Flaws Galore

A critique of the economic case for Heathrow expansion

This paper has been prepared by the Aviation Economics Group for AirportWatch, the umbrella organisation of bodies concerned about the rapid expansion of airports and air travel.[1] It should not be taken as necessarily representing in detail the views of the individual bodies which are members of AirportWatch.

The Aviation Economics Group does not normally comment on development proposals at individual airports, but the Heathrow consultation is different –

- the Government itself has issued the consultation[2] whereas normally developments are put forward by the company concerned;
- The Prime Minister has committed himself to the proposed expansion before waiting for responses to the consultation; [3]
- The expansion is justified on questionable economic grounds.

This critique does not presume to be a full examination of the economic case for Heathrow expansion, merely to show that the case, as set out in the consultation document (mainly in pages 18 – 22), contains a large number of inaccurate or misleading statements.

A previous AirportWatch research paper[4] demonstrated that the Air Transport Progress Report published by the Department for Transport in December 2006 relied uncritically on research sponsored by the aviation industry. This paper shows that, in their enthusiasm for airport expansion, DfT civil servants have again not lived up to the standard of rational and impartial presentation of the facts that should be expected from the British civil service.

Quotes from the Heathrow consultation document are given in italics in the order that they appear in the document, followed by the paragraph number.

Over twenty flaws in the economic justification for Heathrow expansion

1. The aviation sector makes an important contribution to the UK economy, bringing significant benefits in terms of employment and business investment, bringing significant benefits in terms of employment and business investment. (1.1)

While this may be true of the current level of activity, it does not prove that an <u>expansion</u> of Heathrow would bring comparable benefits [Refer to forthcoming CE Delft report]

In terms of employment the proposed extra capacity at Heathrow is predicted to provide an extra 10,000 jobs by 2030, compared to 63,500 at the airport today .[5] Useful, but not a 'significant benefit' to the UK economy.

As for business investment, the forecasts recently published (rather secretively) by DfT [6] show that in 2030 an enlarged Heathrow would be handling far more leisure passengers than business passengers: 40 million UK leisure passengers compared to 24 million UK business; and 22 million foreign leisure passengers compared to 13 million foreign business.

In 2030 it is forecast that there will be 36 million passengers at Heathrow transferring from one international flight to another international flight, nearly twice as many as at present. This number happens to be the same as the expected capacity of the new runway. Such passengers bring little benefit to the UK economy.

2. The service sector accounts for some 70 per cent of UK GDP .... (1.1)

This statement appears irrelevant: the service sector includes businesses such as shops, hotels, hair-dressing, dry cleaning, garages, estate agents and undertakers - none of which would seem to require an expansion of Heathrow.

3. *... and the UK is the world's second largest exporter of services.* (1.1)

That does not prove any need to expand Heathrow. The OEF report in 2006, sponsored by the airlines and much quoted by DfT,[7] showed that the fastest growing industry was computer services but its spend on air travel per employee was only £193 per year, with 13 other industries spending more.

4. *The financial services sector requires six times more air travel than other businesses.* (1.1)

According to the OEF report, the industry which spends most on air travel, £2,238 per employee, is insurance but it is one of the slowest growing sectors of the UK economy, with 18 other industries growing faster. And financial services should be the industry where there is substantial scope for teleconferencing and electronic communication.

5. *Since 1990 the number of destinations served by Heathrow has fallen by over 20 per cent. (1.1)*

Only because the airlines have decided to replace flights to some destinations by more frequent flights to the more popular places. For businessmen based in London, or wishing to visit London, the five London airports offer 530 destinations,[8] more than twice as many as served by Paris, or by Amsterdam, or by Frankfurt.

The number of destinations served by Heathrow alone is only relevant to transfer passengers who at present account for 35% of Heathrow passengers but bring little economic benefit to the UK.

6. *Capacity constraints will lead to fewer routes ... (1.1)*

This statement is factually inaccurate: capacity constraints (that is, not adding to existing capacity) will not make things worse, merely leave them as at present. There would only be fewer routes if airlines decide to increase the number of flights to the more popular destinations. Since that would be more profitable for the airlines, it is likely that it would bring a net benefit to passengers.

