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The Economics of Aviation: a North West England perspective

*A report for CPRE
North West Regional Group*

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Summary

The aviation industry is very clear in all its pronouncements that it is a vital national industry supporting hundreds of thousands of jobs. The industry claims that additional jobs can be created through the expansion of airports and these claims have been accepted by central government in its national consultation on the future development of air transport.

This report takes a very different view. Aviation is a small part of the national and regional economy and the claims made in support of job creation are not supported by the evidence. The claims that are made for the role of aviation in encouraging inward investment to the region and to the UK are not supported by the data which show a much higher outflow of funds from the UK than funds coming into the country. This deficit is enough to account for the loss of 165,000 jobs each year in the North West.

Tourism cash flows reveal a similar story. Those tourists leaving the UK spend far more abroad than those tourist entering the UK. Tourism is a net drain on the UK economy and not an economic gain as the aviation industry maintains.

The industry also claims that its own activities generate or support large numbers of jobs in other sectors of the economy. This claim is based on a flawed methodology (the multiplier effect) which routinely double counts jobs in other sectors and has no place in a rigorous evaluation of the economic benefits of aviation. Aviation has a number of well documented adverse environmental consequences. This report provides detailed evidence that, in addition to environmental disbenefits, aviation is very poor value for money. The debate about the future of aviation would be a much more open and transparent debate if economic realities were factored in and economic assertions factored out.

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1. INTRODUCTION

- 1.1 Aviation is a significant part of the lives of many people in North West England. It provides a large number of opportunities for holidays abroad, it provides jobs and it supports the activities of businesses whose need for efficient international passenger and freight air services are well met by Manchester and Liverpool airports. Manchester Airport employs 16,400 people, Liverpool Airport approximately 1,900 (DfT, 2002, page 117) and many other companies and industries rely to some degree on the movement of people and freight that provides opportunities for full participation in an increasingly globalised economy. Aviation is a fact of life and it is here to stay. What is not so clear is the economic value of the aviation industry, how much it actually contributes to the economy of North West England and how this contribution could be improved with a reduction in environmental disbenefits.
- 1.2 North West England has 3.2 million people in the labour force (Office for National Statistics, 2002). These are spread through most sectors of the economy and reflect national and international trends with, for example, 20% of the workforce in education, health and social work and 17.6% in manufacturing. In common with much of the developed world the North West of England has long since lost its manufacturing pre-eminence and is now largely public sector and service based.
- 1.3 Aviation is a relatively small component of the economy of North West England. Total direct employment in the North West is put at 17,300 in the national consultation document for the North of England (DfT, 2002, page 230). This figure is different from the total for Manchester and Liverpool quoted in the same document in an earlier section. This is 0.6% of total employment.
- 1.4 In discussing the importance of aviation and air services to the economy of North West England it is important to separate out the strands that are relevant to an overall assessment. These include:
1. the economic importance of aviation as a supplier of jobs (direct employment);
 2. the economic importance of aviation as an activity that supports other activities (eg good quality air services supporting the international transport needs of other economic sectors and buying goods and services from other sectors of the economy. This is normally described as indirect employment). In this report we are only concerned with employment as a measure of economic impact but also look at inward investment and its links with aviation;
 3. the special role of tourism and the relationship between the amounts of money that outbound air passengers spend abroad and inbound air passengers spend in the North West.
- 1.5 In this report we will look at the argument made in general for the positive economic impact of aviation and for the growth of this sector of the economy. This will cover points 1 and 2 above. We will look at the evidence in the

North West for the "flights means jobs" argument and we will look at the tourist industry and evaluate the evidence that points to tourism as a net drain on the UK and North West economy. Finally we will put these considerations within a wider context of aviation policy in the North West and the possibilities that exist for a more sustainable and balanced transport strategy capable of meeting the needs of businesses and creating a sustainable region.

