

CAPITA SYMONDS

Sustainable Development
Commission (SDC)

The Impact of Airports on the
Regional Economies

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1. INTRODUCTION

1.1 This note has been produced in response to SDC's request to provide an overview of the impact of UK airports on the regional economies.

1.2 The structure of the note is as follows:

- Chapter 2 provides background information relating to the major UK's regional airports – including historic/forecast air travel (passenger/freight) demand data and a summary of the Government's 2003 'The Future of Air Transport' relevant conclusions (including the support for the adoption of route development funds);
- Chapter 3 identifies the main regional economic growth contributors derived from the Airports' activity and quantifies (where possible) such impacts. Whenever possible the analysis has been targeted at specific 'regions', however, in certain circumstances reference to relevant National data is also presented; and
- Chapter 4 provides a summary of the report's main conclusions.

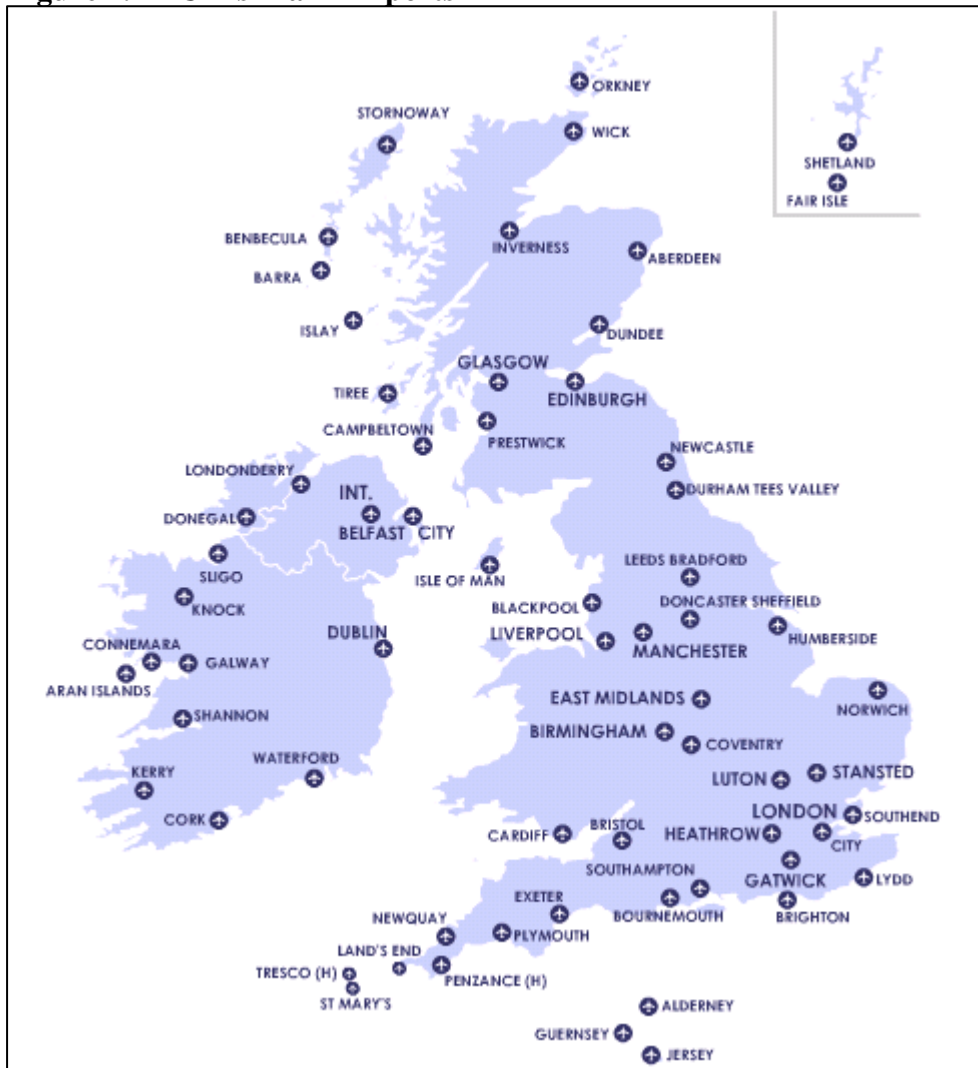
2. UK AIRPORTS

Historic demand at the UK Main Airports

Passenger Demand

- 2.1 The UK has approximately 62 operating airports of varying size and type of service offered (national/international/budget/scheduled flights and passenger/cargo mix). The analysis contained in this report focuses primarily on the top 31 airports which make up approximately 99% of the total UK's passenger and freight demand. Figure 2.1 below provides an overview of the location of the main UK airports.

