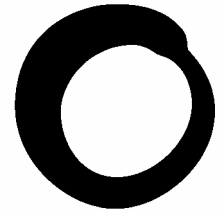


August 2005



**Friends of
the Earth**

Briefing

Why airport expansion is bad for regional economies

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Tel: 020 7490 1555 Fax: 020 7490 0881 Email: info@foe.co.uk Website: www.foe.co.uk

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1 Summary

The UK runs a massive economic deficit from air travel. Foreign visitors arriving by air spent nearly £11 billion in the UK in 2004, but UK residents flying out spent £26 billion abroad – a loss to the UK economy of £15 billion pounds.

This briefing shows new analysis that at a regional level these figures are even more stark. For example the North East earned £177 million from overseas visitors in 2004, but North East residents flying abroad spent £938 million – five times as much, resulting in a deficit to the North East economy of £761 million. All regions except London run a huge economic deficit from aviation.

There is a widely held view that airport expansion is good for local economies. This may well be true in the case of a sunshine island in the Mediterranean or the Caribbean, but it does not hold for regions of the UK. A further expansion of UK airports on the scale proposed by the Government will have a multi-billion pound negative effect on regional economies. The main impact of airport expansion is to fuel a huge growth in overseas travel by UK residents. From the evidence presented in this briefing, if airports expand, then regional deficits will increase massively. Air travel is forecast by Government to double by 2020. By 2020, if airports expand then the North East for example will be losing £1.5 billion a year. This is £1.5 billion a year that could have been spent on regional goods, services and businesses.

Overall, there is a net currency outflow from the regions of £15 billion a year now. If airports expand as planned by Government, this will increase to £30 billion a year by 2020.

The report concludes that regional decision makers should recognise that airport expansion will result in an economic drain, not an economic boom, for their region. They should not support airport expansion, either in their region or nationally. Airport expansion will massively increase the net outflow for every region in the country except London, and damage regional tourism.

Region	Current ratio of money out to money in	Total money out of the regional economy 2004-2020 if airports expand as planned (£billions)
North East	5.3 : 1	-19
North West	5.5 : 1	-54
York/Humber	6.4 : 1	-40
East Midlands	4.5 : 1	-33
West Midlands	4.5 : 1	-41
East of England	4.7 : 1	-47
London	0.9 : 1	+11
South East	3.3 : 1	-68
South West	3.2 : 1	-30
Wales	4.2 : 1	-19
Scotland	2.5 : 1	-32
Northern Ireland	4.0 : 1	-3

2 Results

2.1 Air travel deficit in the UK now¹

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

2.2 Air travel deficit in future

If aviation expands in line with the Aviation White Paper, then these regional and national tourism deficits will get even larger. The Department for Transport projects that UK airports will handle 400 million passengers per annum (mppa) in 2020 compared to the 202 mppa handled in 2003.

This briefing cautiously assumes that this doubling in passenger numbers will apply equally to both outward and inward visitor numbers. This is very conservative because in the last 10 years outward tourism has been growing more than twice as fast as inward tourism⁴.

With the Government's forecasts for aviation growth, by 2020, the regional tourism deficits will have grown as follows:

Region	Annual deficit in 2020 (£m)
London	+850
North East	-1500
North West	-4400
Yorkshire and Humber	-3200
West Midlands	-3350
East Midlands	-2700
East of England	-3800
South West	-2500
South East	-5550
Scotland	-2600
Wales	-1500
Northern Ireland	-200
Total	-30500

3 Conclusions

Most Regional Assemblies, Regional Development Agencies and Regional Tourist Boards believe that airport expansion is good for their region, because they think it will bring in visitors, create jobs and increase GDP. Therefore, they generally believe that it would be economic folly not to expand airports in their region.

As examples of this, Airports Council International (ACIE) state that “*restricting airport capacity in the UK could result in the loss of £9.3 billion in inbound tourism revenue*”⁵, and the Northern Way⁶ plans major airport expansion, and sets targets for “increasing inbound leisure travellers” to 6.4 million a year by 2030, on regional economic grounds.

However, this economic argument is extremely one-sided, because it only focuses on what might come into the region’s economy, and not what might leave. But what might leave is crucial. According to Visit Britain⁷, in 2003 UK residents spent over £59 billion pounds on tourism in the UK, nearly 5 times the amount spent in the UK by overseas visitors. Domestic tourism accounts for 83% of the spending upon which 2.2 million jobs in UK tourism rely. If more people holiday abroad, this will reduce the amount they spend in the UK.

The analysis in this briefing shows that if airport expansion occurs, then there will be an increase in overseas visitors to the UK, but a much greater increase in UK residents going abroad. More visitors will bring extra revenue into the UK, but this will be swamped by the much greater sums leaving the country. Airport expansion will result in a massive net loss to the region’s economy, and damage the region’s tourism sector.

This has serious implications for regional bodies. We urge Regional Development Agencies, Regional Assemblies and Regional Tourist Boards to:

- Recognise that airport expansion will result in an economic drain, not an economic boom, for their region:
- End their support for airport expansion,
- Support our call for a new Aviation White Paper which places strict limits on the aviation sector’s climate emissions.

