

The Economic Benefits of Heathrow Expansion – **an assessment**



The main argument used by people who want expansion at Heathrow is that it is needed for the good of the economy. They say that the economy of London and the UK will suffer if the airport is not expanded. This booklet assesses whether that is really true.

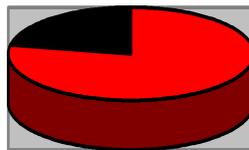


Not in doubt: Heathrow *has* brought economic benefits

It is beyond question that Heathrow has brought economic benefits to London and the South East and beyond. Many firms have located to West London and Berkshire to be close to the airport and Heathrow has played a part in helping make London one of the top financial centres in the world.

Today's question: How important is the *expansion* of Heathrow for the economy?

78% of London firms are against expansion at Heathrow (1)



- **Less than a sixth** of London firms would even *consider* leaving London if the airport did not expand (2).
- **Only 1%** of members of the Institute of Directors think airport expansion is a priority (3).

Will new firms locate abroad if Heathrow doesn't expand?

We sometimes hear the argument that, if Heathrow doesn't expand, new international businesses will choose the other cities in Europe with major international airports: Paris, Frankfurt and Amsterdam.

- A few might do so, although that wouldn't cripple the UK economy. But, for most businesses, the presence of a major airport is only one of the factors they take into account when deciding where to locate.

But isn't Heathrow falling behind the other airports in the number of destinations it serves?

It clearly is, as the table below shows:

Destinations served (4)

	LHR 2006	CDG 2006	FRA 2006	AMS 2006
Europe	87	99	114	115
North America	25	21	24	19
Asia	21	21	27	21
Africa	14	24	14	13
Latin America	9	12	13	12
Middle East	15	7	11	7
Total	171	184	203	187

But it may not matter:

Development in number of passengers (in millions) (5)

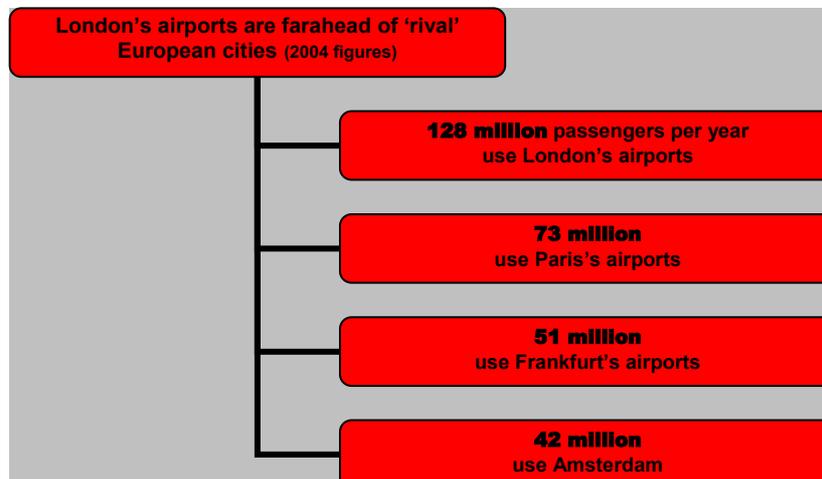
	2000	2001	2002	2003	2004	2005	2006
LHR	65	61	63	63	67	68	67
CDG	48	48	48	48	51	54	57
FRA	49	49	48	48	51	52	53
AMS	40	40	41	40	43	44	46
MUC	23	24	23	24	27	29	31
BCN	20	21	21	23	25	27	30

The fast-growing Munich and Barcelona are included

The argument put by people who favour Heathrow expansion is that business likes to locate to a place which has lots of different flights to a large number of destinations. That clearly plays a part in where business chooses to go, but, equally clearly, it is not the only factor. London's economy has prospered during the years when Heathrow has fallen behind the other big airports in the number of destination it serves. **What seems to be happening is that business and leisure passengers want to come to London even though Heathrow serves fewer destinations.** This is borne out by the fact that many more passengers use Heathrow than any of its 'rivals'. Indeed, it seems that it is because the 'rival' cities can't attract as many people as London that they seem to be much more dependent on serving more destinations in order to try and attract as many passengers as Heathrow.

And Heathrow is not London's *only* airport.

The most meaningful comparison is between the capacity at *all* of London's airports and the capacity of *all* the airports in these other cities. Most passengers coming to London are not too worried which airport they use - Heathrow, Gatwick, Stansted, Luton or London City



Won't **West London** lose out if Heathrow fails to expand?