2. DO MORE FLIGHTS TRANSLATE INTO MORE JOBS?

2.1 Evidence presented by the aviation industry and supporting local authorities at the public inquiries into Manchester Runway 2, Heathrow Terminal 5 and Finningley (Doncaster) International Airport has emphasised the significant economic advantages that flow from airport expansion. Airports are described as significant "engines of the local economy" and offer the promise of large numbers of newly created jobs in their respective regions and areas, should the expansion go ahead. This is also the main emphasis of the DfT consultation document for the North of England published in July 2002. The consultation document is characterised by a complete and uncritical acceptance of the economic importance of direct, indirect and induced employment that can be anticipated from the future growth of aviation. Whilst any direct jobs are welcome in the labour markets of Manchester and Liverpool (and more generally in the North West) we will show in this report that there is no justification for this uncritical acceptance of job creation arguments.

2.2 The claims for job creation have been challenged at each of the public inquiries and at some length at the Heathrow Terminal 5 inquiry. This challenge has been taken up in reports on the industry (Whitelegg, 2001, IPPR 2001) and by the Royal Commission on Environmental Pollution (2002):

"One study estimates that the aviation industry directly provides jobs for over 180,000 people in the UK and contributes some £10.2 billion to the gross domestic product. In addition the DTI draws attention to the trade in goods, industrial developments and economic services that air transport facilitates. This trade creates wealth, which the DTI believes, could be used for global as well as national development. The extent to which these benefits, in practice, improve global conditions is difficult to ascertain. How much this would be compromised if the growth in aviation were curtailed would depend on the ways in which this was done and the quality of the alternative transport and communication methods available. In any case the resources displaced by restrictions on air transport would find other uses in due course, probably with similar or only slightly lower market values and much less damaging environmentally."

Source: paragraph 2.13, RCEP (2002)

2.3 The Royal Commission's views are very important indeed. The organisation is thoroughly independent, consists of some of the UK's leading scientists and reports directly to Parliament. The Commission's view is that there is

considerable uncertainty around the simple assertion of economic benefits from aviation. There is even more uncertainty around the ways in which an economy can change and adapt to new circumstances (less flying) and there is no reason to believe that restrictions on air travel would damage the UK economy in any way at all. The potential to meet business demand or a proportion of business demand by other means (eg teleconferencing and high speed trains) raises the possibility that business needs can be met at a lower cost, with higher levels of productivity of staff and with the surplus from these lower costs being used more efficiently in R&D or other directly wealth generating activities. The economic advantages of a shift away from physical travel and towards teleconferencing have been discussed and quantified in Regus (2000). We return to some of these themes in our conclusions.

2.4 The debate about the economic impact of aviation has been enriched by the publication of two very different reports.

1. *The Contribution of the Aviation Industry to the UK Economy* was prepared by Oxford Economic Forecasting (OEF) for a consortium of the UK's major airport operators and airlines and DETR.
2. *Transport and the Economy* was prepared by the Standing Advisory Committee on Trunk Road Assessment (SACTRA) for DETR. Although SACTRA's general remit deals with road transport, this report addresses the impact of all transport modes.

2.5 The OEF Report

2.5.1 OEF argue that there are important functional links between economic growth and aviation. These are derived from:

- the contribution aviation makes in its own right in terms of employment, production, exports, value added, investment and Exchequer contributions;
- the impact aviation has on the performance of other industries as a facilitator of economic growth and rising productivity.

2.5.2 The report produces quantitative estimates of the negative economic effects of restricting air travel, including the claim that restricting passenger growth to 3.5% per annum rather than the predicted 4% would reduce UK GDP by 2.5% by 2015, or £30 billion at 1998 prices. They estimate that over the last 10 years the impact of aviation growth in the UK economy has been to increase output in the whole economy by about £550 million per year. Their general conclusion is that there are significant economic implications of restricting the growth of aviation. They state that the environmental effects of air travel have an economic cost, but their terms of reference explicitly exclude these from their analysis.

2.6 The SACTRA Report

2.6.1 The SACTRA report was commissioned in 1996 "to consider the effects on the performance of the economy which might be caused by transport projects

and policies, including new infrastructure, changing prices, demand measures and measures to reduce traffic". The origins of the report lie in the debate about roads and the economy but its relevance is far wider than roads: "Our terms of reference go beyond the specific questions of trunk road schemes and, therefore, the Committee has aimed at a general approach which treats even-handedly all types of transport investment or policy initiative, for all modes".

