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London Luton Airport Expansion

Planning Inspectorate Scheme Ref: TR020001

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**8.39 Applicant's response to Written Representations -
Appendix (NEF)**

Infrastructure Planning (Examination Procedure) Rules 2010

Application Document Ref: TR020001/APP/8.39

The Planning Act 2008

The Infrastructure Planning (Examination Procedure) Rules 2010

**London Luton Airport Expansion Development Consent
Order 202x**

**8.39 APPLICANT'S RESPONSE TO WRITTEN REPRESENTATIONS –
APPENDIX (NEF)**

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1 BACKGROUND

1.1 Introduction

1.1.1 Dr Alex Chapman prepared a Written Representation on behalf of the New Economics Foundation (NEF) (REP1-115). In it, he stated that NEF does not support the Proposed Development, claiming that the economic benefits were overstated and that the economic and environmental downsides were ignored and/or understated. The representation is supported by a report from July 2023, also authored by Dr Chapman, entitled *Losing Altitude: The economics of air transport in Great Britain*.

1.1.2 Because of the technical nature of these reports, a separate response document has been prepared, dealing first with the representation and then with the report appended to it.

1.2 Previous Airport Interventions

1.2.1 As Dr Chapman states in his representation, he has previously been commissioned by community groups in the vicinity of airports to oppose airport growth at Bristol, Leeds Bradford and Gatwick Airports. He gave evidence for LADACAN at the 2022 Public Inquiry into varying the planning conditions at London Luton Airport to enable it to handle 19 mppa. It is understood that, in relation to the DCO Application, Dr Chapman represents only the New Economics Foundation.

1.2.2 In his previous involvement with planning applications for airport expansion, he made similar points to those contained in this representation. In relation to London Luton Airport, there are some inconsistencies in the points made in this representation and the oral evidence given by Dr Chapman at the 2022 Public Inquiry. These are addressed where relevant in this response.

1.2.3 In the case of Leeds Bradford Airport, the views expressed by NEF were peer reviewed¹ and the arguments relating to overstatement of employment, displacement and the tourism deficit largely rejected. Dr Chapman also gave evidence at the Bristol Airport Public Inquiry in 2022, appearing for the Parish Councils Association, where his arguments on these matters, including the need for a full WebTAG economic assessment, were again rejected, with the Panel reporting the views expressed and their conclusions at paragraphs 465 and 466² as follows:

“At the Inquiry a number of parties argued that BAL should have carried out a Greenbook or WebTAG assessment. However, as the relevant guidance²²³ makes clear, the role of WebTAG is to appraise “government interventions in the aviation industry” with “the main user of this guidance... expected to be DfT itself.” The proposed development is a private sector investment and not a government policy intervention. The Panel is not aware that any of the other recent airport expansion schemes undertook a WebTAG assessment. Accordingly, the

¹ Volterra, Leeds Bradford Airport, Economic Peer Review, November 2020.

² Planning Inspectorate, Appeal Decision APP/D0121/W/20/3259234, 2 February 2022

absence of a WebTAG assessment does not weigh significantly against the development.

In the Panel's judgement, the CBA carried out by BAL is sufficiently robust to enable the broader socio-economic effects of the development to be understood."

1.2.4 This is relevant as the form of cost benefit analysis (CBA) set out in the **Need Case [AS-125]** for the proposed development mirrors that produced for the Bristol Airport expansion proposals.

1.2.5 This response now addresses the specific points made by Dr Chapman under the headings used in the NEF response.

2 CORE POSITION ON THE MERIT OF AIR TRANSPORT GROWTH

2.1.1 At the outset, Dr Chapman notes at paragraph 6 of the representation, the long standing consensus regarding the role of air transport in supporting economic development. This position is still evident in the most recent statements of Government policy in relation to aviation, specifically *Flightpath to the Future*³ and the *Jet Zero Strategy*⁴, as set out in full in Section 3 of the Need Case. Dr Chapman goes on to state, in paragraph 7, that the Government has not reviewed its position on the economic role of air transport in over a decade; this is misleading in so far as the Government had ample opportunity to reconsider its views in formulating the recent policy statements. As recently as August 2023, the Department for Transport (DfT) published research into Developing a Framework for the Local Economic Impact of Airports⁵.

2.1.2 Dr Chapman then refers to recent academic research, cross referring to his own report *Losing Altitude: The Economics of Air Transport in the UK*⁶, which is addressed in address in **Section 7**. It is not agreed that the economic evidence in support of the DCO application is either biased or flawed as Dr Chapman asserts. This response will highlight flaws in his own analysis. It is not accepted that the economic benefits from air transport growth are subject to diminishing returns, as asserted by Dr Chapman, particularly in the context of the substantial local benefits that will be delivered to an area in need of levelling up as set out in the Need Case. This is particularly the case in the light of the guidance in the Green Book on the importance of Place Based Analysis⁷.

2.1.3 Dr Chapman then goes on to state his view that: *"In 2023, following a global pandemic which has dramatically, and permanently, shifted our ways of working, and in the face of an escalating climate crisis, the established consensus is outdated and in urgent need of review."* However, there is no evidence produced by Dr Chapman to support this claim. Whilst the pandemic may have accelerated the trend towards hybrid working and the use of virtual

³ Department for Transport, *Flightpath to the Future*, May 2022.

⁴ Department for Transport, *Jet Zero Strategy*, July 2022.

⁵ York Aviation for the Department for Transport, *Developing a Framework for the Local Economic Impact of Airports*, October 2020 (published in August 2023).

⁶ Dr Chapman for the New Economics Foundation, *Losing Altitude: The Economics of Air Transport in the UK*, July 2023.

⁷ HM Treasury, *Green Book*, 2022, Module A2 Place Based Analysis,

meeting technologies, these trends were already evident and taken into account in the demand forecasts for the Proposed Development as set out in paragraph 6.4.19 of the Need Case. Contrary to Dr Chapman's view, there is increasing evidence that companies are asking employees to return to the office and traditional face to face ways of working.

