The Truth About Economic benefits of Heathrow Expansion

Friends of the Earth West London

1. MPs, councils, chambers of commerce and others have been subject to a barrage of propaganda from Heathrow Airport urging them to support a new runway at Heathrow. The airport claims a new runway would bring massive economic benefits. But if one looks at the actual evidence - instead of hype, sound bites and corporate propaganda - there is virtually no economic benefit for the country. Furthermore, the regions outside the Southeast lose out.

2. So what would be the actual effect of new runway at Heathrow?

3. The Airports Commission, chaired by Sir Howard Davies, carried out an analysis using established methodology to calculate a net economic benefit of a new runway, expressed as 'Net Present Value'. It was £11.8 billion.[i] This may sound a lot, but it is a benefit for the whole UK spread over 60 years. Compare this with our Gross Domestic Product of about a £1,500 billion every year. Any impact on our economy and growth is negligible. Even this claimed economic benefit is equivalent to a fraction of the cost of a cup of coffee at the airport for each passenger! But now the Department for Transport (DfT) has revised the figure down to a range of -£2.5 bn to +£2.9 bn.[ii, iii] So the economic benefit could well be negative.

4. These figures assume no constraint on carbon emissions from aircraft, considered necessary by the government's Committee on Climate Change to meet the UK's climate change target. If air travel is required to meet the target, the net economic benefit becomes negative - an estimated -£7.5.bn to -£12.9bn.[iv]

5. Heathrow and proponents of expansion constantly cite the need for business people to fly abroad to places such as China in order to support UK economic growth. But trips beyond Europe by UK business people represent a tiny 1.8% of traffic from UK airports.[v] The great majority of trips are for leisure, which takes far more money out of the UK than it brings in.

6. Any business person who needs to fly abroad will be able to do so, whether there is a new runway at Heathrow or not. The idea that British business people (most of whom are in any case based nowhere near Heathrow) will refuse to go to some Chinese city to negotiate a deal, simply because there is not a direct flight from Heathrow, is little short of absurd.

7. The DfT has produced detailed forecasts of air traffic with and without a third runway. They are very telling. Without a third runway at Heathrow, growth in traffic goes instead to other airports where there is lots of spare capacity.

8. With a third runway at Heathrow, regional traffic is 5.4 million passengers pa less at 2030 and 17.8 million less by 2050 than without a new runway. This represents 24% loss of growth between 2016 and 2030.[vi] International destinations served from the regions and connectivity will be correspondingly lower. Losing growth from the regions to Heathrow will further unbalance the economy, overheating the Southeast and constraining other regions.

9. The Airports Commission concluded that some £5bn[vii] would be needed for infrastructure such as roads and railways, reduced by the DfT to £1.4bn to £3.4bn.[viii] However, Transport for London estimates that to cater for Heathrow expansion while maintaining services for everyone else would need £10-15bn.[ix] Heathrow is only prepared to contribute £1bn[x], meaning that up to £14bn would need to be found by government. Even more spending on the Southeast means even less money available for investment in the rest of the country.

10. It is of course possible to spend much less than the £10-15bn on road and rail that is needed. But the effect of that is to increase traffic and congestion on the existing roads and railways thereby offsetting any apparent saving.[xi].

11. Air travel enjoys massive tax exemptions. Tax-free fuel alone is worth £10bn pa.[xii] If aviation were taxed at the same rate as other sectors of the economy, the money could be invested in public services or infrastructure in the regions. Or it could be used to help poor people, who do not fly.

12. These tax exemptions subsidise cheap unnecessary flights and inflate demand. If aircraft fuel were taxed at the same rate as petrol, demand would be reduced by 36 million passengers pa.[xiii, xiv] This is considerably more that the extra traffic of 29 million generated than by a new Heathrow runway.[xv] To put it bluntly, the "need" for a new runway is based on a tax dodge.

13. We urge MPs, councils and business leaders to ignore the hype, sound bites and corporate propaganda about the economic benefits of a new runway at Heathrow. Instead, they should consider actual evidence, referenced here. There is simply no credible evidence that a new runway would significantly benefit the UK or regional economies.

