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Case Ref. 2032278**

Appeal by BAA Ltd and Stansted Airport Ltd following the refusal by Uttlesford District Council of planning application UTT/0717/06/FUL

**Rebuttal Proof of Evidence to
Mr John S Rhodes (BAA/1) by
Stop Stansted Expansion**

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1 INTRODUCTION

1.1 Personal details

- 1.1.1 This rebuttal proof of evidence has been prepared by Brian Ross on behalf of Stop Stansted Expansion ('SSE').

1.2 Qualifications and experience

- 1.2.1 I have the degrees of Bachelor of Commerce (hons) and Master of Business Administration (distinction) and I am also a graduate of the Stanford Executive Programme. I have 25 years experience with a major UK plc in operational and corporate finance roles, interrupted by two and a half years in the Prime Minister's Office advising on efficiency matters within Government. I am now semi-retired and spend most of my time assisting SSE. I also do some part-time consulting, providing economic and financial analysis and advice mostly to clients in the City, including on matters relating to the air transport industry.

1.3 Scope of rebuttal evidence

- 1.3.1 In order to avoid repetition, this rebuttal generally deals only with those matters raised by Mr John S Rhodes which have not already been dealt with either in the SSE Statement of Case dated 7 February 2007, in the 22 proofs of evidence submitted by SSE on 30 April 2007 or in pre-inquiry correspondence with the Programme Manager copies of which have been provided to all Rule 6 Parties.
- 1.3.2 Apart from the above exclusions, this rebuttal proof does not attempt to deal with every issue raised by Mr Rhodes with which I disagree. Absence of comment in this rebuttal proof on any matters raised by Mr Rhodes in his proof of evidence should therefore not be taken to indicate my agreement with those matters.
- 1.3.3 I have focused my comments on economics and employment issues and therefore on appendices 1 and 4 of BAA/1/c. This is because BAA does not intend to call witness evidence in these areas and so there may not be a proper opportunity to cross-examine at the Inquiry.

2 REBUTTAL POINTS

2.1 BAA/1/a: Section 8

- 2.1.1 Paras 8.10 to 8.12 make generalised points about the economic benefits of aviation to the UK economy. These points are not directly relevant to the consideration of this particular planning application. Indeed, the analysis contained in our proofs of evidence clearly demonstrates that the national economic benefits could be significantly greater if this particular planning application were to be refused.
- 2.1.2 Mr Rhodes claims (para 8.13) that the proposed development would generate economic benefits (before allowing for economic disbenefits) of £2.9bn and states that this estimate is based on 'published Government sources'. But the published Government sources that are referred to do not support this claim. I deal with this point further in para 2.3.4 below.

2.1.3 Paras 8.14 to 8.20 again make generalised points which do not assist in the economic assessment of this particular planning application. Para 8.21 argues that the additional 3,800 jobs that would be created by the proposed expansion of Stansted are essential if the RSS is to meet its employment targets. In fact the converse is the case. The proposed development would displace more jobs than it would create.

2.1.4 Mr Rhodes concludes this section by stating (para 8.22):

'The identified benefits of the G1 proposals are 'clear, substantial and endorsed in authoritative national and regional policy statements; they carry very substantial weight at this inquiry'.

Mr Rhodes' use of the adjectives 'clear' and 'substantial' appears to be an attempt to disguise his lack of evidence for, or quantification of, identified benefits for the G1 development. However I fully agree that the economic and employment impacts of the G1 development should carry very substantial weight at this Inquiry. It will therefore be vital to ensure that these matters are thoroughly examined in the course of the Inquiry.

