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London Luton Airport Expansion

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**8.107 Applicant's response to Deadline 3 Submissions -
Appendix A New Economics Foundation (REP3-131)**

Infrastructure Planning (Examination Procedure) Rules 2010

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The Planning Act 2008

The Infrastructure Planning (Examination Procedure) Rules 2010

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

**8.107 APPLICANT'S RESPONSE TO DEADLINE 3 SUBMISSIONS -
APPENDIX A NEW ECONOMICS FOUNDATION [REP3-131]**

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1 INTRODUCTION

- 1.1.1 Dr Chapman of the New Economics Foundation (NEF) has submitted a further Written Representation to the Examination **[REP3-131]**. This document responds to the Written Representation submitted by Luton Rising **[REP2-038]** in relation to Dr Chapman's original Written Representation on the issue of the socio-economic benefits associated with the application **[REP1-115]**.
- 1.1.2 Due to the lengthy and technical nature of these comments, a separate response document has again, been prepared. For clarity, this response largely follows the structure of Dr Chapman's most recent Written Representation.
- 1.1.3 Dr Chapman acknowledges that some of the points he previously raised, had been addressed in **REP2-038**. However, he goes on to repeat some of his previous assertions while also raising some new points. This paper focuses principally on the new points raised or where the Applicant does not agree with points reiterated by Dr Chapman. Where we have not responded to a point, this does not mean that the Applicant accepts the point made by NEF.

2 COST BENEFIT ANALYSIS

- 2.1.1 There are two issues raised that relate to the socio-economic cost benefit analysis set out in Section 8.6 of the **Need Case [AS-125]**. Broadly, these points can be summarised as follows:
- a. That benefits accruing to foreign residents should not be included in the appraisal. This point was not raised previously;
 - b. That carbon emissions relating to inbound flights should be included and that non-CO₂ emissions should also be included. These points have been raised previously.
- 2.1.2 Each of these issues is considered below.
- Benefits Accruing to Foreign Residents***
- 2.1.3 At Paragraph 4 on Page 2 of **REP3-131**, Dr Chapman suggests that benefits to non-UK residents should not be included in the assessment and that, furthermore, by not including inbound flight carbon costs associated with these passengers, the analysis is skewed.
- 2.1.4 The Department for Transport's WebTAG guidance for aviation summarises the issues around this position well:

“Treatment of impacts on Non-UK residents - Government guidance indicates costs and benefits should generally be considered for UK society only, this excludes non-UK residents. Where possible and practical to do so, the costs and benefits of aviation interventions to UK and Non-UK residents should be identified and reported separately. Non-UK residents include international to international interliners who simply change planes at a UK airport. These should not be treated differently from any other Non-UK resident affected by aviation interventions. If it is possible to identify all impacts to non-UK residents, then impacts on these residents should be excluded from the central

case. However, unless this apportionment can be done robustly for all impacts, in order to ensure internal consistency, the analysis should include all impacts on all affected parties, regardless of origin.”¹

- 2.1.5 This makes clear that accrued benefits to non-UK residents should be excluded unless all impacts on non-UK residents can be identified. In this case, it is simply not possible to identify all impacts on non-UK residents. For instance, it is not possible to apportion construction costs between UK and non-UK users. A terminal is either built or it is not. Similarly, it is not possible to apportion carbon emissions costs between UK and non-UK users. Any flight will include both and the aircraft must fly to move the UK users.
- 2.1.6 It is also important to point out that, contrary to Dr Chapman's assertions regarding non-UK residents' emissions being associated with inbound flights, non-UK users will use both inbound and outbound flights to and from the UK. As such, his comments are obviously incorrect.

Carbon emissions for inbound flights and non-CO₂ emissions

- 2.1.7 In **REP3-131**, Dr Chapman restates his position that the carbon emissions associated with inbound flights and non-CO₂ emissions should be included². These comments have already been addressed in Section 6, pages 12-13, of the Applicant's previous detailed response to Dr Chapman [**REP2-038**]. In the current Written Representation, Dr Chapman refers further to the Applicant's specific response in relation to his previous comments on the carbon assessment [**REP2-037**], pages 93-100. This sets out that the approach adopted follows standard practice in assessing carbon impacts of airport growth.

