

## Airports Commission: Aviation Connectivity and the Economy - Consultation response from Friends of the Earth

**Summary:** There is general support for the findings concerning the positive 'availability of connectivity' from UK airports, but this does not extend to the position that there is a causal correlation between 'connectivity' and various aspects of economic performance. Preference should be given to market response mechanisms (reallocating *existing* capacity, slots, route networks and frequencies) such that these can be used with greater efficiency, before additional new capacity is contemplated. The economics analysis claimed to underpin airport expansion has always been contested as unbalanced; the Commission should respond by challenging this, but more importantly focus its economics analysis more narrowly onto the issues required by its terms of reference.

This is a relatively short response because we are not submitting any new evidence (the main focus of our work in relation to aviation is on climate change, including its economic impact). Instead these comments are confined mostly to issue definition, and process characteristics.

### **A) Nature of UK connectivity (chapter 2)**

Our comments on this can be expressed concisely:

- The reason why 'connectivity' particularly beneficial to the UK business/PLC *might* (and we emphasise that tense) now be subject to some pressures is substantially explained by the fact that: "Consumers in the UK have benefitted from a long-term decline in real air fares of around 60% in the last two decades" *consultation document para. 2.2* Whilst that can be understood as an advance in 'connectivity' (whilst at the same time it has ignored the externalities of emissions costs) it has also had a congestion effect on existing capacity which over time may come to erode that same connectivity. This also points towards an appropriate remedy: demand management by price.

- We support the positive analysis about the 'availability of connectivity'\* in this chapter, as expressed in the conclusions in 2.14-17. This indicates that the ramp of concern generated in the media after September 2011 by the report of Frontier Economics on behalf of BAA Heathrow <sup>1</sup> presented an alarmist picture, presumably in order to benefit the interests of their client. Subsequently other London airports (and such as Birmingham) have expressed a different view: that there are opportunities for improved connectivity in locations other than Heathrow. We included a critique of the Frontier's Economics report itself in our Sustainable Aviation Framework response in October 2011 and this is appended below.

- \*However this should not be taken as an endorsement of what might be called 'simplistic connectivity theory' which has "taken centre stage in the debate on the UK's future global transportation needs" 1.1 We have seen very little if any causally demonstrated correlation between the availability of route networks at one airport or in one country compared to others that can be relied on to support a case for actual additional capacity. As the Commission's analysis in 2.11-13 *and tables* shows it is possible to draw any number of apparently plausible interpretations from associated data sets. Work that we undertook in the early 2000s about the claims of a correlation between 'cities with strong airport links' and economic performance showed that, when this was comprehensively unpacked, the correlation was not causal.

- Additionally the analysis presented so far still has not made clear why neighbouring counties should be portrayed as rigidly competing against each other in terms of route connectivity. All other things being equal there is no particular reason why connectivity at one airport location should be ascribed a privileged status over connectivity at/via another (even in a neighbouring country), although the Commission's later paper on climate change has tried to advance an argument in relation to 'carbon leakage' with very unclear results (to which we will return).

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<sup>1</sup> [Connecting for growth: the role of Britain's hub airport in economic recovery](#): Frontier Economics for BAA Heathrow 2011

Consumer and market choices should be given a substantially greater weight – under a comprehensive emissions constraining regime, as the EU ETS is meant to provide – over the commercial interests of individual airport locations who will try and advance the monopolistic opportunities in their catchment areas.

- We would like therefore to suggest that paragraph 2.10, which at present states “This raises a key question: to what extent can the UK’s international aviation network adapt to changing connectivity needs?” needs to be rephrased. Should it not ask: “... to what extent **would the availability of additional capacity** influence the UK’s international aviation network’s **ability to** adapt to changing connectivity needs?” Because in essence there are two alternative ways in which future connectivity, to the quantity required, can be provided:

- either the market should respond to changing needs by reallocating capacity, slots, route networks and frequencies, such that the existing capacity - either in this country or at accessible European airports - can be used with most efficiency within the constraints of the emissions envelope?

