

Committee: Stansted Airport Advisory Panel

Agenda Item

Date: 28th January 2014

5

Title: Oxford Economics: Economic Impact of Stansted Scenarios (October 2013)

Author: Jeremy Pine, Planning Policy /
Development Management Liaison Officer
(01799 510460)

Key decision: No

SUMMARY

1. This report, which is for information, is about a report commissioned by the London Stansted Cambridge Consortium (LSCC), which is made up of local authorities and business interests within the corridor between London and Cambridge. The report was prepared by Oxford Economics ("the OE report"), and has been submitted to the Airports Commission. Subsequently, the Airports Commission published its interim report on 17th December 2013. This report briefly comments on what the Commission has said in its interim report about expansion at Stansted.
2. The OE report looks at the economic impact of four expansion scenarios at Stansted Airport on the London Stansted Cambridge corridor. The four scenarios are:
 1. One runway serving 35million passengers per annum (mppa) from 2030
 2. One runway serving 45mppa from 2030
 3. Two runways serving 76mppa from 2030
 4. Five-runway hub airport serving 200mppa by 2050The OE report does not make any recommendation about the best option for Stansted, or the future of UK aviation policy in general.
3. Copies of the LSCC's covering letter to the Airports Commission and the accompanying summary are attached at the end of this report.

RECOMMENDATIONS

4. That the Panel notes the OE report.

FINANCIAL IMPLICATIONS

5. There are no financial implications associated with this report.

BACKGROUND PAPERS

6. None

IMPACT

7.

Communication/Consultation	The OE report included consultation with LSCC members as part of its preparation.
Community Safety	None.
Equalities	None.
Health and Safety	None.
Human Rights/Legal Implications	None.
Sustainability	None.
Ward-specific impacts	The OE report concerns the economic impact on the London Stansted Cambridge corridor of various scales of expansion at Stansted Airport. It does not deal with localised economic impacts, and does not consider any other type of impact, such as environmental.
Workforce/Workplace	Officer time in preparing this response.

THE OE REPORT'S FINDINGS

8. This report looks at each of the four scenarios in turn, and comments briefly on them. The OE report assesses the impact of airport expansion on the corridor using the following, which are referred to in the table at the end of the accompanying summary:

Gross Value Added (GVA) – This is the difference between the cost of the physical inputs into the firm and the value for which the output is sold. The GVA is distributed as wages or profit. In the report, GVA is expressed net of displacement effects.

Direct benefits – These are enjoyed by the local economy and wider corridor. They include employment at the airport generating income, output and taxes.

Indirect (supply chain) benefits – Off-site companies supplying goods and services to the airport, airlines and companies operating at the airport. Again, these benefits are jobs, income, output and taxes.

Induced benefits – These result from those who are employed directly or indirectly spending their income in the wider economy. This injection of demand creates and sustains jobs across a number of sectors, such as retail.

Wider impacts – These include possible spin-off impacts such as attracting foreign

direct investment, increased tourism and benefits from a faster rail connection to London.

Scenario 1: One runway serving 35mppa from 2030

9. This scenario represents the base case, i.e. no further expansion beyond the existing planning permission granted in 2008. Minimal change is anticipated in the composition of flights at Stansted, although there is some uncertainty over whether the new owners, Manchester Airports Group (M.A.G), will be able to attract long-haul carriers. 80% of the growth in passenger numbers anticipated by the DfT in the 2013 forecasts is to or from the UK and Europe, so there is plenty of extra traffic to fill Stansted's spare capacity. This scenario anticipates that the air transport movements (atm) cap of 264,000 imposed by Condition ATM1 of the 2008 planning permission is reached by 2030 and is maintained to 2040.
10. In this scenario there is a slow but steady increase in GVA and, as the study assumes that a new rail link is built in the next decade, a temporary boost in employment and GVA during the period of the construction activity. Periodic rail maintenance (every ten years) provides similar temporary boosts.
11. Freight tonnage on dedicated cargo planes is shown to grow steadily until it flatlines in 2020. In this scenario, bellyhold freight tonnage is assumed to be inconsequential because of the lack of long-haul.