- 2.6.2 There is a statistical correlation between increased traffic flows and economic growth, but this does not necessarily mean that there is a causal link whereby improved transport facilities necessarily lead to more economic activity. The increased levels of travel could be a consequence of economic growth rather than the other way round. The SACTRA report concludes that although there are theoretical reasons why improved transport infrastructure could lead to more economic activity, the empirical evidence for this is weak. In particular, they conclude that in a mature economy with well developed transport systems such as the UK, any contribution to economic growth from improved transport is likely to be modest (para 12, p.17).
- 2.6.3 The report also concludes that it is not possible to give a complete and unbiased estimate of the economic impact of transport without an assessment of environmental costs, which the OEF Report does not do because of its terms of reference.
- 2.6.4 Finally, the report makes the point that transport improvements connect different locations and areas, and that the benefits do not necessarily accrue evenly (para 40, p.22). There may be losers as well as winners as a result of more competitive areas gaining improved access to weaker areas. Improved access could thus in some cases lead to loss of employment at particular locations. This applies at all scales from local through regional to national and international, and to all transport modes.

2.7 Evaluation

- 2.7.1 Both these reports raise issues that are central to any discussion of the economic impact of aviation. The following points are relevant:
- The terms of reference for the OEF Report explicitly exclude consideration of environmental costs. The report therefore presents an incomplete analysis and it is not possible to conclude whether or not the economic benefits of new investment are greater or smaller than the economic disbenefits associated with environmental damage. This introduces a significant element of uncertainty into the discussion as the economic benefits themselves may not be as large as is claimed.
 - The OEF use their own forecasting model of the economy and input data from the UK National Accounts and other sources. Some of these data are estimates of the required variables (such as the indirect employment caused by aviation, see Appendix) and moreover the methodology used makes assumptions about the nature of the links between aviation and the economy which the SACTRA Report reveals to be complex and themselves context

dependent and geographically variable. The use of these data and assumptions in a model of the national economy is therefore dubious.

- Even within their own narrow terms of reference OEF conclude (as do SACTRA) that the economic effects of aviation do not benefit everyone everywhere to the same extent. This is particularly significant with respect to tourism. Much of the growth of air travel has been generated by tourism, 66% of all passengers using UK airports being leisure travellers. In 1997 UK air travellers abroad spent £13.4 billion whereas foreign travellers by air to the UK spent £9.9 billion, giving a deficit of £3.5 billion. If air travel were to be restricted by transport demand management, it is possible that the net economic effect in terms of spending and employment on the UK economy would be positive.
- The aviation industry is heavily subsidised (van de Pol 1998) and given the high level of labour productivity in the industry it can be strongly argued that jobs could be created more cost effectively in other ways. Jacobs (1996) quotes estimates of job creation numbers and costs from energy conservation, investment in public transport and recycling. The cost per job created is much lower than the figure for creating jobs through investment in new airport capacity. Meeting predicted demand by expanding infrastructure (such as Heathrow Terminal 5) will absorb large amounts of resources which could arguably be better used in other ways. Removal of the subsidies and investment of the resources gained in more sustainable employment would have both economic and environmental advantages. Examples of subsidy in the European Union include 17.5 billion Euros per annum because there is no taxation on aviation fuel, 6.5 billion Euros because tickets are zero rated for VAT purposes and direct subsidies such as 3.4 billion Euros to Air France in 1994 and 2.11 billion Euros to Olympic Airways in the same year (Whitelegg, 2001).
- The theoretical justifications made by OEF for the links between aviation and economic growth are weak. It is claimed for example that excellent air services are a key factor in foreign direct investment (FDI) decisions and that the UK leads Europe in terms of FDI at least partly because of excellent accessibility by air. No convincing evidence has been produced to justify this claim. Good air services are necessary but any incremental enhancement from an already high level is unlikely to make a significant difference compared with other advantages that the UK offers such as language and financial incentives (Airports Policy Consortium 1999). There is a further weakness in the FDI argument which relates to regional airports. Regions are in competition for FDI. New airports are being promoted in Kent and Yorkshire specifically on the assumption that they will bring more FDI. The consequences of this are that the total available FDI is being pursued by more airports and regional development agencies who will all back increases in airport capacity as part of the competitive strategy. This in turn will produce the capacity which is then used by tourists and package holidays. Liverpool airport has long used regional development arguments to support its expansion and its biggest user is now EasyJet providing very low cost tourist

flights. The regional development arguments in Liverpool have increased the demand for air travel in a way that does not bring any FDI benefits.

