

Aviation and the Economy: myths and facts



Photo: Phil Weedon

The Government, as it begins to draw up its aviation policy in 2011, would do well to take a long, hard look at what the aviation industry actually contributes to the economy.

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The *actual* benefits of aviation to the economy

The aviation industry makes big claims about its importance to the national economy. And, at a *regional* level, airport expansion and the drive to increase flight numbers is often sold on the basis of regeneration and job creation. The main source for these claims is a series of reports produced by Oxford Economic Forecasting (OEF), a consultancy based in Oxford but not in any way part of Oxford University (1). When the claims are examined closely, a much more complex and very different picture emerges.

Unravelling a complex situation

The industry claims:

- it contributes £11.4 billion to Gross Domestic Product (GDP), i.e. 1.1% of overall GDP (2004 figures);

Comment 1: It is based on doubtful assumptions.

a. It over-estimates the value of passengers' time. This is critical as a major factor which the OEF report uses, in calculating the economic benefits of aviation to the nation, is the value of a business person's time (this, of course, is not her/his hourly wage rate). It values her/his time at £62 an hour if travelling during working hours and £31 an hour during non-working hours. These figures average out at 40% higher than those used by the Department for Transport when valuing a commuter's time. They are also higher than the figures that appear to be used in Europe. OEF makes no attempt to explain why they have gone for such high figures.

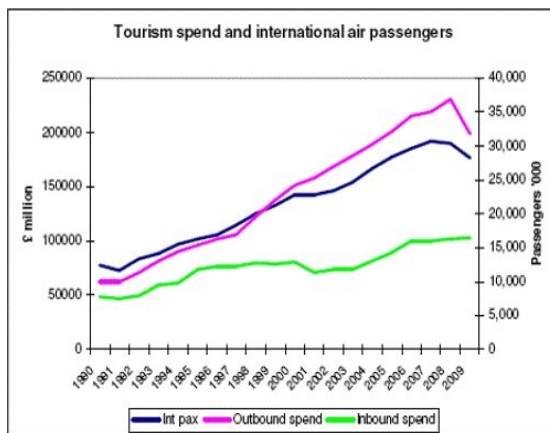
b. It makes the unwarranted assumption that there is a direct link between GDP and the number of flights using a country's airports. *Predict and Decide*, the report which *did* come from Oxford University, showed that there is only “an approximate relationship ... Germany has nearly three times the GDP of Spain, but about the same number of flights... France and the UK have approximately the same GDP, but the UK has nearly double the number flights (2).”

Comment 2: It fails to factor in the money aviation is losing the country:

1. The industry does not pay its full share of general taxation. It does not pay any tax on its fuel. Nor is it charged VAT. It is estimated that these tax-breaks cost the Exchequer more than £9 billion per year (3) and that the person on the average UK wage is paying over £500 in extra tax each year to compensate for this shortfall (4). The 2006 OEF report estimated that it contributed £2.5 billion to the Exchequer, “on a conservative estimate.” In this it included Corporation Tax and National Insurance, which of course all industries pay. The key point remains: the tax it pays still falls well short of £9 billion. Even with the recent rise, Air Passenger Duty only brings in around £3 billion a year.

2. It does not pay its full social and environmental costs. A report published by the respected INFRAS Institute in Zurich and IWW at the University of Karlsruhe (5) put the UK's external costs of aviation at around £14 billion per annum in the year 2000. (This included the costs of climate change, noise, local air pollution around airports and the impact of airports on nature and the landscape). The UK economist Brendon Sewill calculated that, in 2006, the cost was likely to be around £16 billion (6). All these costs are estimates as there is a lot of debate on how to price climate change but there is no dispute that the costs run into several billions each year.

3. It ignores aviation's contribution to the tourism deficit. This is the difference between what British people spend abroad and visitors to the UK spend in this country. It is well in excess of £10 billion and peaked at £17.7 billion in 2008 (7). In most areas the deficit was non-existent or negligible until the advent of budget flights, the majority of them short-haul. All regions of the UK, except London and the South East where there is a small surplus of £½ billion, run a considerable deficit. Money and jobs are being exported. There is a terrible irony here. Airports across the country, often backed by their local authorities, clamour for airport expansion in the belief that it will assist their economies. In reality, with business trips only accounting for around 25% of all trips at most airports, the huge growth in leisure flights has taken money out of the local economies. In 2005, UK residents took 41.5 million more return flights for leisure than visitors came here for leisure (8). The aviation tourism deficit is costing the UK about 900,000 jobs as a result of people spending their money abroad instead of here (9).



Source: IPS visitor spend and CAA annual data

The industry claims:

- it employs 186,000 people directly (full-time equivalents, 2004 figures) and helps support over 520,000 jobs in total, including those employed in its supply chain and in travel agents, and in the jobs dependent on the spending of its employees.

Comment: It distorts the number of jobs it creates.

There is double-counting taking place. Both figures are open to question. Direct employment in the industry was estimated to number between 96,000 and 186,000 in 2004. The range of estimates reflects differing interpretations of air transport: the lower values reflect the UK Standard Industrial Classification definition of air transport, which is the provision of air services and includes airlines, airport operations and air traffic control, while the higher values reflect the preferred industry definition which includes airport activities not involved with provision of air services - airport retail, catering and hotels (10).