Figure 2.1 – UK's Main Airports



- 2.2 Table 2.1 below provides a summary of the growth in Terminal Passengers experienced by UK airports in the period 1999-2004. The airports are grouped at

regional level, where South-East includes London airports Stansted and Gatwick that would otherwise geographically fall under the East-Anglia Region.

Table 2.1 UK Airports' Terminal passenger Demand 1999-2004

Airport	Terminal Passengers (2004) '000s	Airport Passengers as % of All UK Airports (2004)	Passengers at UK Airports Annual Growth (1999-2004)
HEATHROW	67,109	31.1%	2%
GATWICK	31,391	14.6%	1%
STANSTED	20,907	9.7%	17%
LUTON	7,520	3.5%	7%
LONDON CITY	1,675	0.8%	4%
SOUTHAMPTON	1,531	0.7%	15%
KENT INTERNATIONAL	101	0.0%	n/a
LYDD	4	0.0%	6%
SHOREHAM	4	0.0%	15%
SOUTHEND	3	0.0%	-6%
BIGGIN HILL	1	0.0%	-13%
METRO LONDON HELIPORT	0	0.0%	n/a
SOUTH EAST (sub-total)	130,246	60%	3.6%
MANCHESTER	20,969	9.7%	4%
NEWCASTLE	4,708	2.2%	10%
LIVERPOOL	3,352	1.6%	21%
LEEDS BRADFORD	2,368	1.1%	10%
DURHAM TEES VALLEY	787	0.4%	2%
ISLE OF MAN	762	0.4%	3%
HUMBERSIDE	531	0.2%	5%
BLACKPOOL	266	0.1%	18%
BARROW-IN-FURNESS	0	0.0%	n/a
CARLISLE	0	0.0%	n/a
NORTH (sub-total)	33,743	16%	6.2%
GLASGOW	8,557	4.0%	5%
EDINBURGH	7,992	3.7%	9%
ABERDEEN	2,634	1.2%	2%
PRESTWICK	2,159	1.0%	25%
INVERNESS	520	0.2%	10%
SCATSTA	229	0.1%	20%
STORNOWAY	111	0.1%	5%
SUMBURGH	108	0.1%	-16%
KIRKWALL	102	0.0%	5%
DUNDEE	51	0.0%	11%
BENBECULA	30	0.0%	-2%
ISLAY	21	0.0%	1%
WICK	16	0.0%	-4%
BARRA	9	0.0%	5%
CAMPBELTOWN	8	0.0%	0%
TIREE	6	0.0%	4%
LERWICK (TINGWALL)	2	0.0%	-13%
UNST	0	0.0%	n/a

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SCOTLAND (sub-total)	22,555	10%	7.2%
BIRMINGHAM	8,797	4.1%	5%
NOTTINGHAM EAST MIDLANDS IN	4,375	2.0%	15%
COVENTRY	462	0.2%	241%
NORWICH	444	0.2%	5%
CAMBRIDGE	3	0.0%	-27%
SHEFFIELD CITY	0	0.0%	n/a
MIDLANDS & EAST ANGLIA (sub-total)	14,081	6.5%	8.2%
BRISTOL	4,603	2.1%	19%
EXETER	614	0.3%	16%
BOURNEMOUTH	493	0.2%	13%
NEWQUAY	253	0.1%	n/a
ISLES OF SCILLY (ST.MARYS)	141	0.1%	1%
PENZANCE HELIPORT	129	0.1%	0%
PLYMOUTH	106	0.0%	-1%
ISLES OF SCILLY (TRESKO)	43	0.0%	4%
LANDS END (ST JUST)	26	0.0%	n/a
GLOUCESTERSHIRE	0	0.0%	n/a
SOUTH WEST (sub-total)	6,408	3.0%	16.9%
BELFAST INTERNATIONAL	4,403	2.0%	8%
BELFAST CITY	2,091	1.0%	10%
CITY OF DERRY (EGLINTON)	234	0.1%	18%
N. IRELAND (sub-total)	6,728	3%	8.9%
CARDIFF WALES	1,873	0.9%	8%
HAWARDEN	29	0.0%	57%
SWANSEA	18	0.0%	n/a
WALES (sub-total)	1,920	0.9%	8.1%
UK TOTAL	215,681	100%	5.1%

Source: http://www.aoa.org.uk/media/industry_data.asp (Airport Operators Association)

2.3 As table 2.1 shows, the average UK airport's passenger demand growth (between 1999 and 2004) was approximately equal to 5% per annum. Demand growth has been largely driven by airports such as:

- Stansted and Luton in the South East,
- Bristol in the South West,
- Newcastle/Liverpool and Leeds in the North,
- Glasgow, Prestwick and Edinburgh in Scotland,
- Birmingham and Nottingham in the Midlands,
- Belfast's airports in N. Ireland and
- Cardiff in Wales.

