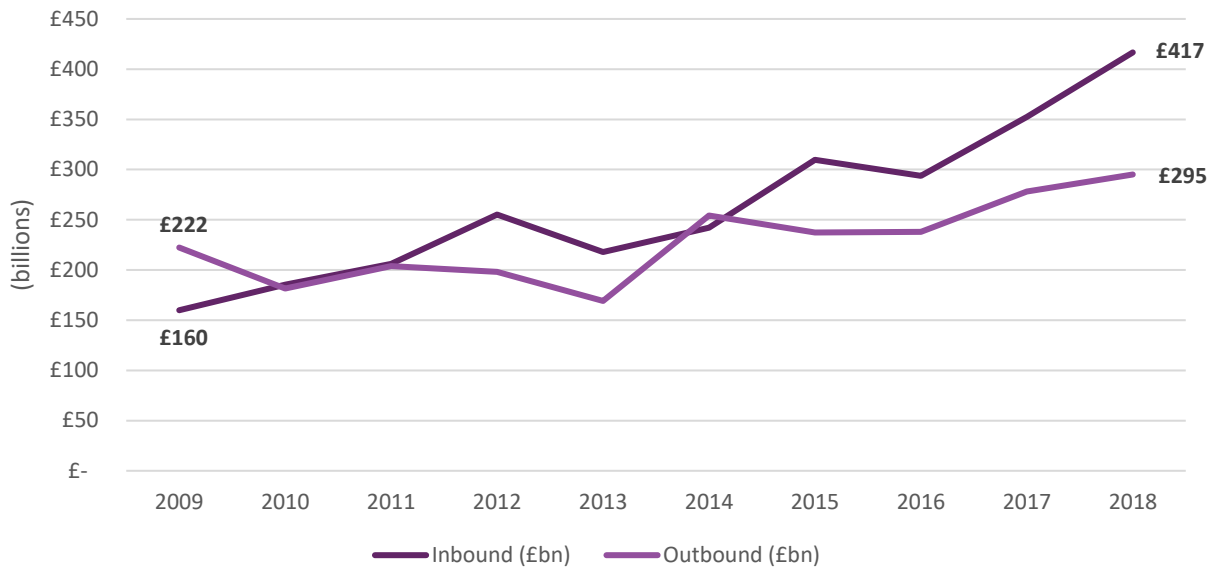
3.9. Analysis published by EY acknowledged that the UK's trade surplus with the US is in contrast to the UK's overall trading position, which registered an overall deficit of £25.9 billion in 2017³.

³ EY, UK and US Trade – Prospects for a Free Trade Deal (2019)

Foreign Direct Investment

3.10. The US and UK have made numerous cross-border investments between the two nations. Figure 3.6 illustrates that the UK has been a bigger beneficiary compared to the US, with an inward investment position of £417 billion in 2018, which represents an 11% average growth per annum from 2009. This is compared with a growth of 3% from the same period for the US, which received a total of £295 billion of investment from the UK. The U.S. Chamber of Commerce reports that the UK is the single largest investor in the US.

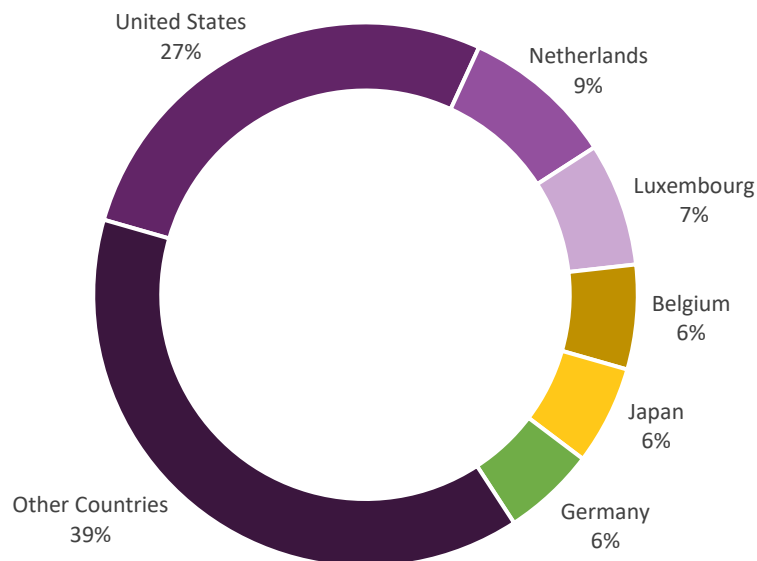
Figure 3.6 - Foreign Direct Investment International Investment Positions between the UK and US (£ billions) since 2009



Source: ONS, Inward Foreign Direct Investment (FDI) Involving UK Companies, 2018 (Directional Principle)

3.11. Figure 3.7 demonstrates that the US is the single largest foreign investor in the UK. In 2018, 27% of all inward foreign direct investment was from the US.

