

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 and Employment Aspects of Stansted's Proposed Growth Trajectory

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1 INTRODUCTION

- 1.1 My name is John Whitelegg and I am Visiting Professor of Sustainable Transport at Liverpool John Moores University, Professorial staff member of the Stockholm Environment Institute at the University of York and Managing Director of the transport consultancy, Eco-Logica Ltd.
- 1.2 In my proof of evidence I will examine the economic and job creation case made for the expansion of Stansted Airport and in so doing follow the headings of BAA's Generation 1 Environmental Statement ('ES'), Volume 5, Economic Effects and Volume 6, Employment and Housing Effects. After reviewing the BAA evidence I will turn to those aspects of economics that have been omitted from the ES.

2 ECONOMIC EFFECTS

2.1 Business location decisions

- 2.1.1 The evidence quoted by BAA¹ does not provide support for an assertion that an airport expansion project will 'influence the location decisions'. There is ample evidence that location decisions are quite complex and that there is not much support for a direct cause and effect link between transport investment and business location decisions.
- 2.1.2 A DfT study² quoted by BAA emphasises the importance of labour supply and the accessibility characteristics of the labour market in explaining location decisions.
- 2.1.3 The global picture with respect to location decisions is changing rapidly towards a much more flexible model, with India and China figuring significantly in the location choices of large multinational companies especially in computing and other sectors normally linked to airports in the UK.
- 2.1.4 There is no evidence that an airport expansion project would have a detectable impact over and above the existing impacts of the airport.
- 2.1.5 Airport investment projects can have negative impacts through increasing congestion, wage inflation and job displacement.

2.2 Foreign direct investment (FDI)

- 2.2.1 FDI is showing signs of structural change. Some FDI is not traditional inward investment creating a new productive enterprise in the chosen location; it is merger and acquisition activity which involves no direct local economic benefit. FDI is also changing in that the EU share of global output is declining and that of India and China increasing.
- 2.2.2 SEEDA has identified these trends and the relatively small number of jobs created in SE England by FDI³ and the relative shortage of 'large mobile projects'. This is a general trend.
- 2.2.3 The UK is a large investor abroad so any discussion of FDI should be considered in the wider context of inflows and outflows. If FDI is regarded as an economic benefit then outflows may be considered a disbenefit.

¹ ES, Volume 5, paras 6.2.1 and 6.2.2.

² 'The Importance of Transport in Business Location Decisions', McQuaid et al, 2004 (commissioned by DfT).

³ 6,250 jobs in 2005/06.

- 2.2.4 In the period 1997-2001 outflows exceeded inflows by \$313bn. This equates to the loss of 1.65m jobs each year.
- 2.2.5 The UN agency UNCTAD recommends the *'need for caution in assessing FDI prospects for developed countries'*.

2.3 International trade

- 2.3.1 Freight tonnage at Stansted is constant in 2014 between the 25mppa and 35mppa cases. It is not appropriate under these circumstances to factor freight transport into the discussion of the economic impacts of expansion.

2.4 International tourism

- 2.4.1 Visitors who leave the UK spend more abroad than those who arrive in this country spend here. In terms of expenditure, tourism is a net drain on the financial resources of the UK. The tourism balance of payments deficit in 2004 was approximately £17bn.
- 2.4.2 The growth of low cost airlines and routes has contributed to this large deficit (British Tourist Authority, 2007).
- 2.4.3 The revenue stream from inbound tourists is under threat as global developments in tourism provide many more opportunities for tourists of all nationalities to 'spread their wings'. Also tourism in the UK is experiencing declining spend per international visitor. The 2007 spend forecast is lower than the 1996 level of spend by inbound tourists.
- 2.4.4 The expansion at Stansted is said to provide an additional 1.9mppa 'foreign leisure' passengers. This appears to be an optimistic forecast when set against the BTA comments on risks in this market and the likelihood of EU level taxation changes.
- 2.4.5 Also we note that the OECD has produced a scenario for reduced aviation activity in 2030. The 2030 level of passenger kms is 36% less than the 1990 level.
- 2.4.6 The 1.9mppa figure is only as robust as the assumptions that went into it and we are not aware of any risk assessment of this forecast or of upper or lower bounds to it. There is no guarantee that they stay or spend money in the region or sub-region.