2.4 The region showing the highest growth has been the South West; however, growth above the UK 5% average has been experienced at all the abovementioned airports and all regions with the exclusion of the South East. In the South East passenger demand growth has been below average as a consequence of the slow growth experienced by the two largest UK airports: Heathrow and Gatwick. In the North, Manchester Airport has been growing at a slower rate than the national average. Issues such as airport capacity, destination choice and price competition are likely to have contributed to this trend.

Freight Demand

2.5 Table 2.2 shows the amount of air freight handled at some of the busiest UK airports.

Table 2.2 Air Freight handled at UK Airports (tonnes per annum)

AIRPORT	Freight handled at Airport in 2004 (tonnes per annum)	Air Freight Tonnage handled at Airport as % of UK Total (2004)	1994-2004 Freight Tonnage handled at Airport (Annual Growth)
HEATHROW	1,325,173	56%	3.2%
NOTTINGHAM EAST MIDLANDS INT	253,053	11%	16.5%
STANSTED	225,772	9%	10.5%
GATWICK	218,204	9%	-0.2%
MANCHESTER	149,181	6%	5.1%
PRESTWICK	34,102	1%	9.4%
BELFAST INTERNATIONAL	32,148	1%	2.4%
EDINBURGH	27,376	1%	22.2%
KENT INTERNATIONAL	26,626	1%	17.5%
ALL REMAINING UK AIRPORTS	88,548	4%	-4%

TOTAL	2,380,183	100%	4.1%
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Source: http://www.aoa.org.uk/media/industry_data.asp (Airport Operators Association)

- 2.6 As table 2.2 shows, most of 2004 UK's air freight (74%) was handled by the following London airports: Heathrow, Stansted and Gatwick (although the latter showed no effective growth). Nottingham and Manchester also handle a considerable amount of air freight each year and a strong growth has been experienced at airports in Scotland and in Belfast (Northern Ireland). The remaining UK airports have generally experienced a fall in the amount of freight handled (-4% p.a.). This is likely to be the consequence of the optimisation of the land-side distribution process within the UK.
- 2.7 It is noticeable how certain airports, namely Stansted, Nottingham, Prestwick, Belfast International and Edinburgh have experienced high growth both as far as passenger and freight traffic are concerned.

3. THE IMPACT OF AIRPORTS ON THE REGIONAL ECONOMIES

Introduction

- 3.1 This section intends to provide a summary of the ‘evidence’ relating to the relationship that exists between Airports and regional economic growth. This report does not intend to support one specific view over another but wants to inform the reader of the various opinions encountered as part of this review. Regional statistics are provided wherever possible, however, reference to National indicators is made when considered appropriate.
- 3.2 A review of the available topical literature has highlighted the following issues:
- The majority of studies on the subject have been undertaken/commissioned by either air-industry players or organisations (e.g. Friends of the Earth, CPRE, etc) ‘cautious’ about the need for air travel expansion. This results in a wide spectrum of views relating to the actual economic impact of airports on the regional economies;
 - the 1999 SACTRA Transport and the Economy report, represents one of the few ‘independent’ studies relating to the relationship between the provision of transport infrastructure and economic growth. Other independent studies include the Royal Commission on Environmental Pollution study (2002) and the DfT’s Aviation, Core Cities and regional Economic Development (2003);
 - the impacts/conclusions presented within these studies (on both sides of the argument) are often based on socio-economic information, assumptions and study-methodologies which do not attract wide-consensus among the various stakeholders;
 - when analysing the impact of Regional Airports, local circumstances (e.g. the role of core cities within the country and their region) cannot be ignored; and
 - the conclusions presented in the available literature are frequently based on the use of top-down models as opposed to bottom-up; i.e socio-economic relationships are frequently based on macro socio-economic data. This frequently results in the issue of ‘causality’ arising from this type of studies; i.e. to what extent air travel drives/supports the economy and to what extent demand for air travel is driven by increasing personal wealth.

The Economic Contribution of the Aviation Industry to Regional Economies

3.3 In 1999, Oxford economic Forecasting undertook a first study on the Contribution of the Aviation Industry to the UK Economy; a follow-up study entitled 'The Economic Contribution of the Aviation Industry in the UK' was later published in 2006. Both studies identified the following main contributing factors:

- (i) Direct Employment – i.e. jobs directly created by the air industry;
- (ii) Indirect and Induced employment – i.e. jobs created in support of the air industry such as catering (indirect) and jobs (induced) created in order to meet the needs of the tourist as well as the population in direct or indirect employment;
- (iii) Tourism – i.e. income from new and/or growing tourist markets;
- (iv) Economic growth of businesses – i.e. increased competitiveness of businesses through improved efficiency (lower travel costs, simpler logistic solutions, better customer support, clustering of similar type businesses), opening up of new markets (attracting inward investment from emerging economies, exploitation of economies of scale and participation on world trade), providing fast and reliable delivery of high-value goods, promoting competition as well as collaboration between businesses (resulting in improved business efficiency) and spurring innovation;
- (v) Supporting hi-tec businesses of the future
- (vi) Reduction of congestion (both surface and air capacity) – i.e. removing the need for long-distance car travel in order to reach major hubs and freeing up capacity at the already congested London airports, reducing waiting times and delays; and
- (vii) Contribution to the Balance of Payments and Tax contribution to the exchequer (passenger duties, domestic VAT, customs or immigration levies).

