

NEW ECONOMICS FOUNDATION

GATWICK AIRPORT DCO: DEADLINE 8

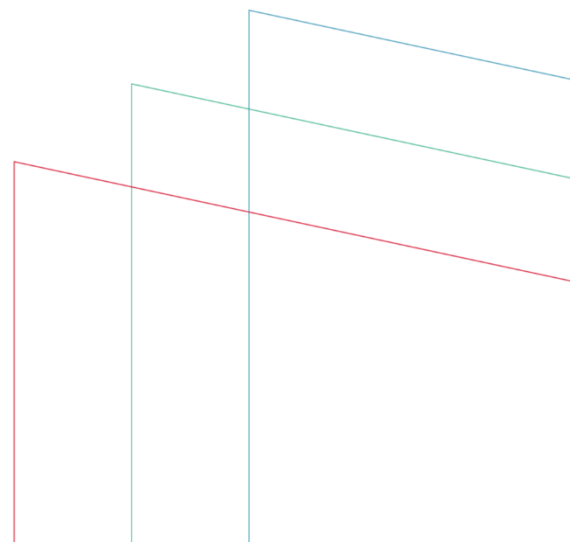
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DEADLINE 8 SUBMISSION ON MISSING EVIDENCE AND CATALYTIC EMPLOYMENT

MISSING EVIDENCE

At Deadline 3 Gatwick Airport Ltd (GAL) produced a separate response to points raised by the New Economics Foundation (NEF) in our Written Representation. This is presented at Appendix D of the Applicant's Response to Written Representations (doc 10.14). At paragraph 2.1.10 GAL committed to provide a comprehensive response to NEF's points regarding the costing of greenhouse gas emissions at a later date once clarification from the DfT had been received. As of Deadline 7 this response appears not to have been provided. It is possible, given the volume of documentation submitted, that we have missed this evidence. NEF has written to the Planning Inspectorate separately requesting clarification from GAL on this matter, but as of Deadline 8, no further information had been received.

GAL's initial response to NEF (doc 10.14 Appendix D) also failed to respond to a number of key points raised by NEF in relation to business-purposes travel (NEF Written Representation recommendations 8-11). At Deadline 4 NEF requested that these omitted responses be provided. To-date we are not aware that any have been provided.

The unresolved matters are fundamental to understanding the environmental costs of the scheme and the robustness of the claimed benefits to business-purposes travellers (consumer surplus). NEF has concerns regarding the reliability of the analyses presented in both areas. Any errors in either domain will fundamentally affect the conclusions which can be drawn from the wider benefit-cost analysis presented in the National Economic Impact Assessment.

NEF intends to present its own analysis of greenhouse gas emissions costs and business consumer surplus. This analysis will be submitted at Deadline 9. Our analysis would benefit from GAL addressing the missing areas. Work so far indicates that GAL's calculations of the scheme's consumer surplus are erroneous. Combined with the necessary uplift to the scheme's environmental costs following

the latest TAG guidance, our analysis suggests that the scheme has a net negative present value to society.

CATALYTIC EMPLOYMENT

Here we discuss the Applicant's modelling of catalytic employment. This relates to the note submitted by GAL at Deadline 7 (doc 10.55). We also deal with the Local Economic Impact Assessment (ES Appendix 17.9.2) where the catalytic employment assessment using a regression/elasticity based approach is first presented.

Overall, NEF supports GAL's catalytic employment assessment approach. At least from a theoretical perspective, NEF agrees it is superior for the reasons stated by GAL in paragraphs 2.1.4-2.1.7 of doc 10.55. The approach represents a more academically robust, and cautious approach than that favoured by York Aviation. However, the analysis presented by GAL has two key issues.

Displacement/spillover impacts are not adequately described

The true scale of the inter-regional displacement implied by GAL's approach has not been adequately described.

At para A5.22 of the Local Economic Impact Assessment GAL report the headline finding of the catalytic employment assessment: *"The impact of air traffic on total local employment is estimated as 0.14, indicating a 0.14% increase in total employment as a response to a 1% increase in local air traffic on average throughout the UK"*

We take this to mean that local employment in Region A will increase 0.14% in response to a 1% increase in local air traffic in Region A.

