NEW ECONOMICS FOUNDATION

GATWICK AIRPORT DCO: **DEADLINE 10**

Written by: Dr Alex Chapman
Published: August 2024

New Economics Foundation

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Registered charity number 1055254

NEW ECONOMICS FOUNDATION **DEADLINE 10** SUBMISSION

1. This document

1.1. This document provides the New Economics Foundation's (NEF) response to submissions made by GAL between the 15th and the 22nd August. Specifically:

- *10.74 The Applicant's response to ISH9 Action Point 38 updated position on catalytic employment benefits.*
- *10.75 Impact of the DfT TAG November 2023 update on the Applicant's National Economic Impact Assessment.*
- *10.81 Applicant's response to Rule 17 Letter (e)*

We also comment on:

- *Decision Letter and Inspector's Report: London City Airport*
- *10.14 The Applicant's Response to Written Representations Appendix D – Response to New Economics Foundation*

1.2. This document also summarises the New Economics Foundation's final position on the proposed expansion of Gatwick Airport following the examination process.

1.3. This document has the following structure:

Section	Description
2	Summary of the New Economics Foundation's final position on the proposed expansion of Gatwick Airport
3	NEF views on the London City Airport Decision Letter and Inspector's report
4	NEF analysis of Business Consumer Surplus estimates following Applicant responses
5	NEF response to Applicant's updated environmental costs
6	NEF re-evaluation of the scheme cost-benefit analysis
7	Other non-CBA matters: Tourism impacts
8	Other non-CBA matters: Employment impacts

2. Summary of updated NEF position

2.1. NEF's analysis focuses on the overall impact of the proposed scheme on social welfare at the national level. The national impact of the proposed scheme, as presented by the Applicant, is synthesised in the socioeconomic cost-benefit analysis presented in the National Economic Impact Assessment (doc 7.2). This assessment applies the DfT's Transport Analysis Guidance (TAG) which is regarded as the government's view of best practice appraisal methodology for all aviation interventions (including non-government sponsored). The TAG cost-benefit analysis, aggregated in 'net present value' (NPV) terms assists decision makers in understanding the relative magnitudes of different scheme impacts.

2.2. The London City Airport decision letter underscored both the mandate held by the Inspectors to give weight to TAG assessments and the Secretary of State's expectation that TAG assessments will be applied. NEF has, however, serious concerns with some elements of the application of TAG by the Applicant, as set out herein.

2.3. The Applicant claims that the proposed scheme delivers a net welfare improvement to society. Taken on its own terms, this claim is underpinned by a significant welfare transfer from individuals who experience the environmental costs (generally all of us, but particularly those living near the airport and those more vulnerable to climate hazards) to businesses (primarily business owners, not workers) that gain a surplus.

2.4. Belatedly, following repeated NEF submissions, the Applicant increased its own estimate of the environmental cost side of the equation to £5.1bn. This amendment confirmed that NEF's initial assessment of the true magnitude of costed environmental damage in our Written Representation was broadly correct.

2.5. The Applicant continues to resist use of the DfT and BEIS-approved adjustment for non-CO_2 emissions. When applying this adjustment, the environmental cost of the scheme rises to at least £9bn. Given the known damages caused by non-CO_2 emissions, failing to make such an adjustment (even in the presence of some uncertainty regarding the precise magnitude)

would significantly underestimate the scheme's impact and disregard the precautionary principle at the heart of the UK Government's Environmental Principles.

2.6. Approximately £19bn of the £26.5bn in scheme benefits claimed by the Applicant in its revised cost-benefit analysis (Table 3-1, doc 10.75) originate from benefits to business passengers. The Applicant has failed to provide the information requested by NEF which is required to substantiate these figures despite requests in our Written Representation, and at deadlines 4 and 8.

2.7. The estimates the Applicant has supplied for the net gain in consumer surplus (£11.9bn) and business output/imperfectly competitive markets (£12.1bn) are dramatically higher than the estimates produced by the DfT for a much larger expansion of Gatwick Airport in 2017. These were worth £3.8bn and £1.1bn respectively in consistent 2010 prices. The Applicant has produced no explanation for the significant gap. The gap is made more surprising by the fact that in the intervening period since the 2017 assessment the outlook for business-purposes air travel has diminished significantly.