2.2 BAA/1/a: Section 17

2.2.1 Mr Rhodes states (para 17.2) that 'the ATWP policies are the starting point for a decision in this case'. That is incorrect. The starting point for a decision in this case is Section 38 of the 2004 Planning & Compulsory Purchase Act ('P&CPA') which establishes the primacy of the development plan. (Section 39 of the P&CPA is also of fundamental importance). It is common ground that the ATWP is a material consideration in this case but the ATWP does not provide any exemption from the requirement for a planning application to be examined via the normal planning process and this, in turn, requires thorough examination of the impacts of the proposed development. Only then can a judgement be made as to whether the overall impact of the proposed development would be acceptable or unacceptable. If judged unacceptable then the ATWP's support for 'best' use of the Stansted runway is inconsequential.

2.2.2 Mr Rhodes asserts (para 17.4) that 'the ATWP was based on an unusually detailed assessment of the environmental and other effects'. That is incorrect. The ATWP necessarily had to rely upon a broad overview of the environmental and other impacts, sufficient only to enable the Government to develop a strategic framework for the future development of air transport in the UK for the next 30 years. Thus, while the ATWP provides a strategic context it does not obviate the need for the normal planning process to fully examine the specific environmental and other effects (including economic effects) of an airport expansion proposal such as this.

2.3 BAA/1/c – Appendix 1: 'Stansted G1 – Report on Economic Benefits', Tribal

2.3.1 In para 1.1.5, Peter Wood (the author of the Appendix 1 report) emphasises the economic importance of the aviation industry in the following terms:

'Finally, and most significantly, in common with other parts of the transport industry, the aviation industry is profoundly important as an input to and facilitator of a wide range of economic activities the existence and growth of which creates benefits at the national, local and regional levels.'

However this is not a view shared by SACTRA, a prestigious independent committee appointed by the Secretary of State for Transport:

11 *In the search for empirical evidence, we find that direct statistical and case-study evidence on the size and nature of the effects of transport cost changes is limited. Some authors have claimed that national programmes of public investment, including road construction, lead to high rates of social return measured in terms of economic growth and productivity improvement. Other authors suggest that such effects do occur but on a smaller scale than has been claimed, and that, in general, any contribution to the sustainable rate of economic growth of a mature economy, with well-developed transport systems, is likely to be modest. Our investigations support the latter assessment. We have also reviewed available evidence from specific local studies seeking to detect economic impacts from completed transport investment projects in the recent past. The state of the art of this important field is poorly developed and the results do not offer convincing general evidence of the size, nature or direction of local economic impacts.*

12 *Thus we are provided with a strong theoretical expectation that all or part of a successfully achieved transport cost reduction may subsequently be converted into a range of different wider economic impacts. This, in principle, provides for the possibility of improved economic performance. Empirical evidence of the scale and significance of such linkages is, however, weak and disputed. We conclude that the theoretical effects listed can exist in reality, but that none of them is guaranteed. Our studies underline the conclusion that generalisations about the effects of transport on the economy are subject to strong dependence on specific local circumstances and conditions.'*¹

Far from being 'profoundly important', SACTRA concluded that the benefits are likely to be modest and stressed the importance of avoiding conclusions based on generalisations; instead the specific local circumstances need to be examined.

- 2.3.2 Peter Wood makes a similar point in para 2.2.23, this time relying upon the Eddington Report [CD/111]. Again I refer to SACTRA's findings and emphasise the importance of looking at the specific economic effects of the proposal under consideration rather than at broad generalisations.
- 2.3.3 In para 2.2.34, Peter Wood appears to have simply used the 'headline number' (at year 2000 prices) taken from the Executive Summary of the Stern Report [CD/157] and converted this from US\$ to UK£ at today's exchange rate. SSE/8/a, para 4.3.3 provides the correct basis for conversion. In addition, Peter Wood does not appear to acknowledge Stern's point that radiative forcing should be included in the cost of carbon for aviation.
- 2.3.4 In para 3.2.10, Peter Wood arrives at an NPV estimate of £2.9bn for the net economic benefit of the G1 proposal. He appears to have arrived at this estimate by taking an average economic benefit per passenger for Gatwick, Luton and Stansted, whereas just four paragraphs earlier (para 3.2.6) Mr Wood stated:

