

Evidence to the Airports Commission from the Aviation Environment Federation



Comments on Discussion Paper 02: Aviation Connectivity and the Economy

19.4.13

The Aviation Environment Federation (AEF) is the principal UK NGO concerned exclusively with the environmental impacts of aviation. Supported by individuals and community groups affected by the UK's airports and airfields or concerned about aviation and climate change, we promote a sustainable future for aviation which fully recognises and takes account of all its environmental and amenity affects. As well as supporting our members with local issues, we have regular input into international, EU and UK policy discussions. In 2011 we acted as the sole community and environmental representative on the Government's South East Airports Taskforce. At the UN we are the lead representative of the environmental umbrella organisation ICESA, which is actively engaged in the current talks aimed at agreeing global climate measures for aviation.

Our broad impression is that this paper brings a degree of fresh thinking to the issue of connectivity. We welcome, for example, acknowledgment of how well-connected the UK currently is, of the fact that connectivity can be provided through indirect as well as direct flights, and of the possibility for connectivity to be provided through other means and other modes of transport. There is nevertheless an apparent assumption – which we want to challenge – that more aviation connectivity is by definition a good thing.

In addition, too much of the section on economy appears to us to simply recycle poorly evidenced arguments about aviation's significance. The economic importance of aviation as a sector is, in our view, routinely exaggerated in official documents. Any discussion about aviation's environmental impacts is always prefaced by a series of platitudes about the sector's essential role in the UK economy in a way that seems quite inconsistent with other areas of public policy. Government statements on the drinks industry, for example, are not routinely prefaced with a preamble about the social benefits enjoyed by drinkers, how many jobs the industry generates for the UK, and the extent to which drinking alcohol facilitates trade.

Similarly, throughout this paper, there is a bias towards assuming that aviation activity is good for the UK economy and that more of it would increase that benefit. While alternative points of view are occasionally referred to, they are never explored in depth and the possibility that more aviation might harm the UK economically is not countenanced at any point.

The need for a balanced evidence base

Alongside official information sources such as ONS, government departments and the CAA, the report cites evidence from numerous studies commissioned and funded by the aviation industry, including:

- Oxera (November 2009), “What is the contribution of aviation to the UK economy?”, Final report prepared for Airport Operators Association
- Oxford Economics (2005), “Measuring airline network benefits” – survey conducted on behalf of IATA
- Oxford Economics (2006), “The economic contribution of the aviation industry in the UK” (commissioned by a range of organisations from the aviation industry, together with DfT and VisitBritain
(<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmtran/125/12513.htm>)
- IATA (December 2006), “Measuring the Economic Rate of Return on Investment in Aviation”

In contrast, neither the various reports that critique the findings OEF and others, including by CE Delft, the New Economics Foundation and academic economists as part of the OMEGA partnership¹, nor the recent WWF surveys of leading businesses concerning future travel demand, have been quoted or acknowledged. Some of the findings in these reports are therefore highlighted in this response.

A new report from CE Delft² addressing precisely the economic questions of relevance to the Commission is on the verge of being published and we very much hope that appropriate attention will be given to it. It finds, in relation to connectivity, that among the various studies identifying a correlation between connectivity and economic activity, none provides convincing evidence on the direct of causation.

In relation to aviation activity and economic performance, the report finds that while there is evidence of a two-way causal relation between aviation activity and regional economic performance:

- (i) It is not clear whether there is an increase in total economic activity or whether regions with airports grow at the expense of surrounding regions without airports, and
- (ii) While in remote (or poorer) regions an increase in transport activity can act as a catalyst for economic activity, in ‘core’ regions such as London, where ‘agglomeration effects’ have already been exploited, economic activity appears to spur development of transport links rather than the other way round.

Aviation and employment

It is of course important to consider the possible employment impacts of changes to UK airport capacity. But it is unfortunate that the Commission did not, in its paper, note that the Government’s estimate for number of people directly employed by the sector in the UK appears, even in the short period between publication of the Government’s aviation scoping document and of the draft aviation policy framework, to have gone down by 40,000 (from 160,000 to 120,000, as reported in the two papers respectively).