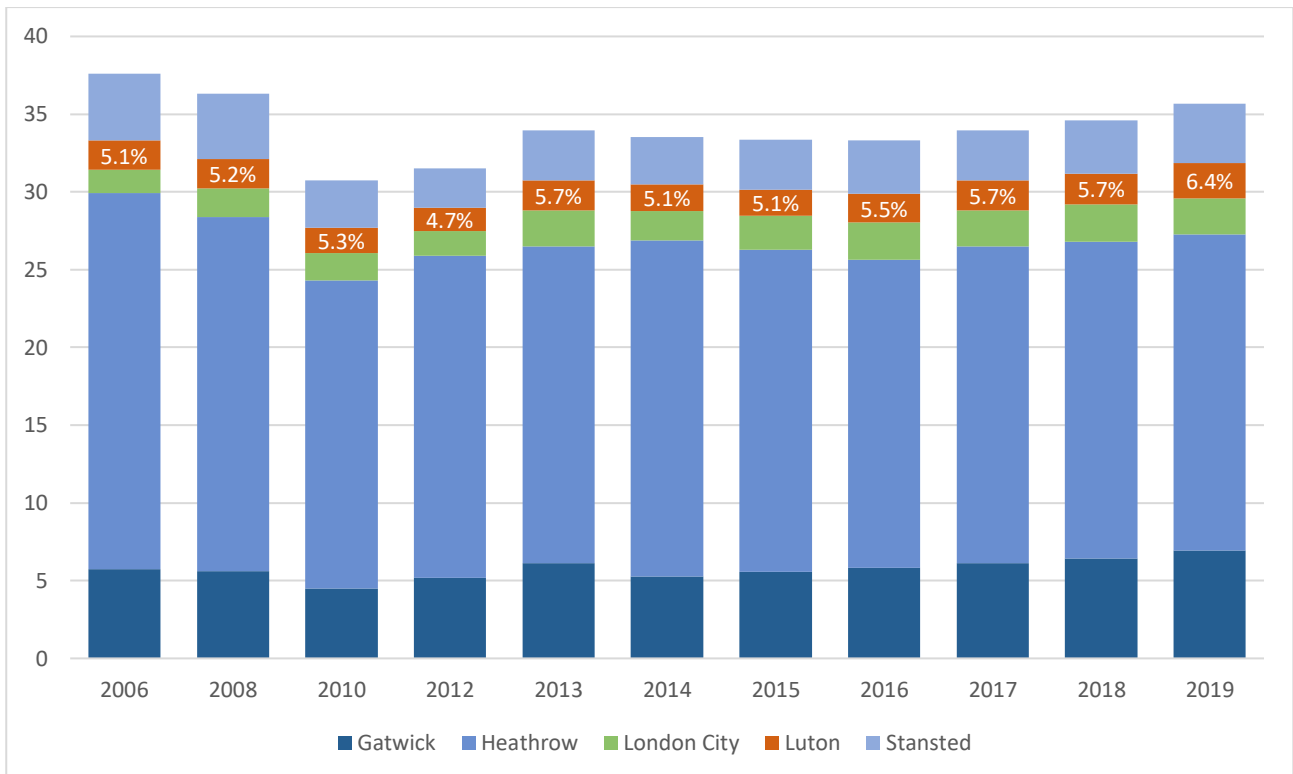
3 BUSINESS IMPACTS

3.1.1 In this section, Dr Chapman contends that the benefits to business productivity have been overstated. In the first instance, this relates to the overall scale of the business air travel market to and from London.

3.2 Business Passengers

3.2.1 As Dr Chapman has pointed out, at paragraph 10, significant economic shocks such as the Global Financial Crisis or COVID-19, have resulted in a fall in business travel, pointing out that overall levels of business air travel from the UK have not grown since 2006. Whilst it is correct that the number of business-related air passengers to and from the UK fell following the global financial crisis, numbers were increasing again prior to the pandemic as shown in **Figure 3.1** below. Furthermore, London Luton Airport's share of the London airports' business travel market was increasing as the market recovered from 2016 onwards.

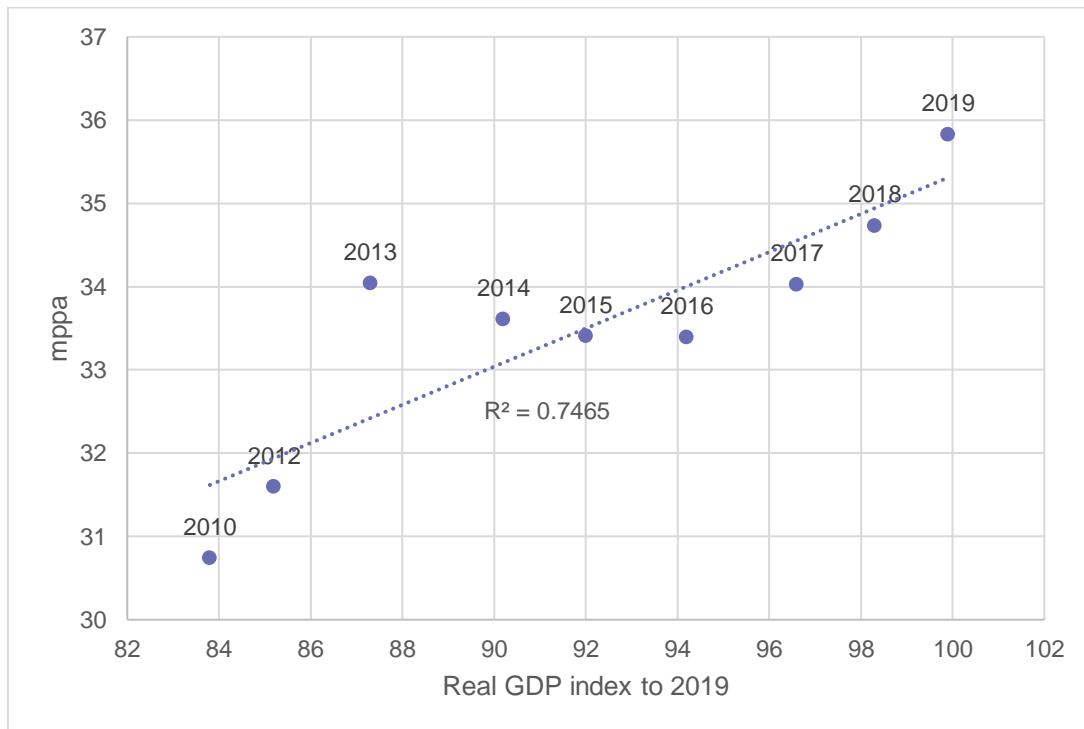
Figure 3.1: Total business passengers using the London airports and London Luton Airport's share.



