

# Too Dirty for Business?



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**A new report from HACAN argues that it is not a lack of airport capacity which threatens London's position as Europe's top city to do business but its poor environment: its air pollution, noise and traffic congestion.**



## London: the top city to do business

London is the top city in Europe to do business. For the 22<sup>nd</sup> year (out of 22) London has received the accolade. It owes its position to its excellent links to the rest of the world. The influential survey, carried out each year by global property consultants Cushman & Wakefield, found that London has the best external transport links, internal transport and telecommunications. It scores much more modestly in terms of noise, air pollution, traffic congestion and general quality of life.



Cushman & Wakefield comment:

*“London is still ranked – by some distance from its closest competitors – as the leading city in which to do business. Paris and Frankfurt remain in second and third place respectively, although the gap between the two has widened. Amsterdam continued the upward momentum seen last year, again moving up the rankings to take fourth place, with Brussels dropping four places to 8th. The top five is completed by Berlin, which has pushed Barcelona into 6th place on the ranking. This year, the most impressive rise up the rankings was by Bucharest, which climbed eight places to 27th position”.*

This short report assesses the Cushman & Wakefield survey as well as similar studies. It concludes that the priority for enhancing London as an attractive place to do business is to improve its quality of life and cut the congestion on its roads. There is no proven economic case to expand its airport capacity.

**“It owes its position to its excellent links to the rest of the world”.**

# London: the best-connected city in Europe

London is the best-connected city in Europe. The Cushman & Wakefield survey found that London was the top city for:

- Transport links with other European cities and internationally
- Ease of travelling within the city
- Ease of access to markets, customers and clients
- Quality of communications

This has been backed up by other reports. A WWF study released towards the end of 2011 showed Heathrow to be ‘in a class of its own’ as far as its inter-connectivity to the key business centres of the world is concerned, with more flights to these business destinations than any other airport in Europe – in fact, more than the combined total of its two nearest rivals, Charles de Gaulle and Frankfurt. The York Aviation report, published earlier in the year, found London is “the world’s pre-eminent financial centre”, with more branches and subsidiaries of foreign banks “than in any other centre worldwide.”

It is instructive to look at these reports in a little more detail.

Cushman & Wakefield’s survey, *The European Cities Monitor 2011*, is based on interviews with the bosses from Europe’s 501 largest firms. The companies were asked to rank the factors they considered absolutely essential when deciding where to locate their business. ‘Easy access to markets, customers and clients’ topped the list, followed by availability of quality staff’, ‘quality of communications’ and ‘transport links with other cities and internationally’.

## Absolutely essential factors in deciding where to locate a business

<u>Factor</u>	<u>2011</u>
easy access to markets, customers or clients	60%
availability of qualified staff	53%
the quality of telecommunications	52%
transport links with other cities and internationally	42%
value for money of office space	33%
cost of staff	32%
availability of office space	25%
languages spoken	21%
ease of travelling around within the city	20%
the climate governments create for business through tax policies or financial incentives	20%
the quality of life for employees	16%
Freedom from pollution	16%

## **‘Heathrow in a class of its own’**

*International Air Connectivity for Business*, published last year by WWF and AirportWatch, found Heathrow to be in a class of its own.



- Heathrow has 990 departure flights each week to the world’s key business centres
- That is more than its two closest rivals, Charles de Gaulle (484) and Frankfurt (450), combined.
- In total, London’s airports have 1113 departure flights to the key business destinations compared with Paris’s 499, Frankfurt’s 443, and Amsterdam’s 282.
- Heathrow has significantly more flights to 20 of the 27 key business destinations. Five of those destinations to which it doesn’t have more flights are in Asia. However Heathrow still has more flights *overall* to Asia than any other hub airport – 281 compared to Charles de Gaulle’s 176 and Frankfurt’s 148.
- Heathrow is in a class of its own with its inter-connectivity to the key business centres of North America and the Gulf States. Heathrow has over 350 flights to the US cities each week compared with less than 200 from each of its nearest rivals, Charles de Gaulle and Frankfurt. It has over 176 to the Gulf States destinations each week compared to less than 70 from Charles de Gaulle.

**“Heathrow has significantly more flights to 20 of the world’s 27 key business destinations”**

# London: will it remain the best connected city in Europe?

The Civil Aviation Authority has become the latest body to acknowledge that London has better international air connections than any other city. The question they – and others – pose is whether London will remain the best-connected. On the surface it is a simple question but it becomes more complex when examined more closely.

## There are a number of things to consider.

1. It cannot be assumed that, if no more airport capacity is built in London and the South-East, there will be a reduction in flight numbers to the key business destinations of the world. The market will determine which destinations are served. The likely scenario is that airlines using a constrained Heathrow will concentrate their resources on their most profitable, inter-continental routes which attract a significant number of business passengers. Many of the short-haul flights largely serving a leisure market will be squeezed out (and may relocate to some of the other London airports where there is spare capacity). The airlines will ditch short-haul European destinations if it is more profitable to serve Chinese cities. The trend will be towards the use of larger aircraft carrying more passengers. Heathrow has the terminal capacity to cope with an extra 20 million passengers a year. It is only the runway capacity that is limited. This point needs to be made loud and clear to counter the impression given that Heathrow is at capacity. It is not.