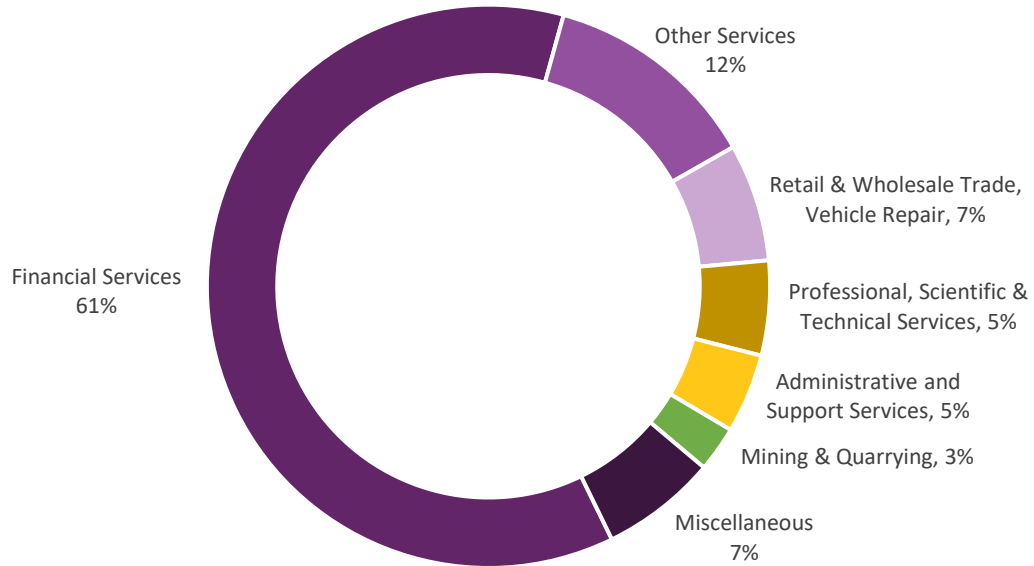
Figure 3.7 - Largest Inward FDI Investors to the UK by Country (2018)



Source: ONS, Inward Foreign Direct Investment (FDI) Involving UK Companies, 2018 (Directional Principle)

3.12. Figure 3.8 presents a breakdown of the US investments in the UK by sector, which clearly illustrates that services-based sectors are the primary type of investment made by US companies, with investments in the financial services sector representing the majority.

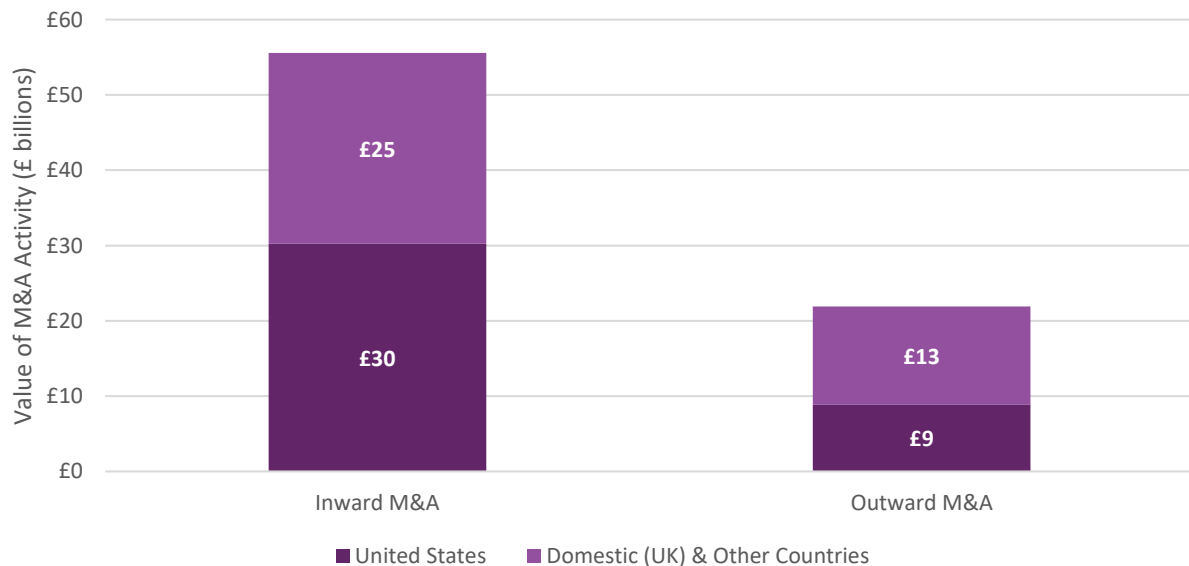
Figure 3.8 - Breakdown of the US' Investment in the UK by Sector (2018)