- Measuring or predicting the impact on local employment of transport investments is still a very inexact science. This was one of the main conclusions of the SACTRA report (1999) on transport and the economy. In aviation the situation is even more complicated than that described by SACTRA because of the variability in choice of multiplier eg very different multipliers have been used for Manchester Runway 2 and Heathrow Terminal 5 without explanation (See Box 1, page 10, on Airport Expansion and Local Employment)

2.7.2 Taking these arguments into consideration, the bullish claims made in the OEF report lack credibility. Moreover, given the negative economic effects of the environmental impact of aviation (for example defensive health expenditures) and the large resource take that would be required to cope with predicted levels of air travel, it is by no means clear that unrestricted growth of air travel would benefit the economy. It is more probable that a restriction of air travel would have beneficial economic effects in addition to environmental and quality of life gains.

These would include the following:

- reduced defensive health expenditures as a result of reduced pollution. These are estimated to be around £20 billion pa for road transport alone (Maddison et al 1996);
- a more efficient allocation of resources, especially if tax exemptions to aviation are reduced;
- reduced congestion, labour market inflation and housing market inflation at and near major airports;
- scaling down and reallocation of the annual £9.2 billion subsidy from the taxpayer to aviation (Sewill, 2003).

Box 1 - Airport Expansion and local employment

Employment as a consequence of airport expansion can be categorised as *direct* (employment directly related to aviation services and which must be located on airport), *indirect* (employment derived from the provision of goods and services procured by the firms involved in aviation) and *induced* (employment supported by spending derived from direct and indirect employment). The easiest employment to measure is direct employment, surveyed routinely by airport operators. Indirect employment is more difficult to measure, mainly because many of the suppliers will have non-aviation business in addition to aviation business. Hotels near airports for example may have clients who are not travelling by air. The most difficult category to estimate is induced employment.

Two examples taken together illustrate the ambiguities that arise in this context. The first concerns the building of a second runway at Manchester Airport, the second the building of Terminal 5 at Heathrow. Consultants arguing in favour of Manchester's second runway estimated an induced employment of 10,000 from extra direct and indirect employment of 20,000, assuming a multiplier of 0.5. Consultants arguing in favour of Terminal 5 estimated an induced employment of 17,700 from direct and indirect employment of 65,600, assuming a multiplier of 0.27. No justifications were given for the multipliers used, but it is perhaps significant that Heathrow is located in a region of low unemployment with high labour demand whereas Manchester is located in a region where unemployment is considerably higher. Objections to the construction of Terminal 5 have come from those concerned with (amongst other matters, notably environmental costs) the effect on an already pressured local labour market of a large increase in the demand for labour; BAA's estimates of the increased employment generated by T5 have been lower than for airport expansions elsewhere. For Manchester on the other hand, the Airport Company have used high estimates of job creation as a justification for the airport expansion.

There are no obvious reasons why expansion at Manchester should create more jobs pro rata than expansion at Heathrow.

3.0 THE PROBLEM WITH JOB CREATION ARGUMENTS

- 3.1 Most large scale investment will create jobs. The Manchester tram system, the Commonwealth Games, the redevelopment of the Albert Dock waterfront in Liverpool, the Reebok stadium, the expansion of Lancaster University and the redevelopment of Manchester after the IRA bomb have all created jobs.