3.4 Each of the topics listed above is discussed here through dedicated sections.

Direct, Indirect and Induced Employment

3.5 Table 3.1 provides a summary of the estimated direct jobs sustained by various UK airports for the years 1998 and 2004, as presented by Oxford Economic Forecasting in their reports. It should be noted that a discrepancy was noticed between the 2004 number of terminal passengers reported by Oxford Economic and the data obtained directly from AOA (see also table 2.1). For the purpose of this analysis we have adopted the 2004 AOA Terminal Passenger figures.

Table 3.1 Terminal Passengers and Employees at UK airports

Airport	1998 Terminal passengers per annum (millions) (*)	1998 Direct Employment (employees) (*)	1998 Employees per One Million of Terminal Passengers	2004 Terminal passengers per annum (millions) (**)	2004 Direct Employment (employees) (***)	2004 Employees per One Million of Terminal Passengers	2004 - 1998 Difference in Employees per One Million of Terminal Passengers
ABERDEEN	2.65	2,700	1,019	2.63	2,716	1,031	1%
BELFAST CITY	1.31	720	550	2.09	807	386	-30%
BIRMINGHAM	6.61	5,280	799	8.80	9,071	1,031	29%
BRISTOL	1.81	2,050	1,133	4.60	4,747	1,031	-9%
CARDIFF WALES	1.23	1,740	1,415	1.87	1,932	1,032	-27%
NOTTINGHAM EAST MIDLANDS IN	2.14	4,040	1,888	4.38	4,512	1,031	-45%
EDINBURGH	4.55	2,400	527	7.99	2,300	288	-45%
GATWICK	29.03	33,410	1,151	31.39	23,761	757	-34%
GLASGOW	6.48	5,000	772	8.56	5,442	636	-18%
HEATHROW	60.36	70,650	1,170	67.11	68,427	1,020	-13%
LUTON	4.12	7,610	1,847	7.52	7,756	1,031	-44%
MANCHESTER	17.21	16,410	954	20.97	18,000	858	-10%
NEWCASTLE	2.92	2,730	935	4.71	4,855	1,031	10%
STANSTED	6.83	7,990	1,170	20.91	10,592	507	-57%
Other Airports	11.76	11,950	1,016	22.16	21,116	953	-6%
Other Air Industry Employees	-	4,874	-	-	-	-	-
UK TOTAL	159.0	179,554	1,129	215.7	186,034	863	-24%

(*) Source: Oxford Economic Forecasting (table I.1) – November 1999

(**) Source: AOA (http://www.aoa.org.uk/media/size_of_uk_airports.pdf)

(***) Source: Oxford Economic Forecasting (table 2.2) – October 2006

3.6 As table 3.1 shows, between 1998 and 2004 the number of employees per one million terminal passengers has generally decreased at all UK airports an average of 24%. The only airports where direct employment rates appear to have increased were Birmingham and Newcastle. However, it should also be noted that, in absolute terms and with the exclusion of Edinburgh, Gatwick and

Heathrow, direct employment has generally grown. The DfT study ‘Aviation, Core Cities and Regional Economic Development (December 2003)’ estimated the number of 1998 direct employment at 183,170 workers, this is broadly consistent with Oxford Economic Forecasting estimates.

- 3.7 The increase in the number of passengers handled per person employed can be considered to be an ‘efficiency indicator’ of the air business, with changes mainly driven by no-frills-style low-cost airline businesses but also “difficult market conditions” (Oxford Economic Forecasting, October 2006, page 14).
- 3.8 Table 3.2 below was obtained from AOA’s 2005 study ‘The economic and Social Impact of Airports’ – by York Aviation LLP. This is based upon the Oxford Economic Forecasting methodology and shows the number of direct employment as well as related income impact of UK airports with more than one million Terminal Passengers per annum in 2004.