Scenario 2: One runway serving 45mppa from 2030

12. This scenario presumes that a further planning permission is granted for an expansion of throughput up to maximum use (or thereabouts) of the existing runway. No major capital spending is anticipated in this scenario because M.A.G assumes that the extra throughput is achieved through increased loadings, including the use of larger aircraft for long-haul such as the Airbus A380. For this reason, there is no increase in the atm cap.
13. In this scenario the percentage of passengers flying to destinations outside the UK and Europe increases to 15% from a nominal 1% under Scenario 1. In coming up with this figure, assumptions have been made in the OE report about the split that would result between short-haul and long-haul services. The OE report admits that there are clear uncertainties about whether this pattern of flights is realistic, and there are a range of possible options for the split. On the one hand, long-haul flights might be reluctant to be drawn away from hub airports, on the other there could be a higher than anticipated demand for long-haul flights from the East of England.
14. GVA is slightly above Scenario 1, but is peaked in the same manner due to the construction of the new rail link and periodic rail maintenance.

15. As per Scenario 1, freight tonnage on dedicated cargo planes grows steadily until 2020, but there is a modest increase in bellyhold cargo from about 2025 – 2030 reflecting the extra capacity that would be provided in long-haul aircraft.

16. In Paragraph 6.58 of its interim report, the Airports Commission says:

“The airport is, however, currently prevented from operating to its absolute maximum capacity due to planning restrictions and the Commission will consider in the next phase of its work whether there is a case for lifting these as part of its overall strategy for optimising aviation capacity in the London system”.

The Commission has not given any further details at this stage about how this will be done, but has indicated that it will provide further details of its work programme during this year.

Scenario 3: Two runways serving 76mppa from 2030

17. This scenario presumes that a further planning permission is granted for a second runway and associated facilities. In this instance, Stansted operates as a second hub with Heathrow, and because of this the OE report assumes less growth in the share of flights going to long haul destinations than in Scenario 2 (10 – 11% of total flights). Full capacity is estimated to be reached in 2025, with the runways operating in segregated mode. Major capital spending (an additional £2bn) would occur between 2015 and 2029. As a result there would be a significant increase in GVA up to 2029, after which values would level off to again be boosted by periodic rail maintenance. Employment generation under this scenario would share roughly the same profile as GVA.

18. OE assumes under this scenario that there would be a doubling of the atm limit, resulting in a doubling of the freight tonnage carried in dedicated cargo aircraft. There is a modest growth in bellyhold cargo compared to Scenario 2, reflecting the higher number of long haul flights in spite of the slightly lower overall percentage compared to Scenario 2.

19. In this scenario (as in Scenarios 1 and 2), OE have been advised by M.A.G that the existing night movement and quota limits would be sufficient.

20. The Commission has not shortlisted a second runway at Stansted for Phase 2 consideration, although it has said that it should be reconsidered *“as part of any future review of options for a second additional runway, which will be able to take into account the long term effects of competition resulting from its sale by BAA Ltd”* (Paragraph 6.59 of the interim report). In this quote, the reference is to a second additional runway in the London area which, in the Commission’s view, may be needed after 2040 / 2050.

21. Several reasons were given by the Commission for not shortlisting a second runway at Stansted. These include:

- Spare capacity until 2040, even with other London airports remaining constrained
- Smaller immediate catchment area than Heathrow or Gatwick
- Longer rail journey times to Central London than other options, and a new line is not included in current costings
- Would not be significantly cheaper than a second runway at Gatwick
- Would increase noise impacts in 2030 at the local level
- Would require the loss of a high number of listed buildings and the largest area of greenfield land of any of the main single runway options.

Scenario 4: Five-runway airport serving 200mppa by 2050

22. This is the option that was proposed by the Mayor of London and which was submitted to the Airports Commission. It assumes that the existing airport continues to grow to 35mppa (Scenario 1), with construction of a new hub airport starting in 2020 for opening in 2029 and becoming London's hub airport a year later. It is anticipated that the new hub would handle 135mppa in 2040, continuing to rise to 170mppa in 2050 with the existing airport continuing to operate at 35mppa.

23. Substantial capital investment is required (about £60bn), with a spike in GVA and employment occurring between 2020 and 2029, then a very sharp rise in both shortly after the new hub opens and a steady increase thereafter.

24. In this scenario, the share of passenger movements to the UK and Europe falls to just over 60%, prompting the LSCC to point out that this scenario offers the greatest improvement in connectivity between the corridor area and the rest of the world, and the greatest potential for catalytic economic impacts.