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2. The importance of Heathrow as hub has been overstated. It is in the interest of the aviation industry to do so. If a growing number of people interchange at Heathrow it brings benefits to both the airport and the airlines. However, there is no hard evidence that the London economy will lose out if Heathrow does not expand as a hub. The reason for this is London's importance to business people as a destination. This was emphasized in *Transport Statistics Great Britain 2011*, the most recent report from the Department for Transport, which showed that worldwide, Heathrow had the largest number of terminating passengers on international flights in 2010. An earlier report from the Dutch economists CE Delft made a similar point. In *The economics of Heathrow expansion* (2008) they argued that a third runway was not required at Heathrow because, for business as a whole, other factors, such as the vibrancy of London's financial centre, were of greater importance than the size of

**Because of London's importance as a business destination, there is no compelling economic reason why Heathrow needs to expand as a hub.**

Heathrow. This is not to argue that Heathrow's hub status brings no economic advantages. The transfer passengers using the hub can enable the airlines to run more flights on more routes at a profit. These extra services can attract business. The point we are making is that, because of London's importance as a business destination, there is no compelling economic reason why Heathrow needs to expand as a hub.

3. Much is made of the fact that, without airport expansion, business people will not be able to fly directly from London to many of the emerging cities in Asia and South America and so businesses will have to relocate to European cities which may provide such direct flights. There are two points to make. First, as stated earlier, it is likely that airlines serving UK airports will respond to market forces by increasing the number of destinations to which they fly in the emerging economies, possibly at the expense of short-haul European destinations. Secondly, it is unrealistic to think other European cities will have more than a limited number of flights to the second-tier cities in other continents. Some interchange seems inevitable. In the light of that, we should regard major new airports like that at Dubai as an opportunity, rather than a threat. These are airports specifically designed to facilitate an easy and quick interchange for inter-continental passengers. They can provide the links between Europe and a whole range of cities in other continents. As such they can and will enhance business connectivity.

4. It is unlikely that there will be major expansion of airports in other European countries. Public opposition to new runways and new airports has become a powerful obstacle to growth. Plans for a third runway at Heathrow had to be scrapped. A fourth runway at Frankfurt was only built in the teeth of massive protests, including the sight of thousands of people occupying the nearby woods. Protests still continue after it has been opened. The plans for a Nantes International Airport have become a cause célèbre in France. The safest assumption is that airport capacity in Europe will remain much as it is now over the coming decades.



**It is becoming almost impossible to build new runways or new airports anywhere in Europe such is the strength of public opposition.**

**Above: weekly protests continue even after Frankfurt's fourth runway is built.**

**In conclusion, there is no reason that London cannot improve its connectivity to the emerging cities of the industrializing world, even if airport capacity in the South-East is constrained:**

- Market forces will ensure it is in airlines' interests to prioritise flights to the key economic centres of the world.
- Heathrow does not need to expand as a hub in order to attract new firms to London because of London's continuing attractiveness as a business destination.
- No European city is going to have direct flights to every second-tier city in the emerging economies. There is no reason why London will lose out.
- There is unlikely to be significant expansion at other European airports because of the strength of public opposition.

# Where London is losing out

In the Cushman & Wakefield survey London retained its top ranking in 2011 in six of the 12 major categories: ‘transport links with other cities and internationally’; ‘ease of travelling within the city’; ‘easy access to markets, customers or clients’; ‘availability of quality staff’; ‘quality of telecommunications’ and ‘languages spoken.’

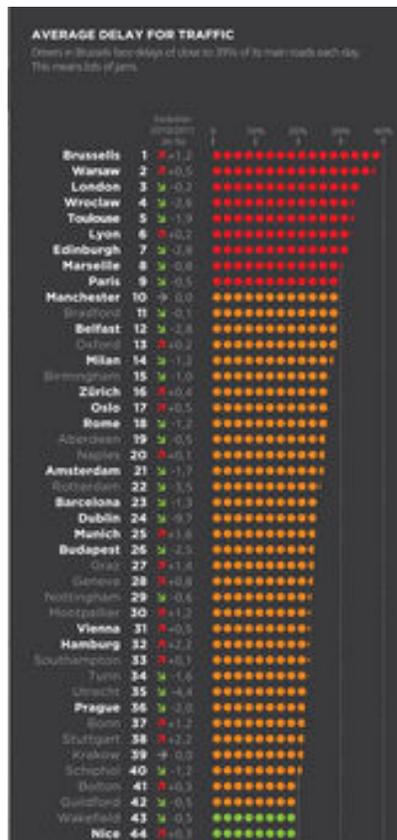
As expected, London, in common with rich cities like Paris and Frankfurt, ranks low in terms of the cost of employing staff. But what is most striking is its low ranking for quality of life (10<sup>th</sup> out of 36) and for ‘freedom from pollution’ where it languishes in 25<sup>th</sup> place.