Source: CAA Passenger Survey

3.2.2 **Figure 3.2** shows that, although levels of business travel fell through the global financial crisis of 2008-9, following the recession, the numbers of business travellers across the London airports rose again in broad relationship to GDP ($r^2=0.75$). There was an initial strong bounce back in 2013, then the relationship settled into a more normal pattern. There is no reason to believe that a similar bounce back will not follow any structural adjustments (such as the accelerated trend towards video-conferencing) during the pandemic and associated economic downturn.

Figure 3.2: Business Passenger numbers at the London airports relative to Real GDP



Source: CAA Passenger Survey

3.2.3 In terms of the current indications of the return of business travel following COVID-19, provisional Civil Aviation Authority (CAA) survey data for the first 6 months of 2023 shows business passenger levels across the London airports at 69% of 2019 levels, or 74% if passengers simply transferring between flights at the London airports are excluded. Business passenger recovery has been strongest so far in domestic markets. London Luton Airport shows the strongest recovery of business travel, in percentage terms, at 83% overall, with domestic business travel having recovered to 87% of 2019 levels. Having regard to the fact that the overall size of the UK economy, in GDP terms, has only just recovered to 2019 levels, the indications are that the recovery in levels of business air passenger demand will follow a similar pattern to the recovery following the global financial crisis with a normalised relationship to underlying GDP growth.

3.2.4 The logic still applies that growth in business travel, enabled by ensuring that there is sufficient airport capacity where it is needed, will deliver the productivity benefits as stated in Section 8 of the Need Case, noting that the forecast growth

in business related air travel is lower than for leisure related air travel in any event (Need Case, Table 6.2).

- 3.2.5 To the extent that there was some reduction in the number of business air trips following the global financial crisis and recovery in the number of trips took some time, this was fuelled by the reduction in less essential, lower value trips but importantly, business trips were still being made because of the value added to the business in terms of sales or investment. This means that, on average, each trip made after such economic shocks will be, on average, more valuable and essential than the average in the earlier period when more less valuable trips were being made. Hence, the impact on productivity of those trips being made today is likely to be greater than in the past. i.e. each individual trip delivers more economic value.
- 3.2.6 There is no reason to believe that this pattern of recovery will not be the same post-COVID-19. Indeed, the latest evidence suggests an acceleration of the recovery in business travel. It is important to recognise that, to a large extent during the pandemic, business travel to many destinations was not possible and so actual passenger numbers are not reflective of the demand for business travel but the consequence of COVID-19 travel restrictions in force.
- 3.2.7 In any event, past patterns are not representative of the value of future business trips and do not provide an evidential base for the assessment of the productivity benefits of future growth in the volume and value of business air trips. Dr Chapman provides no evidence to support his claims at paragraphs 12 and 13 of his representation. What is relevant now is how business travel will evolve in the future, as the DCO application starts from a 2019 base. There is already evidence of business travel recovery and this is anticipated to continue. With this in mind, it is noted that the latest assessment of UK demand elasticities by the UK DfT continues to show a positive elasticity for business travel to economic growth. In other words, as the economy grows, one would expect business travel to grow as shown in Figure 3.2 above. In turn, this will deliver productivity benefits in line with those assessed in Section 8 of the Need Case.
- 3.2.8 As noted above, it is likely that, to the extent that travel is prioritised, future business trips will be individually more valuable to the companies and to the economy as a whole. In terms of the wider business productivity implications, the additional value of each individual trip will counterbalance the implications of relative reduction in the number of trips made.
- 3.2.9 At paragraph 14, Dr Chapman asserts that new airport capacity is not required to accommodate growth in business air travel, citing the DfT's 2017 UK Aviation Forecasts⁸. Whilst the DfT's analysis is theoretically correct that business passenger demand will crowd out leisure passenger demand on any individual route, particularly at Heathrow, it is less likely to be correct at other airports in terms of the services that the airlines are willing to operate. It is important, however, to also consider the supply side of the equation. Whilst business demand is likely more resilient on a passenger-by-passenger basis, in a

⁸ Department for Transport, UK Aviation Forecast 2017.

constrained environment, airlines will put on the services that are most profitable and least risky for them. For many airlines, particularly low fare airlines, these are often high-volume leisure routes to 'sun' destinations.

- 3.2.10 It is also the case that, even on routes with high volumes of business passengers, the services do not serve business demand exclusively. So for routes to be viable, there needs to be a balance of business and leisure demand. If leisure demand is priced off, some routes will simply not have enough demand overall to make them viable for the airlines to operate. In the event of constraint, the market will not be able to reach a theoretical equilibrium (i.e., business pricing out leisure passengers) and an element of business passenger demand is likely not to be met simply because the relevant services are not available.
- 3.2.11 The historic evidence is that Dr Chapman is wrong when he says, at paragraph 15, that overall growth in passengers will not result in incremental business passengers. It is evident from the above paragraphs that there was growth in business passenger numbers following the global financial crisis and that business passenger numbers are recovering, specifically at London Luton Airport. If sufficient capacity is not provided to meet demand overall, there will be suppression of business travel opportunities with detrimental implications for trade and productivity, contrary to well established Government policies.

3.3 Productivity effects

- 3.3.1 Dr Chapman argues that, not only are business passenger numbers overly optimistic, but that the productivity effect has been overstated in the economic assessment set out in Table 8.6 of the Need Case. In the first instance, it should be noted that the overall growth rate expected for business travel growth across the UK of 1.2% per annum is less than the anticipated growth rate for UK GDP (Need Case, Appendix B), reflecting that the market is relatively inelastic. In line with this, the proportion of business passengers using the airport, upon which this calculation relies, is projected to be slightly lower in 2043 than in 2019 (Need Case, Figure 6.5). This is despite the expectation that the airport will develop its route network to better serve local business markets over time, consistent with the trend already seen pre-pandemic for London Luton Airport to increase its penetration of the business passenger market referred to above.
- 3.3.2 Dr Chapman's assertion, at paragraph 17, that because there has been no net increase in the number of business travellers since 2006, there can have been no contribution to productivity is wrong for the reasons set out above. His claim could only be true if there had been no change in the productivity in the wider economy and, as per the above points, that the value of each business trip has remained the same as in 2006.
- 3.3.3 All other things being equal⁹, there will be more local business passengers able to fly and support business productivity growth with the Proposed Development than without. Dr Chapman does not present evidence to support the

⁹ i.e. excluding other major economic shocks or pandemics.

contention, at paragraph 18, that “*Luton Airport’s expansion is highly unlikely to be a driver of net additional business passenger movements*”.