Source: ONS, Inward Foreign Direct Investment (FDI) Involving UK Companies, 2018 (Directional Principle)

3.13. Figure 3.9 details the mergers with, and acquisitions of, (M&A activity) UK registered firms. In 2019, 54% of M&A activity involving UK firms was from US-based firms, which notably outweighs domestic M&A activity within the UK. 41% of M&A activity by UK-based firms involved US registered firms.

Figure 3.9 - Merger and Acquisition Activity Involving UK Registered Firms in 2019



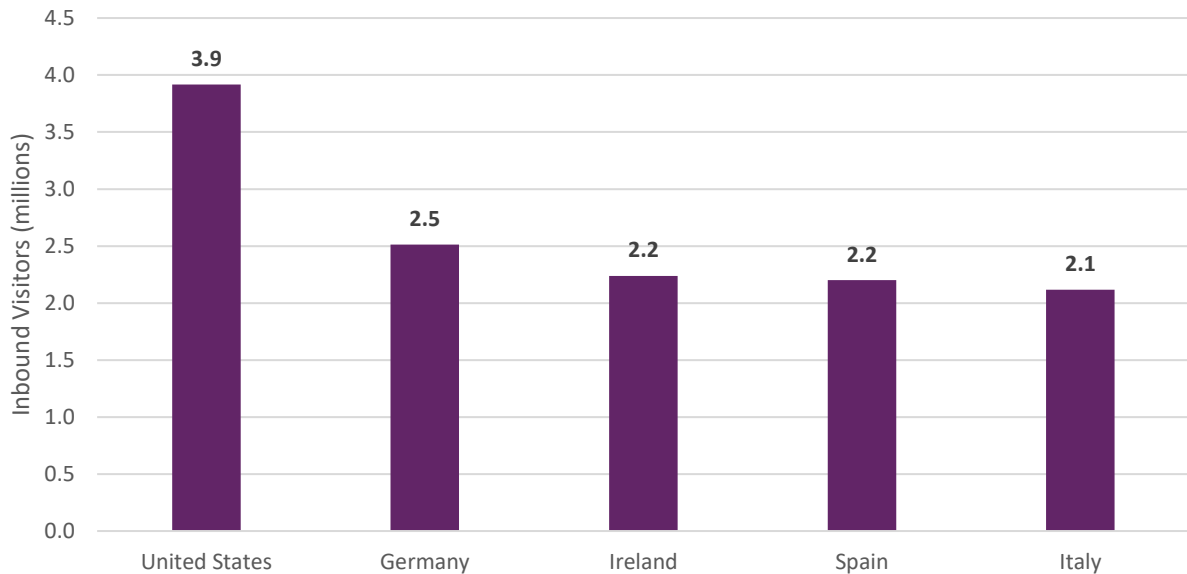
Source: Mergers and Acquisitions involving UK companies, ONS

Tourism

3.14. Inbound visitors to the UK contribute significantly to the overall economy, supporting employment and Gross Value Added (GVA). VisitBritain data shows that visitors to the UK spent a total of £28.4 billion in 2019.

3.15. The UK welcomes more visitors from the US by air than any other foreign country, as can be seen in Figure 3.10. Inbound visitors from the US account for 12% of total inbound visitors to the UK who arrive by air.