- or the UK government should intervene (at this time - say a decision point in 2015) more proactively to require that additional new capacity be provided at one particular location (this being the most likely scenario), presumably because it has established that the above market response will prove inadequate.

There are four general arguments in favour of pursuing the first option:

(i) making best use of existing capacity is an established core principle of UK transport policy;

(ii) since all three of the economic/financial, environmental and social costs of new airport capacity can be very high indeed it would be better to wait until it is certain that a market response has proved inadequate, rather than have a premature intervention disproved by subsequent customer/market behaviour or trends (an example being changes in the Passenger ATMs ratio, which SSE have analysed and which we supported in our comments on your Forecasting paper);

(iii) to allow the consequences of the break-up of the BAA South East monopoly to work their way through the recent changes in ownership and individual airport strategy over the next period (at least until 2015, and maybe beyond that) creates less risk of major resource misallocation.

(iv) Assuming that the policy objective is greater ‘connectivity’ to particular markets (and BRICs countries feature prominently in this type of analysis) there is a much greater certainty that the first option will achieve this rather than the second, because there is (almost by definition) little prospect that the addition of a big quantum of capacity will assist the level of service to particular destinations except at the margin. As we will note later at present around 75% of existing, and therefore future, capacity is still likely to be allocated for discretionary leisure purposes.

We would suggest that the Commission would wish/need to demonstrate with a convincing and detailed analysis that the ‘market reallocation of existing capacity’ option would **not** work before deciding to favour the second option.

*[Appendix: 2011 extract on Frontier Economics report]*

“This question has recently been addressed in what turns out to be an unconvincing analysis in the report ‘Connecting for growth: the role of Britain’s hub airport in economic recovery’ *Frontier Economics for BAA Heathrow* on which our comments are as follows:

- Whilst it presents an association between connectivity and economic performance (with a claimed ‘connectivity gap’ apparently therefore making the case for increased physical capacity at Heathrow) it does not demonstrate that the correlation is a causal one. Its argument – “Heathrow is doing well, but the UK is underachieving in terms of its potential level of connectivity to short haul and long haul destinations. This results in reduced opportunities to attract businesses to London, reduced opportunities to do business between London and

unconnected markets, and reduced consumer choice.” p.30 - is in fact an attempt to rework the over-prioritisation of the economic pillar within the 2003 framework but this time applying it to a single airport (albeit the dominant hub in the UK).

- Similarly its detailed analysis is an attempt by the operator of Heathrow airport to involve the national policy framework in the dynamic process of competition between not just European hub airports but UK ones as well (in that shortly all three main London airports will be under different ownership; and then there's e.g Birmingham and Manchester as well). By contrast the Airportwatch report *International air connectivity for business: how well connected are UK airports to the world's main business destinations?*<sup>2</sup> encompasses all the London airports in its scope and reaches much more positive conclusions about the international connectivity of Heathrow and London page 3.

- As well as being partial, its analysis is also contradictory: arguing for the efficiency of 'hub' over 'point to point' route networks (from a position where Heathrow provides Europe's overwhelmingly strongest link to the Hong Kong hub - see table 5), but then also argues for direct point-to-point services between Heathrow and other Chinese/SE Asian destinations in substitution for the Hong Kong hub. **2013 note: We are pleased that the Commission has observed this same point para. 2.8 & 2.9**

- As usual the level of growth that it seeks to categorise as a 'failure' remains evidence that the aviation industry operates with its level of commercial ambition disconnected from the realities of a low carbon future: around +45% for forecast *constrained* growth in longhaul services between 2009-22, as against 68% *unconstrained* (figure 18). Constrained connectivity to China increases from 380,000 seats in 2009 to 760,000 in 2021 - that is an increase of 100% in little more than a decade - whereas its ambitions are for a 300+% increase, boosting Heathrow's European market share from 15% to 26% (table 8)!