7. Capacity constraints will lead to ... increasingly congested conditions and more delays at the airport ... (1.1)

Again not true. The number of flights will remain unchanged so there will be no increase in congestion in the air and no increase in aircraft delays. The opening of T5 will relieve congestion in the passenger terminals.

8. Capacity constraints will lead to ... fewer connecting services to the regions (1.1).

Since there would be no change in the number of flights out of Heathrow, this statement would only be correct if the airlines decide to replace existing regional flights by more profitable services. In January 2008, bmi cancelled its service from Inverness to Heathrow, not because of capacity constraints at Heathrow, but because of insufficient demand.

In line with Government policy, [9] there are an increasing number of direct services to foreign airports from UK regional airports and, as Ryanair and easyJet keep insisting - point to point air travel is more efficient than using Heathrow as a hub. And there are obvious climate change benefits in replacing domestic air services by rail.

9. ... major European airports are expanding at Heathrow's expense. (1.2)

This ignores the fact that President Sarkozy has ordered a halt to all airport expansion in France (although admittedly Charles de Gaulle airport has spare capacity). When climate change is threatening the future of the world, a policy based on competitive expansion of airports is disastrous. Britain should be joining France in setting an example to the rest of Europe.

10. Amsterdam Schiphol, for example, has five runways ...(1.2)

True but misleading. Only three runways are parallel and one of those is unpopular with pilots and passengers as it takes about 15 minutes to taxi to the terminal. The other two runways cross the main runways, and cross each other, and therefore can hardly ever be used.

11. Schiphol ... serves 21 UK airports compared to only nine served by Heathrow.(1.2)

This statement is misleading. The 21 UK airports include the five London airports.

The number of UK airports served from the combined London airports is 18.

One reason why there are services between Schiphol and UK regional airports is that people from Holland may wish to visit the UK regions, or people from the UK regions may wish to visit Amsterdam.

12. Fifty two per cent of companies consider transport links are vital in deciding where to locate their business ...(1.2)

The source for this statement is given as ‘The economic benefits of Heathrow’ by BAA – hardly an impartial source. BAA quote their source as ‘the European Cities Monitor 2007’ by property consultants Cushman and Wakefield, Healey and Baker. The main finding of that report was that “London has once again increased its margin over Paris as Europe’s top city to locate a business” – hardly proof of the need for a new runway.

Indeed the report shows that the factors considered most important by the 500 top businessmen interviewed were first, availability of qualified staff; second, access to markets; and third quality of telecommunications; with external transport links in fourth place.

13. .... and 70 per cent of foreign companies’ first location in Britain is within one hour of Heathrow. (1.2)

No proof of cause and effect. It would be equally accurate to say that over 70% of foreign companies’ first location is within one hour of the Tower of London, thus proving the need for more public executions!

14. ... the Government is addressing the global challenge of climate change by ... pressing in [ICAO] for an agreed basis for allocating aviation emissions to individual countries ... (1.4)

This statement gives the misleading impression that the Government is doing something positive about aviation and climate change. In fact the UK Government has been pressing ICAO for action for over ten years, without result.

15. ... and policies [from ICAO] that will deliver an effective environmental outcome from the [aviation] sector. (1.4)

Again misleading because there is no sign of any such policies emerging from ICAO.

16. Under current proposals [for the EU emissions trading scheme] additional aviation emissions ... including any from the expansion of Heathrow, would lead to no increase in total emissions, since airlines would have to pay for the equivalent emissions reductions in other sectors.(1.4)

This will be inaccurate if (as seems likely) the emissions scheme does not include any provision for radiative forcing. Aviation emissions are twice as damaging as those from other industries. So when an airline pays for emission reductions in other sectors, the net effect will be an increase in climate change damage.

17. The Eddington Study is equally clear that seeking artificially to constrain the natural growth of aviation ... would pose a significant cost to the UK economy... (1.7)

Not a surprising conclusion by the former chief executive of British Airways. Exactly the same argument could be used to justify a fourth runway at Heathrow.

