

**Doc. No.SSE/8/b
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

Summary Proof of Evidence on behalf of Stop Stansted Expansion

Economic Impacts

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1 INTRODUCTION

- 1.1.1 My name is Brian Ross and I appear at the Public Inquiry on behalf of Stop Stansted Expansion ('SSE'). Other members of SSE, particularly Mike Young, have assisted me in the preparation of proof of evidence SSE/8/a of which this is a summary.

1.2 Qualifications and experience

Brian Ross

- B Com (hons), MBA, Graduate of Stanford Executive Programme;
- 25 years experience with UK plc in operations and corporate finance;
- 2.5 years in the PM's office advising on efficiency within Government;
- Now semi-retired, spend most time assisting SSE but also provide analysis and advice as paid consultant, including on matters relating to air transport.

Mike Young

- BA (hons) and a Fellow of the Institute of Chartered Accountants in England and Wales and hold the Financial Planning Certificate;
- Most of career with major international oil company in variety of senior management positions. Took early retirement six years ago;
- Moved to Uttlesford in 1991. Involved in a number of local organisations, including local parish councillor, director of a charity and SSE volunteer.

2 SCOPE OF EVIDENCE

2.1 Core evidence

- 2.1.1 Our evidence on the economic effects of the proposed development was originally set out in Chapter 7, Volume 1 of SSE's response to UDC, July 2006 [CD/201]. That evidence is superseded by our main proof of evidence which incorporates more recent data and further analysis carried out since July 2006.

3 ECONOMIC IMPACT OF THE PROPOSED DEVELOPMENT

3.1 Characteristics of Stansted Airport

- 3.1.1 Business travel presently accounts for 19% of Stansted's passengers and BAA projects that this would increase to 23% if the application were to be refused but would remain at 19% if the application were to be approved.

- 3.1.2 Outbound UK leisure travellers outnumber incoming foreign visitors by about two to one. BAA projects that this would remain the case whether the application were to be approved or refused.
- 3.1.3 Stansted currently handles about 11,000 annual cargo flights (5% of air traffic movements). BAA projects that cargo flights would more than double (22,500) if the application were refused but would be less than this (20,500) if the application were approved (although freight tonnage is constant under both scenarios).
- 3.1.4 Non-ATMs (including business jets and air taxis) accounted for 16,700 aircraft movements at Stansted in 2006 (8.0% of all traffic). BAA states it would be less able to cater for this element of the business market (and able to handle a maximum of only 10,000) if its application were approved.
- 3.1.5 BAA projects that there would be fewer foreign business visitors using Stansted if the application were approved and only 200,000 additional UK business users pa.

4 FINANCIAL ASSESSMENT

4.1 General

- 4.1.1 In view of the above it is difficult to see how any significant direct benefits to business would arise from the proposed development.
- 4.1.2 The main purpose of the proposed development is to accommodate more leisure passengers, the great majority of whom would be outbound UK residents. Whether this constitutes 'need' in the proper sense of the word is a moot point. There is however no doubt that if the application were to be approved there would be a significant adverse impact upon the UK Balance of Payments.

4.2 Balance of Payments impact

- 4.2.1 The UK trade deficit on international air travel has grown sharply over the past ten years, from £2.0bn in 1995 to £18.8bn in 2005. International air travel accounted for 43% of the total UK trade deficit in 2005.
- 4.2.2 There are two main components to the air travel deficit:
- The difference between the amounts spent by UK residents in overseas destinations compared to the amounts spent by foreign visitors in the UK. This amounted to £15.7bn in 2005;
 - The difference between the amounts spent by UK residents purchasing airline tickets from foreign airlines compared to the amounts spent by foreign residents purchasing air tickets from UK airlines. This amounted to £3.1bn in 2005.
- 4.2.3 BAA has not provided a forecast for the Balance of Payments impact of its expansion proposals for Stansted but we have estimated this based on data available from the CAA and the Office of National Statistics (ONS). The key figures are as follows (all at 2004 prices):
- The adverse impact of Stansted's leisure passenger operations on the UK trade deficit was c.£1.27bn in 2004 and would be c.£1.51bn for 25mppa;

- If the application were approved this we estimate that the deficit would rise to £2.11bn at 35mppa, £2.41bn at 40mppa, £2.71bn at 45mppa and £3.02bn at 50mppa.