2.8. NEF has attempted to replicate the Applicant's estimates of the net user and producer surplus using the Applicant's own assumptions. This analysis suggests that their estimate is erroneous and is more than twice what it should be (£11.9bn versus NEF's £5.8bn).

2.9. These re-calculated figures remain un-reliable, however, as they still utilise the Applicant's over-optimistic forecast of future business demand growth. Given there has been no net growth in business demand since 2006, and the global pandemic has significantly dampened underlying demand for business air travel, the airport's forecast of significant net short-term growth against 2019 levels of demand seems implausible. Their estimates also rely on elasticities applied in a context for which they were not intended.

2.10. NEF has developed a new, more cautious forecast of future business demand growth, and calculated the resulting surplus. This scenario delivers a net surplus of £4.4bn and a business output impact of £3.8bn. While still significantly higher than the DfT's 2017 estimates, these impacts lead to a negative net present value (NPV) for the scheme at the national level. NEF estimates this impact at -£4.5bn. Such a conclusion is not out of step with

recent assessments made of expansion proposals at other major Western European airports.

2.11. Some economic impacts sit partially outside the remit of the cost-benefit analysis. This includes wider tourism impacts (ticket price savings of tourists are already accounted for in the CBA). However, it is hard to justify any net social benefit arising in this domain. Gatwick Airport is principally a conduit of tourism spending flowing *out* of the UK economy. For this reason the proposed scheme actually runs counter to the aims of current UK government tourism policy.

2.12. Employment impacts also sit outside the welfare-based cost-benefit analysis. The proposed scheme will likely increase employment in the vicinity of the airport against the without-scheme counterfactual. GAL's own analysis shows that a decent (but unquantified) proportion of the employment will represent jobs displaced from nearby regions. There is no evidence to suggest that the scheme will make a significant national-level contribution to employment, indeed there is an argument the scheme could be counterproductive for national employment given its role incentivising households to spend cash overseas rather than in the UK.

2.13. NEF views the proposed scheme through a risk lens. The risk that the scheme will significantly accelerate the destabilisation of the global climate is *high*, particularly given growing concern relating to the non-carbon emissions of aviation. There is a particular risk that the assessments made of non-carbon emissions by all parties in this examination significantly understate the true impacts. A precautionary approach should be taken, in-line with government's Environmental Principles.

2.14. With international businesses reducing their reliance on air travel and the UK operating a net tourism spending deficit, the claimed economic benefits at the national level are thin at best. At worst, the proposed scheme will encourage cash and jobs to flow *out* of the communities that need them most. In sum, the benefits are insufficient to offset the national social and economic costs of additional greenhouse gas emissions. The application should be refused.

3. The London City Airport decision

3.1. NEF has provided evidence at a number of airport expansion processes around the UK in recent years. NEF's view, arrived at through welfare-based cost-benefit analysis using the TAG methodology, is that most airport expansions proposed in the UK in 2024 will result in a net overall welfare loss to society.

3.2. However, on multiple occasions Planning Inspectors have declined to give weight to TAG assessments presented in planning appeal proceedings. This culimated in the following statement in the Inspector's report on London City Airport:

"Ultimately, it would be open for us, and the SoS to take it [TAG] *into account as a material consideration. However, given the differences between the relevant parties and its lack of application elsewhere, there is too much uncertainty in its application for it to be useful in determining this specific appeal at this time."* (p. 156, para 14.187)

3.3. Given that TAG represents the DfT's view of *"best practice"* (TAG Unit A5-2, para 1.1.5) in aviation appraisal, and that the DfT have clearly set out that it is *"useful to other appraisal practitioners considering impacts from non-government interventions"* (TAG Unit A5-2, para 1.1.3) the decision not to apply weight to this assessment was disappointing. In our view this led to an overally-optimistic view of the proposed expansion.

3.4. However, the Inspectors make clear that weight could be given to the TAG assessment, even in the non-NSI/planning appeal context, should the Inspectors or Secretaries of State so choose.

3.5. The Secretaries of State, in their letter responding to the Planning Inspectors, made an interesting additional comment on this point. At paragraph 22 the Secretaries of State chose to highlight a paragraph in the ANPS which requires use of TAG when appraising a Nationally Significant Infrastructure (NSI) project (in this case in relation to the method used to appraise surface transport impacts). Clearly the Secretaries of State wished to highlight the greater role for TAG in NSI appraisals.