Heathrow **has** brought jobs to the area

Heathrow has been good to West London and Berkshire. It has helped create jobs and prosperity. There is virtually full employment in the area. But claims that the economy will collapse if Heathrow does not expand need to be seriously questioned.

Is **expansion** needed to stop the area going the way of London's docks?

Future Heathrow, the group lobbying for Heathrow expansion, repeats the mantra that Heathrow will go the way of London's docks if it doesn't grow. Serious economists just don't accept that argument. London's docks lost out partly because they hung on for too long to outdated work practices, but mainly because they were not in a position to compete with the containerisation which came in at ports such as Felixstowe and Rotterdam. Any comparison with present-day Heathrow, where BAA is not slow to install new technology, is a misreading of history.



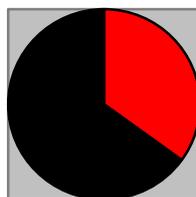
The **real danger** is the economy becoming too dependent on Heathrow

If Heathrow were to be the subject of a terrorist attack or if there was a big downturn in the aviation industry, the economies of West London and Berkshire would be very vulnerable and jobs would be lost. **The sensible way forward is to diversify the economies of the region rather than make them even more dependent on Heathrow which is what expansion of the airport would do.**

Can Heathrow serve **business needs** without expanding?

Right now Heathrow is a mess. It is not serving the needs of business (only around 40% of the total) or leisure passengers. It is instructive to look at the reasons for this:

35% of passengers are just changing planes



These interchange passengers who spend little or no money in the UK

- A sizeable amount of the terminal space is taken up with retail facilities – good for the profits of BAA but restricting the space available to passengers.
- 100,000 flights a year, nearly a fifth of all flights, are to destinations in the UK or near-Europe where there is already a viable rail alternative (**see chart on page 4**).

Interchange passengers and too many shops are clogging up the airport. Short-haul flights are clogging up the runways. Business passengers in particular are avoiding Heathrow if they possibly can because it is clogged up.

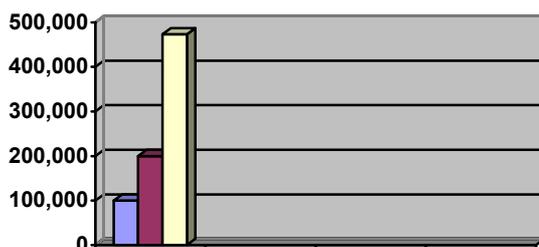
Heathrow **can** serve business needs without expanding

There is a wealth of evidence to suggest that Heathrow can bring real benefits to the local, regional and national economy without expansion.

The aim should be to create an airport passengers enjoy using. In particular, it should be an airport where business travellers feel valued.

There are ways of making this happen:

Short Haul Flights



- **Reduce the number of slots allocated to short-haul flights.** Around 200,000 flights a year go to destinations where rail could be a viable alternative (**see chart**). They could be cut quite simply if the Government reduced the number of landing slots available to short-haul flights and imposed higher rates of Air Passenger Duty on those short-haul flights which continued to use Heathrow.

- **Impose higher taxes on interchange passengers.** At present interchange passengers pay lower taxes than other passengers. This should be changed. Interchange passengers contribute little to the UK economy and there is a lot of evidence that passengers actually prefer direct flights.

- **Off-set the higher taxes on aviation with reductions in other taxes business pays**

These measures will both free up space to cater for the increasing number of flights which will come from the developing economies of the Far East over the coming years and bring real benefits to the economy. The current fixation with expansion at Heathrow will not.



Paris is the top destination from Heathrow with 60 flights a day between the two cities. There are alternatives!

Let the market decide!

If the Government puts the correct framework in place, the free market will do the rest. If there were restrictions on short-haul slots, higher taxes on short-haul flights and interchange passengers, plus a commitment not to expand Heathrow, the market will determine which Heathrow flights are most important to the UK economy. If these higher taxes were off-set by reductions in business taxes elsewhere in the economy, the evidence suggests that a bigger Heathrow is not necessarily best for the economy.

References:

1 London Chamber of Commerce Survey 2006. 2 As one. 3 Transport Matters Survey by the IOD – January 2007. 4 Eurostat. 5 Airport reports.

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Printed by RAP Spiderweb Photos by Phil Weedon November 2007