Table 3.2 Direct Employment and Income Impact of UK Airports with 1+ million terminal Passengers p.a. 2004

Direct Employment and Income Impact of UK Airports 2004		
	Employment	Gross Value Added¹ (£m)
North East	4,100	£246
North West	21,800	£1,306
Yorkshire & the Humber	2,100	£128
West Midlands	7,200	£430
East Midlands	6,500	£390
East of England	20,000	£1,201
London	70,000	£4,260
South East	26,800	£1,610
South West	6,800	£410
Scotland	12,400	£744
Wales	1,800	£110
Northern Ireland	5,300	£317
United Kingdom	185,900	£11,200
¹ Regional Gross Value Added has been calculated on the basis of an average GVA per employee of £60,000.		
Source: York Aviation		

Source: AOA The Economic and Social Impact of Airports (September 2005)

- 3.9 It should be noted that the sum of the Region direct jobs in table 3.2 (184,800) does not match with the reported UK total of 185,900; this is because regional airports with less than 1 million terminal passengers p.a. were not considered.
- 3.10 Oxford Economics (2006) estimated the 2004 Value Added per Aviation Industry worker to be around £56,000, £65,800 for Airline workers, £84,700 for Air Transport Supporting workers and £67,500 for Aerospace workers (2002 prices, source: ONS); this is largely in agreement with York Aviation’s assumption of a £60,000 average Value Added (see table 3.2). The national average estimated Value Added per worker was similarly estimated at £22,600.

This suggests that productivity of the air industry sector is approximately three times the national average.

- 3.11 Table 3.3 below was obtained from AOA's 2005 study 'The economic and Social Impact of Airports' – by York Aviation LLP. This shows the number of indirect and induced employment as well as related income impact of UK airports within their Region only; i.e. indirect/induced employment which is not Region-specific is not accounted for under table 3.3.

Table 3.3 Indirect & Induced Employment and Income Impact of UK Airports with 1+ million terminal Passengers p.a. 2004

Indirect and Induced Employment and Income Impact of UK Airports on their 'Home' regions in 2004		
	Indirect and Induced Employment	Gross Value Added (£m)
North East	2,800	£78
North West	20,500	£580
Yorkshire & the Humber	1,400	£41
West Midlands	2,600	£73
East Midlands	4,000	£114
East of England	13,900	£392
London	47,300	£1,347
South East	18,100	£513
South West	4,600	£131
Scotland	12,500	£353
Wales	1,200	£35
Northern Ireland	3,600	£101
Source: York Aviation		

Source: AOA The Economic and Social Impact of Airports (September 2005)

- 3.12 On the basis of the information contained in table 3.3, the average 2004 Value Added per Indirect/Induced worker was estimated at £28,000 (2002 prices).
- 3.13 According to AOA, the UK total indirect/induced employment in 2004 was equal to 390,000 jobs, approximately. This estimate is based on an assumed multiplier of 2.1 applied to the number of direct jobs (185,900 direct jobs x 2.1 = 390,390). It should be noted that of the total 390,000 UK indirect/induced jobs created/supported by the aviation industry, only 132,500 (sum of jobs in table 3.3) are Region-specific; the remaining 257,500 jobs have a multi-regional national dimension. The total 2004 UK aviation-industry job count estimate is therefore estimated at 576,000 - corresponding to a total Value Added contribution to the economy of £22.2 billion.
- 3.14 Both AOA and DfT (source: OEF) provide estimates of the future employment. Table 3.4 compares the related growth assumptions.

Table 3.4 Direct Employment Growth Assumptions

Region	1998 Direct Employment (DfT)	2004 Direct Employment (AOA)	2030 Direct Employment (DfT)	2030 Direct Employment (AOA) High Airport Capacity	2030 Direct Employment (AOA) Existing Runways
North East	4,240	4,123	5,700	n/a	n/a
North West	18,100	21,922	18,100	n/a	n/a
Yorkshire & the Humber	2,120	2,112	4,600	n/a	n/a
West Midlands	5,370	7,222	11,900	n/a	n/a
East Midlands	4,110	6,520	9,500	n/a	n/a
East of England	18,270	20,062	38,600	n/a	n/a
London	73,860	70,000	68,000	n/a	n/a
South East	34,400	26,957	43,300	n/a	n/a
South West	3,050	7,036	7,200	n/a	n/a
Scotland	12,620	12,767	14,400	n/a	n/a
Wales	3,180	1,852	4,200	n/a	n/a
Northern Ireland	3,860	5,326	4,000	n/a	n/a
London & South East Airports	108,260	96,957	111,300	129,700	109,300
Regional Airports	74,920	88,943	118,200	95,500	108,700
TOTAL	183,180	185,900	229,500	225,200	218,000
<i>London & South East Airports (DfT annual growth 1998-2030)</i>			0.1%		
<i>London & South East Airports (AOA annual growth 2004-2030)</i>				1.1%	0.5%
<i>Regional Airports (DfT annual growth 1998-2030)</i>			1.4%		
<i>Regional Airports (AOA annual growth 2004-2030)</i>				0.3%	0.8%

3.15 The overall forecast quota of direct employment is broadly consistent between AOA and DfT, the main difference appears to relate to the special distribution of the growth. DfT appear to have assumed employment at Regional airports to grow faster than in London and the South East, the opposite is true in relation to AOA forecasts. Most importantly, according to AOA, the provision of extra airport capacity in the South East would hamper job creation in the other Regions (95,500 jobs vs 108,700).