Why does it matter?

3.6. A key difference between a TAG assessment and the approach given weight at previous non-NSI planning appeals is that TAG recognises the economic dis-benefit of additional greenhouse gas emissions irrespective of the compatibility of those emissions with policy. This opens up the option of a dual assessment. The 'policy test', and the 'cost-benefit analysis test'.

3.7. Some have argued that the presence of dual tests might lead to double counting of impacts. The Inspectors in the London City Airport case gave an opinion on this (in this case in specific relation to noise impacts, and monetised noise costs). The Inspectors stated:

> *"As a general point, we do not accept that it would lead to double counting if* [sic] *terms of effects [8.134] as it clearly relates to economic effects and does not form part of the general noise assessment" (para 14.186, p. 156)*

3.8. Given the importance of this NSI application, a TAG assessment and a subsequent 'cost-benefit analysis test' is viable, useful, and encouraged by the Secretaries of State.

4. Business consumer surplus

Business consumer demand

4.1. In the final cost-benefit analysis presented by GAL, now shown at Table 3-1 of doc 10.75, benefits to businesses and business travellers make up more than 80% of all claimed scheme benefits. Without these benefits the scheme would have a deeply negative NPV.

4.2. GAL have produced business-purposes passenger demand forecasts which underpin the final business consumer surplus calculated in the overall project NPV. In turn, this surplus generates GAL's estimate of business output change in imperfectly competitive markets. In the TAG methodology, the latter (business output) is arrived at through a simple multiplication of the former (business consumer surplus). GAL have presented very limited information on how the business air travel forecasts underpinning these valuations were arrived at.

4.3. NEF have repeatedly asked for more information on how business passenger demand forecasts where derived, including in our Written Representation, and in our submissions at both deadlines 4 and 8. The applicant has not responded.

4.4. We do not know from the information presented what proportion of the business passengers forecast by GAL to fly from Gatwick Airport will be net additional at the national level. This matters because only additional passengers create a net surplus in the cost-benefit analysis.

4.5. Following the Inspectors' questions, GAL did provide additional information on the displacement issue in doc 10.81. GAL state: *"in the original assessment there was no assumption about displacement (i.e. all emissions are additional) […] there is no analysis of displacement of traffic from other airports"* (p.7).

4.6. Although this statement relates to emissions, the framing of the response would seem to apply that there is no adjustment for displacement in the National Economic Impact assessment in general. This would imply that the Applicant has assumed that the rise in business-purposes passengers under the proposed scheme is all net additional at the national level.

4.7. Such an assumption is not remotely credible for a range of reasons set out in NEF's Written Representation. Nor is the assumption aligned with DfT modelling. As highlighted at para 4.13 of NEF's Written Representation, the DfT do not believe that increased capacity creates net additional business-purposes travel.

4.8. From NEF's persecptive, the principle flaw in the applicant's approach is that they appear not to have corrected for the structural adjustments in the underlying levels of business demand which took place following the 2007/08 cris and the 2020/21 pandemic. These adjustments are not captured by demand elasticities.

4.9. Based on GAL's response to NEF in doc 10.14, NEF also has concerns regarding whether GAL has made appropriate use of elasticities. In response to NEF's initial inquiries GAL supplied disaggregated data on forecast fare changes at the London System level. These are shown in Table 3.1 of Appendix D of doc 10.14. In the baseline, without development, scenario,

business consumer fares are forecast to rise by £443 between 2019 and 2047, in 2010 prices. This is equivalent to a 150% rise, a very significant increase.

4.10. In para 3.1.8 GAL explains that they have adopted the 2022 Jet Zero demand elasticities from the DfT in its modelling. These convert ticket price changes into demand responses. GAL states:

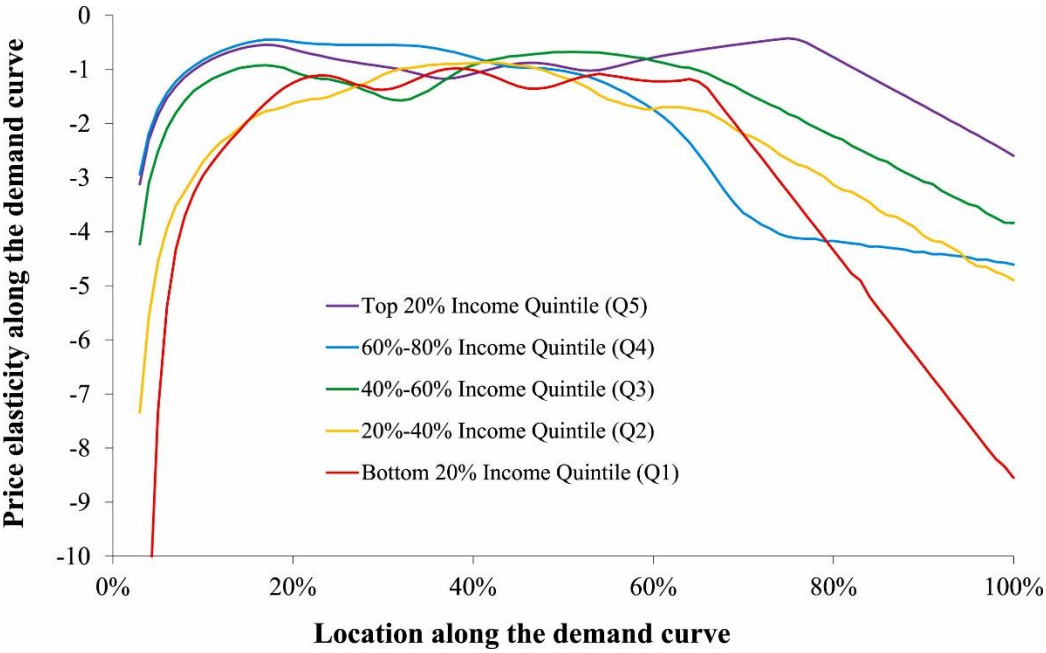
"These elasticities measure the degree of passenger demand responsiveness to changes in airfares. Given the lower elasticities for business-related market segments, indicating lesser sensitivity to fare changes, it follows that business passengers originating from the Project would experience comparatively more significant reductions in air fares compared to leisure passengers. As illustrated in the table, the projected fare savings resulting from the Project are £254 for business passengers and £8 for leisure passengers by 2047"

4.11. While these elasticities are adequate for the purpose of modelling overall system level demand, their application to business passenger demand at a single airport is questionable. Elasticities such as those used by the DfT are calculated based on marginal changes in prices in large historic datasets. Over the past 30 years a typical quarterly change in prices (inflation adjusted) was around -0.33% and a typical annual change around -1.2%. The elasticities produced are likely to be robust for forecasting small changes of a magnitude similar to the levels seen in the input data which was used to 'train' the model. The elasticities are unlikely to be robust for the purpose of modelling the demand response to a very large change in prices (e.g. 150%).

4.12. This is underscored by recent academic research. Fouquet (2022) shows that price elasticities at the extremities of the demand curve are radically different to those at the centre. Figure 1 below, analysis by Fouquet (2022), shows that in the centre of the demand curve price elasticities are similar to those used by the DfT (-1.1 for leisure travel) but at the extremities they can change to anywhere from -3 to -9 (varying significantly by income quintile).[1] We believe that GAL have applied DfT elasticities in an inappropriate context.

[1] Fouquet, R. (2022) In pursuit of progressive and effective climate policies: Comparing an air travel carbon tax and a frequent flyer levy. Energy Policy: 171: 113278

Figure 1: Price elasticities along the 2019 demand curve for air travel in the UK by income quintile.



Source: Fouquet (2022)

Converting business demand into business user surplus

4.13. GAL's estimates of business user surplus are flawed. In support of this NEF draws attention to DfT analysis published in 2017.[2] The DfT estimated a user surplus, or welfare gain of £69.4bn resulting from a second runway at Gatwick Airport, calculated in 2014 prices. The same analysis estimated a producer welfare loss of £65.1bn (Table 4.2) leading to a net societal welfare gain of just £4.3bn. In 2010 prices (as used by GAL) this is worth £3.8bn. This compares to the £11.9bn now claimed by GAL (Table 3-1, doc 10.75). Thus, the overall net user and provider surplus impact of the project estimated by GAL is three times that forecast by the DfT.