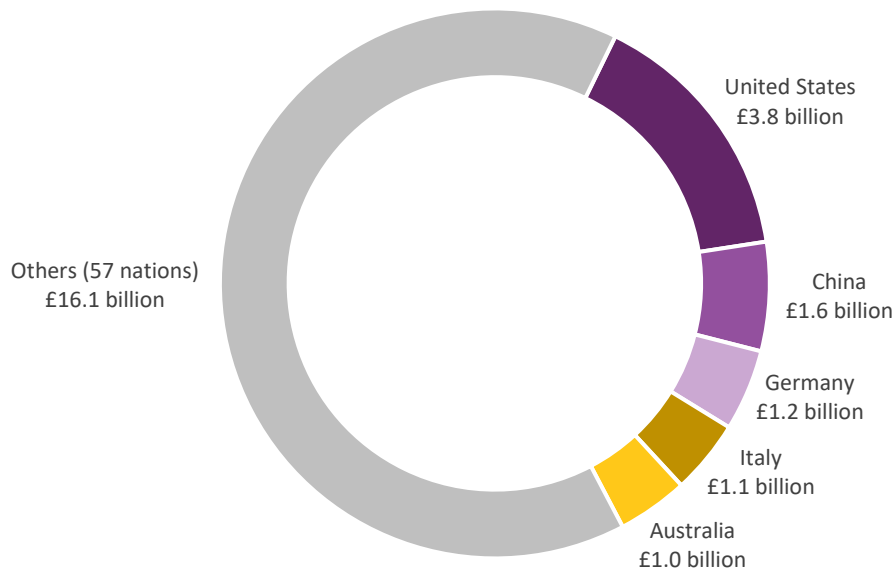
Figure 3.10 – Top 5 UK Inbound Tourism Markets by Visitor Numbers in 2019



Source: VisitBritain Tourism Survey (2019).

3.16. Given that the UK welcomes more visitors from the US than any other country, it is perhaps no surprise that the US is the largest single source of inbound tourism expenditure for the UK. Figure 3.11 illustrates that visitors from the US arriving by air spent a total of £3.8 billion in the UK during 2019.

Figure 3.11 - Visitor Spend by Country (£ billions, 2019)



Source: VisitBritain Tourism Survey (2019)

3.17. Figure 3.12 demonstrates that visitors from the US, on average, spend 26% more per visit than the average foreign visitor from all other foreign countries. This may reflect the relatively long distance between the UK and US, whereby visitors who travel longer distances generally spend longer at their destination than visitors who travel a relatively short distance. VisitBritain data indicates that visitors from the US spend an average of seven nights per visit.

Figure 3.12 - Average Spend per Average Foreign Visitor Compared to Visitors from the US (2019)



Source: VisitBritain Tourism Survey (2019)

3.18. Air services are realistically the only practical means for visitors from the US to visit the UK, therefore, air connectivity between the two countries is crucial for the vitality of the UK’s tourism sector, and indeed, sectors that indirectly rely on the tourism sector.

Linkages with Key US Markets

3.19. As described above, the economic links between the UK and the US are exceptionally strong. However, it also worth highlighting some key statistics regarding the linkages between the UK and particular US markets.

New York

3.20. New York and London are the world’s two most important financial and business centres. Unsurprisingly, the economics between the UK and New York are, therefore, particularly strong. Statistics from the UK Government suggest that:

- UK companies with bases in New York employ around 107,400 people;
- The UK was the second largest export market for New York, accounting for \$14.5 billion in trade;
- key trading sectors include management and advisory services, nonferrous metal products, miscellaneous financial services, and film and television distribution.

California

3.21. The state of California is a major global economy in its own right and is also a key economic linkage for the UK:

- UK companies with bases in California employ around 112,900 people;
- The UK is California’s fifth largest export market, with trade worth \$17.9 billion;
- Key trading sectors include film and television distribution, management, advisory and consulting services, database and information services, aerospace products and parts and computer equipment.

Conclusions

- 3.22. The analysis above generally demonstrates the strong economic linkages between the UK and the US. The prosperity of both countries is substantially enhanced by the economic links that air travel facilitates.
- 3.23. The US is the UK's largest trading partner and a substantial source of inward investment from US companies and destination for investment by UK companies. These are also linkages that have been growing in recent years as the two economies have become more and more intertwined.