*'It is **not** possible to break the costs and benefits down to identify the costs and benefits attributable to the individual airports where the additional capacity is provided.'* [his emphasis]

Indeed it is not. And one of the main reasons why averaging is inappropriate is that the benefits are very heavily skewed towards business passengers. BAA predicts that the proposed G1 development would result in only an extra 300,000 business passengers per annum but Mr Wood has applied an average figure to an additional 10 million passengers. It should not therefore be difficult to gauge the scale of the

¹ Transport and the Economy, SACTRA, DfT, 1999 [Core Document - number not yet applied].

error in Mr Wood's estimate and this is even before one begins to take account of the economic costs arising in relation to carbon emissions (as per Stern) and the additional economic outflows arising from the higher trade deficit.

- 2.3.5 In para 3.2.18, Peter Wood quotes some broad estimates of 'wider economic benefits' relying on the 2006 OEF report [CD/120]. For a number of reasons very little credibility should be attached to the OEF report. SSE has touched on these in evidence already submitted and will be happy to provide more detail at the Inquiry if the need arises. In the meantime I would simply point out that Mr Wood appears to have made the same mistake as before by looking only at the total number of additional passengers whereas even the OEF report acknowledges that economic benefits are driven by business passengers. This results in Mr Wood's estimates being fundamentally flawed and, of course, the conclusions drawn by Mr Wood (which are based on his estimates) are therefore also fundamentally flawed.
- 2.3.6 Mr Wood states (para 3.3.33) that the G1 proposal would result in an additional 1.9 million foreign leisure passengers accessing the UK via Stansted Airport. The correct figure is, of course, 0.95m (i.e. 0.95m arrivals and 0.95m departures) and about 0.05m of these would be travelling to/from other parts of the UK, leaving about 0.9m net additional foreign leisure visitors. This compares to an additional 2.12m overseas trips by UK residents, i.e. more than twice as many UK residents taking economic wealth out of the UK economy compared to the number of foreign tourists bringing economic wealth into the UK economy. Mr Wood considers the latter to be irrelevant from an economic and employment standpoint. I respectfully disagree and will comment on this further below.
- 2.3.7 The average earnings data provided in para 3.4.7 do not appear to reconcile with the analysis provided by BAA in Volume 6 of its Environmental Statement [CD/9], Table 13 (which I note was also prepared by Tribal) showing 50% of Stansted Airport employees to be in SJs 1-5. SSE has been questioning this analysis since July 2006 and it could save time at the Inquiry if we were provided as soon as possible with the further details that we have requested (see SSE/10/a, para 4.2.3).
- 2.3.8 From para 3.4.42, it would appear that BAA has revised the labour market projections originally provided in Volume 6 of its Environmental Statement [CD/9], para 10.2 to 10.5 and Appendix A2. If that is the case SSE would like full details of the changes that have been made to the original assessment and projections, and the basis for these changes, in the interests of saving time at the Inquiry.
- 2.3.9 It is unacceptable that BAA is not prepared to provide a projection for the future types of jobs that would be created by the proposed G1 development. As SSE has been pointing out since July 2006, the type of jobs is a major consideration in relation to the G1 planning application. SSE's analysis indicates that a significant jobs mismatch would arise resulting in a substantial increase in commuting and in the need for affordable housing. BAA should provide this information as soon as possible, again in the interests of saving time at the Inquiry.
- 2.3.10 The conclusions drawn by Mr Wood in 3.4.45, 3.4.46 and in Section 4 are not supported evidentially. Indeed if the errors in calculation (referred to above) were to be corrected and the significant omissions in the evidence base were to be made good, very different conclusions would follow, with the possible exception of some employment benefit for the Harlow area. The latter would however be greatly outweighed by negative economic and employment impacts within the East of England as a whole and indeed beyond.