**London loses out badly on quality of life, pollution, sustainability and traffic congestion**

These findings are borne out by other studies. Mercer’s *Worldwide Quality of Living Survey* (2011) placed London in 38<sup>th</sup> place (out of 221 cities), behind Paris, Frankfurt and Amsterdam. Vienna topped the list.

London rates particularly badly on air pollution. A survey conducted jointly by the European Environmental Bureau and the German NGO Bund of 17 European cities put London in 14<sup>th</sup> place.

London also suffers badly from traffic congestion. According to a study carried out by the navigation system specialist firm, TomTom, London is the third most congested city in Europe (see chart below).



The problem with congestion and air pollution in London was highlighted in a recent report, *Pay as you go: managing traffic impacts in a world-class city*, by Professor John Whitelegg written for the London Green Party. It estimated that, if nothing is done to curb traffic levels, air pollution and congestion could cost the London economy £2-4 billion per annum in 20 years time.

London is also in a class of its own as far as aircraft noise is concerned. A recent CAA report revealed that 28% of all people in Europe badly affected by aircraft noise live under the Heathrow flight paths. Quite simply, Heathrow is responsible for a sky of sound over the capital. The report also showed that more people are affected by noise from City Airport than from either Stansted or Gatwick.

Greg Clark, Senior Fellow ULI Europe, writing an article for property professionals, *Exploring Europe's cities' rankings in terms of air quality, public transport use, energy efficiency and environmental governance* (28/2/11), summed up the importance of doing business in a sustainable environment

“In the new cycle, concerns about quality of life in our cities will be matched by considerations of sustainability. Notions of urban competitiveness and attractiveness for real estate investment have been broadened to include not just business climate, infrastructure, location, and economic performance, but also the need to address quality of life and sustainability. In terms of global index [sustainability] performance, Northern European capitals perform extremely well in the debut Mercer Eco-City Ranking in 2010. The four Scandinavian capitals rank in the world top ten, with German cities of Nurnberg (13<sup>th</sup>) and Dusseldorf (28<sup>th</sup>) making notable appearances in the global upper echelons. Frankfurt also stands out for being one of only three international financial centres – along with Sydney and Singapore – to feature in the world's top 50. Paris and **London**, for example, rank well outside the top 50 in Mercer's Eco-City survey, mainly due to high congestion and air pollution”.

**Notions of urban competitiveness have been broadened to include not just business climate but also the need to address quality of life and sustainability**

## **Poor environment is costing London money and business**

London's poor environmental performance is costing money and business.

- **Traffic congestion** costs the national economy around £30 billion a year, according to Professor Phil Goodwin in *The economic costs of road congestion* (this was a forecast made by Goodwin in 2004)
- **Air Pollution** costs Europe £790 billion a year, according to the EEB/Bund Survey
- **Traffic noise** costs Europe between 30 and 40 billion euros per annum, according to Den Boer and Schrotten in *Traffic Noise Reduction in Europe*

**Given the fact that London rates poorly on environmental indices, it is safe to conclude that its economy is losing billions of pounds each year. Given, too, that business people rate the quality of the environment as one of the factors they consider when locating their business, it is equally safe to conclude that London's poor environment is deterring some businesses from locating to the capital.**

# Conclusions:

## a choice needs to be made

Organisations such as London First support both measures to improve the environment, such as road-pricing to cut congestion, and the call for more airport capacity in the South-East. The two are incompatible. A choice needs to be made. New airport capacity in the London area will simply worsen noise, air pollution, emissions and lead to higher traffic levels. Nor is it required.

1. London continues to be the best European city in which to do business. It owes its position to its excellent links to the rest of the world.
2. London's air links to the rest of the world are particularly good, with Heathrow 'in a class of its own' as far as links to the world's leading economic centres is concerned.
3. There is no reason why London cannot improve its connectivity to the emerging cities of the industrializing world, even if airport capacity in the South-East is constrained since market forces will ensure it is in airlines' interests to prioritise flights to the key economic centres of the world.
4. London loses out badly to many of its European rivals on quality of life, pollution, sustainability and traffic congestion.
5. London is in a class of its own as far as aircraft noise is concerned. 28% of **all** people in **Europe** badly affected by aircraft noise live under the Heathrow flight paths.
6. London's poor quality environment is costing its economy billions of pounds each year as well as deterring some businesses from locating in the capital.

**In order to make London even more business-friendly the priority must be to improve its environment and overall quality of life rather than build new infrastructure or more airport capacity.**

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**This report was written by John Stewart and published by HACAN, campaigning against aircraft noise and representing residents under the Heathrow flight paths. HACAN can be contacted at 13 Stockwell Rd, London SW9 9AU; tel: 020 7737 6641; email: [info@hacan.org.uk](mailto:info@hacan.org.uk); twitter: hacan1 [www.hacan.org.uk](http://www.hacan.org.uk) January 2012**