18. Our work shows that a third runway at Heathrow would bring net economic benefits of around £5 bn in NPV terms ... (1.9)

The figure of £5 billion represents a cumulative benefit over 72 years to 2080.[10]

It is based on a number of false assumptions

- **that the price of oil will fall from the present level of nearly $100 a barrel to around $53 a barrel and remain at around that level until 2080;**
- **that over the next 72 years there will be no increase in the tax on air travel for revenue purposes. When the DfT re-ran their computer model on the assumption that by 2030 air travel would be paying the same rate of tax as car travel, the result was that the net economic benefit would be negative.**
- **that all other countries in the world will introduce effective climate change policies, so that there is no need for Britain to take a lead; if, instead, it were assumed that the cost of carbon will be set at the level indicated by the Stern Review, the economic benefit will be nil;**
- **that no new runways are built after 2030;**

- **that benefit to foreign air passengers is included, contrary to Treasury advice.**

£5 billion over 72 years equals £70 million a year – tiny compared to the subsidy of £9 billion a year which the aviation industry receives from paying no fuel tax or VAT.

The above points will be examined in detail in a forthcoming AirportWatch research paper *Fallible Forecasts*.

19. Lack of capacity at Heathrow hinders the airport's ability to recover quickly from any weather-related or other disruption. (1.10)

Only if it is assumed that the proposed new capacity is not fully used, which is not the Government's aim. Disruption caused by bad weather, eg fog, will not be improved by a third runway.

20. Average delays at Heathrow have increased by 15 per cent since 2002 ... they are also bad for the environment as they lead to more fuel burn and associated emissions. (1.10)

The delays are entirely due to the decision by the airline scheduling committee to timetable more aircraft into Heathrow than can be dealt with efficiently. The argument that a new runway would have the environmental benefit of reducing the number of aircraft having to stack – which has been widely used by airline spokesmen – is dishonest. It would only be true if the new runway is not fully used, which is not the Government's aim.

21. *Forecasts have been made of air passengers and aircraft movements up to 2030 ... (1.14)*

The forecasts are seriously flawed as they are based on several unrealistic assumptions:

- **that there will be no increase in tax on air travellers for revenue reasons in the next 25 years;**
- **that any tax increase to compensate for climate change damage will be small;**
- **the price of oil will fall to $53 per barrel in 2030.**

These points will be dealt with in detail in the forthcoming AirportWatch research paper *Fallible Forecasts.*

22. *Even at this level [122 million passengers a year] Heathrow would only be satisfying around 70% of the unconstrained demand forecast for 2030. (3.22)*

This statement suggests that, even after the provision of a third runway, there will still be a need for a further one and a half new runways. It is not clear why the arguments in favour of providing the third runway will not apply equally strongly to a fourth runway.

In fact the unconstrained demand forecasts are fairly meaningless: they show the demand for each airport on the assumption that there are an unlimited number of runways. The effect of providing several more runways at Heathrow would be that many airlines would transfer from Gatwick or Stansted. Thus including this statement in the consultation is merely misleading the public.

23. *[A third runway] may well generate net tourist spending to the UK ... between £0.4bn - £3.2bn. (2.47, page 146)*

This seems improbable since the DfT forecasts show that in 2030, with a third Heathrow runway, outbound UK leisure passengers through Heathrow will be 21 million higher than in 2005, but that inbound foreign leisure passengers will be only 12 million higher.

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[1] The membership of the bodies which belong to AirportWatch totals over 5 million people . Member organisations include CPRE, Friends of the Earth, Greenpeace, The National Trust, RSPB and The Woodland Trust, together with many local airport groups.

[2] Adding capacity at Heathrow Airport. DfT November 2007

[3] eg Gordon Brown: “And we know also that even as we place strict local environmental limits on noise and air pollution and ensure that aviation pays its carbon costs, we have to respond to a clear business imperative and increase capacity at our airports - and you [the CBI] have rightly called for action at Heathrow. Our prosperity depends on it: Britain as a world financial centre must be readily accessible from around the world. And this week we demonstrated our determination not to shirk the long term decisions but to press ahead with a third runway." CBI 26 November

[4] Alexander’s Ragtime Band. AirportWatch February 2007

[5] Heathrow consultation Impact Assessment page 174

[6] UK Air Passenger Demand and CO2 Forecasts DfT November 2007

[7] The Economic Contribution of the Aviation Industry in the UK. Oxford Economic Forecasting. October 2006

[8] Think London (London’s official foreign direct investment agency). April 2007. There may be some duplication in the figure of 530.

[9] http://www.dft.gov.uk/pgr/aviation/airports/regionalairservicesgovernmen2841

[10] See consultation document page 126.