In 2009 AEF published *Airport Jobs: False Hopes, Cruel Hoax*³, which provided evidence that increased mechanisation of check-in and the rise of low-cost carriers with minimal staffing has in fact

¹ See D Gillingwater et al, January 2009, *Omega study 40 – Economic benefits of aviation technical report*, Loughborough University, <http://www.omega.mmu.ac.uk/economic-benefits-of-aviation.htm>

² M Smit et al, 2013, *Aviation Policy Development Framework*, Delft

³ http://www.aef.org.uk/uploads/Airport_jobs_false_hopes_cruel_hoax.pdf

meant that the number of staff required per passenger has fallen over time and is likely to continue to do so. In contrast to the old rule of thumb (and countless press releases by airlines and airports) that a million passengers requires a thousand members of staff, more recent analyses, including for example by York Aviation, predict job creation figures of little over 150 jobs per million passengers. Even this may be optimistic. As we note in our 2009 report, between 1998 and 2004, despite a 30% rise in air passengers, the total employment attributed to airports and airlines actually went down.

The importance of aviation as an employer should not therefore be exaggerated, and any promise of new jobs in relation to proposals for airport expansions should be independently assessed.

Could aviation growth harm the UK economically?

AEF considers it essential that for the Commission to be able to take a balanced view, appropriate consideration be given to the economic disbenefits associated with aviation.

Questionable investment and use of public money

Profit margins in aviation are slim and increasingly so. When the last Government was pushing ahead with Heathrow expansion, they undertook analysis suggesting that it would generate a £5 billion benefit for the UK economy. In 2010 the New Economics Foundation reran the model using updated values for oil prices and forecast economic growth, as well as adding in modest estimates of community and environmental costs, they concluded that in fact a new runway would generate a £5 billion loss⁴. Perhaps this explains why, as acknowledged in the Commission paper, discussion has shifted such that instead of focussing on direct economic benefits, aviation's role in connectivity has now taken "centre stage".

The uncertain nature of airport profitability had recently been underlined by the rescue of Cardiff airport by the Welsh government. Paul Kehoe, Chief Executive of Birmingham Airport, has argued in response both that it would be wrong for any public money to be spent on trying to shore up demand at Cardiff (where numbers have halved in the past five years) and named a number of airports whose existence, he said, is hard to justify given the lows to which demand has now fallen. It is notable that every one of those airports he named (Durham Tees Valley, Blackpool, Doncaster and Norwich) has in the recent past benefitted from direct public subsidy designed to boost demand via now abolished regional development agencies⁵.

While the concern may appear more relevant to regions in which aviation supply exceeds (and is forecast to continue to exceed) demand than in the South East, it nevertheless underlines the importance, with respect to economic outcomes, of accurately assessing likely demand for any potential new airport developments under consideration by the Commission. Any public money used to fund new airport infrastructure or the surface access requirements associated with it could easily be wasted if future demand and anticipated economic benefit failed to materialise. In fact, it is worth considering whether at some point a continued high cost of oil, combined with a lack of cost effective alternatives to burning kerosene, will result in aviation becoming a 'stranded asset' of the

⁴ NEF 2010 *Grounded: a new approach to evaluating Runway 3*

<http://www.neweconomics.org/publications/grounded>

⁵ <http://www.guardian.co.uk/commentisfree/2009/jul/06/flights-democracy-environment>

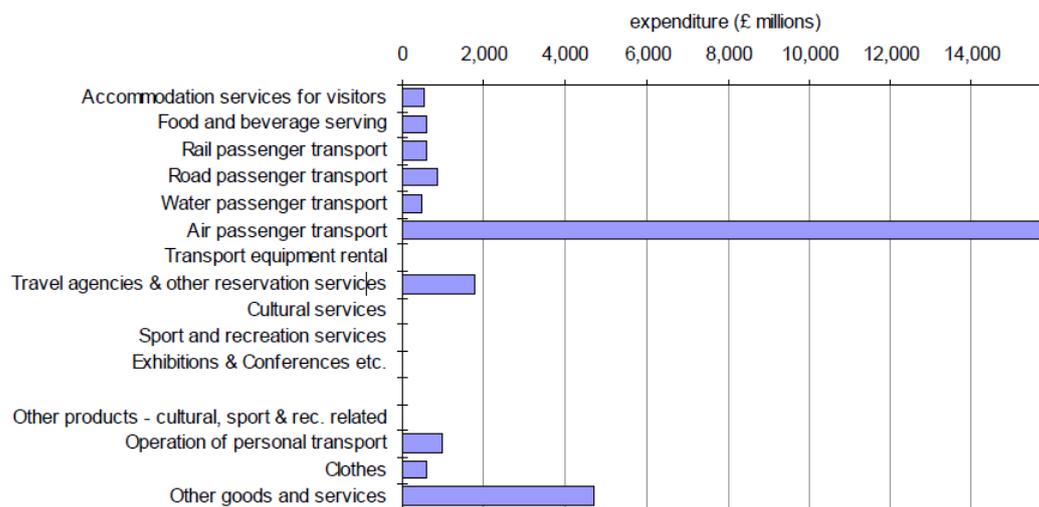
kind under consideration by academics at Oxford University in a programme launched in February 'to help businesses and policy-makers future proof against investments in assets that might become devalued or written off'⁶.