3 CLIMATE IMPACTS

- 3.1.1 Dr Chapman moves on to make a number of related points in relation to climate impacts. In **REP3-131**, Dr Chapman re-iterates his position on the uncertainty of the Jet Zero 'high ambition' scenario. The Applicant's response in relation to this is covered in **REP2-037**, pages 93-96. The Jet Zero Strategy acknowledges that there is some uncertainty. It should be noted that initiatives and programmes in these areas are outside the control of the Applicant or scope of the application for development consent. However, as the Jet Zero Strategy demonstrates, they represent committed targets in government policy and legislation and can be relied upon as such.
- 3.1.2 Specifically in relation to the monetisation of carbon emissions, the Applicant's position remains as set out in Section 6, pages 12-13, of **REP2-038**. It is, however, worth noting that Dr Chapman accepts, at paragraph 13, that traded sector emissions can be excluded from the final cost benefit table as "*they are already internalised within the forecast*" but goes on to state that he considers that the traded sector emissions should still be presented in the assessment. This is exactly what the Applicant has done in Table 8.8. of the **Need Case [AS-**

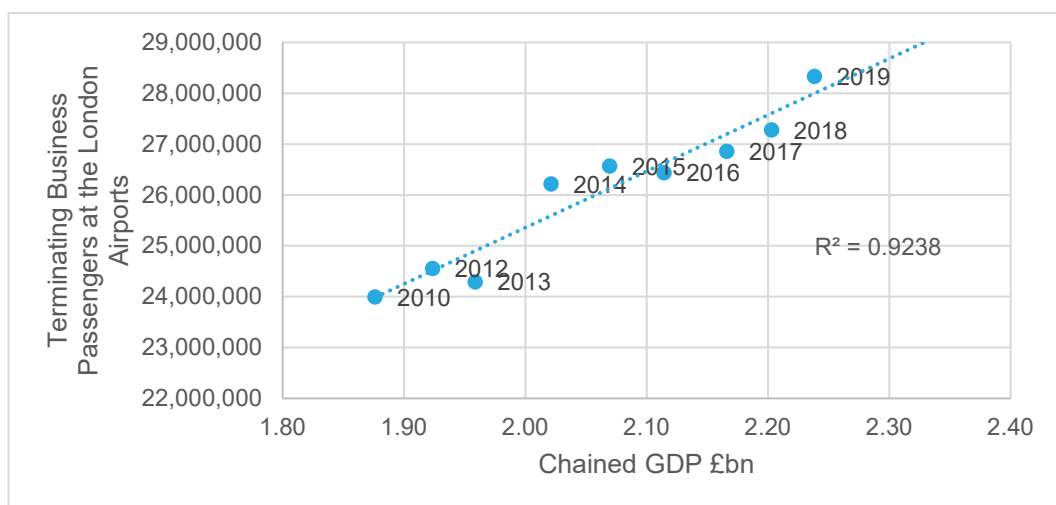
¹ TAG Unit A5.2 Aviation Appraisal - Department for Transport (2022). Page 7, Paragraph 3.2.10.

² [REP3-131]. Pages 2-3, Paragraphs 5-6.

125] by presenting the overall net present value with and without the inclusion of carbon costs.

4 BUSINESS IMPACTS

- 4.1.1 On pages 6-7 of his submission **[REP3-131]**, Dr Chapman largely repeats his previous submissions in relation to the growth of business air travel.
- 4.1.2 In Figure 1, he presents data on business passengers that terminate their journeys at the London airports, as a ratio to chained GDP for the period 2006-2019³. It is accepted that there was a structural adjustment in the levels of business travel following the Global Financial Crisis in 2008/9. It is important to note that the circumstances prevalent at the time of the Global Financial Crisis, compared to the pandemic, are different.
- 4.1.3 Reductions in passenger numbers during COVID were in the main driven by travel restrictions, not by changes in the underlying level of demand. This was not the case following the Global Financial Crisis. Trying to compare recovery speeds in a quantitative fashion in such circumstances is likely to be highly misleading. What can be said with certainty is that the business market is recovering. Dr Chapman is misinterpreting the previous comments around recovery mirroring the period following the Global Financial Crisis in terms of the speed of recovery rather than the principle of growth again in line with GDP growth.
- 4.1.4 Plotting the terminating passenger growth relative to GDP, during the period of recovery from the Global Financial Crisis from 2010 through to 2019, shows an even stronger correlation between GDP growth and growth in business passenger numbers using the London airports with origins or destinations within the UK than shown in Figure 3.2 of **REP2-038**. This is shown in Figure 1.1.
- 4.1.5 Figure 1.1: Business passengers terminating their journeys at the London airports relative to real GDP.



