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A Response to
Discussion Paper 02
published by the Airports Commission

Aviation Connectivity and the Economy

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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 Aviation Connectivity and the Economy

We welcome the recognition by the Commission that: *‘The UK aviation market appears to offer a high level of connectivity, enabling people and businesses to travel efficiently and link effectively to a wide range of markets.’*

And that: *‘Together [London’s] five major airports serve more destinations than the airports of any other European city - over 360 destinations with at least a weekly service.’*

That is a breath of realism after the hysterical publicity pumped out by the aviation industry in recent years.

Future connectivity impossible to predict

The UK Aviation Forecasts 2013 show that the London airports will not be full until around 2030. In an impressive piece of analysis, our colleagues from Stop Stansted have shown that if average aircraft sizes continue to increase at the same rate as in the past twenty years, there will be sufficient slots available in the London area until 2050.

Aviation is a rapidly changing competitive industry. We therefore consider that the attempt by the Commission to guess the future economic importance of various routes, and to assess the impacts of airport capacity constraints on those routes, is unlikely to succeed. This type of indicative planning, while suitable to a controlled economy, or perhaps in the public sector, is unnecessary in a free market economy. Experience has shown that it is likely to be disproved by events.

As recognised in the Discussion Document (paragraph 3.5), if UK business people detect a potential market in a foreign country they will find a way of going there in order to develop their sales, even if it means flying via a foreign hub. Often an airport in the destination country will be used as a hub. As well described on page 18 of the Document, when sufficient business people wish to fly from the UK to a particular destination, and if there are slots available from one of the London airports, some airline can be relied on to put on a regular flight. That is how a competitive market works.

Gatwick Airport Ltd will, no doubt, be submitting evidence that future connectivity to rapidly growing countries could best be served by extra flights from Gatwick. If Gatwick is full, however, we see no reason why the new flights should not be operated from Stansted.

The Economy

We therefore intend to concentrate on the section of the Discussion Document which deals with the economy.

We are disappointed that the Document reiterates many of the fallacious arguments about the economic importance of the aviation industry which over the past decade have been advanced by consultants employed by the industry and repeated uncritically by the Department for Transport.

Failure to treat reports by aviation consultants with suitable scepticism will result in conclusions biased towards the aviation industry. That would be particularly disappointing as we had understood that the Commission was intending to make a fresh start and to assess the arguments anew.

References below are to paragraphs in the Discussion Document, with quotes from the Document in italics.

3.2. Economic Output

‘The UK air transport sector generated around £9.8 billion of economic output.’

This is the basic calculation of the value of the aviation industry, and should be used rather than the much higher figures often produced by airports and aviation consultants.¹

Even so, the statement is too high because it excludes depreciation. Since aviation uses expensive capital equipment, depreciation cancels out a large part of the £9.8 billion. It would be helpful if the Commission could seek evidence on the net value added by aviation after allowing for the replacement of aircraft etc.

An indication that the net value is low is given by the fact that many airlines go broke, and airline shares traditionally perform badly. According to the Director of IATA, in 2013 all world airlines will make a profit less than Nestle, and he added: ‘Chronic anaemic profitability is characteristic across most of the aviation value chain when compared to other sectors.’² Or as Sir Adam Thomson, founder of **British Caledonian**, said: *“A recession is when you have to tighten your belt; depression is when you have no belt to tighten. When you’ve lost your trousers, you’re in the airline business.”*

3.3 Aerospace

We fail to see what connection the aerospace industry has to the issue of runway capacity in the South East.

In paragraph 3.33 it is stated that *‘The Commission would be interested in receiving ... case studies providing examples on where the availability of aviation links has directly influenced firms’ supply chains.* The aerospace industry is a good example of where this does not apply. BAE Systems is based at Barrow, Glascoed, Washington, Telford, Newcastle, and many other locations, none of them near a

major airport. The wings for the Airbus A380 are manufactured at Broughton near Chester and then transported by road, then by barge and then by ship to France.

3.4 Supply chain

It is not sound statistical practice to include supply chain output in the assessment of the value of the aviation industry. The cost of goods produced in the supply chain is included in the ONS figure of £9.8 billion as part of the economic output of the aviation industry. To count supply chain output as an extra benefit is to double count.

Exactly the same applies to supply chain jobs. An example of a supply chain job would be a worker who is employed in a distillery producing whisky for sale in an airport duty-free shop. He will be included in the statistics of employment in the 'wine and spirits' industry: to count him as also employed in aviation is to double count - and is also ridiculous.

Every industry, from car manufacture to retail, could claim a large number of indirect or 'supply chain' jobs. To include them all would lead to the total employment in the UK being far greater than the total population.

The Discussion Document quotes a 2009 report by Oxera, as a basis for a statement that 93,000 people are employed in the aviation industry 'supply chain'. As the Oxera report was commissioned by the Airports Operators Association we would have hoped that the Commission would have treated it with some scepticism.