The problem with these job creation effects is that they are very difficult to quantify with any degree of accuracy and often depend on other interventions and expenditures (housing, schools, grants, roads, derelict and contaminated land clearance) to make them "work." Total project costs (eg the costs of Manchester Runway 2) will not capture the total costs of creating those jobs and cannot capture the external public costs (eg more traffic congestion, pollution, noise and health problems). Any project leading to job creation will consume public and private expenditures that could have been used in alternative ways to create jobs and many of these alternative ways will be more "efficient" than the one that has been chosen. The Lancaster Western Bypass or Heysham-M6 link (a new road proposal) would cost £60 million and is intended to reduce traffic congestion and improve the economy

of this region (ie create jobs). It is possible to reduce traffic congestion through company transport plans, safe routes to school projects, congestion charging, parking management and land use planning and to create jobs directly through targeted sectoral programmes (agriculture, energy, public transport) and through improvements in accessibility that do not involve road building. These alternatives are less costly and may create more jobs but as in the case of aviation are not factored into the public policy making debate.

The problem with aviation's direct job creation effects is not that it does not exist. It will create some direct jobs. The problem is that there is no clear public policy ranking and prioritisation process to evaluate the relative performance of different ways of creating jobs. It is a departure from "best value" thinking and methodology to accept in an uncritical sense the assertion that expanding regional airports is best value when set against a range of alternative strategies for creating jobs.

- 3.2 There is also a problem in the arithmetic surrounding these assertions. A study of 16 airports that included Manchester and Liverpool (DTZ Piedad Consulting, 1999) concluded that the ratio of direct employment (on and off airport) ranged from 521 to 2550 passengers per full time equivalent employee with an average of 1160. Put more simply this means that (very approximately) every 1000 passengers "creates" 1 full time job and every million additional passengers creates 1000 jobs. The problem with the arithmetic is that averages are misleading. Individual circumstances, the balance of scheduled versus charter flights, the importance of low cost airlines and the preferences of airlines and others for creating jobs well away from the region (eg British Airways engine maintenance in Cardiff and software support in Bangalore, India) all make these numbers very unreliable indeed.
- 3.3 In addition to direct jobs, ie those jobs directly related to airport operations, there are indirect and induced jobs:
- Indirect jobs are those created in businesses that supply goods and services to the aviation sector (eg catering materials, security and cleaning);
 - Induced jobs are those jobs created when the income earned by those in direct employment is spent on goods and services in the local economy.
- 3.4 In the case of both indirect and induced it is normal to use "employment multipliers" to produce an estimate of how many jobs fall into these categories. These multipliers in their turn come from other studies and consultancy projects and are rarely, if ever, validated through a rigorous "reality check". The Manchester Runway 2 inquiry was presented with evidence based on a 1994 study by York Consulting that the appropriate employment multiplier was 1.3. This means that for every 100 direct jobs, a further 30 will be created in the relevant region or sub-region.

- 3.5 In the absence of validation and serious empirical checks on these multipliers very little reliance can be put on the numbers.
- 3.6 A further problem arises with multipliers and indirect/induced jobs. In regional and sub-regional economics these estimates are not constrained by actual employment numbers in different sectors of the economy. Put very crudely it is perfectly possible and reasonable for every large employer in the region starting with Cumbria County Council in Carlisle and progressing through all local authorities, NHS employers, all universities, Pilkingtons in St Helens and all other employers carry out the same multiplier calculation. The results of this exercise would produce an indirect/induced job total greater than the total of all employed persons in the North West. In other words multiplier calculations are seriously flawed because they involve massive double counting, no back-checking or validation and no constraints that mean the final total must not be greater than "X" where X is an actual employment figure. They are unreliable guides to the economic impacts of any sector of the economy and should be discarded in discussions around aviation.
- 3.7 This flawed approach to economics has also appeared in the recent government consultation on aviation. The consultation document for the North of England asserts that under the RRC scenario (RASCO Reference Case) up to 23,400 new airport jobs will be created producing 41,500 in total (Manchester and Liverpool only). This assessment (page 165 of the Consultation document) is based entirely on averaged figures for direct job creation which have not been validated and on estimates of indirect and induced job creation which are fatally flawed. This does not represent a safe or firm basis for evaluating growth scenarios or spatial scenarios for the future development of aviation.