4.14. The same issue arises when we examine GAL's estimates of the scheme's impact on business output increases in imperfectly competitive markets and the government's tax take. GAL estimate the former, business output, at £12.1bn, while the DfT had put it at £1.1bn in consistent 2010 prices (see DfT,

[2] DfT (2017) Updated Appraisal Report: Airport Capacity in the South East. Department for Transport

2017, Table 5.1). GAL estimate the latter, tax take, at £2.5bn, while the DfT had put it at -£1.0bn to £0.1bn (DfT, 2017, Table 5.1).

4.15. The gap between the two estimates is made even more unusual by the fact that the scheme proposed by GAL is actually significantly smaller than that assessed by the DfT in 2017 (see NEF Written Representation Table 5).

4.16. GAL have been unable to explain these substantial differences. GAL states that the two assessments were *"not produced on a like-for-like basis"* (para 3.1.4). However, we know that the same price elasticities were used for the business-purposes travel segment. GAL have used DfT elasticities in their model, and the price elasticity used by the DfT for the business segment (-0.2) has not changed since the DfT's 2011 model.

4.17. GAL refers to potential changes in the *"aviation market outlook"*. But it is not clear what has changed so dramatically since 2017 as to produce such a large increase in welfare. In the intervening period since the 2017 assessment overall economic conditions have been very poor, and aviation experienced a significant shock which, in particular, drove businesses away from use of air travel. These shocks might be expected to *reduce* overall demand for air travel, especially from the higher paying business segments which make up the majority of the surplus. This further highlights the peculiarity of the GAL findings.

4.18. Using the data provided by GAL to-date, NEF has attempted to replicate the figure arrived at by GAL for the net benefit to users and providers (i.e. line 1 of Table 3-1, doc 10.75). We have assumed that GAL believes *all* business and leisure passengers will be additional. We have then calculated the surplus accruing to these additional passengers thanks to their air fare savings over the appraisal period, using 2010 prices and applying discounting commencing in 2010.

4.19. With GAL's assumptions we arrive at a surplus of £5.8bn, around half that presented by GAL (£11.9bn). This discrepancy then carries through into the benefits from output increases in imperfectly competitive markets. We have estimated this impact at £5.6bn, compared with GAL's estimate of £12.1bn (results summarised later in Table 2).

4.20. As we do not have sight of GAL's model, and GAL have not been forthcoming with responses to our questions, we do not know precisely where the errors in GAL's calculation arise.

4.21. In reality, it is extremely unlikely that all 1.5 million new business passengers passing through Gatwick Airport will be additional. There has been no net increase in business passengers in either the UK or the London airport systems in the past 17 years. The pandemic has forced businesses away from use of air travel, and despite overall real GDP growth since the pandemic, business passenger numbers were down by 3.9 million (-29%) in the UK in 2023 compared with pre-pandemic (2019).[3] By contrast, GAL's forecasts assume overall growth in business passenger numbers of 1.6 million (+26) between 2019 and 2029, rising to growth of 3.0 million (+48%) between 2019 and 2033. Such levels of growth seem implausibly high given recent trends, and even less likely to be additional at the national level. NEF would also note here that the statement of common ground on forecasting and need (ref 10.1.19) has agreed that leisure markets are recovering more rapidly than business markets.

4.22. A safer assumption to make would be that none of the business-purposes travel growth is additional, but most of the leisure-purposes travel is additional. Business users might still make some savings on surface access to the airport, and there would be a transfer of welfare from airline businesses to business passengers.

4.23. However, in the interests of balance, NEF has created a slightly more optimistic alternative forecast scenario which we regard as reasonable for a revised assessment. In this scenario business-purposes demand does not return to pre-pandemic levels until 2035. This rate of recovery aligns approximately with the rate seen following the 2007/08 financial crisis. In our scenario, the proportion of passengers newly created by the proposed expansion steadily rises to 100% of GAL's forecast by 2047 (Table 1).

[3] NEF analysis of ONS Travelpac data.

