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STANSTED AIRPORT G1 PUBLIC INQUIRY

held at

Endeavour House

Stansted Airport

Essex

on Wednesday, 25th July 2007

commencing at 10.00 am

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A P P E A R A N C E S

The Inspectors:

Mr Terry Phillimore [not present]  
Mr Alan Boyland

For BAA:

Mr Michael Humphries, QC  
Mr Phillpot [not present]

For Stansted Airlines Consultative Committee:

Mr David Holgate [not present]

For National Trust:

Mr D Smith [not present]

For Uttlesford District Council, Essex County Council and Hertfordshire County Council:

Mr Tom Hill  
Ms Lisa Busch [not present]

For Stop Stansted Expansion:

Mr Paul Stinchcombe  
Ms Sarah Hannett

For Saffron Walden District Friends of the Earth:

Ms Pat Elliott [not present]

1 Wednesday, 25th July 2007

2 (10.00 am)

3 Procedural Matters

4 MR BOYLAND: Good morning, the inquiry is resumed. The  
5 usual reminder please about the attendance list and to  
6 turn mobile phones off or to silent. Any procedural  
7 issues before we carry on? Thank you. Mr Stinchcombe.

8 MR STINCHCOMBE: Thank you very much indeed, sir. Sir, we  
9 touched upon economics with our last witness yesterday,  
10 but we come into economic territory much more squarely  
11 today. Sir, I have a single witness on economics, but  
12 the evidence is divisible into two discrete parts.  
13 Firstly, the SSE/8 series of proofs on economic impacts,  
14 which can be taken together with SSE/31, the rebuttal to  
15 Mr Rhodes, and then thereafter and separately, the SSE/9  
16 and 10 series on employment and housing.

17 MR BOYLAND: Yes.

18 MR STINCHCOMBE: And with your leave, and unless it is  
19 a serious inconvenience to my learned friend, I would  
20 like to take them in that order, leaving the  
21 evidence-in-chief on the economic impact (inaudible)  
22 having cross-examination and re-examination, and then  
23 coming back to the discrete issues of employment and  
24 housing.

25 MR BOYLAND: Very well.

1 MR STINCHCOMBE: I am obliged.

2 MR HUMPHRIES: Sir, I am sorry, you have not asked me. The  
3 difficulty is, and we can adjourn for half an hour for  
4 me to look at it, of course, I just assumed, because it  
5 is in the programme as Mr Ross on these proofs that it  
6 is these proofs, and therefore I have not disaggregated  
7 the cross-examination in that way. Now, I am not  
8 suggesting that I could not do so, but I don't know that  
9 I can just instantly disentangle. It might be possible  
10 for me to do it.

11 MR BOYLAND: Are there overlaps in any event?

12 MR HUMPHRIES: There might be. I am sure it is my fault.  
13 I just had not realised it was going to be done like  
14 that. It was one witness with the four proofs. I had  
15 just done things by topic. As I say, if I am I given  
16 some time I might be able to, and it may not be too  
17 difficult to disentangle things, but I can't promise to  
18 just instantly do that.

19 MR BOYLAND: Would it be a problem if we did it jointly?

20 MR STINCHCOMBE: I will ask my witness whether there is  
21 a problem in due course, but for my purposes I have no  
22 problems in presenting the case in the way I have  
23 suggested and leaving the cross-examination for the  
24 entirety of it.

25 MR BOYLAND: Mr Ross?

1 A. It does not actually cause me a problem, but I think  
2 quite honestly the evidence would be more clearly  
3 presented if we could, so far as possible, deal with the  
4 economics first and then the employment issues second.  
5 But understanding Mr Humphries' points, if he has issues  
6 where there is a bit of an overlap, I will try and deal  
7 with it there and then, or alternatively I could  
8 say: can we defer that until I have dealt with the  
9 employment one? I think that would be reasonably tidy  
10 to do it that way.

