NEW ECONOMICS FOUNDATION (NEF)

DEADLINE 9:

NEF COMMENTS AND RESPONSE TO APPLICANT

Registration Identification Number: 20040182

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Purpose of this document

This document provides NEF's response to a document published by the Applicant:

- **8.175** *Applicant's response to Deadline 7 submissions*

Pages 16-22 of doc 8.175 address NEF's submission.

This response endeavours to limit comments to the most material considerations.

NEF's response

1. The document *Transport Analysis Guidance: An Overview of Transport Appraisal* published in January 2014 by the DfT states *"WebTAG is a requirement for all interventions that require government approval"* (para 1.2.2, p. 1). Even if WebTAG is not a *"requirement"* WebTAG is a best practice guide, clearly established by the DfT as *"useful"* for non-government interventions (WebTAG A5.2, para 1.1.3, p. 3). The Applicant has already noted that their socio-economic cost benefit analysis is *"similar in concept to the type of analysis described in WebTAG"* (Need case 8.6.2, p. 204). The main difference between the two approaches appears to be that the Applicant has removed the most material scheme costs from the equation. These costs were included by Gatwick Airport's consultants.

2. Our position is that it is vital to ensure that the economic dimensions of the scheme's environmental impacts are captured in the economic assessment. This performs a distinct function to other chapters of the EIA, where the policy compliance of environmental impacts is analysed. Impacts which are deemed policy compliant still have an economic cost which must be weighed in the balance of the scheme's cost-benefit analysis, and hence its overall merit to society. For example, additional greenhouse gas emissions which fall within the envelope of the Jet Zero Strategy still have a societal cost. Even additional carbon emissions falling within the traded sector still have a societal cost.

3. The applicant now accepts that a *"full WebTAG appraisal"* … *"would require the inclusion of costs associated with arriving and departing flights" (p. 18)*. The applicant's assessment remains deficient and inconsistent.

4. The government has expressed a preference to see an assessment made which considers "costs and benefits" for "UK society" (WebTAG Unit A5.2, para 3.2.10,

p.7). NEF previously re-worked the Applicant's analysis to present such an assessment, repeated below (Table 1) with additional line numbering.

5. Our re-working significantly reduces the benefits accruing from the scheme because a very large proportion (66%) of the claimed air fare savings of the scheme in the Applicant's assessment (Need Case Table 8.8, p. 207) are delivered to foreign residents.

6. In relation to NEF's re-working the Applicant states *"NEF's reworking, as presented in their Deadline 5 submission, [REP5-081], does not itself follow key principles of the WebTAG guidance to ensure that impacts are not double counted."* At lines 14 and 15 of our assessment (Table 1) we present the scheme's net present value excluding all traded-sector emissions therefore removing potential double counting. As shown at line 15, when a conservative estimate of non-carbon impacts is included (a legimate sensitivity test in the eyes of the DfT), the scheme has a deeply negative net present value to society. This is before noise and air quality impacts are included, and before any 'residual' traded-sector costs are included (NEF does not presently have the resource to calculate these additional impacts).

7. It is fair to say that our estimate at line 16 of Table 1, including all carbon costs, may be overly pessimistic due to the potential for some double counting. The double counting will only be partial because of the issue of the 'residual' carbon cost which remains after the carbon permit price is paid. Furthermore, we would note that Table 1 represents a re-working of the Applicant's numbers. In our original Written Representation (page 22, para 67) we noted that our own analysis suggests (for reasons unknown) that the Applicant's carbon cost estimates are already a significant underestimate.

8. The applicant now advances a position that *"limiting growth at London Luton Airport would simply result in airlines using their aircraft at other airports, in the UK or beyond, with no global reduction in emissions"* (p.18). This is a claim of 100% displacement and it is not remotely credible. This claim opens up an 'impossibility' or logical fallacy – that every airport in the UK might apply to expand, that passenger numbers might rise rapidly, yet every airport can claim not to be creating net additional flights or moving net additional passengers. A scenario in which nobody bears responsibility. Ultimately, the international

airplane fleet has been growing rapidly and passenger growth in the UK, enabled by new airport capacity, bears a share of the responsibility for that growth. Emissions, and their associated economic costs, logically, cannot be assumed to be displaced.

Table 1: Re-worked scheme welfare-based cost-benefit analysis at UK level, with line guide added

Line	Impact	Notes	UK value (£m)
1	Journey time savings	UK Business	£271
2		UK Leisure	£17
3		Total	£288
4	Air fare savings	UK Business	£571
5		UK Leisure	£1,539
6		Total	£2,110
7	Airport profits		£45
8	Air passenger duty		£259
9	Construction costs		-£1,527
10	Non-traded carbon costs		-£721
11	Traded carbon costs		-£814
12	Non-traded non-CO2 costs	DESNZ 1.7x multiplier	-£1,075
13	**Totals**		
14	Net Present Value including non-traded carbon costs		£454
15	Net Present Value including non-traded carbon and non-CO2 costs		-£621
16	Net Present Value including traded and non-traded carbon and non-CO2 costs		-£1,435

9. At point 27 of the Applicant's document (8.175) there appears to have been a misunderstanding. The elasticity we referred to is the one connecting business passenger growth with wider economic impacts (not vice versa). As such the DfT's forecasts are not of relevance to the point that was being made.

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