West London Friends of the Earth; nic.ferriday@ntlworld.com, June 2018

---

[i] Airports Commission final report, page 147. Further information available on request.

[ii] 'Updated Appraisal Report' of Oct 2017 at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/653879/updated-appraisal-report-airport-capacity-in-the-south-east.pdf (Table 9.2, page 44). Then again slightly revised again in 'Addendum to the Updated Appraisal Report .. June 2018' which may be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/711589/addendum-to-the-updated-appraisal-report-airport-capacity-in-the-south-east.pdf Table 3.1 (page 10).

[iii] The range allows for a range in estimates of scheme cost, surface access cost and wider economic benefits.

[iv] The Airports Commission estimated benefits of a new runway fall to just £1.4bn with a carbon limit, ie £10.4bn less than the benefit with no constraint on carbon. In its revision of benefits, the DfT chose not to show the scenario where

emissions are constrained to meet our climate target - for reasons that can be readily surmised. (It did produce a table in its June 2018 addendum for carbon capped. But this just shows the same costs as a carbon traded, which is not believable.) However, it is possible to estimate roughly what the figure would be. Using the Airports Commission's difference of £10.4bn, this value can be subtracted from the DfT's range of -£2.5 to +£2.9bn to give a range -£12.9 to -£7.5bn for a carbon constrained scenario.

[v] From Office of National Statistics (ONS) 'Visits and spending abroad: by mode of travel, region of visit and purpose of visit 2016'. See 'The myth about business travel and airport capacity', available on request.

[vi] Derived from DfT 'UK aviation forecasts' October 2017 at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/674749/uk-aviation-forecasts-2017.pdf Derivations are given in 'Effect of a new Heathrow on air traffic demand' available on request. A "passenger" is defined by DfT as a passenger trip terminating at a UK airport. Therefore one international trip corresponds to one passenger but a domestic trip corresponds to two passengers.

[vii] 'Business Case and Sustainability Assessment – Heathrow Airport Northwest Runway', page 78.

[viii] This reduction occurred – tellingly - after Chris Grayling intervened over claimed cost estimates for surface access.

[ix] 'An earlier report for Mayor of London: Landing the right airport', page 51, estimated £18bn. A more recent estimate is given in NPS Consultation Response: Thematic Paper, Surface Access, May 2017 of £10 to £15bn. This is the cost of road and rail schemes needed to achieve a modal shift to 65% public transport. Only that level would ensure that there were not serous impacts on existing infrastructure and on non-airport users.

[x] Heathrow told the Environmental Audit Committee that they were prepared to put in £1.1 billion.

[xi] The effect of reducing the amount spent on road and rail, as Chris Grayling has done, is simply to increase traffic and congestion on the existing roads and railways. This impacts on non-airport users and would generate a large economic cost in its own right. So savings on infrastructure are replaced by congestion costs. To a first approximation the NPV is unchanged. Richmond Council has estimated that the cost of congestion with currently proposed road and rail schemes would be £25bn. See https://www.richmond.gov.uk/council/news/press_office/older_news/june_2018/benefits_of_expansion_cut_25bn_public_transport_improvements_fall_short

[xii] Figure derived from publicly available figures on emissions and tax levels together with DfT's 'UK aviation forecasts' October 2017 (see endnote vi). Paper with calculations available on request. This order of figure had been confirmed by the Treasury.

[xiii] Result calculated for 2030. Derived from DfT 'UK aviation forecasts' October 2017 (see endnote vi). Further information available on request.

[xiv] This figures assume that aircraft fuel is taxed at the same rate as petrol. But to avoid possible double taxation we subtract from the tax on fuel the cost of Air Passenger Duty and a cost of carbon, both of which are incorporated in the DfT estimates of ticket prices and demand.

[xv] Figure of 29 million passengers at 2030 derived from DfT 'UK aviation forecasts' October 2017 (see endnote vi) and published in the FOE briefing 'Effect Of A New Heathrow Runway On Air Traffic Demand'. Further information available on request.