- 3.3.4 In terms of assessing those business productivity effects, Dr Chapman is incorrect to dismiss a 30-year time period (1980-2010), as used by the DfT in developing its elasticities for its UK Aviation Forecasts 2017⁸, as the basis for identifying a robust relationship. That period included significant changes in the air transport market, the economy and technology. It included periods of economic prosperity and recession. To say it is not reflective of a post-pandemic world is pure speculation and without logic.
- 3.3.5 Again, it is worth noting that the recent DfT report into air transport elasticities supporting the *Jet Zero Strategy*¹⁰ has considered the relationship between air transport demand and the economy through the 2010s as well. It does not, by any means, suggest a fundamental change in the relationship between the two. While this work was focussed on demand forecasting rather considering wider economic benefits, it does establish the continued relationship between economic growth and air travel.
- 3.3.6 Dr Chapman’s quote from previous work by Oxford Economics and York Aviation, at paragraph 19, suggesting a law of diminishing returns is taken out of context as this referred to diminishing returns to frequency of service, i.e. adding an additional frequency between Heathrow and New York may add little value over the 32 already operating, but adding a single daily flight to an unserved destination from London Luton Airport, such as Frankfurt or New York, could make a material difference to the productivity of businesses in its catchment area.
- 3.3.7 Another important factor is that the connectivity position is dynamic. Connectivity needs to be seen in relative terms both between the UK and other countries and between regions of the UK. If UK airports do not continue to expand connectivity, the UK will become one of the less connected group of countries. This is particularly relevant in terms of the connectivity offer at London Luton Airport, serving an area particularly in need of levelling up.
- 3.3.8 In paragraph 20 and again in paragraph 40, Dr Chapman claims support from academic research that air transport growth does not support economic growth. This is addressed further in **Section 7** of this response. A range of evidence from independent sources cited at paragraph 2.5.8 of the Need Case rebuts this argument. There is a wide range of academic studies that consider this issue and provide supportive evidence as the economic benefits of air travel. It is also worth noting that the Airports Commission, a Government funded independent exercise, spent considerable time and effort examining these issues¹¹. The fact that there has been less research in this area in recent years is more a reflection of the fact that the case has been proven and is no longer a matter for debate.

¹⁰ Department for Transport, Jet Zero: modelling framework, March 2022.

¹¹ Airports Commission, Final Report and Economy:Wider Economic Impacts Assessment, July 2015.

4 TOURISM AND TRAVEL SPENDING IMPACTS

- 4.1.1 Dr Chapman is incorrect when he says, at paragraph 22 of the NEF representation, that the principal purpose of London Luton Airport is sending UK residents away on international leisure trips. Pure outbound leisure trips made up only 26% of passengers using the airport in 2019 (Need Case Figure 5.9). A high proportion of passengers using the airport are flying inbound and outbound for the purpose of visiting friends and relatives.
- 4.1.2 Although the reference, at paragraph 23, to Peak Economics work for the DfT in 2018 is noted, it is significant that the more recent policy statements have continued to confirm that enabling UK citizens to travel abroad remains a key priority for the Government. This is clear from the analysis of policy as set out in Section 3 of the Need Case and from *Flightpath to the Future* in particular.
- 4.1.3 In any event, as made clear at paragraph 8.5.19 of the Need Case, the issue of outbound tourism is far more complex than a simple measuring of the amount of money coming in and amount going out. It should also be noted that the quantification of an outbound tourism effect was scoped out from the environmental from the assessment for this reason.
- 4.1.4 The UK Government's position on the matter is clear, this is evident from page 60 of *Flightpath to the Future*:
- “Consumers are at the heart of UK aviation and ensuring that the sector continues to deliver effectively for all consumers will be essential for its future success. The pandemic has highlighted more than ever the importance of air travel for connecting people around the world, and supporting families, friendships, and enabling global connections to thrive.”¹²*
- 4.1.5 There is simply no evidence to suggest that overseas travel by UK residents has any negative impact on the UK economy. The ability to travel to experience other cultures, to see friends and relatives, and to take a break is essential to making the UK an attractive place to live and work. This is, ultimately, fundamental to its long-term prosperity.
- 4.1.6 In terms of quantifying the effects, as Dr Chapman suggests should have been done at paragraph 26, it is not as straightforward as accounting for a simple bi-directional flow as he suggests. Outbound tourism is a separate effect. Just because both inbound and outbound tourism involve the word tourism does not mean that they are two-sides of the same coin. Outbound tourism's effect is highly complex and cannot be reduced to a simplistic analysis of a deficit of spending of overseas tourists in the UK compared to the spending of UK residents abroad without presenting a completely false picture. It was for this reason that the assessment was scoped out of the ES (see **ES Chapter 11 [AS-037]**). The methodology used for assessing inbound tourism is set out in Appendix E of the Need Case **[APP-214]**.
- 4.1.7 In the case of inbound tourists, they will be far less likely to visit the local area, in particular, if they cannot use a local airport, whereas for outbound

¹² Department for Transport, *Flightpath to the Future*, May 2022, page 60.

passengers it is accepted that at least part of the demand that could not use London Luton Airport if constrained would use alternative airports but, for many local travellers, these would be substantially more distant. Hence, by enabling local demand to be met locally, there are journey time saving benefits to consumers, which are allowed for in the cost benefit analysis as set out in Table 8.8 of the Need Case. At the local (Three and Six Counties level), these journey time savings are significant for UK leisure passengers.