4. The Impact of COVID-19 on the Market and the Economy

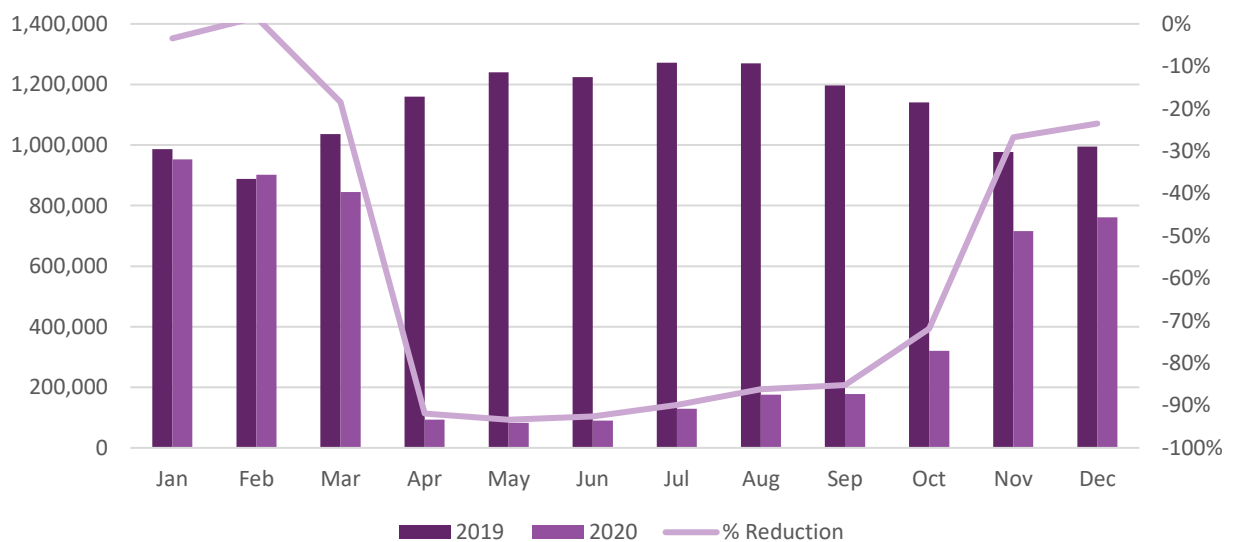
Introduction

4.1. In this Section, we consider what the impact of COVID-19 has been on the air transport market between the US and the UK, what is likely to happen through the rest of the year if progress is not made on travel restrictions and ultimately how this the resultant damage to the UK’s economic linkages with the US will impact on the economy.

The Impact on the Air Transport Market

4.2. The impact of COVID-19 on the air transport market between the UK and the US was swift and dramatic, as can be seen in Figure 4.1 and Figure 4.2. As travel restrictions were introduced in late March seat capacity fell by around 92% compared to 2019 in April. Falling slightly further in May before rising slowly through to the present. In September, published seat capacity is around 85% down on 2019 and high capacity summer months have been lost. The published seat capacity for the rest of the year suggests a degree of recovery. However, this is highly unlikely to actually be delivered as airlines continue to adjust their schedules to the progress of the Pandemic and the associated travel restrictions. Discussions with airlines suggest that, in reality, capacity is likely to be down in percentage terms at similar levels to current through the rest of the year if progress is not made on restrictions.

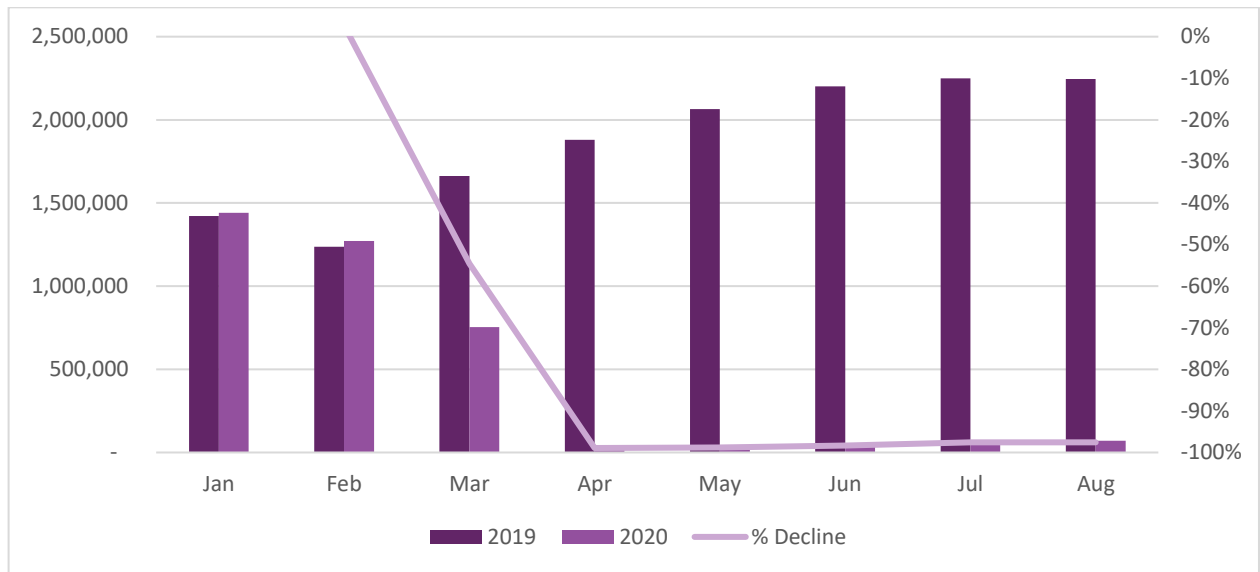
Figure 4.1: Published One Way Seat Capacity between the UK and US



Source: OAG.