2.4 BAA/1/c – Appendix 1: 'Technical Note on Balance of Payments', Tribal

General points

- 2.4.1 The Tribal 'Technical Note' on the Balance of Payments completely misunderstands the nature of SSE's point in relation to the Balance of Payments impact of the G1 proposal. It is not predicated upon a protectionist trade policy – the motive which is implied by Mr Wood in para 2.1.8:

"To restrict the operation of Stansted with the aim of limiting competition in the travel and tourism industry..."

I can only conclude that this is a mischievous misinterpretation of the point being made by SSE (and, I believe, UDC) perhaps to deflect attention from the real issue which should be fairly obvious: the proposed development, if approved, would result in the annual transfer overseas of very significant amounts of economic wealth from the East of England economy and the UK economy as a whole. The onus is upon BAA to demonstrate that, despite this, and other, negative economic impacts, there would still be sufficient net economic benefits from the G1 development proposal to justify the considerable harm that would arise from the proposal.

- 2.4.2 BAA recognises inbound tourists as an economic benefit (e.g. page 35 of BAA/1/A, point 2). It is common ground that aviation supports tourism and there is no disagreement either that this support works far more strongly to the benefit of outward tourism than to inward tourism. However, Peter Wood appears to miss the basic economics of this outflow while at the same time suggesting it is not a matter for the Inquiry. The Government has made clear that while the ATWP provides the strategic framework for airport expansion in the UK it is down to the normal planning process to examine specific development proposals and to assess whether the good outweighs the harm.

Specific points

- 2.4.3 Mr Wood makes the point in para 2.1.9 that 'the Balance of Payments must always balance'. Of course it must; however, Mr Wood understands perfectly well that all of our evidence and analysis relates to the trade deficit within the current account. In para 2.1.10, Mr Wood acknowledges that the real issue is the trade deficit and also acknowledges that there are circumstances where the financing of the trade deficit could present serious problems for economic management. Mr Wood goes on to state:

'such circumstances have not been present in the UK economy for many years – not least thanks to the policy of a floating exchange rate which promotes relatively smooth adjustment in the elements of the balance of payments. If the external balance were to become a policy problem, the appropriate response would involve fiscal and monetary policies and not attempts to manipulate specific markets.'

- 2.4.4 All of the above is unarguable but Mr Wood presents these adjustment mechanisms as benign. This is not the case. The underlying impact of an ongoing trade deficit is to sap economic wealth out of the economy. If the adjustment mechanism is the floating exchange rate, the price to be paid is in higher prices for imported goods and lower prices for exports – i.e. a lower standard of living for UK residents. If the adjustment mechanism is higher interest rates the price to be paid is higher borrowing (including mortgage) costs, job losses and a reduced level of domestic economic activity. Just as it is true that the Balance of Payments must always balance, so also is it true that the fundamental macroeconomics must always

balance. Somewhere along the line the cost of running a trade deficit must be met from some part of the economy – either in terms of a negative impact upon jobs, inflation, standard of living or some combination thereof. There is no escaping the reality that an ongoing trade deficit has a negative impact upon the UK economy.

- 2.4.5 In para 2.1.11, Mr Wood even goes so far as to question whether the G1 proposal would increase the trade deficit. I can only suggest that Mr Wood looks at BAA's own projections and perhaps also the spend per head data for inward and outward tourists which the Office of National Statistics has been producing for many years, for example in Travel Trends [CD/230]. Mr Wood then suggests that even if there were to be a trade deficit this would not be material to any decision on the proposed G1 development. I disagree.
- 2.4.6 Mr Wood concludes (para 2.1.14) by describing the Balance of Payments impact of the proposed G1 development as 'a non-existent problem', 'a non-problem' and 'based on an unproven assertion concerning the effect of restrictions at Stansted on the trade balance'. This seems to be an attempt to turn the argument on its head. As stated above, the onus is upon BAA to demonstrate that the net economic benefits of the proposed development would be sufficient to justify the considerable environmental and social harm that would arise from the proposed development.