Tourism deficit and falling demand for business travel

The Commission's paper does not draw a very clear distinction between the economic impacts of business travel as opposed to those of tourism.

AEF has for many years sought to highlight the fact that while tourist travel may have welfare benefits for the UK population it is not necessarily good for our balance sheet given that it facilitates the spending of far more money by Britons travelling abroad than by foreign visitors to the UK. We were pleased that our views on the existence of this tourism deficit were acknowledged in the Aviation Policy Framework published in March 2013. We were somewhat astonished, however, that the Government's rebuttal of this argument appeared to rest in large part on the fact that industry sources had, prior to publication of the draft aviation policy framework, highlighted a figure of £27 billion in 'pre-holiday sales'. As we noted in our response to that paper, the original ONS document from which this figure has been lifted makes clear that the large majority of this spending – 59% – was not on holiday outfits and fake tan but on air fares (see chart below). As these are increasingly paid for online, and not always to UK airlines (ONS states "we have used all IPS data, not making any distinction between expenditure paid to UK-based carriers (57 per cent of the total) and that paid to those overseas") the figure seems irrelevant as a counter-argument. We are disappointed that it appears to have been uncritically repeated by the Airports Commission.

Figure 3.4 Domestic outbound tourism expenditure in the UK by product 2008



Sources: International Passenger Survey 2008, Morgan Stanley survey of airport spend 2005, Household Final Consumption Expenditure 2005-2008

ONS 2011 *The Economic Importance of Tourism: UK TSA for 2008* Page 16

⁶ http://www.ox.ac.uk/media/news_stories/2013/130211.html

For obvious reasons, most discussion about aviation's economic impact relates to business travel, even though this is responsible for a small minority of UK trips. The Commission quotes evidence from York aviation commissioned by the City of London (Jan 2011 *Aviation Services and the City*) which, on the basis of "Discussions with 25 city companies, air transport industry representatives and wider stakeholders" (page 10), the Commission says "identified both breadth (i.e. number of destinations) and depth (i.e. frequency of services) of connectivity as key priorities, as well as noting the importance of direct connections. Survey data from the IoD on possible growing demand for connectivity to emerging markets is also quoted. The implication is that the business community unequivocally both wants and needs more aviation.

Research undertaken by WWF-UK tells a more nuanced story, however. In 2008 the organisation interviewed a sample of 100 FTSE 350 companies about their travel practices⁷. They found that:

- Over 70% of companies either had or were developing a corporate policy which encourages green business travel, i.e. use of lower carbon travel choices and alternatives.
- 62% of businesses said they were already reducing the carbon footprint of their business travel
- 89% of companies surveyed expected to want to fly less over the next 10 years
- 89% of companies believed that videoconferencing could improve their productivity
- 77% of companies expected to increase their rail travel.

A follow-up report in 2011⁸ looked at changes to business travel and meeting practices within large UK companies during the UK's recession. It found that:

- 47% of respondents had reduced the number of business flights they had taken in the last two years
- 63% of companies either had a policy in place to reduce business flights or were intending to implement one
- Of those companies that had cut their flying, 85% did not intend to return to 'business as usual' levels of flying
- 91% agreed with the statement 'Reduced flying and greater use of alternatives are now important parts of our corporate responsibility agenda.'

