

# Gatwick Area Conservation Campaign **GACC**

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## **A Response to Discussion Paper 01 published by the Airports Commission**

## **Aviation Demand Forecasting**

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*GACC is the main environmental body concerned with Gatwick. Founded in 1968, we have as members nearly 100 Borough, District and Parish Councils and environmental groups covering about a twenty miles radius from the airport. Our committee, elected annually, represents all areas. Because we rely on rational argument and put forward constructive solutions we have had strong support in Parliament and at every level of government.*

## **Discussion Document on Demand Forecasting**

We welcome the open approach being adopted by the Commission, and welcome the opportunity to contribute to this discussion on the Department for Transport air traffic and CO2 forecasts.<sup>1</sup>

The expertise built up over many years, and the sophisticated statistical analysis, of the DfT forecasts tends to give them an aura of infallibility. But they can go wildly wrong. If the forecasts in the 2003 Air Transport White Paper had been acted upon, a second runway at Stansted would by now have been built, and would be standing empty and unloved.

We therefore welcome the treatment of uncertainty in the discussion document, and the recognition that, while the five main airports in the South East could be full as early as 2025, that point may not be reached until 2040. There are, however, other major areas of uncertainty. Forecasts are only as good as the assumptions on which they are based, and we query a number of the underlying assumptions.

### **1. No change in price.**

The air traffic forecasts are based on the unspoken assumption that airport facilities will continue to be provided at a uniform basic price equal to the cost of providing them. That may not be appropriate in conditions of scarcity.

By appearing to show a large unsatisfied demand, the air traffic forecasts are misleading, and also exaggerate the importance of the South East compared to the rest of the country.

It is similar to the problem of forecasting the demand for housing in the South of England. Should the forecast be based on the number of people in the EU who might wish to live in the South of England if houses were sold at prices no higher than the cost of building, or should the forecasts take into account that scarce land commands a higher price?

This issue could be regarded as a matter for forecasting or as a matter for policy recommendations. In our response to the Commission's forthcoming consultation on airport capacity we will be suggesting that use of the price mechanism would be the best way to achieve full use of the existing capacity - either through primary slot auctioning, or by removing the present CAA price regulation, or by differential taxation with higher air passenger duty on congested airports.

Airports are, however, not subject to normal economics. There are barriers to market pricing. Airport charges are restricted by the outdated 1944 Chicago

Convention and by complex CAA regulation, slot auctioning is limited by EU regulation, and differential taxation would come up against the full blast of high-pressure aviation lobbying. Even so, over the next twenty years the costs of using congested airports will tend to rise, for example through secondary slot auctions.

The Commission will need to decide how far to take that into account.

## 2. No change in taxation.

The air traffic forecasts are based on an assumption that between now and 2050 there will be no change in the level of tax on air travel in the UK or abroad.

Despite the frenetic campaign by the airlines to persuade the Government to reduce air passenger duty, it is generally recognised that, as a result of paying no fuel duty and no VAT, air travel is under-taxed compared to car travel (although, as the airlines are quick to point out, not compared to train travel).

It is possible that before 2030, or before 2050, there will be some form of international agreement to impose tax on air travel. There was some discussion of such a scheme at the ill-fated Copenhagen climate change conference with some of the less developed nations suggesting it as a method of financing the costs of adaptation to climate change. It may be that, in the next forty years, there will be some serious world disaster for which the international community wishes to raise relief funds, and that this could lead to a UN resolution calling on all member states to impose a tax on aviation fuel.

The EU may get fed up with American and Chinese recalcitrance on the emissions trading scheme, and will decide instead to include air travel within the scope of VAT (or to impose an equivalent sales tax).

It seems likely that an increasing number of nations will introduce ticket taxes. Air passenger duty has proved to have several fiscal advantages: it is simple to administer; difficult to avoid; progressive in that more flights are taken by the higher income groups; and fair in that most air trips are discretionary not essential. The more general across the world ticket taxes become, the more they could be raised without national competitive disadvantage.