4. AIRPORTS AND ROAD CONGESTION

- 4.1 Traffic congestion damages local, regional and national economies. UK national transport policy is rooted in the acceptance of this economic damage and the importance of reducing congestion levels (10 Year Transport Plan). One frequently used estimate quotes an economic loss of £15 billion pa from traffic congestion. Maddison et al (1996) put the annual costs of traffic congestion at £20 billion.
- 4.2 Manchester Airport is responsible for 20% of the traffic on key congested links of the motorway system serving the airport (Consultation Document for the North of England, page 146). The A5103, A538 and M56 are all at or predicted to be at 90-100% of capacity. It follows therefore that aviation is responsible for a proportion of the economic damage identified in national transport policy documents and in Maddison et al (1996). This is a debit item in an audit of the costs and benefits of aviation and it has not been factored into any of the discussion of the economic impact of aviation. Further it will damage the economy of Greater Manchester directly through economic losses associated with delay (time valuations) and indirectly through the loss of inward investment. It may not be prudent to locate new economic activity in

a heavily congested area when other regions are marketing themselves as uncongested.

5. INWARD INVESTMENT AND EXPORT MARKETS

- 5.1 The presence of international air services has been linked to wider economic gains from the support this gives to exports and the advantages it confers in attracting inward investors. The Consultation Document for the North of England identifies both these considerations as clear economic gains (pages 112-115). This is a very one sided analysis of the situation. It is clear from wider economic analyses of transport investments (SACTRA, 1999) that increased opportunities for interaction and increased accessibility delivered through a new road or a new air service can work in both directions. Increased opportunities to reach export markets have a direct equivalence with increased opportunities for overseas businesses to penetrate UK markets and take a share of those markets whilst displacing local or regional suppliers. This "two way street" phenomenon is ignored in the economic discussions in the consultation document. This is surprising given its prominence in SACTRA (1999):

"Studies in economic geography confirm that there is no guarantee that transport improvements will benefit the local or regional economy at only one end of the route - roads operate in two directions, and in some circumstances the benefits will accrue to other competing regions"

Source: para 40, page 22, SACTRA, 1999

- 5.2 SACTRA's comments and relevance embraces all transport investments and not just roads. It is not credible to conclude that improved air services are capable of bringing economic gains to the UK and incapable of contributing to improved business opportunities for companies in Frankfurt, Amsterdam, Paris and Madrid who now have easy access to Manchester and Liverpool.
- 5.3 Data for the UK as a whole show that the amounts of money invested by UK companies abroad is higher than that invested by overseas businesses in the UK. If there is a link between the enhanced accessibility provided by international air services (as the aviation industry and the consultation document claim) then it works to the disadvantage of the UK and supports a net outflow of resources. Put very simply potential jobs in the UK are sacrificed for the benefits of investing abroad. Whilst we would not wish to claim that this job loss and net outflow of funds should be "laid at the door" of aviation we also wish to question the logic of the opposite assertion from the industry itself. Inward investment cannot be claimed as a benefit of airports or aviation. If it is claimed then equal weight has to be given to the debit side of the balance sheet.
- 5.4 The balance sheet shows a substantial net deficit (\$313 billion over a 5 year period). This is £190 billion over 5 years or approximately £38 billion each year. This is shown below:

**Table 1 - Inward Investment and Outward Investment in the UK,
1997-2001**

	Inward Investment (billion \$)	Outward Investment (billion \$)	Deficit (billion \$)
1997	33	62	-29
1998	74	123	-49
1999	88	201	-113
2000	117	254	-137
2001	54	39	15
	366	679	-313

Source: United Nations Conference on Trade and Development (UNCTAD), World Investment 2002, Transnational Corporations and Export Competitiveness (September 2002), quoted in "It's the Economy, Stupid", HACAN, 2003

5.5 This net deficit has a direct equivalence in job losses. If we accept that the cost of creating a job in the UK is approximately £23,000 (National Audit Office, 1999) then this outflow represents a job loss of 1.65 million each year for 5 years (£38 billion divided by £23,000). Taking the North West contribution to GDP as 10% of the UK total (Office of National Statistics, 2001) a rough approximation of the annual job loss to north west England as a result of investment abroad is 165,000. This job loss is facilitated by the development of air services and the aviation industry.