³ It should be noted that CAA survey data does not include London City Airport for the years 2007, 2009 and 2011 so data for these years is incomplete.

- 4.1.6 What this relationship shows is that, for every 10% increase in GDP, there would be expected to be a 7% increase in business travel. This is broadly consistent with the income elasticity assumptions used in the demand forecasts for the application as set out in Figure 6.1 of the **Need Case [AS-125]**.
- 4.1.7 Dr Chapman's hypothesis that there would be no net growth in business passenger numbers across the London airports until at least 2035 (as he states at paragraph 16 of **REP3-131**), relies on the assumption that there will be no further recovery in business travel through the rest of 2023 and into 2024, with the proportion remaining at 74%. This is highly unlikely as some markets, notably in the Far East, have remained restricted through the early part of 2023 and airlines have not fully reinstated services on all routes. This is particularly so on those routes those serving principally business travel demand, as the immediate priority has been to serve leisure markets, where demand was strong and rebounded quickly. Hence, basing an extrapolation on the recovery to 74% of 2019 levels in the first half of 2023 is not considered robust.
- 4.1.8 In any event, as the overall growth in the number of business passengers that is projected for London Luton Airport is only 1.5 mppa by 2043 (derived from Figure 6.5 of the **Need Case [AS-125]**), the Applicant does not consider this unreasonable or unrealistic. This is especially the case when set within the context of an overall business travel market in excess of 20 mppa and given the anticipated evolution of the route network at the airport and potential capacity constraints at one or more of the other London airports, coupled with the GDP growth anticipated over the period (**Response to Chris Smith Aviation Consultancy Limited - Initial Review of DCO Need Case for the Host Authorities [REP2-042]**, Table 2.1).
- 4.1.9 In addition, Dr Chapman seems to have missed that the business productivity impacts are calculated based on the difference between two possible future scenarios, one with the Proposed Development and one without. In that context, the level of the starting point is not relevant.
- 4.1.10 At paragraph 17 of **REP3-131**, Dr Chapman returns again to a previous theme, the extent to which business passengers will be priced out of the market in the event of capacity constraints. Again, these comments have been addressed previously at Paragraphs 3.2.9 and 3.2.10 of the Applicant's previous response to Dr Chapman [**REP2-038**]. Dr Chapman does not appear to have understood the point being made. In a capacity constrained environment, it is not just passengers that change behaviour but also the airlines that supply them.
- 4.1.11 Airlines seek to profit maximise in terms of the movements that are available to them. They consider how to use resources based on planes full of passengers not the behaviours of individual passengers. In this context, the routes they choose to supply will reflect what is most profitable for them, which, in many instances, are high volume, leisure routes. This means that the options and opportunities open to business passengers will be curtailed, regardless of their individual value, resulting in these business passengers being no longer able to, or willing, to travel.
- 4.1.12 Dr Chapman is correct when he says that if there is serious business demand for particular routes, these will be served. However, given the overall balance

between business and leisure passengers, he is significantly underestimating the potential effect on routes that are more mixed in terms of business and leisure demand. It is often high-volume leisure routes that are the most profitable, and these have the potential to crowd out routes to key business destinations where overall travel volumes are much smaller. His characterisation of such an effect as 'marginal' is inappropriate.

5 PRODUCTIVITY EFFECTS

5.1.1 Dr Chapman's comments in regard to productivity effects appear to be confused. He tries to suggest that the Applicant has agreed with his position as regards there being diminishing returns for productivity benefits from aviation using a quote from the Applicant's previous response [REP2-038] at paragraph 3.2.7. To be clear, the Applicant does not agree with Dr Chapman's position. The quote is taken out of context. This is discussed in greater detail at paragraph 4.1.9 above. It is the difference between two future scenarios that is important in terms of assessing business productivity effects, not the future versus the starting point.

5.1.2 Paragraph 19 of his latest Written Representation [REP3-131] demonstrates his mis understanding of this point. He states that:

“NEF's core point on the matter of productivity growth is simple. The applicant's own relationship (adopted from Oxford Economics) requires there to be net growth in business passenger numbers if airport passenger capacity growth is to deliver wider productivity growth. There has been no such growth since 2007, there is highly unlikely to be any such growth for many years to come, and any such growth is not contingent on airport expansion (due to the displacement effect discussed above and presented by the DfT).”