- What Frontier Economics' own analysis demonstrates is that a good case can be made that Heathrow with its capacity now constrained represents a model for efficient use of capacity compared to the other European hubs. It has fewer shorthaul routes but offers almost the same volume of seats as its leading rivals. The total number of seats (short and long haul) at 46 million is higher than Paris (35m), Frankfurt (34m), Madrid (30m) and Amsterdam (25m); and Heathrow has shown the fastest growth in seats since 2005. So whilst the report can represent that: "Over the last five years capacity has continued to increase at the [European] hub airports with the exception of Frankfurt", it is not being used with the same economic efficiency as Heathrow. This has only been achieved by constraining capacity, which has not happened at the other European hubs.

The Airportwatch report reaches a similar conclusion: "The largest number of flights from the European 'hubs' is to destinations within Europe, reflecting the huge amount of short-distance, intra-European flying that is taking place. This means that the key question is not lack of capacity at Europe's airports but how that capacity is used. The high percentage of intra-European flights suggests significant potential for modal shift from plane to train, particularly given Europe's growing high-speed rail network. The demand for air travel to short-haul destinations would decrease. This could potentially free capacity to business destinations whilst reducing overall demand for air travel".

### **B) Aviation connectivity's contribution to the UK economy (chapter 3)**

Friends of the Earth is a sustainable development organisation, which requires a working method that integrates the economic, social and environmental aspects of an issue into an optimum outcome; in each of these three categories we would expect benefits **and** disbenefits to be identified and appropriately balanced. The critique that we would make of the economic analysis previously undertaken by the DfT since the start of the 2003 White Paper process is that: it was unduly influenced by industry perspectives (e.g the Oxford Economics Forecasting report that underpinned the White Paper economic analysis was part paid for by the industry) - so therefore not impartial; its economic analysis identified benefits but not disbenefits - so

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<sup>2</sup> Airportwatch 2011: [International air connectivity for business: how well connected are UK airports to the world's main business destinations?](#)

therefore not balanced; and it failed to integrate claimed economic benefits with environmental disbenefits to derive a nett outcome. We would expect the Airports Commission to learn from and not to repeat what amounted to systematic bias in the previous economic analysis and presentation of economic arguments. Since this is relevant, we refer to the second principle which we set out in our response to the DfT Sustainable Aviation Framework consultation in 2011: "*Principle 2* - The air transport industry should be treated with equality, 'neither privileged or demonised'.

During the White Paper process, contrary analyses to DfT/OEF were provided by Berkeley Hanover <sup>3</sup> and IPPR <sup>4</sup>; these will now be factually out of date but not in terms of concepts. So for example they make the point that constraining air transport activity (and see also more recent analyses of the economic value of outbound travel *Driving Growth* May 2012 *CEBR for ABTA*) would only tend to displace consumption, activity and employment to other locations in the economy. More recently the Omega *Economic Benefits of Aviation* report <sup>5</sup> 2009 identifies a variety of qualifications to the 'pro-aviation' analyses (but could not consider Oxera's 'What is the contribution of aviation to the UK economy? Final report for the Airport Operators Association' published in Nov 2009.) See also the first part of CE Delft 2008 *Economics of Heathrow Expansion* <sup>6</sup>; and Oxford Environmental Change Institute 2006 *Predict and Decide* chapter 5 <sup>7</sup>. The latter concludes that "the argument that a particular level of flying is an inevitable consequence or determinant of a given level of GDP – and is impervious to policy intervention – cannot be sustained." It also points towards the high UK propensity to fly, the promotion of which has been the deliberate intention of recent policy: "... the results suggests that the UK has considerably more flights than any simple relationship between GDP and flying would imply." 5.2 All these reports question the methodology that exaggerates the contribution of aviation to UK GDP and to employment.