- 4.1.8 The position in relation to the treatment of inbound tourism in the Need Case is broadly the same as that taken in connection with the original Bristol Planning Application¹³ as regards outbound tourism. This was accepted by Dr Chapman at that point in his comments on that socio-economic impact assessment. It noted with interest that his position has now changed. This excerpt is taken from his 2019 report on the Bristol Airport Economic Impact Assessment:

“Following this analysis, the Assessment moves on to consider the impact of outbound tourism. Generally, the discussion of this topic is robust and, while it understates any negative effects of outbound tourism, the Response correctly points out that the UK Government has made a judgement that outbound tourism is of sufficiently little negative consequence to not be considered when making plans to boost inbound tourism.”¹⁴

Specifically, it should be noted that, for CBRE, he considered the qualitative treatment of outbound tourism effects to be robust and acknowledged the UK Government’s position that outbound tourism does not have a negative impact on the UK economy. It is unclear why he has subsequently adopted a different position.

- 4.1.9 At paragraph 28, Dr Chapman cites his own research⁶ that showed that there was substantial spending in the UK related to outbound tourism activity (£34bn in 2019), although noting that this was smaller than the spending by tourists overseas. This only serves to illustrate why consideration of the net impact of tourism is not straightforward and certainly not as simplistic as stating a deficit of spending by inbound tourists in the UK against spending by UK residents abroad.
- 4.1.10 In summary, Dr Chapman’s position in relation to outbound tourism and the other points made in this section of his representation ignore the fundamental value of outbound travel in making the UK an attractive place to live and work, thereby supporting long term prosperity. It also appears to ignore fundamental trade theory as regards the development of specialisation and development of comparative advantage in national economies.

¹³ York Aviation for Bristol Airport Limited, Development of Bristol Airport to Accommodate 12 Million Passengers Per Annum: Economic Impact Assessment, November 2018. Pages 44-45. North Somerset Council Planning Application 18/P/5118/Out.

¹⁴ NEF Consulting for PCAA, Evaluating the Case for Expansion of Bristol Airport, July 2019, Page 11.

5 JOBS AND GDP

5.1.1 In relation to the jobs and GDP effects of the application, Dr Chapman makes a number of points that are addressed here.

5.1.2 In paragraph 35 of the representation, he states that:

“The applicant tries to partially address this issue in Chapter 11 of the Environmental Statement through the application of a displacement rate (para 11.9.28). This reduces Oxford Economics’ employment forecasts by 5% at the Luton Unitary Authority level, and by 95% at the national level. The same adjustment is not made in the Need Case. This inconsistency, and the tendency of the applicant to refer to the unadjusted data, risks misleading readers.”

5.1.3 The Need Case and the Environmental Statement (ES) Chapter 11 serve different purposes and, hence, the base figures from the Oxford Economics (OE) Report **[ES Appendix 11.1 – APP-079]** are considered differently. The Need Case focuses on the growth in jobs and GDP over 2019. This is made clear throughout Section 8 of the Need Case, for instance in Table 8.2 on Page 189. The Need Case also explains why displacement is not applied to the analysis within the document on page 183, citing its abstract nature and very high level of uncertainty in the long term, its non-applicability to private sector developments, the effect of optimum passenger allocation within the demand forecasts, and the revised treatment of displacement at a local level with the HM Treasury Green Book, which removes the default assumption of complete displacement at local level¹⁵. The Environmental Statement does, however, include displacement and focuses on the position with and without the development at different points in time as part of the much broader analysis of costs and benefits that is fundamental to considering the planning balance in the context of the Environmental Impact Assessment.

5.1.4 In paragraph 37, Dr Chapman tries to assert that the scheme is unlikely to create jobs as there has been no net increase in air transport jobs in the UK since 2006. He also states that other scheme impacts, such as on the climate, are likely to be *‘predominantly additional’* and that the economic impacts need to be viewed in this context. Firstly, in relation to employment in air transport in the UK:

- a. Examination of Dr Chapman’s Figure 4 on page 12 of his supporting report, *Losing Altitude: The economics of air transport in Great Britain*, appears to provide the basis for his position. This does indeed show that air transport employment reached a peak in 2007 but it also shows a significant decline through the global financial crisis as demand fell and the industry embarked on significant cost cutting and efficiency programmes as a reaction. Since 2010, as the market has recovered, employment has been on a strong upward trend as growth in demand has returned, with 2019 as something of an outlier, with the collapses of Monarch Airlines and Thomas Cook likely affecting the numbers in that

¹⁵ HM Treasury, *The Green Book: Appraisal and Evaluation in Central Government*, 2022, Appendix A.2, Place Based Analysis.

year significantly. This pattern would suggest that there is no reason to believe that, looking forward, the industry will not continue to generate new jobs as it grows. Furthermore, this is specifically material to employment at London Luton Airport as Monarch Airlines was headquartered there and had a substantial maintenance operation and so supported a large number of air transport jobs. The loss of these jobs has been accounted for in the OE analysis as set out in Appendix 11.1 to the ES;

- b. It is also important to remember that many of the direct jobs supported by airports would not be classified as air transport jobs within Standard Industrial Classification (SIC) code system. Activities such as retail, food & beverage, car hire, control agencies and facilities management would be classified differently. Dr Chapman is, therefore, attempting to draw conclusions from a partial view of the sector.

- 5.1.5 Secondly, in relation to his comments that other scheme impacts would be predominantly additional, this is inaccurate. In relation to climate impacts, for instance, a significant proportion of the future demand for Luton Airport would continue to fly via other sub-optimal airports in the event the DCO is not granted. Similarly, even if passengers do not continue to fly, the airlines will continue to use their aircraft elsewhere. In other words, carbon emissions will occur elsewhere. It is, therefore, inaccurate and misleading to suggest that the carbon impacts are predominantly additional. The same would be true for noise and air quality effects as set out in the ES.
- 5.1.6 Dr Chapman goes on to make further specific comment in relation to Luton Airport at paragraph 37: *“Air transport (and supporting services) jobs in Luton Unitary Authority peaked in 2005, and in the wider Bedfordshire and Hertfordshire area in 2007 (Figure 3). Despite a doubling in the number of passengers seen over the intervening period, jobs in air transport (and supporting services) were around 1,000 below their peak in both geographies in 2021.”*
- 5.1.7 Notwithstanding the points made above regarding the collapse of Monarch Airlines and Thomas Cook and the make up of direct employment at airports, it should be noted that 2021 was the middle of the COVID-19 pandemic. It is hardly surprising that the employment in air transport in this year is low given the air transport industry was one of the worst affected of any sector in the UK economy.
- 5.1.8 At paragraph 38, Dr Chapman goes on to suggest that the estimates of employment are over optimistic, referring back to estimates made at the time of the 2012 planning application relating to growth to 2018. Appendix 2 to the OE Report explains why the current employment estimates are more robust and non-comparable to those made previously by Halcrow. Dr Chapman's position here is not consistent with the position that he took at the 2022 Public Inquiry¹⁶ into London Luton Airport Operations Ltd.'s application for 19 mppa where he

¹⁶ Oral Evidence 6 October 2022

described the OE work in connection with the DCO¹⁷ as providing a “true” estimate of the employment generated by the airport.