Such evidence may help to explain why both the number of trips taken from the UK abroad for business, and the proportion of flights taken by business, has in fact fallen in recent years. A 2012 paper⁹ produced by the Health Protection Agency provided evidence of this trend at a national level, showing a steady decline in the proportion of travel for business between 2000 and 2010, with less than 12% of travel demand by 2010 coming from business travellers. Looking at the

⁷ WWF, *Travelling Light: why the UK's biggest companies are seeking alternatives to flying*
http://www.wwf.org.uk/what_we_do/campaigning/one_planet_mobility/new_report__travelling_light/

⁸ WWF, 2011 *Moving on: why flying less means more for business*
http://www.wwf.org.uk/how_you_can_help/get_your_business_involved/one_in_five_challenge/

⁹ February 2012 Health Protection Agency *Global and UK Travel Trends 2010*
http://www.hpa.org.uk/webc/HPAwebFile/HPAweb_C/1317132797054

major South East airports shows a similar trend. The latest CAA survey data indicate that the proportion of business travel at Heathrow, Gatwick and Stansted has fallen over the past decade at all three airports, with the drop being most pronounced at Heathrow.

| | 2001 | 2011 |
|-----------------|-------|-------|
| Heathrow | 37.6% | 31.3% |
| Gatwick | 18.4% | 16.3% |
| Stansted | 20.2% | 15.7% |
| Combined | 29.7% | 24.8% |

Proportion of business travel at the main South East airports: AEF analysis using figures from CAA survey data on purpose of travel

We are not aware of any analysis into what may be driving this apparent trend, but with the price elasticity of business travel being so low (-0.2, DfT indicates, versus -0.7 for leisure), it seems unlikely that business demand is being squeezed out through any capacity constraints as airlines would surely seek to prioritise services for their less price sensitive customers. The possibility that businesses simply don't in fact want so much air travel now as in the past seems to us important for the Commission to consider.

Impact of unpleasant living conditions on UK businesses and on productivity

Finally, in considering the economic impact of aviation both now and in the future it is important to take into account the impact that the sector has both on local businesses and on health and productivity. While such impacts are hard to quantify economically (and AEF has some concerns about the approach currently being proposed by DfT to do so), there is increasing evidence that aviation noise at night increases the risk of heart attacks, strokes and dementia, and that being woken by aircraft at night affects next day productivity¹⁰.

Air pollution (which remains illegally high in the Heathrow area) has been estimated as costing London alone 4000 lives per year and up to £20 billion in health costs, aside from the possible additional impact of EU fines¹¹. Meanwhile, the UK Climate Act was motivated in large part by the understanding, based on work by the Sir Nicholas Stern, that it would be far more economically efficient to tackle climate change than to have to pay to adapt to it. With UK aviation forecast to be responsible for at least a quarter of the UK's total CO2 emissions, its contribution to the cost of failure to tackle the climate threat should not be underestimated.

Impacts of capacity constraints

¹⁰ See for example the ERCD evidence accompanying the current DfT consultation *Night flying restrictions at Heathrow, Gatwick and Stansted* <https://www.gov.uk/government/consultations/night-flights-consultation>

¹¹ London Assembly 2012 *Air pollution in London – issues paper* <http://www.london.gov.uk/mayor-assembly/london-assembly/publications/air-pollution-london-issues-paper>