4.2.4 On a Net Present Value ('NPV') basis, calculated in accordance with HM Treasury methodology set down in 'The Green Book'¹, the Balance of Payments impact arising from the proposed expansion of Stansted is as follows (again at 2004 prices):

- Expansion to 35mppa = -£18.8bn NPV
- Expansion to 40mppa = -£25.8bn NPV
- Expansion to 45mppa = -£30.7bn NPV
- Expansion to 50mppa = -£34.4bn NPV

All of the above NPV calculations are increases on the 2004 baseline and would be reduced by £6.2bn if BAA's 25mppa baseline were applied.

4.3 Economics of climate change

4.3.1 The Stern Report² arrived at an estimate of £238 per tonne (at year 2000 prices) for the social cost of carbon. This equates to about £281 per tonne today, or to about £76.50 per tonne of carbon dioxide (CO₂).³

4.3.2 Stern specifically addressed the issue of the unsustainable growth in aviation emissions and recommended that:

'The level of the carbon price faced by aviation should reflect the full contribution of emissions from aviation to climate change. As outlined in Box 15.6, the impact of aviation is two to four times higher than the impact of the CO₂ emissions alone.'

4.3.3 Based on our estimate of Stansted's emissions of carbon dioxide in 2006 and our projection for 35mppa the additional climate change impact of the proposed development would be between 1.92m and 3.79m tonnes of CO₂e (carbon dioxide equivalent) including the 2-4 multiplier referred to above.

4.3.4 Applying Stern's estimate of the cost of carbon (£76.50) enable us to convert CO₂e to a financial cost of £147m and £290m per annum. This is the annual incremental cost at 35mppa and would increase gradually to these figures during the period 2008 to 2015, if the application were to be approved. This does **not** include the cost of Stansted's current (2006) emissions, i.e. baseline costs.

4.3.5 On a Net Present Value ('NPV') basis, allowing for the phased increase, the cost is between **£3.2bn** and **£6.3bn**. As with our Balance of Payments NPV calculation, our climate change NPV is based on HM Treasury guidance/methodology as set down in 'The Green Book'.⁴

¹ 'Appraisal and Evaluation in Central Government, ('The Green Book'), HMT, 2003, Annex 6. [SSE/8/c Appendix 9].

² Report of the Stern Review: The Economics of Climate Change, HMT, Oct 2006. {CD/157}.

³ Ibid, p.xvi of Executive Summary and Box 13.1, page 288 of main report. Note that 1 tonne of carbon equates to 3.67 tonnes of carbon dioxide (CO₂).

⁴ SSE/8/c Appendix 9.

4.4 Other financial/economic impacts

4.4.1 Further adverse economic impacts arise in relation to:

- Regional tourism industry;
- Impact on inward investment;
- Displacement impacts;
- Local housing market.

4.4.2 These are dealt with in other SSE evidence and will not be repeated here.

5 CONCLUSIONS

- 5.1 The economic analysis provided by BAA in CD/8 starts by stating that negative effects will be identified but it simply ignores them. Not a single *negative impact* is identified. However, it is even more interesting that not a single *economic benefit* has been evidenced by BAA.
- 5.2 BAA has relied upon: broad generalisations relating to the importance of airports to the UK economy; a great deal of irrelevant argument about the importance of freight traffic (which would be unchanged whether the application was approved or refused); and a one-sided argument about the benefits of increased number of foreign tourists while making no mention of the far greater negative impact (about double the value of the inward benefit) arising from the increase in overseas leisure breaks by UK residents.
- 5.3 We have identified negative economic impacts amounting to between £12.6bn and £34.4bn for the UK Balance of Payments (the actual figure depends upon whether we use the current position or BAA's 25mppa scenario as the baseline and upon the actual level of passenger throughput), and between £3.2bn and £6.3bn for climate change costs, as per Stern. In both cases we have calculated these net present values using HM Treasury methodology – and these are not the only negative economic impacts, as we will show in other proofs of evidence.
- 5.4 For the approval of any development that would have such significant adverse social and environmental impacts there would need to be substantial and demonstrable economic benefits. These do not exist in this particular case; indeed, the economic impacts are substantially and demonstrably negative.
- 5.5 It follows that the application should be refused.