

Aviation: Half price oil, cheaper tickets - report sees flaws in case for third Heathrow runway

Call for independent study after government is accused of economic sleight of hand

Dan Milmo, transport correspondent
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The following correction was printed in the Guardian's Corrections and clarifications column, Friday July 25 2008

The sub-heading to this story was wrong to suggest that there was a call for an independent study after BAA was accused of an "economic sleight of hand". As the article made clear, that criticism, made by Friends of the Earth's aviation campaigner, was directed at the government. The SEI report, commissioned by Friends of the Earth, challenges the government's economic arguments for airport expansion and recommends that the case for a third runway be re-examined by disinterested researchers. This error has been corrected.

The economic case for expanding Heathrow is flawed because the argument for building a third runway at Britain's largest airport relies on optimistic assumptions including a low oil price and escalating passenger demand for flights, a new report argues.

The government consultation on a third runway ignores the potential impact of new railway lines on passenger demand, presumes that air fares will continue to fall and is based on questionable forecasts that oil will cost \$53 a barrel in 2030 - less than half the current price - said the Stockholm Environment Institute.

The SEI, which has worked for the British government and the Intergovernmental Panel on Climate Change, said the case for a third runway should be re-examined by "disinterested researchers" who are not for or against. "Considering the size of the project and the irreversibility of its consequences, a full and accurate accounting of impacts is essential before any decision-making process can go forward," said the report by SEI's US centre.

The Heathrow consultation has been attacked as biased by local residents, environmentalists and opposition politicians, who have also raised concerns about the close cooperation between the government and BAA, Heathrow's owner, during the process.

BAA batted back claims about impartiality yesterday, noting that the report was commissioned by Friends of the Earth, a leading light in the anti-runway lobby. "This is not a serious or impartial piece of academic research," said BAA. "It is a report which completely misunderstands or misrepresents the economic value of Heathrow airport and the way it operates."

The report attempts to open a new front in the third runway battle by challenging the yes camp's economic case. So far, much of the debate over a runway has focused on the noise and air pollution restrictions that must be overcome if the project can go ahead. Anti-Heathrow campaigners have alleged that the government and BAA have colluded in massaging noise and air contamination data to achieve a pro-runway outcome. The economic debate has received less publicity, though SEI's report is expected to reopen it with its accusation that the Department for Transport consultation uses a flawed evaluation of whether a new runway is in the public interest.

Costs of expansion

The economic case for expansion calculates net benefits to the UK economy of £5bn over 60 or 70 years if a third runway is built by 2020 and if restrictions on landings and take-offs are lifted. The key to this argument is so-called generated user benefits, which estimate the value of flights that are created by extra runway capacity and are valued at £9bn. Without their contribution, the SEI report states, the costs of expansion would outweigh the benefits.

The £9bn figure is calculated by estimating the difference between the maximum fare a passenger would pay to travel through Heathrow and the lower fare they would pay if a third runway unleashed a fresh supply of cheap tickets. That figure is then multiplied by the number of new customers that an expanded Heathrow could attract.

However, the argument starts to look fragile if prices do not fall and more people do not fly, the SEI report adds. "If demand for flights is smaller than the DfT expects, or if airfare is higher (owing to increases in fuel prices, for example), then generated user benefits will be smaller, and so too will the total benefits of airport expansion," said SEI. The government predicts that the number of air passengers using UK airports will double at least from 228 million a year to between 460 million and 540 million in 2030, with the number of Heathrow flights rising from 480,000 a year to 702,000 if a new runway is added.

Passenger growth forecasts also came under attack. The predictions in the consultation document are based on a projected oil price that varies from \$65 a barrel in 2006 to \$53 a barrel in 2030, which in turn underpins predictions of low ticket prices that will boost demand for air travel.

The SEI report said the government is "strangely out of step with common predictions for oil prices", going against a futures market that predicts a price of \$140 a barrel in 2016.

The DfT also assumes that non-fuel costs for all flights will fall each year up to 2020. SEI argues that this assumption is based on data showing that non-fuel costs for flights in and out of the UK have fallen 5% a year over the past five years but these figures are largely due to the emergence of budget airlines.

The SEI report questions whether such aggressive cost-reduction can be maintained now that no-frills carriers are well established, implying that airlines will struggle to hold down ticket costs in the future. "If the recent drop in non-fuel costs was a one-time change, resulting from the introduction of budget airlines, then those cost categories may not continue to decline - and generated user benefits will be reduced," said the report. The analysis also accuses the government of ignoring the potential benefits of limiting short-haul flights from Heathrow and improving the UK rail system, which would be able to serve passengers who do not take domestic flights in and out of the UK's main hub airport. "A better rail system ... is another alternative worth comparing to airport expansion," said SEI, adding that 19% of Heathrow passengers take flights to destinations already served by trains.

In a scathing response, BAA said the high-speed rail argument was a "red herring" because any drop in domestic passengers caused by an improved rail network would be filled by unmet demand for long-haul flights. "The airport would be full again before 2020 and long before this theoretical high-speed network could actually be built."

Rubber stamp

The Department for Transport said: "Our analysis of the economic benefits of expansion is robust and demonstrates that a third runway would provide net economic benefits of around £5bn - and that takes account of the costs of CO2 emissions and noise. The government has been transparent in producing demand and emissions forecasts and we have produced much technical work to support the consultation."

A spokesperson added that the government would take into account in the current oil price of \$130 a barrel when it made its final assessment of the case for a third runway. It is not expected to announce the outcome of the consultation until the end of the year but the DfT is expected to rubber stamp the current government policy that a third runway should be built.

Richard Dyer, aviation campaigner at Friends of the Earth, said the case for a third runway would collapse "if it wasn't for this economic sleight of hand". He added: "The government must fundamentally review its entire aviation strategy and appoint an independent commission to examine the economic case for airport expansion."

Flights of fancy?

480,000

Flights per year

68m

Passengers per year

702,000

Flights per year

122m

Passengers per year