5.1.3 The fact that he considers that there has been no growth over time is irrelevant to the calculation. What matters is the difference in the forecast position with and without the Proposed Development in the assessment years. In any event, he is incorrect for the reasons set out in section 1.4 above.

6 JOBS AND GDP

6.1.1 On page 7, Dr Chapman again tries to assert that aviation related employment has not been growing nationally or locally in Luton or Bedfordshire. These points have been responded to previously in Section 5 of the Applicant's previous response [REP2-038]. Specifically Dr Chapman states:

“The applicant does however, attempt to place the blame on the pandemic (para 5.1.7). This is odd given that NEF presented the full time-series of data, which shows that employment in the two geographies was even lower in 2019.”

6.1.2 The Applicant's previous response [REP2-038] addresses 2019 and its position as an outlier, given the collapse of Monarch and Thomas Cook (paragraph 5.1.4). The comment in relation to 2021 relates solely to the comparison made by Dr Chapman at paragraph 37 of his original Written Representation [REP1-115]. The Applicant remains of the view that seeking to use 2021 as a datum

point for air transport related employment is inappropriate given the timing of the pandemic.

7 JOB QUALITY

- 7.1.1 In paragraph 21 of **REP3-131**, Dr Chapman comments on the fact the air transport sector has had the second steepest decline in real wages of any sub-sector in the UK. There are two points to be made here:
- a. Air transport has indeed experienced significant growth since 2008 and this has seen a considerable increase in the level of competition, which has driven efficiency in the sector. What can be seen is the structural change in the industry that has occurred as low fares airlines have disrupted the market and reduced costs. This puts the sector in a position to provide improved real wage growth in the future;
 - b. As the sector has grown, it is likely that the structure of employment in the sector has changed, as it has been able to realise economies of scale more effectively. The proportion of higher paid managerial, technical and professional jobs is likely to have fallen as a proportion of the total, putting downward pressure on the overall average. This means that while the overall average may have fallen, this is not necessarily true of the wages and salaries paid in relation to individual roles in what is a hugely diverse industry.
- 7.1.2 In paragraph 22 of **REP3-131**, Dr Chapman seeks to draw comparisons between the Oxford Economics 2019 data that supports the Application [**APP-079**] and that which was developed by Halcrow in 2012. Dr Chapman acknowledges that the methodologies are different but fails to understand that the scope of the assessment is different and consequently drawing comparisons between the two is very difficult. These differences are set out more fully in **Applicant's Response to Issue Specific Hearing 2 Action 5 and 6: Past Employment Estimates [TR020001/APP/8.89]**
- 7.1.3 Finally, in paragraph 23 of **REP3-131**, Dr Chapman asserts that his analysis suggests that London Luton Airport provides minimal contribution to the levelling up of the area. This conclusion does not follow from this analysis. Critically, it makes no allowance for the fact that, without the airport, unemployment in Luton would likely be considerably higher than it already is in a notably deprived area. Luton Airport is an important employer in the area and provides an important source of jobs; a point that was noted in the recent decision on the application for growth of the airport to 19 mppa at paragraph 39 of the decision letter⁴.

“and that given the levels of unemployment and deprivation locally, even relatively modest jobs growth would have a particularly important positive economic impact. They conclude that the proposal would accord with LLP

⁴ Department for Levelling Up, Housing & Communities, Department for Transport, Decision in relation to Application Ref: 21/00031/VARCON, 13 October 2023, Decision Letter paragraph 37.

Policies LLP6 and LLP13, and that the socio-economic effects carry considerable weight in favour of the proposal (IR15.200)."

- 7.1.4 This point is also addressed in **Applicant's Response to Issue Specific Hearing 2 Action 5 and 6: Past Employment Estimates [TR020001/APP/8.89]**.

8 TOURISM AND TRAVEL SPENDING

- 8.1.1 In this section of **REP3-131**, Dr Chapman is repeating issues that he has made previously and that have been addressed in Section 4 of the Applicant's previous response **[REP2-038]**. The Applicant's position has not changed. It should, however, be noted that it is not *"The Applicant that makes the bold claim that "There is simply no evidence to suggest that overseas travel by UK residents has any negative impact on the UK economy"*⁵ but the UK Government's Aviation Policy Framework⁶. This sets out the Government's position clearly:

"Responses confirmed that the 'tourism deficit' question is a complex one and that the evidence available to us does not show that a decrease in the number of UK residents flying abroad for their holidays would have an overall benefit for the UK economy."