25. Reflecting the increased amount of long-haul (39% in 2040), there is a substantial increase in bellyhold cargo tonnage handled after 2029. Freight tonnage on dedicated cargo planes levels off in 2020 as per Scenarios 1 and 2 because the existing airport continues to operate. Again, it is presumed that the current night flying restrictions remain in place.

26. The Commission has not shortlisted the Stansted hub option for Phase 2 consideration for a number of reasons. These include:

- Very expensive compared to expanding an existing airport, not including any costs associated with closing Heathrow or compensating London City and Luton for any necessary reduction in their capacity
- Ten times as many people affected by aircraft noise compared to a Thames Estuary hub option
- Located in an affluent area of the country offering fewer regeneration opportunities and, although broadly aligned with the Lea Valley development corridor would not support London's economic development objectives to the same extent (as a

Thames Estuary hub)

- Impact on cultural heritage would be greater than for any other option considered, as well as requiring the loss of more than 2,000 hectares of high quality agricultural land and up to six villages
- Would require major new surface access infrastructure, which would present environmental and deliverability challenges, especially any new high speed line such as to St Pancras
- Would involve the closure of Heathrow and reduced capacity at London City and Luton, limiting the extent of additional capacity that can be provided.
- According to advice from NATS, the number of ATMs required to provide the extra capacity may be beyond the total number that can be accommodated at one site
- The assumption that the existing runway would remain as is and attract the low-cost market is untested
- The assessment of the economic and social impacts of the closure of Heathrow is uncertain, and the relocation of an airport like Heathrow is unprecedented

Wider impacts

27. The OE report considers that the key to achieving any of the passenger throughput increases is a substantial upgrade to the airport rail link, namely reducing the journey time to Central London to 30 minutes. This results in journey-to-work time savings for existing commuters, plus increased wages for those who switch from locally based employment to posts in London due to easier commuting. However, as OE assume only an improvement to the airport rail link, these benefits would not accrue to those using other services.

28. Secondly, the OE report looks at how improved air connectivity can encourage additional investment in the area. The OE report concludes that the full scale of impacts would only be realised in Scenario 4 where there would be the fullest improvement in long haul connectivity. In Scenario 3, it is not clear that Stansted would be preferred to Heathrow. On locational issues, the OE report says:

“High value added services particularly reliant on air connectivity would be drawn to either the immediate airport vicinity or the areas close to rail stations on the newly upgraded line. If the new rail link were a non-stop service though it might be difficult for towns between London and the airport itself to attract these firms.

The findings also suggest a concentric pattern of development around the airport, with hotels and other medium-value added services in the inner ring, and logistics firms further out. However, as we noted earlier, the only main road artery around the airport itself is the M11 – it may be that rather than locate around the airport, firms most reliant on quick access to the road network locate up and down the motorway”

29. Finally, the OE report looks at the impact of airport expansion on overseas tourism in the East of England (EofE) region. Tourism to the EofE dipped to just below 2m with an associated spend of £800m, and it is estimated that this will grow to 6.5m visits by 2040 with an associated spend of £4bn.

30. It is notable that OE is unclear whether airport expansion will necessarily impact on the number of overseas visitors to the EofE. About 16m passengers from Europe arrive at Stansted each year, but there were only 1.5m tourists from the continent to the EofE and it is unclear how many of those arrived via Stansted. OE does consider that increasing passenger numbers on European flights from Stansted could be dominated by outbound UK tourists, but it is difficult to measure this. Although there are no current long-haul flights to / from Stansted, about 300,000 visitors from the USA and Asia visited the EofE in 2012. This demonstrates that long-haul visitors are not drawn by the availability of direct flights, but by the specifics of their visit.

RISK ANALYSIS

31.

Risk	Likelihood	Impact	Mitigating actions
That further expansion at Stansted Airport takes place beyond 35mppa.	<p>2. The Airports Commission has not shortlisted either a second runway at Stansted or the development of a hub airport at Stansted for Phase 2 consideration, although it has indicated that a second runway could be considered as an option if a second additional runway in the London area is required post-2040.</p> <p>However, the Commission will be looking at whether there is a case for lifting the</p>	2.	The Council will need to express its view to the Commission about lifting the existing mppa and atm restrictions.

	existing mppa and atm restrictions at the airport.		
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1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.