6. THE SPECIAL ROLE OF TOURISM

6.1 Aviation is predominantly a tourism industry. Business trips currently represent about 24% of all trips by air and most of the growth in air transport in recent years and in the years towards 2030 will be tourism trips. In 2001 Manchester Airport handled 19.1 million passengers. 1.2 million (6.7%) of these flew to Heathrow Airport (a mixture of tourism and business) and 6.5 million (34%) flew to the main holiday destinations (Tenerife, Palma, Alicante, Malaga, Orlando, Faro, Las Palmas, Larnaca, Lanzarote, Paphos and Corfu). In addition approximately 1.5 million flew to Dublin, Paris and Amsterdam.

It is important to recognise that the arguments used to justify a huge expansion in aviation usually emphasise the importance of aviation to the leading edge, competitive and globalised context of NorthWest England manufacturing and service industry when more than half of the use of Manchester airport has nothing to do with this sector of the economy. Flights made for holiday purposes are important for those going on holiday but from an economic point of view the imbalance between the spending of those going abroad on holiday and the spending of those who come to the UK on holiday means that this aspect of aviation is a contribution to a large net deficit.

- 6.2 Visitors who leave the UK spend more abroad than visitors who arrive in the UK. Tourism is a net drain on the financial resources of the UK. The balance of payments deficit in aviation tourism was approximately £11 billion in 2001 (Overseas Travel and Tourism Business Monitor MQ6, Office of National Statistics, quoted in HACAN, 2003). The deficit has increased year on year since 1988. This is summarised in Table 2.

Table 2 - The UK Tourism Deficit

	UK spend abroad (£ billion)	Visitor spend in the UK (£ billion)	Deficit (£ billion)
1998	13.1	8.6	-4.5
1999	15.3	8.6	-6.8
2000	17.7	9.1	-8.6
2001	18.7	7.6	-11.1
Totals	64.8	33.9	-31.0

- 6.3 The expansion of the market for overseas holidays and weekend breaks cannot be regarded as an economic gain for the UK or for the North West. It represents a gain for the individuals taking the holiday but only in the same way as a trip to the Lake District, a trip to Chester or a trip to Blackpool. Trips made within the region or within the UK will feed directly into job creation in the UK tourist sector and trips made abroad predominantly will not. Also from an economic point of view, if trips made abroad are reduced in number or foregone, the disposable income will be reallocated in some other way and those new expenditures (or savings) will in their turn impact on the economy.
- 6.4 The large scale expansion of UK and North West airports to support higher levels of tourist trips to destinations outside the UK does not have a positive effect on the economy of the region and is responsible for significant resources "draining away" from the region.

7. CONCLUSIONS

- 7.1 Aviation has a strong growth dynamic and is one of the few industries that can show growth rates of 7% p.a. It has a strong positive image in the minds of policy makers and government and in the minds of the general public. It is also a very small player in the economy of the north west with currently only 0.6% of total employment. The jobs it creates and supports are nevertheless real and welcome but do not have any special status in the sense that the industry should receive special privileges (tax free fuel) or special planning considerations (expansion in the Green Belt).
- 7.2 The central and unresolved dilemma of aviation policy in the UK is that aviation has achieved this special status and now seeks to expand its capacity threefold by 2030 largely on the strength of the economic arguments. This is not valid. Aviation is a small sector of the economy. It is largely a tourist industry characterised by a significant net outflow of resources from the UK. The tourism deficit is £31 billion over a four year period and this outflow is matched by the deficit on investment which was \$313 billion over a five year period.
- 7.3 The aviation industry and the UK government consultation documents assert that aviation is good for the economy because it creates jobs and because it supports wider sections of the economy through higher quality international links. The job creation argument is fatally flawed. Direct jobs are few in number and the indirect jobs are estimates based on a flawed methodology. Every organisation in the North West from local authorities to nuclear power stations and universities wants to claim the same indirect jobs. There is double counting on a huge scale and no attempt whatsoever to validate numbers or back check. For policy discussion purposes the whole subject of indirect jobs should be discounted. It is misleading.
- 7.4 Strong international air connections are just as likely to result in an outflow of investment and a loss of market to UK companies as they are to the opposite result. It is disturbing that the official UK governmental consultation has failed to take any account of this inexorable logic and failed to take account of its own scientific advice and work on transport and the economy in the 1999 SACTRA report. The omission of the SACTRA's work from the aviation debate has impoverished that debate and produced a consultation that has uncritically accepted an industry viewpoint.
- 7.5 From an economic point of view and a public administration point of view there should be a clear, transparent and "best value" approach to job creation. The expansion of Liverpool John Lennon Airport and Manchester Airport will create some jobs (though much less than is claimed by the industry and government). If we are clear that job creation is our objective then airport expansion and its demands on the public purse (new and widened roads, new metro links) must be assessed for its performance against other strategies and investment proposals. North West England has no shortage of alternatives (offshore wind farms, organic agriculture, energy efficient homes, improvements to public transport in urban and rural areas). No evaluation has been carried out and no attempt has been made to deliver best value.