Appendix A: Other forms of aviation deficit⁸

Visitor spending is not the only aspect of aviation which contributes to a net loss to the UK's balance of payments. Other areas include:

- **Air transport services**

Air Transport Services includes purchase of air tickets and freight services, both for imports (when UK residents buy from overseas airlines) and exports (when overseas residents buy from UK airlines). The Government's Pink Book⁹ states that "*The UK has recorded a deficit on air transport services in every year since the mid 1980s. The deficit increased from £3.2 billion in 2003 to £3.3 billion 2004*". This deficit will increase as aviation expands, assuming continuation of historic trends in import growth (1% pa growth for exports, 3% pa growth for imports).

- **Aviation fuel**

Although the UK currently runs a slight trading surplus on oil, it is forecast that the UK will be a net importer of oil by 2010. Also, most aviation fuel (ie kerosene) is already imported. The UK aviation industry used an estimated 88 million barrels of aviation fuel in 2004 which would have an import value of around £2.5 billion¹⁰.

- **Capital outflows**

It is very difficult to quantify impacts here, but given high property prices in the UK, and many UK residents buying second homes in countries with cheaper property (eg Spain, France), it is likely that there is considerable capital outflow from the UK, and also current account outflows associated with maintenance and upkeep of these properties. As low cost air travel increases, these flows are likely to increase.

Appendix B: Assumptions used in the analysis

The analysis in this briefing has used conservative assumptions and is likely to underestimate the scale of the regional deficit.

1 Different rates of inward and outward visitor growth

The above figures assume that both inward and outward visitor levels double by 2020 but it is more likely that outward visitor numbers will grow faster, as has been the trend of the last ten years. Since 1995 the number of visitors to the UK has been growing at an average annual rate of 1.8%, whereas the number of UK residents going abroad has been growing at 5.0% a year. This is the main reason why the UK travel deficit has grown from £3.6 billion in 1995 to £17.2 billion in 2004¹¹.

2 Spending per visit

The analysis assumes spend per visit to remain constant in real terms during the period to 2020, at the 2004 level. However, spend per visit has consistently been growing in real terms and outward spend per visit has been growing faster than inward spend per visit.

This constant spending assumption is therefore very conservative. If both inward and outward tourism spending increase in real terms, then the figures for regional tourism deficits become much larger. Assuming a 2.5% increase in both inward and outward tourism spending gives regional deficit for the North East of £2.5 billion a year by 2020, instead of £1.5 billion with constant spending.

Some DfT analysis has optimistically assumed that inward visitor spend will increase faster than outward visitor spend. Historically, inward tourists have spent more than outward tourists. but this gap has narrowed in recent years. Over the last six years inward spending has stagnated, and fell by £20 per visit between 2003 and 2004, whereas outward spending per visit has grown in each of the last six years, and increased by £8 per visit between 2003 and 2004. Currently national average spend is £541 for inward tourism, and £517 for outward. So again it seems conservative to assume that inward and outward spending levels will stay constant relative to each other.

Acknowledgements

Written by Friends of the Earth with much help from Brian Ross at Stop Stansted Expansion.

References:

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- ¹ Source: ONS Travel and Tourism MQ6 series data and International Passenger Survey for 2004
- ² Visitor numbers should not be confused with "million passengers per year" (mppa) which is a measure of airport traffic. Conversion from visits to mppa requires multiplying by 2. For example a trip from Manchester to Madrid counts in official statistics as 1 visit, but 2 mppa (both legs of the trip). This is why the total figure for visits (20m+50m=70m) is so different to the 200 mppa air traffic figure. The 70m needs doubling. The other important apparent discrepancy is due to intra-UK ("domestic" flights) which require quadrupling to convert to mppa (as a return Manchester-Gatwick is counted officially as 2 for Manchester to Gatwick, and a further 2 for Gatwick to Manchester). These figures include all classes of visitors, including the two main categories of tourism and business. In 2004, business visits accounted for 13% of overseas air travel by UK residents, and for 28% of air travel to the UK by overseas residents.
- ³ Regional visitor numbers do not sum to the UK total because Channel Islands and Isle of Man are excluded, because some inward visitors visit more than one UK region, and because some outward visitors did not know their home region.
- ⁴ It is also conservative because a doubling in mppa involves a doubling in inward + outward + domestic numbers; domestic growth is predicted by DfT to be the smallest of the three, meaning greater than doubling increases in the other two.
- ⁵ ACIE, 2004. The Social and Economic Impact of Airports in Europe. Section 8.5. This report goes on to argue that there would be no offset in reductions in spending abroad by UK residents as "if they were forced by lack of airport capacity to holiday in the UK, they would 'crowd out' even more overseas visitors with income earning potential" – ignoring that i) most people don't use planes to go on holiday in the UK and ii) this crowding out if it happened would wipe out the £9.3 billion loss cited earlier many times over.
- ⁶ The Northern Way Growth Strategy, Connectivity Technical Report, October 2004. Section B6.15
- ⁷ from www.visitbritain.com/corporate/factsfigures/index.aspx , accessed 23/5/2005
- ⁸ For more information on this, see Impact of the Growth in Air Travel on the UK balance of Payments. Stop Stansted Expansion, September 2003.
- ⁹ Pink Book, 2005. Office of National Statistics (ONS). Chapter 3, page 42.
- ¹⁰ Derived from reply by Under Secretary of State for Transport to a written parliamentary question, Hansard Col 611W, 1 April 2003, adjusted for 2004 usage and value.
- ¹¹ This £17.2 billion figure is higher than the figure cited earlier in the briefing as it is for visitors by all modes of transport (ie including ferries and trains), whereas the figure earlier (and generally throughout the briefing) are for air travel only.