The approach established by WP2003 which unduly emphasises the 'economic benefits' of the aviation sector continues on into current processes: so chapter 1 of the Aviation Policy Framework (APF) is entitled 'Supporting growth and the **benefits of aviation**' *our emphasis* Its conventional analysis – under a first subheading: 'Aviation's contribution to the UK economy' - identifies the GVA and employment levels (direct, indirect and induced) in the air transport industry 1.4, the air freight sector 1.7, the aerospace industry 1.10, and outbound tourism sector 1.16; it continues with the industry's contribution to productivity and economic growth 1.13; and finally employment at regional airports e.g 1.22 and boxes on pages 21-22. The implication is that these are all significant.

This approach is replicated in the Commission's consultation document 3.1-7 (which then goes on to 'explore how aviation connectivity may facilitate economic growth' - which is a different matter). Our colleagues in GACC have critiqued the validity of its general economics analysis in their response, and we support their comments.<sup>8</sup>

The consequence, and therefore one presumes the purpose, of this 'special pleading' is to provide an analytical narrative so as to create a context within which specific (expansion) proposals will then be viewed favourably. Firstly we would point out that this treatment of aviation is unique compared to the all the other DfT modal analyses. So for example neither of the recent HS2 command papers (March 2010 and January 2013) included analysis setting out the levels of GVA generated or employment supported by the UK rail industry; and the same applies to policy documents relating to road and buses. It cannot be certain (precisely because such analyses have not been undertaken for these modes) but it is probably the case that levels of GVA/employment supported by these other transport modes are all substantially in excess of air transport. There is no justification for this basic level of economic activity to be included within the analysis framework as some kind of plus point.

In general we would submit that arguments like these are being unfairly deployed in a way which distorts policy formation; but there's a second particular reason why they are

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<sup>3</sup> Berkeley Hanover 2000: *The impacts of future aviation growth in the UK* (not available online)

<sup>4</sup> IPPR 2001: [Sustainable Aviation 2030](#) ; and 2003 [The sky's the limit - policies for sustainable aviation](#)

<sup>5</sup> Omega 2009: [Economic Benefits of Aviation](#)

<sup>6</sup> CE Delft 2008 for HACAN: [Economics of Heathrow Expansion](#)

<sup>7</sup> Oxford Environmental Change Institute 2006: [Predict and Decide](#)

<sup>8</sup> <http://www.gacc.org.uk/resources/Connectivity%20Response.doc>

inappropriate. Since it is accepted by we suspect most participants that the air transport sector will continue to *grow* into the future in terms of passenger numbers (e.g the DfT forecasts expansion from 210mppa in 2010 to 320mppa in 2030) - rather than face retrenchment or decline - then in general its GVA contribution ought also to increase. On the other hand future employment levels will be a consequence of the continuing extension of the 'low-cost' business model, which is partly also dependent on 'low employment'. (In view of the claims made about employment in the industry the Commission would do well to satisfy itself what has been the longer-term trend in jobs, both in absolute and jobs per millions of passengers terms). These does not appear to be circumstances where policy makers should feel it necessary to argue the case for or intervene in support of this one industry.

We would like to suggest that instead **the economics analysis developed and applied by the Commission should be related more narrowly to the issues defined by its terms of reference**. So:

- *The Commission will examine the scale and timing of any requirement for additional capacity to maintain the UK's position as Europe's most important aviation hub* – therefore an assessment of the economic costs and benefits over the long-term of additional infrastructure provision, taking particular account of how future demand (and therefore need for this infrastructure) could be constrained by carbon and demand management regimes.