In 2003 a group of environmental NGOs - CPRE, Friends of the Earth, and the Aviation Environment Federation - persuaded the DfT to re-run 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 to show a slower rate of growth and no need for extra runways.<sup>2</sup>

We suggest that the Commission may like to repeat that model re-run. Even if it is considered unrealistic to assume such a large increase in taxation, the results would demonstrate the extent to which the demand for air travel is artificially created by the tax concessions.

The absence of fuel duty and VAT, only partly matched by APD, could be described as a subsidy. There is, we believe, a sound economic argument that where a

demand is artificially inflated by a subsidy, it is not in the national interest to incur capital expenditure to meet that demand. The Commission might wish to explore whether this somewhat esoteric economic theory might show that the nation would be better off with demand constrained by no new runways.

### 3. Competition between airports

The forecasts need to take account of the fact that there is now intense competition between Gatwick and Heathrow; and soon, with the recent sale of Stansted, between all three main airports in the South East.

Global Infrastructure Partners (GIP), the controlling shareholder in Gatwick, have made no secret of their intention to sell their share in 2018 -20.<sup>3</sup> It is not hard to guess that their main motive in pressing the Commission to approve a new runway at Gatwick is thus to improve the price at which they can sell.

That does not mean, however, that a new runway would be built as soon as Gatwick is full. Building a new runway and associated terminal, plus infrastructure, is reckoned to cost £3-5 billion. That would need to be recouped in higher landing fees and charges. Unlike the situation when all the SE airports were in single ownership, the cost cannot now be spread around.

If, when Gatwick reaches full capacity, Stansted is not full, it can be predicted that Stansted would set their charges at whatever extent is necessary to retain traffic. Thus it is unlikely that a commercial case could be made for building a new runway at Gatwick until Stansted is full.

### 4. National responsibility for CO2 emissions.

The CO2 forecasts included with the demand forecasts start with the statement that: *There is currently no internationally agreed way of allocating international emissions to individual countries.*<sup>4</sup> Nevertheless the forecasts blithely assume that the definition of national responsibility will be based on departing aircraft only.

A more accurate assessment of national responsibility would be based on the emissions attributable to UK citizens on departing flights, plus those attributable to UK citizens on arriving flights.

It is not convenient to the British government to use that definition for two reasons. One, the statisticians would find it harder to calculate the figures. Two, since British citizens fly more than those of any other major nation, the more accurate definition would show a substantial increase in UK responsibility for climate change damage.

It is not impossible that before 2030, the other nations of the world may wake up to the fact that they are being asked to carry a disproportionate responsibility for CO2 emissions, and insist on using the more accurate definition.

## 5. Global Warming Potential

The uncertainties regarding the effect of non-CO<sub>2</sub> gasses in the upper atmosphere are described in paragraph 6.2 of the DfT forecasts: *'... the estimated 100-year Global Warming Potentials from Lee et al (2009) indicate that, once the non-CO<sub>2</sub> climate effects of aviation are taken into account, aviation's overall climate effects could be up to double the climate effect of its CO<sub>2</sub> emissions. However, while scientific advances since the 1999 assessment have reduced key uncertainties, considerable scientific uncertainty still remains. The latest advice from Lee et al has been not to apply a multiplier to the CO<sub>2</sub> emission forecasts.*

While the advice given by Lee et al may be correct in terms of scientific certainty, they are not necessarily correct from the point of view of forecasting. If a variable may lie somewhere between 1 and 2, it is dangerous to assume that it is no more than 1.

If during the next fifteen years scientific progress establishes that the Global Warming Potential is actually nearer 2, the CO<sub>2</sub> forecasts would be likely to imply that no new runways should be built.

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<sup>1</sup> <https://www.gov.uk/government/publications/uk-aviation-forecasts-2013>

<sup>2</sup> Hidden Cost of Flying. AEF 2003. <http://www.aef.org.uk/?p=169>

<sup>3</sup> GATCOM Minutes <http://www2.westsussex.gov.uk/ds/cttee/gat/gat260412i3.pdf> paragraph 109

<sup>4</sup> DfT Demand Forecasts Paragraph 6.1