- 8.1.2 It should also be noted that, despite Dr Chapman making similar points at the Inquiry into the application to expand the capacity of London Luton Airport to 19 mppa, this position was not accepted by the Inspectors⁷, who stated:

"National policy, in particular APF, recognises the importance of overseas travel not just for business but so that people can go on holiday and see family and friends with the important wellbeing and quality of life, and consequently socio-economic, benefits [8.192]. LLA supports these trips. There was no substantive evidence to suggest that were the airport not to expand that those additional million passengers would neither not decide to travel from another airport nor choose a UK destination for their holiday instead. Furthermore, this would be counter to national policy [8.192, 8.193]. The proposal would be unlikely to constrain domestic tourism, and the Panel notes that the Panel in the Bristol airport decision made similar findings in this regard [8.192]."

The Inspector's position was agreed with by the Secretaries of State at paragraph 37 of the Decision Letter⁸.

9 MISREPRESENTING NEF'S PREVIOUS INVOLVEMENT IN AIRPORT EXPANSION PROCESSES

- 9.1.1 The Applicant notes Dr Chapman's quotation of his oral evidence **[REP3-131]** at the Inquiry into growth at London Luton Airport to 19 mppa at paragraph 29).

⁵ [REP3-131], Page 8, Paragraph 24.

⁶ Aviation Policy Framework- Department for Transport (2013). Page 19, Paragraph 1.16.

⁷ Department for Levelling Up, Housing & Communities, Department for Transport, Decision in relation to Application Ref: 21/00031/VARCON, 13 October 2023, Inspectors' Report paragraph 15.183

⁸ Department for Levelling Up, Housing & Communities, Department for Transport, Decision in relation to Application Ref: 21/00031/VARCON, 13 October 2023, Decision Letter paragraph 37.

What he neglects to highlight is that his oral evidence went on to explain that Oxford Economics had used an improved process for ensuring that their employment estimates for the Airport are robust. Elsewhere, in his written evidence to that Inquiry, he frequently cited the work of Oxford Economics in connection with the DCO Application as being the approach that should have been followed in relation to the 19 mppa application. This does suggest some inconsistency of approach in relation to the two applications for development at London Luton Airport.

9.1.2 Dr Chapman also suggests that the Applicant's previous response misrepresents the conclusions of the Volterra report on socio-economic evidence at Leeds Bradford Airport. The Applicant's original response focussed on the comments made by Volterra in its original peer review report⁹. However, given the position put forward by Dr Chapman, it is worth highlighting that, following the NEF response to its original peer review report¹⁰, Volterra issued its own response to NEF in February 2021¹¹. This response considered NEF's further arguments in detail. The response concluded that:

“Having reviewed the NEF Response, Volterra remains of the opinion that the economic impacts of the proposed expansion at LBA are likely to be positive, and the economic case put forward in favour of expansion is broadly robust. For these reasons, Volterra’s recommendation is that LCC decision makers can still confidently conclude that the economic case for LBA’s expansion would represent an economic benefit to both Leeds and the LCR. It is for decision makers to determine whether this positive (likely reduced compared to YA’s original assessment but still positive) net scheme impact offsets other factors relevant for consideration in the decision.”

9.1.3 It is unclear how this conclusion can be interpreted other than to say that NEF's arguments were rejected. Specifically in relation to Dr Chapman's comment regarding outbound tourism costs at Paragraph 33. Volterra stated:

“Finally, and certainly most importantly, there are fundamental flaws in NEF’s simplistic presentation of outbound tourism impacts being wholly negative. Volterra does not consider this to be a robust assessment for the following reasons:

- *Outbound tourists often spend significant amounts still in the UK, on travel equipment, transport to the airport, travel agents, and others. The Centre for Economics and Business Research (CEBR) has produced analysis for the Association of British Travel Agents (ABTA) - in this they estimate that in 2017 UK outbound visitors spent a total of £44.8bn abroad, but £45.7bn still in the UK on their outbound journey. The spending of outbound visitors within the UK was actually marginally higher than their spending abroad. This suggests that, there is a significant indirect amount of expenditure (and hence employment) supported that has not been considered by NEF.*

⁹ Volterra, Leeds Bradford Airport, Economic Peer Review, November 2020.

¹⁰ NEF Consulting, Response to Volterra Review – Supplementary Analysis on the Economic Case for Expansion of Leeds Bradford Airport: Part Two, December 2020.