4.3. The impact on passenger numbers has been even more dramatic. Figure 4.2 shows monthly passenger numbers for UK to US routes from CAA Statistics. By April, passenger numbers were down by 99% compared to 2019 and the situation had only marginally improved by August, with passenger numbers still down by 98% compared to 2019. The implication of this is that not only are airlines operating a massively reduced schedule between the two countries but that the load factors at which they are operating are massively reduced as well.

Figure 4.2: Passenger Numbers by Month between UK and US



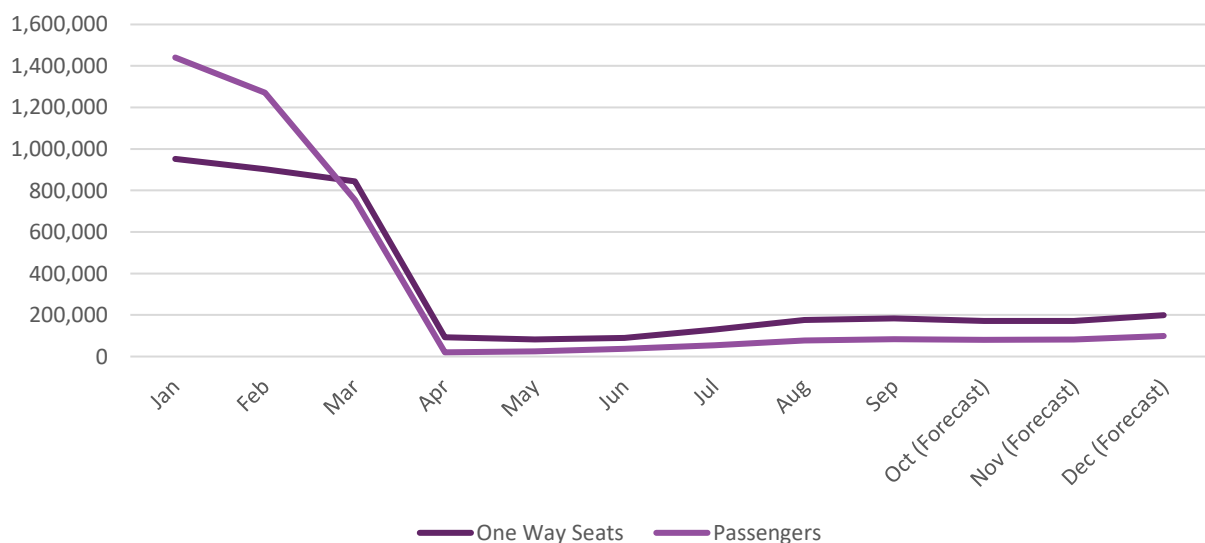
Source: CAA Statistics.

4.4. Discussions with airlines have also highlighted that not only are passenger numbers hugely reduced but so has the nature of travel. The passengers that are travelling are often repatriating, visiting friends and relatives or undertaking essential business. There is very little travel that would support the normal economic linkages between the two countries.

The Real Outlook for the Remainder of 2020

4.5. Below, we have considered how the remainder of 2020 might look in terms of seat capacity and passenger numbers if no progress can be made on the current travel restrictions. Consultations with airlines and simple logic suggests that if there is no change in restrictions that little will change in terms of the seat capacity offered by airlines or the likely take up of this capacity by passengers. Seat capacity is assumed to recover to around 20% of 2019 capacity by December, up from 15% in September, while load factors are assumed to recover marginally.

Figure 4.3: Seat Capacity and Passenger Outlook for 2020 Without Action on Restrictions



Source: York Aviation.

4.6. Essentially, this means that the UK – US air transport market remains almost closed through to the end of 2020.

The Economic Impact of Ongoing Restrictions

4.7. There is a wide and well recognised body of evidence that demonstrates the importance of air links to international economies. Air links enable:

- Trade;
- FDI;
- Competition;
- Labour Market Effects;
- Knowledge Transfer;
- Tourism.

4.8. In combination, these different channels of effect drive productivity and increase output, leading ultimately to increased GDP and employment.

4.9. Quantifying effects on the wider economy is challenging, particularly in relation to a ‘shock’ event, such as COVID-19, as statistical relationships generally reflect the direction and scale of long term effects. In the main, short term impacts tend to be more volatile, with markets overcompensating for shock signals. However, using these relationships does still provide a useful guide to direction and scale of effects, accepting that in many cases they may reflect a conservative estimate of the short term.