- 5.1.9 Dr Chapman’s reference to the Panel’s report in relation to the Manston Airport DCO¹⁸ regarding displacement is noted. However, the circumstances here are different in that Manston was seeking to displace freighter aircraft activity from airports located closer to the sources of demand for air freight, whereas the Proposed Development in this case is seeking to meet demand at an airport close to where it arises so displacement issues in relation to local demand are marginal. This is fully accounted for in Chapter 11 of the ES.

5.2 Job Quality

- 5.2.1 At paragraph 41, Dr Chapman queries the quality of the jobs that would be created, citing a decline in real wages in air transport sector between 2008 and 2022. Again, the time period considered here will heavily skew the analysis. The COVID-19 pandemic significantly affected the air transport industry and many employees took significant pay reductions in the short term to help the industry through the crisis. This will heavily influence the 2022 figures. In comparing figures from the OE Report and the earlier work by Halcrow, any comparisons should be made with extreme caution given the difference in methodology and scope, particularly as the Halcrow work included a substantial portion of non-airport related employment in the vicinity of the airport. It is, hence, considered unsafe to draw conclusions from this analysis.

6 ENVIRONMENTAL IMPACTS

- 6.1.1 Much of Dr Chapman’s argument in this section is that the environmental implications of the Proposed Development should be monetised. He goes on, to challenge the assumptions underpinning the Government’s *Jet Zero Strategy, which is, of course, Government policy*.
- 6.1.2 In contending that the Applicant is not correct to state that aviation emissions (those from aircraft) are addressed at a national level, consistent with Government policy, Dr Chapman advances arguments that have already been dismissed at both planning inquiries and in the High Court in respect of decisions at Bristol and Southampton Airports¹⁹. The assessment and presentation of the carbon emissions associated with the Proposed Development, as set out in **Chapter 12 of the ES [APP-038]** are consistent with best practice.
- 6.1.3 Dr Chapman is incorrect, at paragraph 66, where he advocates the inclusion of carbon from arriving flights in the calculations, as this is not best practice. Specific responses to Dr Chapman’s points regarding the assessment of carbon are provided in the Applicant’s Response to Written Representations Part 4 (TR020001/APP/8.39), pages 93-100. Nor is he correct to state that the non-

¹⁷ 2021 Consultation version of the Report.

¹⁸ Manston Airport: TR020002, Report to the Secretary of State for Transport, 18 October 2019, paragraph 6.10.93.

¹⁹ Bristol Airport Appeal Decision APP/D0121/W/20/3259234, February 2022; Bristol Airport Approved Judgement Case No: CO/928/2022, January 2023; Southampton Airport Approved Judgement Case No: 2465/2021, May 2022.

carbon impacts of aviation should be quantified. For the reasons stated in Section 12.12 of Chapter 12 to the ES, these impacts cannot be quantified, although the potential impacts are acknowledged.

- 6.1.4 At paragraph 56, Dr Chapman claims that the economic analysis undertaken is not consistent with Government appraisal guidance, as set out in TAG, the Green Book, and supplementary guidance from BEIS. This is not correct. The position in relation to the treatment of carbon costs for aviation appraisal is set out in paragraph 3.3.3 of *WebTAG Unit 5.2: Aviation Appraisal*. This runs contrary to Dr Chapman's position and makes clear how traded carbon emissions should be treated.

“From 2012, CO2 emissions from UK departing flights were included within the EU Emissions Trading System (ETS). The external costs of CO2 emissions are therefore effectively internalised, as there is a cost associated with each additional tonne of CO2 emitted by the sector.”

- 6.1.5 This is reinforced in *WebTAG Unit A3 Environmental Impact Appraisal* at paragraphs 4.1.4 and 4.1.5 on page 32:

“4.1.4 The monetary value of the impacts of proposed transport schemes on carbon emissions over their whole lifecycle should also be calculated. When carrying out monetary valuation, it is important to distinguish between the emissions from those sectors that are included within the UK Emissions Trading System (UK ETS) – the ‘traded sector’ – and those that are not – the ‘non-traded sector’. The traded sector covers emissions from power and heat generation, energy-intensive industry, some aviation and electricity production consumed in transport. The non-traded sector covers all other carbon emissions and therefore includes tailpipe emissions from the consumption of other types of transport fuel, including petrol, diesel and gas oil.

4.1.5 Inclusion in the traded sector caps relevant emissions and creates a market for them. The cost of any permits to cover traded emissions will be reflected in the purchase price of traded sector goods. Since the purchase price is used in transport appraisal, the cost of the relevant permits will be included in the cost benefit analysis.”

- 6.1.6 Notwithstanding that carbon emissions from aircraft are a matter for Government at a national level, the socio-economic cost benefit analysis, set out in Table 8.8 of the Need Case, shows the benefits with and without accounting for the costs of carbon and the net present value of the Proposed Development is shown to be substantial whether or not the carbon costs are included. It is important to note that the form of cost benefit analysis set out is consistent with that adopted at the Bristol Airport Inquiry, which Dr Chapman stated, at the 2022 Public Inquiry²⁰ into London Luton Airport Operations Ltd's application for 19 mppa, was the approach that should have been adopted in relation to that proposal.