¹¹ Volterra, LBA Expansion – Response to NEF Counterarguments December 2020, February 2021.

- *This is supported is another report published by ABTA, which found that the net GVA impact of the outbound tourism sector is estimated at £37.1bn (including direct, indirect, and induced impacts). While lower than the total UK travellers spent abroad, the sector made up for 83% of the “losses” of UK outbound travellers spending their money outside the UK. Put another way, for every £1 spent abroad by outbound travellers from the UK, economic activity worth £0.83 was generated within the UK, suggesting that the negative economic impacts of outbound tourism are strongly overstated.*
- *The NEF methodology does not consider two other important factors: (i) it does not quantify the positive welfare impacts of outbound tourism on LCR residents, although it does acknowledge that these positive welfare benefits (such as freedom of choice and freedom of movement) would occur; and (ii) the methodology does not quantify the potential positive impact on the LCR economy that would occur through the location being more accessible. It is likely that the area would become a less attractive and hence less economically prosperous place to live if travel options were restricted out of LCR, as less UK residents would want to live in the area.*
- *There is little evidence presented that all of this outbound expenditure that would have been spent by LCR residents travelling abroad would have been spent otherwise in the Leeds/LCR areas. Again, this comes down to what are the appropriate study areas for different impacts.*
- *It could be argued that the premise of restricting outbound tourism by reducing capacity is a regressive policy in the sense that it would price out people from lower socio-economic backgrounds at the expense of wealthier residents being able to fly.”¹²*

9.1.4 Finally, Dr Chapman’s comment that Leeds City Council was strongly in favour of the expansion of the airport appears to be because Officers recommended approval at the City Plans Panel (Leeds Planning Committee)¹³. However, the Officer recommendation was based on the policy framework and consideration by the Planning Committee was lengthy, being one of the longest in their history, with the members split on the decision. This does not suggest that Leeds City Council was “*strongly in favour of the expansion*”.

10 WEBTAG

10.1.1 At Paragraph 35, Dr Chapman once more returns to the issue of WebTAG and its applicability to this application. Again, these points have already been addressed within the Applicant’s previous response [REP2-038] at Paragraph 1.2.3, citing particularly the Bristol Airport Inquiry Inspectors’ Report¹⁴ on the subject.

10.1.2 In his most recent submission, Dr Chapman suggest that the Applicant is distancing itself from WebTAG. This is not the case. The Applicant’s position is simply that WebTAG is not a tool intended for an application such as this. It is a

¹² Leeds Bradford Airport, Economic Peer Review, Volterra (November 2020). Page 17.

¹³ Leeds City Council, City Plans Panel, 11th February 2021.

¹⁴ The Planning Inspectorate, Decision into an Appeal by Bristol Airport Ltd, 2 February 2022.

central Government tool for assessing the value for money offered by public sector transport interventions and funding decisions. A commercially funded expansion of a major airport is not a public sector intervention, and it does not involve public money. As such, WebTAG is not useful in this case.

- 10.1.3 This was also the Inspector's conclusion within the Bristol Airport Inquiry Decision (paragraphs 465 and 466), and this has recently been further reinforced by the recent decision by the Secretaries of State¹⁵ in relation to London Luton Airport Operations Limited's application to increase the airport's current passenger cap from 18 million passengers per annum to 19 million passengers per annum (paragraph 37):

“They further agree, for the reasons given in IR15.188-15.191 that the absence of an appraisal following a web-based transport analysis guidance (WebTAG) or similar methodology does not weigh against the proposal (IR15.190).”

11 CORE POSITION ON THE MERIT OF AIR TRANSPORT GROWTH

- 11.1.1 Again, Dr Chapman does not introduce new evidence, but largely reiterates the points made in his previous submission **[REP1-115]**. The Applicant's response remains the same as that set out Paragraph 7.2.4 in **REP2-038**.
- 11.1.2 It is worth highlighting again that the research and evidence on the merits of air transport growth is large and diverse. It has been a core element in the formation of the UK Government's policy on aviation. As has been described on numerous occasions, aviation policy in the UK is strongly supportive of sustainable air transport growth because of the economic benefits it brings.

¹⁵ Department for Levelling Up, Housing & Communities, Department for Transport, Decision in relation to Application Ref: 21/00031/VARCON, 13 October 2023, Decision Letter paragraph 37.