At least the Oxera report is somewhat more realistic than previous reports by Oxford Economics which put the figure for indirect employment in aviation at 200,000 in 1998 and at 167,000 in 2004.

3.5 Induced employment

'Employment and output are also supported by the spending of those directly or indirectly employed by the aviation sector.' This is another well known - but invalid - argument frequently put forward by the aviation industry to bolster their own importance.

Every industry creates employment when the workers spend their wages. Even the oldest profession creates employment when the women spend their immoral earnings. But that does not make prostitution either desirable or undesirable. As with aviation, induced employment is irrelevant to the size, importance or virtue of the industry.

3.6 Contribution to the wider economy

'Aviation also plays a crucial role in contributing to the growth of the wider economy through facilitating the movements of goods and services, workers and tourists, investment and ideas, etc.'

Exactly the same could be claimed for road transport or rail transport. Indeed many other industries contribute to the wider economy - the wider economy could hardly function without food supply, financial services, telecommunications, water, sewerage, etc etc.

Every industry contributes to the economy, and the amount that it contributes is normally measured by the price paid for its products. Thus the fact that aviation contributes to 'the movement of goods and services, workers and tourists...' is exactly what airlines are paid to provide. Thus this benefit is reflected in the ONS figure of £9.8 billion as the economic output of the aviation industry. To list it again is to double count.

3.40 Tourism

We are glad to note that the Discussion Paper recognises that in 2011 there was a tourist deficit, mainly due to air travel, of £14 billion. Holidays in the sun may be pleasant, and can be counted as part of the output of the aviation industry (and thus included in the £9.8 billion). It cannot, however, be claimed that this haemorrhage of money and jobs has the additional effect of strengthening the UK economy.

The Discussion Document might usefully have invited submissions on whether increasing airport capacity would increase the tourist deficit and thus weaken the UK economy.

Instead the Document attempts to downplay the tourist deficit by suggesting that: *... outbound tourism may have positive economic impacts on the UK economy to the extent to which it supports UK-based jobs in the travel and airline industries, and boosts high street consumer demand before trips are made - the latter has been valued at around £27 billion per year.*

We are surprised that the Commission is prepared to regurgitate without critical scrutiny this argument advanced on behalf of the aviation industry by ABTA.

In fact when the ONS statistics are examined it is apparent that most of the £27 billion is spent on travel agents and air fares. (The phrase '*the latter*' in the quotation above is misleading.) Only a comparatively small proportion goes on buying sun-cream and sun-glasses. A moment's thought makes one realise that money spent at travel agents goes mainly on booking foreign hotel rooms, and thus adds to the tourist deficit.

This section of the Discussion Document is listing the additional ways in which aviation benefits the economy, over and above its basic economic output. It is therefore worth asking how expenditure on air fares can be counted as an additional benefit, when air fares are already included in the ONS statistics for the economic output of the industry. Another case of double counting.

3.46 Business investment

Connectivity is an important factor influencing companies' decisions on where to locate.

We note that several of the studies quoted were carried out by Oxford Economics or by York Aviation. Both are consultancy firms strongly biased towards the aviation industry: in our view, their conclusions should not be accepted without close examination.

It was Oxford Economics which produced the figure of aviation employment of 500,000 which was given prominence in the 2003 Air Transport White Paper but which is now recognised as grossly exaggerated.³

The 2006 Oxford Economics report, quoted in the Discussion Document, has been shown to be unreliable. It was based on a survey sent to around 6,000 companies but only 165 replies were received.⁴ The failure of most firms to respond might indicate that connectivity is not an important factor influencing companies' decisions on where to locate.

Similarly we are surprised that the Discussion Document quotes the York Aviation report for the City of London based on 25 interviews in the City, but makes no reference to WWF's various studies (the most recent one based on interviews with 158 companies) suggesting that many companies plan to cut their flying in future.⁵

Conclusion

Our concern is that, by giving credence and respectability to an number of doubtful economic concepts, the Discussion Document will have opened the door to a multiplicity of reports by highly paid aviation consultants. Each report will show that connectivity to future markets can only be ensured by building a new runway at X [insert name of airport paying the consultants].

From past experience it can be predicted that each report will show that a new runway at X will ensure a large number of new jobs, a large number of supply chain and induced jobs, make a substantial contribution to the wider economy, facilitate a flood of inbound tourists, and lead to many new companies deciding to locate their businesses nearby. Yet if, as shown above, all these concepts are of doubtful validity, so will be any conclusion drawn from them.

¹ For example, the Gatwick Master Plan July 2012 stated that the 'The aviation industry accounts for £53 billion of UK GDP.' (page 83).

² <http://www.iata.org/pressroom/pr/Pages/2013-03-20-01.aspx>

³ At that time its title was Oxford Economic Forecasting. Neither then or now was there any connection with the university.

⁴ Oxford Economics 2006. The economic contribution of the aviation industry in the UK. page 87

⁵ http://www.wwf.org.uk/what_we_do/tackling_climate_change/our_climate_work_in_the_uk/aviation_and_transport/moving_on/.