11 MR BOYLAND: I think we will see if we can manage on that  
12 basis.

13 MR HUMPHRIES: Sir, I was just looking at my notes, and one  
14 of the problems is that there are aspects of the proofs  
15 which do touch on both issues. My preference would be  
16 to cross-examine once on all of these things. I accept  
17 that there are divisions between the different proofs,  
18 but there are also some overlaps between the proofs so  
19 that SSE/9, for example, is entitled "Economic and  
20 Employment Aspects".

21 Now, I have put the economic aspects of SSE/9 with  
22 the economic aspects of SSE/8, which is called  
23 "Economic Impacts". I have put the employment aspects  
24 of SSE/9 with the employment section, which is SSE/10  
25 entitled "Employment and Housing". So I could

1 disentangle it, but it would be artificial.

2 MR BOYLAND: Let's hear both topics in chief, and then

3 I think we will try to do the cross-examination in the  
4 way that Mr Humphries has prepared. If it does cause  
5 problems to Mr Ross or to Mr Stinchcombe, do please say,  
6 and if necessary we will take an adjournment while we  
7 disentangle things. But hopefully the problems will not  
8 arise. I am just going to have to adjourn for a short  
9 time, because in my haste I have brought down the proofs  
10 for Friday's hearing and not today's, so if you just  
11 bear with me while I pop upstairs and get today's  
12 proofs. Thank you.

13 (10.10 am)

14 (A short break)

15 (10.12 am)

16 MR BOYLAND: Right, thank you very much ladies and gentlemen

17 I am now properly equipped. When you are ready,

18 Mr Stinchcombe.

19 MR BRIAN ROSS (called)

20 Examination-in-chief by MR STINCHCOMBE

21 MR STINCHCOMBE: Thank you, sir, I have introduced Mr Ross

22 to the inquiry before. I need not do so by reference

23 again to his qualifications and experience, save to ask

24 this, Mr Ross: firstly, for how long have you been

25 providing economic advice to SSE?

1 A. Almost since the beginning, but I think formally I have  
2 been economics adviser to SSE for four years.

3 Q. Right, and would you describe yourself as an economist?

4 A. Well, I have studied economics for more than six years,  
5 at undergraduate and postgraduate level. I am not an  
6 academic economist in terms of doing research and  
7 writing books and papers, although I have written a few  
8 papers, but throughout my career I have been what you  
9 describe as an applied economist, interpreting  
10 macroeconomic data, doing microeconomic analysis and  
11 also econometric analysis, so in that sense I am an  
12 economist.

13 Q. Right. Now you tell us in section 2 of your summary  
14 what the scope of your evidence is, and we can take that  
15 as read. So I wonder if you can read from  
16 paragraphs 3.1.1 to 3.1.5.

17 A. Is this from the summary, Mr Stinchcombe?

18 Q. From the summary of document 8/b.

19 A. "Characteristics of Stansted Airport" is the heading at  
20 3.1:

21 "Business travel presently accounts for 19 per cent  
22 of Stansted's passengers, and BAA projects this would  
23 increase to 23 per cent if the application were refused,  
24 but would remain at 19 per cent if the application were  
25 to be approved. Outbound UK leisure travellers

1 outnumber incoming foreign visitors 2:1 [in fact it is  
2 just over 2:1], BAA projects this would remain the case  
3 whether the application were to be ... (reading to the  
4 words) ... only 200,000 additional UK business users  
5 per annum."

6 Q. Pausing there, you have just given the figure of  
7 200,000 additional UK business users?

8 A. Yes.

9 Q. Elsewhere in the inquiry we have heard 300,000 given.  
10 Can you explain why that difference arises?

11 A. Yes, we should look at CD/8, which is the  
12 economic -- volume 5 of the Environmental Statement,  
13 dealing with economic effects. We should look at  
14 page 10, table 5, or in fact it is easier looking at the  
15 following table, table 6, I think is easier.