3.16 Table 3.5 provides a summary of DfT and AOA forecasts of the total jobs created/supported by the air industry.

Table 3.5 Indirect & Induced Employment Growth Assumptions

Region	1998 TOTAL Aviation Employment (DfT)	2004 TOTAL Aviation Employment (AOA) (*)	2030 TOTAL Aviation Employment (DfT)	2030 TOTAL Aviation Employment (AOA) High Airport Capacity	2030 TOTAL Aviation Employment (AOA) Existing Runways
North East	12,600	16,530	20,000	n/a	n/a
North West	47,200	50,507	84,900	n/a	n/a
Yorkshire & the Humber	17,000	26,336	32,200	n/a	n/a
West Midlands	22,700	31,614	44,000	n/a	n/a
East Midlands	18,300	23,685	35,500	n/a	n/a
East of England	47,800	57,378	101,400	n/a	n/a
London	127,900	135,237	147,900	n/a	n/a
South East	111,600	157,660	148,800	n/a	n/a
South West	18,000	22,405	33,400	n/a	n/a
Scotland	28,800	31,246	39,800	n/a	n/a
Wales	10,000	14,809	15,500	n/a	n/a
Northern Ireland	8,900	8,882	11,400	n/a	n/a
London & South East Airports	239,500	292,898	296,700	402,100	338,700
Regional Airports	231,300	283,392	418,100	296,000	336,900
TOTAL	470,800	576,290	714,800	698,100	675,600
<i>London & South East Airports (DfT annual growth 1998-2030)</i>			0.7%		
<i>London & South East Airports (AOA annual growth 2004-2030)</i>				1.2%	0.6%
<i>Regional Airports (DfT annual growth 1998-2030)</i>			1.9%		
<i>Regional Airports (AOA annual growth 2004-2030)</i>				0.2%	0.7%

(*) Note: Estimated by Capita Symonds using information provided by AOA (Regional Employment) and DfT (Total Employment)

- 3.17 Similarly to what observed for Direct Employment, there are significant differences in the assumed distribution of total employment growth between DfT and AOA.
- 3.18 Objections to these findings have been raised by organisations such as Friends of the Earth (FOE) and industry experts like Prof. John Whitelegg. Below there is a summary of the main objections to the argument of job creation:
- (i) The use of employment statistics – According to FOE (Pies in the Sky Report, September 2006), the 180,000 direct jobs (1998, Oxford Economic) are in fact 86,000 according to their interpretation of the Standard Industrial Classification (SIC system);
 - (ii) The use of multipliers in order to estimate direct jobs at national level (FOE and Whitelegg). The risk is considered to be in double counting job creation if all industries estimated induced jobs using the same factors. In addition, Whitelegg suggests that the derivation of such factors is dubious and that these values have not been properly validated;
 - (iii) Relationships between number of passengers and of people employed - the re is evidence that the number of employees has decreased per every unit of Terminal Passenger per annum and FOE believes that productivity

factors have been underestimated, resulting in overestimation of required employees;

- (iv) FOE suggest that by not expanding airport capacity future jobs will not be 'lost' but simply created somewhere else through different allocation of resources; and
- (v) Whitelegg suggests that some of the jobs created are not necessarily located within the relevant Region where airport expansions occurs (e.g. software support outsourced abroad).

3.19 It should be noted that some of the points listed above are not supported by any detailed analysis within the analysed reports and that any judgement as to their validity is outside the scope of this report.

Contribution to Tourism

3.20 Table 3.6 below shows number of 2004 Overseas visitors to the UK regions, as reported by Oxford Economic Forecasting's 2006 report; the table also shows the proportion of air travellers and their expenditure.

Table 3.6 Overseas Visitors travelling to the UK Regions by Air in 2004

	Total visits (000s)	% arriving in UK by air	Spend (£mn)	Spend (% of UK total)	% of spending contributed by air passengers
North East	583	74	202	1.4	90
North West	2,317	78	877	6.2	90
Yorkshire and The Humber	1,130	73	387	2.7	87
East Midlands	1,101	76	377	2.6	87
West Midlands	1,718	72	556	3.9	91
East of England	2,157	73	699	4.9	82
London	13,835	79	6,863	48.1	88
South East	4,129	69	1,462	10.3	82
South West	2,091	67	831	5.8	79
Wales	959	62	305	2.1	77
Scotland	2,458	88	1,248	8.8	92
Northern Ireland	310		131	0.9	
Other/day trips			321	2.3	
Total UK	29,972	73	14,259	100.0	84

Source: International Passenger Survey, ONS

Notes: Sum of visits is greater than UK total, reflecting visits to more than one region.