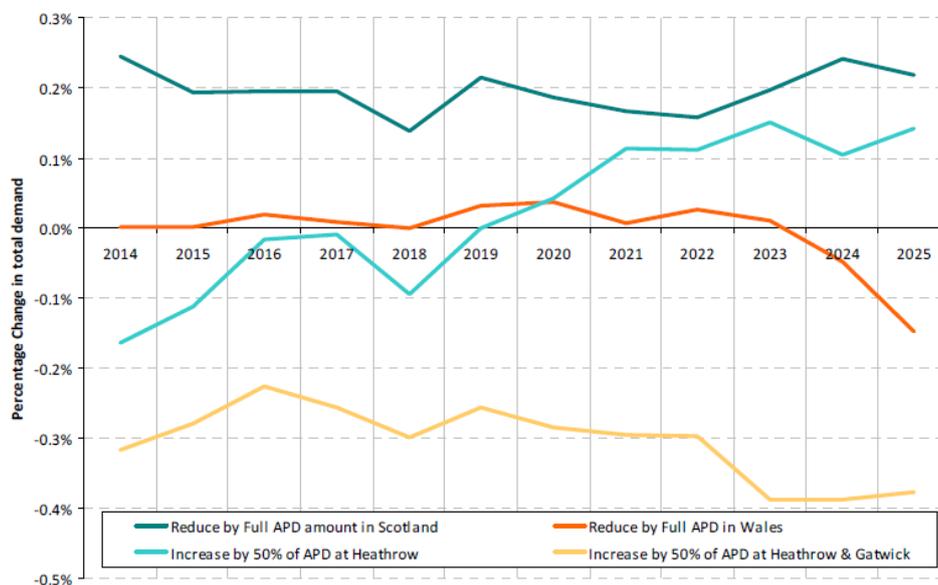
The Commission’s paper provides consideration of the possible impact that of capacity constraints on aviation connectivity. We have a number of comments specifically on this analysis.

Evidence that capacity constraints could improve connectivity

While perhaps counterintuitive, we noted in our response to the Commission’s paper on forecasting that the Commission’s own evidence (in table 4.2 of that paper) suggested that the existence of capacity constraints at Heathrow could in fact improve the UK’s connectivity in the sense that the number of destinations directly served by the UK would be higher in a scenario with capacity constraints than without. While the evidence suggested that London would lose out in terms of number of destinations served, with many people currently travelling from elsewhere in the UK to use London airports (including UK passengers using Heathrow as a hub), a loss of direct routes from London should not, in our view, be overlaid, if these routes would be available from other airports.

Research published by HMRC into the effect of price differentials at airports, for example through charging variable rates of Air Passenger Duty, reached some surprising conclusions, including finding that a 50% increase in APD at Heathrow (but not elsewhere) would increase total passenger demand in the UK during the period under consideration. The reason seems to be that by increasing the comparative advantage of other airports for some flights, those airports are able to develop wider route networks with increased frequencies of flight, which acts to boost demand compared with the baseline.

Figure 1: Percentage change in Total APD Payable Passengers for selected Price Changes



HMRC October 2012 ‘Modelling the effects of price differentials at UK airports’, page 6

It seems, therefore, that neither capacity constraints nor increased ticket prices at Heathrow would necessarily lead to an overall reduction in direct connectivity for the UK (connectivity

through indirect routes is not considered in either case but would warrant attention) and we would urge the Commission to keep this in mind in its future work.

Identifying whose connectivity needs the UK should seek to meet

The Commission paper suggests that a key question is the extent to which the UK's international network can "adapt to changing connectivity needs". This comes as part of a discussion about patterns of international transfer traffic and the fact that hubbing in the UK may make little sense for passengers travelling, for example, from central Europe to Asia. It is not clear to us, however, why this should be a key concern in terms of national connectivity needs. There is, of course, little if any direct benefit to the UK economy of accommodating international transfer passengers (despite the attendant environmental impacts of their travel) and, as airports such as Gatwick and Birmingham have been keen to argue, it is not necessarily the case that Heathrow should have the monopoly on long haul flights.

The effect of capacity constraints on business demand as against leisure

As noted above, the DfT estimates the elasticity of business demand to be -0.2 and of leisure to be -0.7. It seems to us, therefore, that capacity constraints are much more likely to impact the 88% of UK passengers who are travelling for leisure than those travelling for business. The impact of capacity constraints on the future route network should also reflect the different price sensitivity of the two groups, as it seems unlikely that airlines would forgo the higher prices they are able to charge to business passengers by substituting holiday flights for flights to emerging economies, were there to be sufficient demand for the latter.

At present, as the Commission's paper illustrates in Figure 2.2, nine of the top ten UK destinations is in Europe. New routes recently opened from Heathrow include domestic services to Scotland and an Ibiza service reported as "welcome news for clubbers, who will be able to arrive and depart during the day, allowing them to maximize their party-time."¹² While such a service may indeed be good news for partygoers, and justifiable as meeting their demand, its role in supporting the UK's economic development is less straightforward.

¹² <http://www.travelbite.co.uk/travel-news/2013/03/08/british-airways-announces-new-flights-to-ibiza>