- *... a detailed review of the evidence in relation to the current position in the UK with regard to aviation demand and connectivity, forecasts for how these are likely to develop, and the expected future pattern of the UK's requirements for international and domestic connectivity* – therefore an exploration of 'how aviation connectivity may facilitate economic growth' to quote your paragraph 3.8. This issue is indeed the main subject of your chapter 3 3.8-57

- *... its assessment of the credible long-term options for meeting the UK's international connectivity needs, including their economic, social and environmental impact; and its recommendation(s) for the optimum approach to meeting any needs* – therefore an assessment of such infrastructure options against a Do Minimum, but taking proper account of environmental/social disbenefits that will need to be monetised (as suggested by the CE Delph report for WWF/AEF April 2013)

So that the Commission can demonstrate transparency as to the focus of its economic analysis (and what it is not analysing) we suggest an identification of its selected research questions, as per the CE Delph report at 1.3.

Finally, on the question of ensuring that economic disbenefits are properly weighed alongside benefits, we would draw your attention to the long-standing disagreement which the environmental NGOs have had with the DfT concerning their treatment of the so-called 'tourism deficit'. (Friends of the Earth published some analyses of this in 2005, although to an extent that it will have been superceded<sup>9</sup>). You acknowledge this contested issue in your paragraph 3.40: "While inbound tourism has unambiguously positive impact on UK's GDP as tourist expenditure boosts economic activity in the British Isles, there are various arguments and counter-arguments on how beneficial outbound tourism is to the UK economy." What follows 3.41-45 tends to emphasise the potential market growth of particularly long haul tourism from East Asia (which will have higher emissions) if capacity was unconstrained.

Previous DfT analyses opted to simply ignore the issue of the disbenefits associated with the 'tourism deficit'; but finally APF 1.16 contained this statement:

"Responses confirmed that the 'tourism deficit' question is a complex one and **that the evidence available to us** does not show that a decrease in the number of UK residents flying abroad for their holidays would have an overall benefit for the UK economy. UK residents made 57 million visits abroad in 2011 and spent £32 billion, 84% of which was spent by residents who travelled abroad by air. The Government believes that the chance to fly abroad also offers quality of life benefits including educational and skills development. Overall the Government believes continuing to make UK tourism more attractive is a better approach both for residents

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<sup>9</sup> Friends of the Earth [Aviation and the economy](#) 2005; [Why airport expansion is bad for regional economies](#) 2005; [Pie in the sky - Why the costs of airport expansion outweigh the benefits](#) 2006.

and attracting new visitors.” *our emphasis* Unfortunately the DfT have not sourced what this ‘evidence available to us’ is so that it can be reviewed.

Clearly there are complex econometric interactions involved with such an analysis but it remains the case that the government has never undertaken or published an analysis which properly takes account of benefits lost to UK economic activity, consumption and domestic tourism as a result of the existing policy framework which has promoted outbound travel - this in a context where 75% of UK air travel is discretionary leisure (rather than business) and where the UK has one of the highest propensities to air travel in the world.

We would suggest further that this issue is actually directly relevant to your central question of whether additional airport capacity needs to be, or should be, provided because the reason why there are claimed shortfalls in capacity particularly in the SE is that - looked at from a demand management perspective - this large-scale demand has not been ‘priced off’; in fact has been encouraged by ‘pricing on’ via the low-cost business model. Treating the matter simplistically this would imply that a similar proportion (75%) of future demand catered for by any new capacity would also be taken up by discretionary leisure travel, with a preponderance of UK outbound. The question then becomes: what is the economic benefit to UK PLC - alongside the economic, social and environmental disbenefits - of making additional capacity available for that purpose? Alternatively - rather than bearing all the various costs of additional capacity provision - should not an option be considered whereby various regulatory, market and fiscal mechanisms are used to manage demand to fit the available capacity; in the knowledge also that consumption activity previously allocated to outbound discretionary leisure would simply be reallocated elsewhere within the economy? Who knows which way that analysis might go, but it ought to be of interest to the Commission.

Our submissions on how you should take account of the economic cost of climate change emissions, including those imposed on all other economic and social sectors as a result of the proposed preferential treatment of aviation within the UK carbon budget to 2050, will be included within our response to your Climate Change consultation.

Anthony Rae

for Friends of the Earth  
*19th April 2013*