- 3.21 As reported by OEF, total expenditure by tourists in 2004 in the UK was £14.2billion, approximately 84% of this originated from air travellers. Scotland, given its position, is more reliant on air travel in order to attract tourists while the South East offers more alternatives (rail and ferry) for connections with the continent. According to the data from table 3.6, the total number of overseas Air visitors in 2004 was approximately 22million (approximately 73% of all 29,972 overseas visitors).
- 3.22 Table 3.7 below was obtained from FOE's Why Airport Expansions is bad for Regional Economies (2005). This table provides a summary of the expenditure ratios and balances between UK residents travelling abroad and overseas visitors coming to the UK.

Table 3.7 Air Travellers Balance of Payments

Region	Inward Visitors ² in 2004		Outward Visitors in 2004		Visitor deficit (£m)	Ratio
	Visits (thousands)	Spending (£m)	Visits (thousands)	Spending (£m)		
London	10416	5538	9776	5102	+436	0.9
North East	403	177	1861	938	-761	5.3
North West	1307	495	5055	2707	-2212	5.5
Yorkshire and Humber	778	295	3736	1905	-1610	6.4
West Midlands	1219	485	4299	2165	-1680	4.5
East Midlands	770	388	3592	1727	-1339	4.5
East of England	1492	517	4720	2430	-1913	4.7
South West	1402	575	3509	1815	-1240	3.2
South East	2696	1206	7588	3977	-2771	3.3
Scotland	1542	866	3996	2157	-1291	2.5
Wales	594	240	1977	996	-756	4.2
Northern Ireland	100	39	215	153	-114	4.0
TOTAL³	20002	10822	50435	26072	-15250	2.4

Source: Friends of the Earth's Why Airports Expansion is bad for Regional Economies

3.23 According to FOE, this deficit gap would be destined to double by 2020 if outgoing and incoming passenger numbers were assumed to grow at the same rate. However, FOE point out that in the last ten years the growth of UK tourists travelling abroad by air has been higher than that of overseas visitors to the UK.

3.24 Although Oxford Economic Forecasting acknowledge in their 2006 report the existence of a continuously increasing trading gap, they believe that this does not reflect a lack of competitiveness or economic weakness. As reported by OEF, the UK represents the sixth largest tourism industry in the world. Therefore the rise in deficit would be more likely to represent the increase in choices available to UK consumers. The question which remains unanswered in all these reports is

how UK tourists would otherwise spend their money; no report has provided a conclusive and substantiated answers. OEF suggest that holidaymakers going abroad would be likely to continue travelling abroad by other modes of transport.

Contribution of Aviation to the Economy, hi-tec businesses and inward investment

- 3.25 A review of the available literature highlighted the lack of extensive numerical evidence in relation to the contribution of the aviation industry to regional economies, including their balances of payment. Most of the data available is provided at national and aggregate (i.e. all modes of transport) level.
- 3.26 Table 3.8 provides summary of the Value of Trade carried by Air Freight between 2000 and 2005 in the UK, as reported by OEF (2006).

Table 3.8 Value of Trade carried by Air Freight between 2000 and 2005

Item	2000	2005	%-change 2000-05
Exports	£56.8billion	£62.7billion	+10.4%
Imports	£65.5billion	£59.6billion	-9.0%
Balance (Exp – Imp)	-£8.7billion	+£3.1billion	–

Source: Oxford Economic Forecasting (2006)

- 3.27 Table 3.8 shows an interesting trend as in 2005, exports by air appear to have overtaken the value of imports. Heathrow continues to account for 50%+ of the UK air freight – in addition, Heathrow’s freight is carried in the holds of passenger flights, highlighting the interdependence that there exists between passenger flights and freight services.
- 3.28 The DfT Aviation, Core Cities and Regional Economic Development report (2003) shows that there is a clear and strong correlation between local GDP and the frequency of flights/number of destinations from the main local airport. However, DfT themselves, SACTRA, FOE and Whitelegg acknowledge that the correlation cannot be considered as proof of ‘causality’ – i.e. it is difficult to determine, in the case of mature economies with existing developed transport infrastructure, to what extent local wealth influences the quality of transport and vice versa.
- 3.29 In their report, DfT have also estimated the contribution to the local economy (Value Added) brought by the aviation industry (see table 3.9) in 1998 and 2030.

