



Summary

Pie in the sky

Why the costs of airport expansion outweigh the benefits

The Government says airport expansion is essential for a successful UK economy. However, analysis by Friends of the Earth shows that the economic case used by the Government and aviation industry for further expansion is inaccurate and misleading.

This summary outlines the evidence from our main report that economic benefits have been overstated and many economic costs ignored. Stopping expansion will still allow millions of people to fly, help the UK meet the colossal challenge of climate change, and protect other sectors of the economy. The report concludes that the costs of further airport expansion outweigh the benefits.

The Government must stop championing forms of growth that damage other economic sectors, people's health and the environment.

Friends of the Earth inspires solutions to environmental problems, which make life better for people.

Friends of the Earth is:

- the UK's most influential national environmental campaigning organisation
- the most extensive environmental network in the world, with almost one million supporters across five continents and over 60 national organisations worldwide
- a unique network of campaigning local groups, working in over 200 communities throughout England, Wales and Northern Ireland
- dependent on individuals for over 90 per cent of its income.

To join or make a donation call us on 0800 581 051

Friends of the Earth, 26-28 Underwood Street, London N1 7JQ

Tel: 020 7490 1555 Fax: 020 7490 0881 Email: info@foe.co.uk Website: www.foe.co.uk

Friends of the Earth Limited company number 1012357

♻️ Printed on paper made from 100 per cent post-consumer waste

Our analysis of the economic case for expansion is that it overstates net benefits in three main ways:

1 Over-egging the pudding

The economic benefits are exaggerated

The claims made for the economic benefits of airport expansion by the Government and aviation industry are exaggerated. Their analysis:

- Assumes that the cost of flying will continue to fall. However, it is doubtful that the price of oil will return to its 2002 price of \$25 per barrel - it already exceeds \$60 per barrel. It is also unlikely that the industry will continue to enjoy its current tax breaks of £9 billion¹ per year as UK and EU politicians are already considering removing these huge tax breaks, or include aviation in the EU emissions trading scheme – which would have a similar effect on the cost of flying if the scheme is effective. Re-runs of the Government's models with a constant rather than falling cost of flying show far lower figures for net economic benefits.
- Often includes predictions of future benefits that will happen anyway, whether airports are expanded or not, such as those benefits coming from maximising the use of existing runways.
- Overstates many components of the claimed benefits by counting:
 - Benefits that go to foreign passengers. As an example, for the proposed Stansted expansion these amount to almost £3 billion which should not be counted in an assessment of benefits to the UK economy²
 - benefits that will only occur far into the future (between 2030 and 2060) and only in the unlikely event of the cost of flying continuing to fall
 - marginally slower future economic growth caused by not expanding airports as 'a loss to the British economy'. In truth, GDP will still rise massively even if no new runways are built.
- Ignores the fact that less spending on aviation does not mean money lost to the overall economy. Instead, it will allow more expenditure in other sectors.
- Overstates the growth of employment opportunities associated with expanding airports and ignores the falling figures for jobs per million passengers, particularly relevant within the rapidly expanding budget airline industries.
- Overstates the case that airport expansion encourages regional economic development.

2 Turning a blind eye

The economic costs of environmental damage are ignored

Aviation is the fastest growing source of climate changing emissions. Even conservative estimates calculated by the Government put the total cost of aviation's climate change impacts at £69.5 billion for the period 2000-2060, £20 billion more than the cost without expansion. This huge cost is ignored when aviation's net economic impact is assessed. Other costs ignored are those associated with:

- air and noise pollution
- damage to built and natural heritage

- damage to local communities e.g. the demolition of homes
- additional road congestion

3 Beggar thy neighbour

The economic costs to other sectors are ignored

Aviation imposes costs on other economic sectors which should be taken into account in any balanced analysis of the industry's overall benefit to the UK economy. When assessing the economic benefits of airport expansion, the Government and aviation industry ignore the costs to:

- **UK industry:** If the aviation sector expands as planned, it will need to buy an ever-increasing number of carbon permits when it is included – as planned - as part of the EU Emissions Trading Scheme, pushing up the cost of carbon. Unfair tax breaks and the lack of international competition may allow the aviation industry to absorb the costs, causing other sectors of the economy to be squeezed.
- **UK tourism:** Although foreign visitors spent £11 billion in the UK in 2004, UK residents spent more than double this (£26 billion) during trips abroad. This creates an overall loss to the UK economy of £15 billion per year. If airports expand as planned, more people will holiday abroad which is likely to double this tourism deficit by 2030.³ The cumulative extra cost to the UK economy in the coming decades would be well over £100 billion⁴.
- **The UK economy as a whole:** The aviation industry benefits from tax exemptions amounting to £9 billion per year. Removing these exemptions would allow more spending elsewhere (e.g. hospitals and schools, or improving public transport) and/or lower taxes in other areas (e.g. employment tax).
- **UK horticulture:** UK producers find it increasingly difficult to compete against cheap imports that are subsidised by artificially low air freight costs.
- **UK shipping and rail:** Other transport sectors do not enjoy the same tax exemptions as aviation, causing artificial competition. For example, Irish Ferries recently announced 500 workers sacked, partly blaming pressure from low cost airlines.⁵
- **Poorer sectors of society in the UK and overseas:** In general it is better-off people who fly more and take advantage of cheaper flights. At the same time, it is poorer people who are more likely to suffer the effects of climate change, in the UK and abroad⁶.
- **The UK balance of payments:**
 - Around £3 billion leave the UK economy each year because of net spending on air transport services (such as air tickets).
 - Large amounts of capital leaves the UK as billions are spent on cheaper property and holiday homes in France and Spain etc.
 - Although aviation does promote investment in the UK, it is a two-way street as it also makes it easier for UK businesses to invest overseas.
 - Most aviation fuel is imported. The fuel used in 2004 was valued at around £2.5 billion – a price that will only increase with airport expansion.
- **Expenditure in other priority areas:** UK taxpayers have paid and will pay millions to support airport infrastructure such as new or widened roads to serve Heathrow, Bristol and Doncaster airports. This is money which could have been spent on improving public transport in these areas.

Conclusion and recommendations

This report concludes that the **costs of airport expansion outweigh the benefits**. It argues that the economic case for expansion is inaccurate and misleading. It would be better for the UK economy, and for the environment, if the Government rewrites its Aviation White Paper, removing the plans for airport expansion. This rewrite should have at its heart two central elements:

- Aviation strategy must be consistent with overall economy-wide climate change targets
- Implement economic reforms to:
 - remove the massive preferential and anti-competitive tax and subsidy regimes that aviation receives over other sectors of the economy, including transport
 - ensure aviation pays for the environmental damage it causes

¹ Aviation fuel is untaxed, no VAT is applied to aviation, removing these exemptions as well as Duty Free would raise £9.2 billion per year ('Hidden Cost of Flying' – Sewill 2003)

² *"in principle, appraisals should take account of all benefits to the UK. All impacts (including costs and benefits, both direct and indirect) on non-UK residents and firms should be identified and quantified separately where it is reasonable to do so, and if such impacts might affect the conclusions of the appraisal"*. HM Treasury, 2003. The Green Book. Appraisal and Evaluation in Central Government.

³ Office National Statistics figures, see:- 'Why Airport Expansion Is Bad For Regional Economies' Friends of the Earth, 2005. http://www.foe.co.uk/resource/briefings/regional_tourism_deficit.pdf

⁴ With maximum use of runways, rather than capacity increases, the tourism deficit would increase less rapidly. Summing the total deficits to 2060 (the same period as the Government's economic benefit calculations), using a discount rate of 3.5%, puts the difference in tourism deficit between new runways and max use of existing runways at over £150 billion pounds.

⁵ Western Mail, September 20th 2005.

http://icwales.icnetwork.co.uk/0100news/0200wales/tm_objectid=16150992%26method=full%26siteid=50082%26headline=%2dmore%2dthan%2d500%2djob%2dcuts%2dat%2dirish%2dferries-name_page.html

⁶ People from socio-economic groups A and B are four times more likely to fly than those from groups D and E, and this ratio has barely changed since the 1980's – the fall in airfares has simply allowed the well-off to fly more often. (Source: CAA passenger surveys). The poorest 10% of the UK population fly very little, while the global poor, who will never fly, are hardest-hit by climate change