4.10. In this analysis, we have focussed on how the dramatic loss of connectivity in the UK-US market will impact on the UK economy in terms of:

- Trade – considering the impact of the restrictions on the air transport market on UK – US exports and imports of goods and services;
- Tourism – lost tourism expenditure in the UK economy and the consequent impact on GVA;
- UK GDP – the overall impact on UK Gross Domestic Product (GDP).

4.11. It should be emphasised that these effects are not additive as this would potentially lead to double counting but provide different views on the scale and nature of the effect.

4.12. The analysis of the impact on trade and GDP draws on analysis undertaken for the Airports Commission on the linkages between aviation and the economy⁴. This detailed econometric analysis identified a series of elasticities for trade and GDP relative to direct seat capacity from the UK:

- GDP – a 10% increase in direct seat capacity from the UK resulted in a 1% increase in UK GDP;
- Goods Exports - a 10% increase in direct seat capacity from the UK resulted in a 3.3% increase in UK goods exports;
- Service Exports - a 10% increase in direct seat capacity from the UK resulted in a 2.5% increase in UK service exports;
- Goods Imports - a 10% increase in direct seat capacity from the UK resulted in a 1.7% increase in UK goods imports;
- Service Imports - a 10% increase in direct seat capacity from the UK resulted in a 6.6% increase in UK service imports.

⁴ PwC for Airports Commission (2013). Econometric Analysis to Develop Evidence on the Links Between Aviation and the Economy.

- 4.13. These elasticities have been used to assess the effect of the unprecedented decline in direct seat capacity seen in UK to US markets and the effect if there is no change through the rest of the year.
- 4.14. The analysis of the effect on inbound tourism uses data on visits and expenditure from VisitBritain⁵, combined with the UK Tourism Satellite Accounts⁶ and research by Deloitte into the economic impact of tourism in the UK⁷ to estimate the expenditure and GVA impacts on the UK economy.

Impact on Trade

- 4.15. Trade is central to a globalised economy. It enables specialisation in economies and the development of comparative advantage, which ultimately results in a more efficient allocation of economies resources globally and increased prosperity for all. As we have seen above, the US is the UK’s largest trading partner.
- 4.16. Figure 4.4 shows the estimated impact on trade from the unprecedented reduction in air connectivity. Across the whole of 2020, the total value of trade lost is estimated to be around £45.8 billion. This includes a £24.1 billion fall in exports to the US. A significant proportion of this impact, around £12.8 billion in trade, including £6.6 billion in exports, will be lost in Q4. This represents the loss that could still be mitigated if effective action is taken to open up the UK - US market. It is highly unlikely that this total could be saved but it demonstrates the scale of what is at stake over the rest of the year.

Figure 4.4: Impact on UK – US Trade



Source: York Aviation analysis.

Impact on Tourism

- 4.17. The impact of COVID-19 on the global tourism industry has been well documented. The effect of the virtual closure of the air transport market between the UK and the US, the UK’s largest single tourism market, has, unsurprisingly been significant. Figure 4.5 sets out the estimated impact across the whole of 2020 and the impact that might be expected in Q4 2020.
- 4.18. Throughout 2020, tourism expenditure from the US is expected to fall by £3.1 billion compared to 2019, resulting in a loss of GDP of around £3.5 billion, putting 80,000 jobs at risk. Again, a significant proportion of this impact is expected in Q4 2020, which will see around £0.8 billion in lost expenditure and £0.9 billion in lost GDP. These impacts are likely to hit sectors such as accommodation services and food and beverage services particularly hard, as these make up more than half of employment in the tourism sector in the UK.

⁵ <https://www.visitbritain.org/nation-region-county-data>.

⁶ <https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/datasets/uktourismsatelliteaccounttsatables>.

⁷ Deloitte and Oxford Economics (2014). Tourism: Jobs and Growth. The Economic Contribution of the Tourism Economy in the UK.