At A5.23 GAL state: *"The estimated coefficient of neighbouring air traffic potential is -0.07, indicating a 0.07% displacement from a region if air traffic in the region's neighbouring area increases by 1%. This finding implies that increased activity at a UK airport could attract employment from neighbouring regions to the area closer to the airport"*

We take this to mean that local employment in Region B decreases 0.07% if air traffic increases 1% in neighbouring Region A.

If Region A and B have the same population of workers, then we can assume that 50% of the employment created by a change in air traffic in Region A is actually employment which has been displaced/lost from Region B. However, if Region A is in fact surrounded by multiple neighbouring regions, with a larger cohort of workers, there is potential for there to be an overall net loss in employment, ie. if 0.07% of total employment in the neighbouring regions adds up to more than 0.14% of employment in the region of project impact. With this in mind, it would be helpful for GAL to clarify how many lost/displaced jobs their analysis implies in the regions surrounding the Six Authorities.

A further weakness in GAL's approach is that there appears to be no assessment of the scheme's impact on jobs beyond neighbouring regions. Gatwick Airport represents the UK's second largest conduit for UK residents leaving the UK on holiday. The airport has a national-level impact on tourism behaviour. Domestic and international tourism are known to be partial substitutes.¹ It is therefore highly plausible that jobs would be lost not only in neighbouring regions but in the UK's domestic tourism hotspots around the country. This has not been assessed.

It is worth remembering that many of the UK's former coastal tourism hotspots, such as Blackpool and Great Yarmouth, are now among the most deprived in the UK. The incentivisation of air travel played a partial role in this context. To highlight this point, a NEF report in 2020 highlighted (using Freedom of Information requests) that the DfT expected the proposed 3rd runway at Heathrow to result in the loss of up to 27,000 jobs around the UK.² Such information would be of significance to decision makers seeking to understand the proposed scheme from a national interest perspective.

¹ See Chapman, A. (2023) *Losing Altitude: The Economics of Air Transport in Great Britain*. New Economics Foundation.

² Chapman, A., Kiberd, E., Pendleton, A., Wilson-Morris, B. and Postle, M. (2020) *Baggage Claim: The regional impact of Heathrow's third runway*. New Economics Foundation

The catalytic employment impacts rely on new business passengers

While the variable used by GAL's consultants to assess the catalytic impact of expansion on employment is "air traffic" it is not air traffic *per se* that creates catalytic employment. Catalytic employment can be created through multiple routes, but the most influential, and widely accepted is through the connectivity of passengers travelling for business. New business connections can increase business growth and productivity thereby creating new employment opportunities. The variable used, "air traffic", represents only a proxy indicator of a real-world impact. Many academic studies exploring similar catalytic effects choose other proxy indicators such as cargo volume, connectivity, seat capacity and business passenger numbers. The assessment presented by GAL is based on the relationship between the proxy (air traffic) and the actual indicator (business use of air travel) at a static point in time (notably, a point in time prior to the pandemic and its effects on business use of air travel).

The use of a proxy indicator in this way opens up a major risk when it comes to using the estimated statistical relationship to forecast into the future or forecast the impacts of a project. We cannot be certain that future growth in the "air traffic" proxy will contain the same essential properties which created catalytic employment in the past. Specifically, future growth in 'air traffic' is unlikely to produce anywhere near the same number of business passengers as historically seen in the air transport system. It is also unlikely to have the same value to business. The first new air connection is a lot more valuable than the 100th. As such, we cannot be certain that the historic relationship modelled by GAL holds up when it comes to future capacity growth.

Despite real GDP growth, and considerable passenger growth, there has been no net growth in business-purposes air passengers in the UK or London airport systems since 2006. The system has changed but, in general, models are using out-of-date input data and have not yet caught up.

Conclusion

While there will likely be some employment growth resulting from the proposed project within the local area, there will also be losers from the project. Some will be in neighbouring regions, some in wider regions of the UK. These should be transparently presented. Furthermore, with the approach utilised we can have no certainty that there is any net employment benefit at the national level. This is particularly the case because attributing catalytic growth to the project relies on the use of the new capacity by new business passengers created by the project. It is far from clear, for the reasons set out in NEF's Written Representation, that there will be any net additional business passenger growth at all arising from the proposed project. If the inputs to GAL's model (ie. the business air travel demand forecasts) are wrong then, regardless of the robustness of the internal workings of the model, the outputs will be too.