16 Table 6 shows the difference between 25mppa and  
17 35mppa, and we are looking at the final column which is  
18 the totals. You will see there is a row there for  
19 UK business, and it shows 0.4. That is 400,000  
20 additional business passengers per annum, but bear in  
21 mind that all passengers are double counted because they  
22 are counted when they arrive and they are counted when  
23 they depart, so it is 200,000 additional passengers and  
24 200,000 additional trips, that is the difference. I can  
25 give you a more precise number -- in fact, I think

1 Mr Hill pointed this out earlier in cross-examination,  
2 and we find the more precise numbers -- just a second  
3 (Pause). In CD/19, which is volume 16 of the  
4 Environmental Statement, in appendix 2. Now, if we look  
5 down the column -- if I were to compare these two  
6 tables, which is relatively easy to do -- we are looking  
7 down the column of UK business, and we are comparing the  
8 total of 3.6 million in the upper table for 25 million  
9 to 4.02 in the lower table. So, in fact, it is 420,000.  
10 The correct number then is -- the more precise number is  
11 210,000 additional UK business trips. Perhaps, just  
12 while we are here, it is worth looking at the foreign  
13 business trips. Again, in the upper table, for 25mppa,  
14 it is 1.58 million and in the lower table it is  
15 1.45 million. The difference between the two is  
16 130,000. 130,000 fewer foreign passengers, which is  
17 65,000 fewer foreign business trips into Stansted.

18 Having gone through all these numbers in detail,  
19 hopefully they are clear.

20 Q. I am obliged. If you can turn back to your summary and  
21 read section 4.1.

22 A. This is referring to the business statistics in  
23 particular:

24 "In view of the above it is difficult to see how any  
25 significant direct benefits to business would arise from

1 the proposed development. The main purpose of the  
2 proposed development is to accommodate more leisure  
3 passengers ... (Reading to the words) ... there would be  
4 a significant adverse impact upon the UK Balance of  
5 Payments."

6 And specifically actually it is the UK current  
7 account trade deficit.

8 Q. Pausing there, you deal with the Balance of Payments  
9 impact in section 4.2 of both your summary and your main  
10 proof, but I note that in your summary we have, in  
11 fairly short order, rather a lot of numbers put forward.

12 A. Yes.

13 Q. I wonder if you could take us through section 4.2 of  
14 your main proof instead, in order to set the context for  
15 those numbers. If we can turn up your main proof, 8/a,  
16 section 4.2, and perhaps you can clarify the Balance of  
17 Payments issues by reference to that.

18 A. Yes. I do not think I need to read this verbatim, but  
19 it is perhaps useful if I talk through the tables just  
20 to explain them. But let me start with paragraph 4.2.1,  
21 which is the overarching position:

22 "The United Kingdom trade deficit on international  
23 air travel has grown sharply over the past ten years,  
24 from a deficit of £2 billion in 1995 to £18.8 billion  
25 in 2005. In fact international air travel accounted for

1 43 per cent of the total UK trade deficit in 2005.

2 "There are two main components to the air travel  
3 deficit:

4 "The difference between the amount of money spent by  
5 UK residents in overseas destinations compared to the  
6 amount of money spent by foreign visitors to the UK.  
7 This amounted to £15.73 billion in 2005."

8 These numbers, I think, are -- I am not sure they  
9 are sourced here, but I can show you the source for  
10 them. They are in the United Kingdom Blue Book, which  
11 is the annual Balance of Payments publication.

12 The second element is:

13 "The difference between the amounts [of money] spent  
14 by UK residents purchasing airline tickets from foreign  
15 airlines compared to the amount spent by foreign  
16 residents purchasing air tickets from UK airlines. This  
17 amounted to £3.05 billion in 2005."