Table 1: NEF assumptions regarding additionality of business passengers

Scenario	**2029**	**2032**	**2038**	**2047**
GAL business passenger forecast (scheme impact)	400,000	1,400,000	1,500,000	1,500,000
NEF scenario - business passengers assumed net additional	0	0	375,000	1,500,000

4.24. In our tested scenario, all other parameters remain constant, including leisure passenger numbers and ticket price changes. With these assumptions, we arrive at an NPV for business and provider surplues of £4.4bn. This is just 37% of GAL's estimate, but still comes in 16% higher than the DfT's previous analysis. In this scenario, business output in imperfectly competitive markets falls to £3.8bn just 31% of GAL's estimate, but still a 245% increase on the DfT's estimate of £1.1bn. These results are presented in Table 2 (Scenario 3).

Table 2: Comparison of estimates of scheme benefits across four scenarios (net present value, 2010 prices)

Scenario	1	2	3	4
All figures shown in £bn	**GAL final estimate (Table 3-1, doc 10.75)**	**NEF replication of GAL assumptions**	**NEF scenario - slower business travel recovery**	**DfT 2017 estimates**
Net change in consumer and producer surplus	11.9	5.8	4.4	3.8
Business output (imperfectly competitive markets)	12.1	5.6	3.8	1.1
Government revenues	2.5	2.5	2.5	0.1
Total	**26.5**	**13.9**	**10.6**	**5.0**

Source: NEF

5. Greenhouse gas emissions costs

5.1. On the 14th August 2024 NEF received via email a copy of the document produced by GAL titled *Impact of the DfT TAG November 2023 update on the National Economic Impact Assessment*. This came after the close of Deadline 8 (9th August). The document responds to an issue raised in NEF's Written Representation published on the 15th March 2024, five months prior. The document came nine working days before the final deadline for comments in the examination process.

5.2. The document addresses the issue of carbon costings, a vital component of the National Economic Impact Assessment and a core part of the DfT's TAG appraisal guidance.

5.3. GAL frames the document as a response to the DfT's November 2023 update to TAG. NEF disputes this framing as the November 2023 update to TAG only acted to clarify wording around matters that were already part of appraisal guidance. NEF first raised these issues with GAL in its response to GAL's public consultation in November 2021.[4] NEF highlighted the need to quantify emissions arising from inbound/arriving flights. NEF also presented results using the correct approach to costing emissions from traded and non-traded sectors. NEF pointed to government guidance from the DfT and BEIS, pre-dating the November 2023 update to TAG, in support of its approach. Given this forewarning by NEF, it is not acceptable that these changes have been made so late in the examination process.

5.4. The update to the National Economic Impact Assessment increases the net present value of the environmental costs of the scheme from -£1.4bn to -£5.1bn, a 260% rise. This new estimate aligns with the calculations originally presented in NEF's Written Representation (Table 3). Our equivalent figure was -£4.3bn.

5.5. To produce NEF's headline estimate (-£9bn) NEF included an adjustment for non-CO_2 emissions. As discussed elsewhere, this adjustment is endorsed by the DfT in TAG and in DESNZ guidance on business greenhouse gas

[4] Chapman, A. & Postle, M. (2021) The economic impact of an expanded Gatwick Airport: Consultation Response. New Economics Foundation

emissions reporting. With this adjustment applied, the total environmental cost of the proposed scheme rises to at least -£9bn.

5.6. The adjustment made by NEF for non-CO2, a 1.7x multiplier, is the same adjustment recommended by other stakeholders in this inquiry. Specifically by AEF (REP1-114) and by CAGNE (REP4-093).

5.7. The adjustment made for non-carbon emissions impacts is modest, increasing total CO_2 equivalent emissions by 70% as per the DESNZ guidance. However, recent research suggests the true impact may be far worse, at up to 200% of the damage of CO_2. New research published in August 2024 has also suggested that the operation of newer generations of aircraft is actually *worsening* aviation's damage to the climate. The higher altitudes travelled by newer-generation aircraft means greater damage from non-CO_2 emissions.[5]

6. Net present value to society

6.1. Table 3 shows the scheme's welfare-based cost-benefit analysis across different scenarios. Figures are presented as net present value in consistent 2010 prices. In scenario 2, NEF's recalculation using GAL's assumptions is presented. In scenario 3, NEF's own scenario using more cautious assumptions about business passenge growth is presented.

6.2. When factoring in non-CO2 costs, as per DESNZ and BEIS guidance, the scheme has a negative social-welfare impact across scenarios 2 and 3. If the Inspectors prefer a more cautious approach, the DfT's estimates of scheme benefits from 2017 (shown in Table 2) provide a useful lower-bound estimate.