- 7.6 Accessibility is very important to businesses. Businesses in the North West suffer from some of the worst rail services and the highest rail fares in Europe. There are no through trains from Manchester and Liverpool to Paris or Frankfurt and rail services to London are amongst the most expensive in Europe. Congestion is amongst the worst in Europe and this will get worse still now the government has abandoned its 10 Year Plan target to reduce congestion. This congestion damages the economy of the North West; airport trips are a significant part of this congestion in Manchester.

In the meantime our competitors in Frankfurt, Paris, Hamburg, Dusseldorf and Amsterdam have reasonably priced, highly efficient, integrated public transport systems and Copenhagen has 1 in 3 of all trips on the bicycle which makes a significant contribution to reducing congestion for the benefit of Danish businesses. An efficient public transport system and an efficient urban distribution/logistics system can contribute directly to the international competitiveness and efficiency of the regional and sub-regional economy. It does this by emphasising linkages over short to medium distances and strengthening the regional economy. This is not even on offer in Manchester and Liverpool as businesses and workers struggle with congestion, poor services, time delays and economic losses.

- 7.7 If the objective of aviation policy is to encourage as many people as possible to take as many holidays as possible as far away as possible then that is a matter for political decisions and can be implemented relatively easily. From an economic point of view this policy should carry a clear pricing policy. Our trips to a restaurant in Manchester are not subsidised by central government but our trips to Malaga, Mauritius and the Malay peninsula are. The total value of all governmental subsidies in the UK to aviation is currently about £10 billion pa and this takes into account the air passenger duty which raises about £1 billion pa (HACAN, 2003). There is no economic case for providing this subsidy and it flouts sustainable development policy (prices should tell the ecological truth) and it flouts EU and UK commitments to the polluter pays principle.
- 7.8 A large subsidy has a central role in fuelling the growth in demand for aviation (RCEP, 2002). Demand management will reduce the growth rates and produce an aviation sector which is more in balance with the rest of the economy and with the realities of decision making in businesses.
- 7.9 Businesses in the North West need help. They need help with solving congestion problems and with recruiting high quality workers who can be mobile and not financially or psychologically stressed by the failure of urban transport. The North West needs a transport system at least as good as Amsterdam, Frankfurt and Berlin. Businesses need good and affordable rail links to London and other British cities and to mainland European destinations. Currently this is not the case. Businesses need access to state of the art video conferencing and teleconferencing facilities to substitute for air travel. These facilities can reduce the costs of business meetings by more than a factor of 10 and these savings can be reallocated to more productive uses in the company eg research and development.

7.10 The idea that aviation can deliver unequivocal economic benefits is not credible. The way forward for the North West is a much richer diet and balance so that new jobs are created in several dozen different sectors of the economy. The removal of subsidies to aviation will stimulate a much more productive and effective allocation of resources between competing demands. It will also reduce congestion and pollution and reduce the need for very expensive public and private projects that have the effect of fuelling the growth of aviation. Predict and provide approaches have been rejected in road transport and it is time the same rigour and discipline was applied to aviation.

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