2.5 Productivity improvements

- 2.5.1 BAA⁴ make a general assertion that there is a mechanism linking the availability of airports and air travel for businesses to improvements in productivity. No evidence is presented in support of this assertion.

⁴ ES, Volume 5, paras 6.6.1 to 6.6.3.

3 EMPLOYMENT AND HOUSING EFFECTS

3.1 General

- 3.1.1 Stansted Airport is located in a healthy regional and sub-regional economy. The East of England has one of the strongest and fastest growing economies in the UK with the highest employment rate of all English regions.
- 3.1.2 This success is creating problems with housing, transport, congestion and pressure on services.

3.2 Employment

- 3.2.1 Calculation of indirect and induced jobs created by the expansion of Stansted Airport is flawed. The multiplier is an arbitrary constant and has not been subjected to empirical validation and there is an unavoidable element of double counting in job creation based on the multiplier.
- 3.2.2 Changes in both business and personal spending also weaken traditional multiplier arguments.
- 3.2.3 There is no demonstrable relationship between airport expansion and catalytic growth.
- 3.2.4 A University of Reading study estimated that BAA claims for employment growth at Stansted in the period 2002-2015 were 15.5% higher than the authors' 'corrected value'.
- 3.2.5 The job creation claims are exaggerated.
- 3.2.6 The key problem of employment growth at Stansted is not its quantitative significance but whether or not it is contributing to overheating of the regional economy. This is not discussed by BAA.
- 3.2.7 IPPR identifies lack of affordable housing and traffic congestion as issues to be tackled.
- 3.2.8 The provision of 3000 extra jobs will add to housing pressure and the housing problem is already severe in this area.

4 WIDER ECONOMIC IMPACTS OF EXPANSION

4.1 Cost benefit analysis

- 4.1.1 The proposed expansion of Stansted has been supported by a partial cost benefit analysis (CBA). The calculation of indirect and induced jobs and the assertion of FDI benefits and of productivity improvements are examples of benefits that would be identified in a traditional CBA.
- 4.1.2 The partial CBA is unhelpful because it is partial. Costs should also be included and decision-takers should be presented with the fullest possible set of costs and benefits to inform the decision-taking.

- 4.1.3 The economist Mishan has identified the underlying logic of CBA which is 'to admit the project if the sum of the benefits exceeds the sum of the costs by a sufficient margin'.
- 4.1.4 CBA is recommended by Government and in transport appraisal guidance (WebTag).
- 4.1.5 We note in passing that transport is heavily subsidised in the European Union and that aviation receives 27-35bn Euros in subsidies each year. This drives up transport demand by lowering ticket prices.
- 4.1.6 Aviation has large externalities (costs that are imposed on wider society) and that these are dominated by climate change effects but also include noise and air pollution.
- 4.1.7 The report of Sir Nicholas Stern in October 2006 identified the social cost of carbon dioxide at \$85 per tonne (£238 per tonne of carbon).
- 4.1.8 The Government supports the concept of an 'emissions cost assessment' and are of the view that this should be integrated into decision making on airport expansion.
- 4.1.9 The climate change costs associated with the expansion of Stansted may well trip the 'Mishan test' i.e. the sum of benefits does not exceed the sum of costs by a sufficient margin. Under these circumstances the project should not be admitted.

5 CONCLUSIONS

- 5.1 The arguments presented in support of the expansion proposal in terms of its beneficial impact on business location decisions, FDI, international trade, international tourism and productivity improvements are partial and flawed and do not represent a coherent argument for expansion.
- 5.2 The East of England has a healthy economy with high levels of employment and very little deprivation as measured by local authorities
- 5.3 The job creation claims made by BAA are exaggerated. There are problems with methodology and data associated with indirect, induced and catalytic jobs.
- 5.4 There are problems of overheating in the local and regional economy.
- 5.5 The economic analysis produced in support of the expansion is a partial cost benefit analysis. It includes benefits but not costs.
- 5.6 Costs should be included in the analysis including those associated with climate change. If these costs are included the project should not be admitted.