

Aviation and the Economy

Aviation – its Contribution to the National Economy

The Aviation White Paper makes huge claims about the contribution of aviation to the economy. But most of these claims do not stand up to careful scrutiny.

The Aviation White is based on a flawed study commissioned by the Government. It is so flawed that it undermines all claims the Government may make about the aviation industry contributing to employment and economic regeneration.

To prepare for the Aviation White Paper, the Government commissioned a study from the normally reputable Oxford Economic Forecasting (OEF) to look at the contribution of aviation to the economy. The study, *The Contribution of the Aviation Industry to the UK Economy*, was published in November 1999. It emerged that over 90% of the costs of the study were paid for not by the Government, but by the aviation industry.

The OEF Study found an expanding aviation industry was critical to the future health of the economy. It argued the industry contributes £10.4 billion to the Gross National Product (1.4% of the total), directly employs 180,000 people (0.8% of the total) and supported up to three times as many additional indirect jobs (all 1998 figures). It went on to argue that many of the expanding industries, such as the 'knowledge-intensive' industries of the future, are particularly dependent on air travel. It concluded that, if the number of passengers were not allowed to grow at all beyond 1998 levels, £30 billion would be lost to the economy by 2015.

But the study is seriously flawed in a number of ways:

- it ignored, and failed to factor in, the considerable subsidies the industry receives - the word "subsidy" does not appear once in the study. Yet the overall tax subsidy to the aviation industry is put at £9 billion per year.
- it failed to include any work on the environmental and social costs imposed by aviation. Yet the costs amount to more than £10.5 billion per year across the European Union (*The Myths of Flying*, 1998).
- it failed to recognise that if £30 billion a year was not spent on aviation it would be spent on other goods and services. If, unlike air travel, these were unsubsidized, there would be an actual increase in national welfare. This is the clear conclusion of independent report published in 2000 and commissioned from consultants Berkeley Hanover by the local authority group, SASIG (*The Impacts on Future Aviation Growth in the UK*, 2000).

and most serious of all

- it ignored its *own* findings that there may be no link between aviation expansion and economic performance and went on to base the whole report on the assumption that there was one! The report estimated that, for transport as a whole, every 10% increase in the provision of transport services in the UK between 1979 and 1998 increased overall productivity by 1.3% - about £800 million a year. When the report repeated this exercise for aviation, they could not rule out the possibility there was no link. Ignoring their own findings, they went on to assume a link! From this false assumption, all OEF's predictions flowed about the contribution of aviation to the economy.

The OEF Study was criticised by respected economists and lobby groups. Many called for the study to be withdrawn. Instead, the Government based its Aviation White Paper on it!

For more information:

The Impacts of Future Aviation Growth in the UK, a 70 page report published by Berkeley Hanover in 2000 – bhc@easynet.co.uk

The Myths of Flying, a 30 page pamphlet, published by Friends of the Earth Netherlands in 1998. The figures are a little dated now, but it gives an excellent overview of the costs of aviation to Europe's economy – www.milieudedefensie.nl

The Economic Impact of the UK Aviation Industry, a 12 page report by ECOTEC for Friends of the Earth published in 2000 – www.ecotec.com

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Aviation – its Contribution to Regional Regeneration

Will airport expansion assist in regenerating the regions?

→ The most comprehensive study done anywhere in Europe into the connection between transport provision and economic performance suggests that aviation expansion can often only have a peripheral role in regional economic regeneration. The government-sponsored SACTRA Report, 1999, astonishingly virtually ignored by the Government when drawing up the Aviation White Paper, suggests that it is only in particular circumstances that new airport infrastructure will have a significant role in promoting regional regeneration.

The Key Report: The SACTRA Report

The government's Standing Advisory Committee on Trunk Road Assessment (SACTRA) examined the links between transport provision in general and economic activity (SACTRA, 1999). Although the report concentrated on road building, the authors made it clear that their findings were applicable to all forms of transport infrastructure.

The SACTRA Report came to a number of conclusions:

- there was no simple link between the provision of transport infrastructure and regional regeneration;
- non-transport factors in a region (such as the availability of skilled labour) were usually a more critical factor in regenerating a region than transport infrastructure;
- there would be winners and losers when new transport infrastructure was built - competitive areas may gain improved access to weaker areas, which in turn may suffer job losses.
- in a mature economy which already has a well-developed transport system (such as the UK) any increase in economic growth from improved transport is likely to be modest.

SACTRA is important because it is the only comprehensive study that we have got, because it is one of the most thorough pieces of work on the subject done anywhere in Europe, and because it was signed up to by organisations as diverse as Transport 2000 and the CBI. And they didn't sign up to a fudge, but to a credible, comprehensive report.

A Case Study of NW England

Professor John Whitelegg found that investment in a world-class regional surface level transport system and improved rail links to London were much more important to the economy of NW England than the expansion of Manchester and Liverpool airports (*The Economics of Aviation: a North West England perspective*, 2003)

Regions need to decide if:

- an expanded airport is really required to serve their business community - remember only 24% of trips are for business purposes;
- an expanded airport would simply mean more local people took their holidays abroad, off-setting any increase in the number of holidaymakers flying in;
- other less heavily-subsidised industries may bring about regeneration at a much lower cost to the taxpayer than developing an airport.

For more information:

Transport and the Economy, by the Standing Advisory Committee on Trunk Road Assessment, a massive report published in 1999 by HMSO.

The Economics of Aviation: a North West England perspective, a 20 page report by Professor John Whitelegg, published by CPRE North West Regional Group (2003) – email: rpo@cprenorthwest.fsnet.co.uk