[5] Gryspeerdt, E. et al. (2024) Operational differences lead to longer lifetimes of satellite detectable contrails from more fuel efficient aircraft. Environmental Research Letters, 19, 084059

Table 3: Comparison of scheme cost-benefit analysis (net present value) under different assumptions, in 2010 prices.

Scenario	1	2	3
All figures shown in £bn	**GAL final estimate (Table 3-1, doc 10.75)**	**NEF re-working using GAL assumptions**	**NEF scenario - slower business travel recovery**
Net change in consumer and producer surplus	11.9	5.8	4.4
Business output (imperfectly competitive markets)	12.1	5.6	3.8
Government revenues	2.5	2.5	2.5
Marginal external costs	-4.0	-4.0	-4.0
Total environmental costs	-5.1	-5.1	-5.1
Private costs	-2.1	-2.1	-2.1
NPV	**15.2**	**2.7**	**-0.6**
Non-CO2 adjustment (1.7x multiplier)	-3.9	-3.9	-3.9
Final NPV	**11.3**	**-1.2**	**-4.5**

Source: NEF

6.3. The results shown above, which present a negative social welfare impact resulting from expansion at Gatwick, reflect two core issues. First, the increase in the cost of greenhouse gases. In 2021 DESNZ/BEIS more than tripled the cost per tonne of greenhouse gases used in appraisal.[6] Second, the decline in business demand for air travel.

6.4. Contrary to the prevailing industry narrative, NEF's results are not unusual. The broader trend this reflects is captured in a growing body of academic research which has begun to question the social benefit of airport expansion and aviation growth. A number of these studies are described in NEF's 2023 report.[7]

6.5. Further supporting the arrival of a new consensus in international air travel appraisal are two recent studies assessing the societal welfare impact of expanding or curtailing Amsterdam Schiphol Airport's capacity. These studies use a methodology with similarities to the TAG appraisal method,

[6] BEIS/DESNZ (2021) Valuation of greenhouse gas emissions: for policy appraisal and evaluation [online]

[7] Chapman, A. (2023) Losing Altitude: The economics of air transport in Great Britain. New Economics Foundation

analysing user and producer welfare impacts and monetised environmental costs.

6.6. One of these studies was commissioned by Schiphol Airport itself, and produced by a coalition of three reputable Dutch consultancy firms (CE Delft, SEO and Significance).[8] This study concluded that a reduction in air traffic movements at the airport from 500,000 to 440,000 would result in a net positive societal welfare impact. Indeed, the study came to this conclusion despite applying a lower cost per tonne of greenhouse gas emissions than recommended by the UK government. The other study, also produced by CE Delft, shows that curtailing growth at Schiphol Airport would lead to a net social welfare gain.[9]

OTHER NON-CBA MATTERS

7. Tourism

7.1. NEF notes the Applicant's clarification that the tourism estimates presented in their reports do not represent net tourism impacts on the UK economy (doc 10.14, para 4.1.2). The Applicant has declined to provide a comprehensive assessment of the tourism impacts of the scheme.

7.2. In defence of this decision the Applicant claims that *"there is no indication that outbound tourism effectively crowds out domestic tourism and that absent the scheme, a UK citizen travelling abroad would still decide to travel, and decide to travel domestically instead."* (para 4.1.7)

7.3. This is false. There is ample evidence that domestic tourism is a partial substitute for international tourism. Chapman (2023) details six studies concluding as such.[10]

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[8] SEO, CE Delft, Significance (2023) Schiphol: Shrink or make sustainable? Social costs and benefits of fewer flights versus environmental measures. Report available at: [redacted]

[9] CE Delft (2021) MKBA growth and shrinkage Schiphol: Analysis of growth and shrinkage for the prosperity of the Netherlands and Schiphol region. Report available at: [redacted]

[10] See Appendix A of Chapman, A (2023) Losing Altitude: The Economics of Air Transport in Great Britain. New Economics Foundation.

7.4. Furthermore, GAL claims that, even if there were some substitution between international tourism and other sectors, those other types of spending would also entail imports of products/services which result in a flow of expenditure overseas (para 4.1.4 and 5.1.9). This is true, but the level of imports (i.e. expenditure loss) is dramatically lower.