Table 3.8 Value Added in Aviation and Regional Significance

	£billion, 1995 Prices		% of GDP	
	1998	2030	1998	2030
	1.8	5.2	1.8	2.0
S. East				
G. London	3.8	8.1	3.3	3.4
Eastern	0.9	4.6	1.6	3.1
S. West	0.2	0.9	0.3	0.6
W. Mid.	0.3	1.4	0.5	1.4
E. Mid.	0.2	1.1	0.5	1.1
Yks. & Hum.	0.1	0.5	0.2	0.5
Nw. & My.	0.9	3.6	1.4	2.7
N. East	0.2	0.7	1.0	1.6
Wales	0.2	0.5	0.7	1.1
Scot.	0.6	1.7	1.2	1.6
N.I.	0.2	0.5	1.4	1.3
UK	9.4	28.9	1.4	2.0

Source: OEF

- 3.30 According to DfT, the contribution to local GDP between 1998 and 2030 is likely to increase significantly in all regions with the exception of the South East, Greater London and Northern Ireland. Also, the table shows the significance of the aviation industry in regions such as the North West/East of England and Scotland.
- 3.31 In relation to issue of increased attractiveness of air transport to inward investment and location of businesses, most of the numerical evidence is provided at national level. On the basis of our review it appears that qualitative assessments are frequently based on questionnaires that, depending on the organisation undertaking the interview, seem to provide different conclusions.
- 3.32 However, one issue which is highlighted by FOE and Whitelegg (with reference to SACTRA) is the tendency by the reports commissioned by air industry stakeholders to 'ignore' the issue increased external competition from foreign companies, resulting from opening of new routes. This issue is directly linked to the implementation of Route Development Funds, discussed below.

Route Development Funds

- 3.33 This type of fund has been delivered by Scottish Enterprise in the case of Scottish airports (since November 2002) and the Department of Enterprise, Trade

and Investment (DETI) in Northern Ireland (since September 2003). The objectives of these schemes are fundamentally two:

- Supporting the local economy, by promoting inward investment, improving business connections (by reducing journey times) and expanding the export market basis; and
- Supporting local tourism – by opening up to inbound short-city-break markets.

3.34 The Fund seeks to encourage the development of new routes by providing investment support to airports. The airports offer discounts on aeronautical charges to airlines introducing new routes, and the Fund then provides match funding which allows the airports to double the amount of discount offered. The Fund will only do this if an independent economic appraisal of the route proposal shows that the amount invested will result in a net economic benefit to Northern Ireland. The Fund's investment is limited to the first three years of operation of the new routes. Beyond that period it is expected that the routes will be self-supporting. Investment, which is paid on a per-passenger basis, is also limited to load factors of up to 75%.

3.35 Scottish enterprise have recently confirmed to us that a review of the funds' performance will be undertaken this year as some of these funds will approach their 3-year period limit.

4. CONCLUSIONS

4.1 The main conclusions that can be drawn from this report are listed below:

- (i) There appears to be no strong consensus as to the way in which socio-economic statistics are utilised in order to estimate job creation. One of the main issues of contention appears to be the use of multipliers for the estimation of indirect and induced jobs;
- (ii) The trend in recent years has been for the number of direct aviation jobs per unit of terminal passengers to fall – according to FOE and Whitelegg this factor has not been properly taken into account within the analysis carried out by OEF;
- (iii) When objections have been raised about the economic efficiency of creating jobs through increasing airport capacity, comments have not been supported by any rigorous analysis and the impact of alternative types of investment has not been generally quantified;
- (iv) There is a general lack of direct observed data/evidence at local/regional level about the contribution of airports to regional economies' balance of payments, inward investment, etc. In addition, the correlation between economic performance of a region or core city and the number of flights/destinations from the closest main airport does not answer the issue of 'causality';
- (v) The majority of overseas visitors arrive in the UK by air (73%) and they account for the majority of the total spending (84%); however, in 2004 more UK residents travelled and spent money abroad, resulting in an average ratio of inward and outward spending of 1 to 2.4 (i.e. UK visitors spent twice as much as UK visitors. In this case there are different views as to the merit of this particular trend. It should be noted that in certain regions this ratio is even higher;
- (vi) There appear to be different views in relation to the merit of the amount of Valued Added created by the Aviation industry as a proportion of the local economy. The main issue that remains unresolved is whether alternative forms of investment would prove to be more efficient;
- (vii) Air freight, especially UK exports, have been consistently growing in the last ten years. In 2005, the value of UK exports overtook that of imports. We could not find any regional data in relation to this topic; and
- (viii) The impact of the route development funds, in terms of the economic benefit objectives, still need to be verified and assessed – in the case of Scotland, we expect an assessment to be carried out during the remaining part of 2007.

5. REFERENCES:

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