Figure 4.5: Impact on Inbound Tourism to the UK



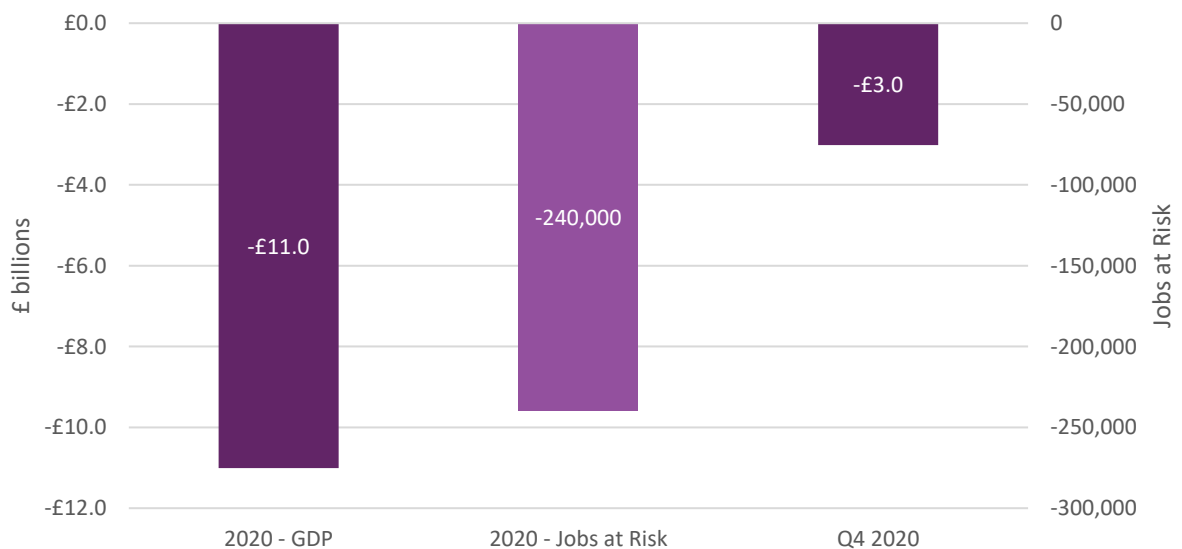
Source: York Aviation analysis.

Impact on UK GDP and Employment

4.19. The overall effect on UK GDP from the near closure of UK – US air links in 2020 is estimated to be around £11 billion or around 0.5% of total UK GDP. This equates to around 240,000 jobs being at risk. The impact on GDP equates to around £212 million a week or £30 million a day lost to the UK economy.

4.20. Again, a significant proportion of this impact is expected to be felt in Q4 2020, where there is still some opportunity to reduce losses if effective progress can be made on reopening the air transport market.

Figure 4.6: Impact on UK GDP



Source: York Aviation Analysis.

Conclusions

- 4.21. COVID-19 has had a devastating impact on air connectivity between the UK and the US. The current travel restrictions mean that access to the UK's most important economic partner are essentially closed and will remain so through the rest of 2020 unless significant progress can be made on removing travel restrictions.
- 4.22. The economic cost of this closure is large by any standards:
- the loss of around £45.8 billion in trade between the two countries;
 - a £3.5 billion reduction in the GVA supported in the UK tourism industry, putting 80,000 jobs at risk;
 - an overall impact on UK GDP of around £11 billion in 2020, putting 240,000 jobs at risk. The impact on GDP equates to around £212 million a week or £30 million a day lost to the UK economy.
- 4.23. While there is some opportunity to reduce losses in Q4 2020, it is unlikely that significant ground can be made up, what is now vital is that losses such as those described do not occur again in 2021.

5. Conclusions

- 5.1. The US is the largest long haul air transport market from the UK. While connectivity is centred on Heathrow, there are direct connections to major US destinations from a range of airports across the UK. The market has a significantly larger than average business component, reflecting its importance in supporting economic links, and is also focussed on inbound traffic, reflecting its importance to the UK tourism industry.
- 5.2. In terms of economic linkages, the US is by some margin the UK's most important global partner. It is the UK's largest trade partner and the largest source of inward investment in the UK. The US is also the largest inbound tourism market for the UK.
- 5.3. The impact of COVID-19 on the air transport market between the two countries has been devastating. The travel restrictions in place mean that the market is all but closed. Airlines are only operating around 15% of 2019 seat capacity currently and passenger numbers were down around 98% in July. This has crippled the ability of the two economies to interact effectively. Without concerted and effective action to open up the market, this situation is unlikely to improve.
- 5.4. The estimated impact on the UK economy is significant, with a loss on trade of around £45.8 billion expected over 2020 as a whole, a £3.5 billion reduction the GVA supported in the UK tourism industry, putting 80,000 jobs at risk, and a total impact on UK GDP of an estimated £11 billion, putting 240,000 jobs at risk.
- 5.5. The expected economic losses in the last quarter of 2020 are around £12.8 billion in trade, £1 billion in tourism GVA or a total impact on UK GDP of around £3 billion. There is some opportunity to reduce these losses if markets can be opened up in the last part of the year but the critical issue now is to act to open up the market as soon as possible to allow time for confidence in travel to return and demand to recover so that losses on this scale are not repeated in 2021.

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