7.5. This can be seen in the ONS input-output tables. The tables show that as of 2019, 7.1% of expenditure in creative arts and entertainment went on imports (i.e. overseas). Meanwhile, 7.4% and 10.6% respectively went on imports in accommodation services and food and beverage services.[11] Expenditure on international tourism is not represented in the input-output tables, but NEF analysis suggests 'imports' (overseas expenditure) represent a minimum of 79% of total UK household expenditure on international travel (inclusive of UK-based outbound expenditure and overseas expenditure).[12]

7.6. Given this context, and the fact that Gatwick Airport is the UK's second largest conduit of passengers travelling out of the UK for tourism, a deeper analysis of this issue should have been supplied.

7.7. Furthermore, UK tourism policy directly addresses the issue of the outbound imblance. Given Gatwick's importance to UK tourism, due regard should be given to tourism policy in the decision making process.

7.8. NEF notes that the Applicant has failed to provide an analysis of the compatibility of the scheme with UK government tourism policy, as requested by NEF.

7.9. Key statements on this issue by government tourism bodies include:

7.10. The UK Government Tourism Policy (2011) states: *"over time, our goal should be to persuade more of us to holiday at home. In measurable terms we should increase the proportion of UK residents who holiday in the UK to match those who holiday abroad each year"* (p. 16)[13]

7.11. In 2020 VisitBritain, a non-departmental public body, stated: *"VisitBritain believes that in order to mitigate the environmental impact of outbound tourism, there*

[11] ONS (2023) United Kingdom Input-Output Analytical Tables, 2019. Office for National Statistics.
[12] Analysis derived from ONS input-output tables and data presented at Figure 2 of Chapman, A. (2023) Losing Altitude: The Economics of Air Transport in Great Britain. New Economics Foundation.
[13] DCMS (2011) Government Tourism Policy. Department for Digital, Culture, Media & Sport.

should be more emphasis on encouraging British tourists to holiday at home and reduce the outbound tourism deficit."[14]

7.12. In 2021 DCMS stated in the Tourism Recovery Plan: *"the government also wants to embed domestic travel as a sustained customer behaviour – ensuring not only that people enjoy the Great British Summer in 2021 but that people who take domestic trips across the UK this year do so again and again in years to come"* (p.33)[15]

7.13. The proposed expansion of Gatwick Airport, which reduces the cost of flying, incentivises UK residents to travel abroad rather than domestically for their tourism. GAL's own forecasts show that the proposed expansion will increase the size of the tourism deficit by encouraging a significantly larger group of UK residents to fly abroad than the group of foreign residents encouraged to come to the UK.

7.14. As such, NEF's position is that the proposed expansion is poorly aligned with the government's tourism priorities.

8. Employment impacts

8.1. The Applicant has not provided the review requested by NEF of historic employment trends, and the performance of previous forecasts. There is clear evidence of systematic underperformance against job creation forecasts made in the planning process at Gatwick Airport and multiple other UK airports.

8.2. The Applicant has not provided an analysis of trends in real wages at the airport, as requested by NEF. The Applicant attempts to deflect NEF's evidence regarding the decline in real wages in air transport across the UK by pointing to the impact of the pandemic. However, as NEF clearly identified, real wages in air transport had fallen dramatically as of 2019, pre-pandemic. It remains clear that the benefits of air transport growth have not accrued to workers, indeed the opposite, during the period of passenger growth between 2008 and 2019, the workers' share of the wealth produced by the industry declined.

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[14] VisitBritain (2020) Annual Report and Accounts Year Ended 31 March 2020. London: British Tourist Authority – Trading as VisitBritain and VisitEngland.

[15] DCMS (2021) The Tourism Recovery Plan. Department for Digital, Culture, Media & Sport.

8.3. The Applicant has presented no counter evidence to NEF's point that the proposed expansion, as presented by the Applicant, represents a straight welfare transfer from wider society, who experience the costs of environmental damage, to business passengers and (typically higher-income) leisure frequent flyers who claim the lion's share of the welfare gain. NEF's evidence suggests that the benefit accruing to business passengers is in fact significantly lower than presented by GAL, and shows that the surplus created has not historically accrued to workers. For more information see NEF's 2023 report *Losing Altitude.*[16]

[16] Chapman, A (2023) Losing Altitude: The Economics of Air Transport in Great Britain. New Economics Foundation.