OEF states that the 520,000 figure includes “the jobs in the energy sector that are dependent upon airline purchases of fuel; construction workers building additional facilities at airports; the workers required to produce the meals served on airlines; or those who produce the goods sold at airport retail outlets.” So it includes, for example, the workers in tobacco factories or distilleries who make the cigarettes and whisky sold in airport duty-free shops. OEF states that it also includes “the employment created by employees in the aviation sector and those indirectly supported by the aviation industry using their income to purchase goods and services for their own consumption.” Thus it includes, for example, workers in the local supermarket where airline or airport workers (or tobacco or distillery workers) spend their money. If all industries calculated the jobs they created in this way, the result would be more jobs than there are people employed in this country (11)!

The industry claims:

- it exports £6.6 billion of services (11% of UK total export of services) and a further £35 billion of UK exports (over 20% of all exports of goods)

Comment: It fails to say that, even with these exports, the UK runs a deficit of about £60 billion in goods and services carried by air each year (12).

The industry claims:

- many of the expanding industries, such as the 'knowledge-intensive' industries of the future, are particularly dependent on air travel and to curtail its expansion could cost the country billions.

Comment: It is likely to have overstated this.

It is based on very small sample surveys. According to the 2006 OEF report, “questionnaires were sent out to around 6,000 companies and 165 replies were received.” Any respectable polling body would regard this 2.75% rate of response as exceptionally low, and wide open to bias. And, out of the 6000 letters, OEF only received replies from 17 high-tech manufacturing companies.

It doesn't fully take into account the flexibility of modern business. If flying becomes more restrictive or expensive, business will adapt by either paying the higher fares (business travel is much less price-sensitive than leisure travel), cutting out inessential business flights and finding other ways of communicating such as video-conferencing. This trend is already happening. 89% of the FTSE 350 companies expect they will want to fly less over the next 10 years, with companies on average aiming for a 3% cut per year (13). They cited the economic, rather than environmental, advantages for doing so.

The industry claims:

- aviation growth is essential to ensure that the UK is well-connected to the rest of the world so that it will be an attractive place for international companies to site their businesses.

Comment: Its importance is overstated.

International connectivity, while important, is not the only factor a firm considers in deciding where to locate. The industry, and government, is worried that international companies will go to places with large ‘hub’ airports – such as Paris, Frankfurt, Madrid and now Dubai – which provide a wide choice of connecting flights to a range of destinations, instead of to London. There are two points to be made. London remains the best connected city in the world (if all its airports are included). And it has other advantages over its rivals, such as being a major financial centre and having a relatively low-tax base economy. A key report concluded that London’s economy was unlikely to suffer if a 3rd runway was not built at Heathrow (14).

Conclusion

Aviation clearly plays a role in the economy but the economic claims of the aviation industry, which formed the basis of the current Air Transport White Paper (2003), are partial and distorted. They threaten to do the country environmental, social and economic damage.

Our Recommendations

1. The Government carries out an independent assessment of aviation’s contribution to the economy.
2. It imposes VAT on domestic flights; initiates moves within Europe for VAT to be paid on all flights; and seeks agreement with other countries to tax aviation fuel.

3. It commits to an annual rise in Air Passenger Duty and introduces a noise levy on planes landing at airports (to deter short-haul trips) – see noise booklet (15).

It earmarks a proportion of the tax revenue raised to:

- assist the private and public sectors establish a dense national network of video-conferencing suites;
- reduce the tax burden on the UK tourism industry;
- stimulate investment in green and climate jobs (16);
- allow, if practicable, each citizen one tax-free return flight a year – in effect redistributing resources from wealthier people, who fly the most and therefore contribute most of the taxation, to the less well-off.

References:

1 *The contribution of the aviation industry to the UK economy*, Oxford Economic Forecasting (1999), OEF did a follow-up report in 2006; 2 *Predict and Decide*, Cairns, S., Newson, C. et al, (2006), Oxford University; 3 *The Hidden Cost of Flying*, Sewill, B. (2003), Aviation Environment Federation; 4 *A Poor Deal*, Stewart, J. (2003), HACAN; 5 *External Costs of Transport*, (2004), INFRAS; 6 *Fly Now, Grieve Later*, Sewill, B. (2005), Aviation Environment Federation; 7 *The Pink Book*, (2009), Office for National Statistics; 8 Tourism papers by Jeremy Birch, <C:\Documents and Settings\Jofin Stewart\Desktop\UK Tourism Notes.pdf>; 9 *Airport jobs: false hopes, cruel hoax*, Sewill, B. (2009), Aviation Environment Federation; 10 *Economic Benefits of Aviation*, Gillingwater, D. et al, (2009), Loughborough University; 11 *The contribution of aviation to the economy – Assessment of the arguments*, (2005) CE Delft; 12 *World Investment 2002: Transnational Corporations and Export Competitiveness*, UNCTAD; 13 *Travelling Light*, (2008), WWF; 14 *The economics of Heathrow expansion*, (2008) CE Delft; 15 *Aircraft Noise: Time for a Rethink*, (2011), AirportWatch; 16 *One million climate jobs*, Neale, J. et al, (2010), Campaign against Climate Change (one of several publications which shows the potential of green and climate jobs).