- 6.1.7 Given that the costs of carbon have already been taken into account in preparing the demand forecasts used for assessment of the impacts of the

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Proposed Development, it is arguable that, in line with the WebTAG approach outlined above, these costs should not be taken into account. This was the position taken by the Inspectors in relation to Bristol Airport:

“Having considered these submissions the Panel considers that the inclusion of carbon values in the CBA would result in an element of double counting. Moreover, as concluded elsewhere in this decision, the issue of carbon emissions is a matter to be dealt with at the national level.”²¹

6.2 Equity

- 6.2.1 Dr Chapman makes a number of comments about the equity of the Proposed Development. Firstly, he contends that the benefits will only flow to the wealthier in society. This is not true, as he acknowledges earlier that the effect of constraint would be to price out leisure travellers in favour of business travellers who can afford to pay more. This means that those on lower incomes will be even less likely to be able to avail of a valuable holiday abroad, so increasing inequality, contrary to the argument that he seeks to make.
- 6.2.2 Furthermore, Dr Chapman seeks to suggest that allowing growth at London Luton airport will somehow damage the economy of regions outside the South East (paragraph 76). This runs contrary to the whole levelling up agenda, which is not about holding back one region in favour of another but of stimulating growth in areas that are lagging.
- 6.2.3 Given that the vast majority of London Luton Airport’s passengers come from areas relatively local to the airport, it would be perverse to suggest that those consumers would be better served by having to use more distant airports.
- 6.2.4 As made clear in the Need Case, Section 4, Luton is itself a priority area for levelling up by, as shown in Figure 4.11 of the Need Case, there are many other pockets of deprivation in and around the airport, for whom the benefits of employment would be welcomed. The benefits of the employment that would be generated by the Proposed Development are acknowledged in the Representations and Local Impact reports from the host and neighbouring authorities.

7 APPENDIX A: NEF (2023) LOSING ALTITUDE: THE ECONOMICS OF AIR TRANSPORT IN GREAT BRITAIN

- 7.1.1 This section covers additional relevant points raised by this report, over and above those made above. To a large degree, this report simply expands and generalises the arguments within the Representation itself.
- 7.1.2 Nonetheless, it is worth restating the reasons why a full Green Book appraisal is not required in relation to the Proposed Development. The purpose of the Green Book is set out as follows:

²¹ Bristol Airport Decision, February 2022, paragraph 463.

“The Green Book is guidance issued by HM Treasury on how to appraise policies, programmes and projects.”²²

“The guidance is for all public servants concerned with proposals for the use of public resources”²³

The Green Book set out a Government tool for assisting in making decisions about Government funded activity. An airport expansion is not a Government funded activity. As made clear at paragraph 8.6.2 of the Need Case, the Proposed Development is not Government funded activity but is a project that is funded from airport profits.

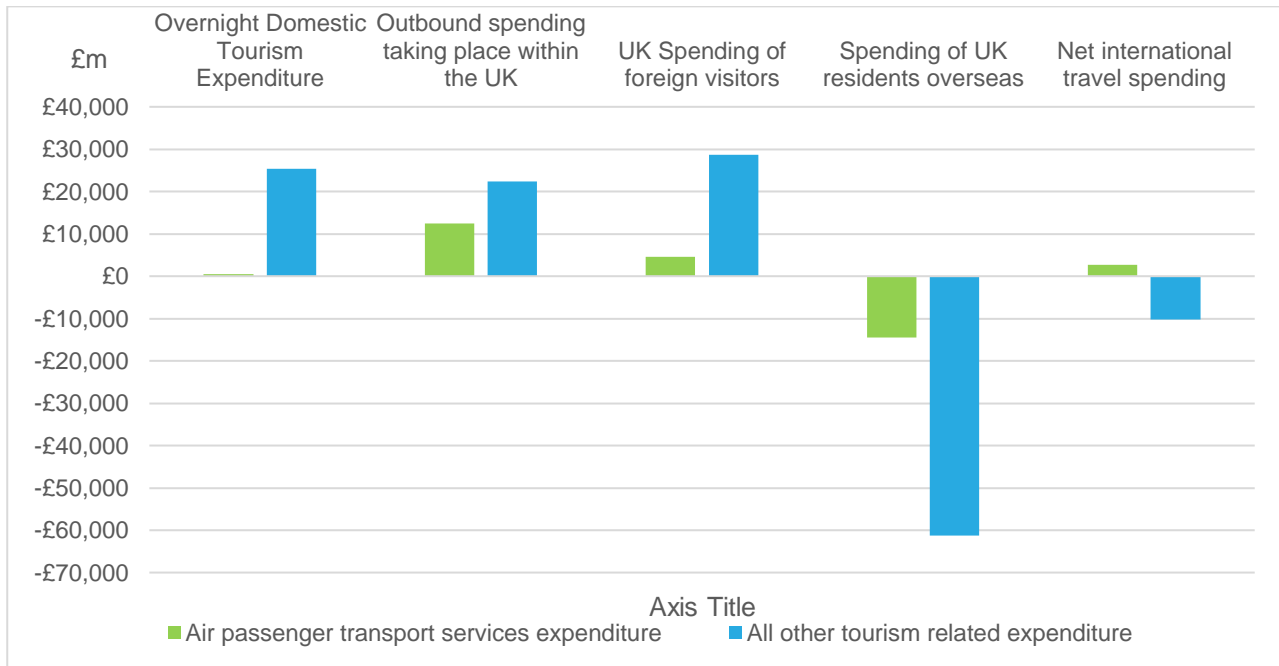
- 7.1.3 Dr Chapman then goes on to question the validity of historic assessments of the economic value of airport growth by reference to the work of the Airports Commission¹¹ and subsequent work by the DfT in connection with the preparation of the Airports National Policy Statement²⁴. In fact, the principal reason why the overall net present value of the proposed third runway at Heathrow was reduced from those estimated by the Airports Commission relate to the assumed greater reduction in airline profits arising from the availability of additional capacity. In practice, the difference in wider economic impacts was little change despite the methodological differences.
- 7.1.4 In Figure 2 on Page 9 of his report appended to the written representation, Dr Chapman presents some data taken from the ONS UK Tourism Satellite Account. This shows domestic and international tourism expenditure by UK and foreign residents. The final set of columns in this chart purports to show net international travel spending on air passenger transport services and all other tourism-related expenditure. It shows a large deficit for the UK economy. This is, however, profoundly misleading as it appears to be only the sum of the third and fourth sets of columns, UK spending of foreign visitors and spending of UK residents overseas.
- 7.1.5 It does not include the second set of columns, outbound spending (taking place within the UK). This is spending relating to outbound travel from the UK that takes place in the UK. This is clearly a part of net international travel spend and should be included in that final set of columns to provide a more realistic picture. If it were to be included, the deficit shown in this final column would be much smaller as shown in **Figure 7.1**.

