



The Economics of Airport Expansion – CE Delft

Consulting on the limits of economic appraisal;
Illustrating the diminishing returns to connectivity

Why this report was commissioned

This report shows that claims about the economic benefits of aviation can be miscalculated and exaggerated, distorting the current debate about new airport capacity and leading to poor decision-making.

To contribute positively to the Airports Commission inquiry on airport capacity, WWF, HACAN and RSPB commissioned CE Delft to answer the following questions:

- Are the current methods for valuing expansion of airport infrastructure fit for purpose?
- How convincing is the evidence linking new airport capacity to connectivity and economic growth?
- Do the economic claims being made about airport expansion in the UK stand up to scrutiny?

Key findings and recommendations

- Finding:** The Department for Transport's (DfT) Cost Benefit Analysis (CBA) for airport investment projects often omits key social and environmental costs, resulting in an overestimation of net economic benefits.
Recommendation: A broad Social Cost Benefit Analysis (SCBA) should be the basis of any economic appraisal of airport expansion.
- Finding:** The link between connectivity and economic growth is unproven. The link is especially tenuous for large cities such as London that are already well connected.

Recommendation: Claims that greater connectivity, through airport expansion, will guarantee UK economic growth should be treated with scepticism.

- Finding:** Some of the most common economic arguments being used by those who favour airport expansion are deeply flawed.

Recommendation: The Airports Commission, DfT and media should evaluate such arguments critically rather than accept them at face value.

Looking at these findings in more detail:

Cost Benefit Analysis does not take social and environmental costs into account

Cost Benefit Analysis (CBA) is a widely used tool for complex decision making but it has limitations and is easily manipulated to favour particular results. The complexities of CBA can lead to double counting and an overestimation of benefits since they tend to be easier to measure in monetary terms than costs. Indeed, some costs are currently excluded, such as landscape impacts, water pollution and biodiversity.

CE Delft recommends CBA could be improved to include external effects, such as social and environmental impacts, that are not internalised in market prices. CBA should also avoid overestimating the economic benefits.

Illustrating the scale of uncertainty in economic models

A Department for Transport (DfT) Cost Benefit Analysis estimated Heathrow expansion would produce approximately £5 billion in benefits overall. Later on – using the same techniques and models but different growth and oil price predictions – the New Economics Foundation found Heathrow expansion would actually lead to a loss of £5 billion.

<http://www.neweconomics.org/publications/grounded>

The economic benefits of extra connectivity are difficult to demonstrate

CE Delft concludes that claims about the economic benefits of connectivity are not founded on solid evidence and there is no proof that extra connectivity results in economic growth. The available empirical evidence indicates that increasing connectivity is less beneficial for developed countries than for developing economies. Extra connectivity in well-connected cities like London does not necessarily deliver significant economic benefits. Studies that claim a causal relationship between expansion and growth were found to have serious methodological shortcomings.

Economic arguments used in favour of expansion are often flawed

CE Delft finds that some reports which have received extensive press coverage typically overstate the economic benefits of expansion while ignoring the associated costs--or they make false comparisons which produce biased results in favour of airport expansion.

Examples of misleading reports

Oxford Economics: The Value of Aviation Connectivity to the UK (2012)

The report claims that £8.5 billion would be lost to the UK economy each year if Heathrow were unable to grow.

Amongst many mistakes, the report ignores economic losses from Britons travelling abroad but includes income from foreign tourists. The report also implies that without Heathrow huge amounts of investment, in regions outside the South East, would be lost whereas in reality flying via Schiphol or Heathrow makes little difference to a business in Newcastle.

Frontier Economics: Connecting for Growth (2011)

The report claims that the UK trades 20 times more with emerging economies with whom we have direct flights than those without.

The report compares countries with economies of vastly differing sizes – such as China and Mexico. Without adjusting for this variable, this is an unfair and inaccurate comparison. In effect, this report is claiming little more than that we trade more with China than Mexico, a fact which has little to do with numbers of flights. In addition most UK trade with emerging economies is maritime. CE Delft found that UK exports to emerging economies equal or outcompete European competitors, even where they have direct flights to the market but we do not.