²² HM Treasury, The Green Book, 2022. Section 1 Introduction, Paragraph 1. Online only - [The Green Book \(2022\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/105222/green-book-2022.pdf).

²³ HM Treasury, The Green Book, 2022. Section 1 Introduction, Paragraph 1. Online only - [The Green Book \(2022\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/105222/green-book-2022.pdf).

²⁴ Department for Transport, Updated appraisal report: airport capacity in the south east, October 2017, Tables 9.1 and 9.2.

Figure 7.1: Inbound, Outbound and Domestic Tourism Expenditure in 2019



ONS, UK Tourism Satellite Account

7.1.6 On page 10 of the report, Dr Chapman raises an important point in regard to the competitiveness of international tourist destinations. The UK is not an effective competitor for much UK domestic based tourism demand. It does not have the natural assets that consumers are seeking. Other countries do and are hence able to develop comparative advantage in the provision of tourism services. The UK can, therefore, be seen as an importer of tourism. However, this enables the UK economy to focus on other sectors where it is able to develop comparative advantage, for instance financial services or advanced engineering. What is being described is a normal trading relationship much like many others. It is this relationship that underpins trade theory, which articulates the benefits that come from international trade because it makes the global economy more efficient overall. Outbound tourism is an essential enabler of economic activity in the UK because it enables skills and talent to be attracted and/or retained in the economy and for resources to be diverted to sectors of the economy where the UK has comparative advantage. This is explained further in Section 2 of the Need Case.

7.2 Economic Footprint

7.2.1 It is important to highlight that Figure 4 and page 12 of the NEF report generally provide a picture of an industry that has, ultimately, become more efficient and productive over time. It is difficult to understand why Dr Chapman considers this a bad thing. Dr Chapman's comments as regards wages in the sector appear to be heavily skewed by his inclusion of 2022 data in Figure 5 as discussed earlier in Section 5 of this response. As air transport was disproportionately affected by COVID-19 compared the economy as a whole (it is not unreasonable to suggest it was amongst the worst affected sectors during the pandemic), the fact that wages in 2022 are significantly lower and are

dragging down the long run trend is hardly surprising. If data for 2022 was excluded, the trends for the sector mirror the pattern in the economy overall. There is no reason to think that recovery will not come as the sector recovers.

- 7.2.2 This section of the report (pages 16-18) goes on to discuss the increasing expenditure of the UK population on overseas travel since 2013. The conclusions from this analysis are very dependent on perspective. They largely show the impact of an increasingly open economy. Broadly, expenditure has fallen on key consumer goods such as electronics, fashion and similar, presumably as a result of the increasing impact of cheap imports of these goods, and on items relating to interest rate levels, e.g. mortgage interest repayments have reduced and people have shifted from buying cars to leasing them as the cost of finance has been low. People have, therefore, had more income to spend on leisure activities, including overseas travel. This reflects the fact that overseas travel is, to some degree, aspirational (albeit air fare trends in the last 20 years have contributed significantly to the democratisation of air travel). As people have become more prosperous and the economy has grown, people want to travel and experience different things. This helps to articulate why outbound travel is an important driver of long-term prosperity. Its availability is a key quality of life factor that drives peoples' desire to be more productive and engage in higher value employment.
- 7.2.3 In relation to the impact on the UK's current account, it should be recognised that the UK has run a current account deficit for much of the last 50 years. It is reasonable say that it is an inherent element of the UK economy that substantially predates the significant growth of air travel over the last 20 years. It is also noted Dr Chapman's own comment that "*Economists have historically been relaxed about the impact of running a current account deficit, believing the macroeconomic effects to be manageable.*" (Page 23). Dr Chapman himself notes that "*the travel spending deficit is a relatively modest contributor to the UK's overall outgoings, equivalent in size in 2019 to around 10% of the UK's deficit in goods trade.*"
- 7.2.4 As noted earlier in this response, the NEF report contains a selective literature review, citing a range of studies on the link between airport transport growth and the economy. There is also a very large body of research that suggests the opposite for Dr Chapman's conclusions, some of which is referenced at paragraph 2.5.8 of the Need Case. Specifically, on the issue of the causality (page 25), what is being described is very much a virtuous circle of growth. During periods when growth in the economy is driving connectivity growth, it is important to consider whether that growth would be achievable without the air connectivity that is already in place. This fits with the long-held view that air connectivity is a necessary but not a sufficient condition for economic growth on its own. A further consideration, as noted earlier in Section 3 of this response, is that connectivity is, to some degree, a relative concept and better connected countries and regions will tend to do better economically than poorer connected places. This has implications should airport capacity not keep pace with the requirements of the UK economy. The economic benefits of the Proposed Development are set out in full in Section 8 of the Need Case.

8 CONCLUSION

- 8.1.1 Overall, it is considered that the representation by Dr Chapman on behalf of NEF presents a partial and incomplete picture of the economic role of the air transport sector and that of London Luton Airport in particular.
- 8.1.2 Dr Chapman's position on the economic importance of the aviation sector is at odds with the Government's clearly stated position.
- 8.1.3 The hypothesis that growth in the importance of business travel is stagnating is not founded in the evidence, which shows clear evidence of growth following economic shocks such as the global financial crisis and the effects of the pandemic.
- 8.1.4 The position taken regarding inbound tourism fails to take into account the wider economic role that outbound tourism plays in supporting quality of life and the robustness of the labour market. Presentation of tourism deficit statistics in the accompanying report is considered misleading.
- 8.1.5 In relation to employment impacts, Dr Chapman's presentation of employment data including the period of recovery from the effects of the pandemic in 2022 is considered misleading and one which does not represent the true picture of employment in the sector.
- 8.1.6 There is no requirement for a full WebTAG economic appraisal, but a socio-economic cost benefit analysis is presented in Section 8 of the Need Case, in a form that was previously accepted at the Bristol Airport public inquiry and advocated by Dr Chapman in relation to London Luton Airport at the inquiry into increasing capacity to 19 mppa.