18 Again, these numbers are in the United Kingdom  
19 Balance of Payments Blue Book for 2005, and just to be  
20 absolutely clear, expenditure by UK residents abroad is  
21 defined as imports, and earnings from foreign tourists  
22 visiting the UK are defined as exports.

23 Table 2 shows how the Balance of Payments on current  
24 account has been increasing over the past ten years. If  
25 I just make two slight corrections. We added 1995 to

1 this table pretty late in the day, so in  
2 paragraph 4.2.3 -- I will read paragraph 4.2.3 and  
3 I will make the correction:

4 "Table 2 below deals with the first point above and  
5 shows the growing gap between outward and inward  
6 spending. In particular it shows that expenditure on  
7 overseas visits by UK residents has increased by  
8 128 per cent since 1995 [that should read 1995, not  
9 1996] compared to only a 28 per cent increase in  
10 spending by foreign visitors in the UK. The growing  
11 disparity between outward and inward tourism coincides  
12 with the UK boom in budget air travel."

13 I do not want to go through all of the numbers, in  
14 fact the last line in bold, the last row, shows the  
15 trend, or the change, since 1995. You will see we have  
16 had 39 per cent increase in foreign tourists to the UK,  
17 a 91 per cent increase in UK tourism overseas,  
18 a 28 per cent increase in the income the UK has earned  
19 from exports from foreign visitors visiting the UK, and  
20 a 128 per cent increase in the outbound figure, the  
21 amount of money we spend overseas. The deficit -- and  
22 this is the second correction -- is not 423 per cent,  
23 that was in 1996; it is 503 per cent. So it was  
24 understated.

25 Table 3 is the other half of the coin. I will not

1 go through it in as much detail, but you will see that  
2 in 1995 Britain actually earned a surplus on airline  
3 tickets. In other words, British airlines sold more  
4 aeroplane tickets to foreigners than British people  
5 purchased from foreign airlines. So it was  
6 a £600 million surplus in 1995, and the latest year is  
7 a £3 billion deficit: British people buying more tickets  
8 from foreign airlines.

9 BAA has not provided a forecast with a Balance of  
10 Payments impact of its specific proposals for Stansted,  
11 we can estimate this. Now, if you like I will go  
12 straight on to explain more about Stansted or?

13 Q. Come on to Stansted, but pausing there --

14 MR BOYLAND: Can I just clarify one small point on that.

15 Does Ryanair count as a foreign or a UK airline for this  
16 purpose?

17 A. Ryanair is a foreign airline. It is registered in  
18 Ireland and the ownership is in Ireland.

19 MR BOYLAND: I thought that was probably the case, I just  
20 wanted to be clear, thank you.

21 MR STINCHCOMBE: Before we come on to Stansted, just so  
22 I can be clear, Mr Ross, what do we have to do with  
23 table 2 and 3 combined in order to understand the  
24 economic impact?

25 A. I am not absolutely clear what the point is,

1 but -- sorry, clearly we have to take the two elements  
2 together. Even then, incidentally, it is not the full  
3 impact, but these are easily quantifiable and easily  
4 verifiable numbers, and so we know that in terms of the  
5 trade balance, combining the two sets of numbers we get  
6 to, I think, 18.8 -- it should be 18.8 -- actually if  
7 you add the two numbers, it shows 15.7 in the top table  
8 deficit and 3 billion in the other, which is 18.7  
9 -- actually that is just rounding, the combined figure  
10 was £18.8 billion. Essentially that is an outflow from  
11 the UK economy. Exports inject money into the economy,  
12 imports represent leakage from the economy. So in terms  
13 of the -- there is a transfer of wealth from the  
14 United Kingdom overseas.

15 Q. I am obliged. You were going to come on to the impact  
16 of Stansted in particular?

17 A. Yes. Now, as I say, the first set of numbers, which are  
18 the UK numbers, are unarguable. When we come to  
19 Stansted, we have to make some estimates, but actually  
20 there is quite a lot of information around which enables  
21 us to make accurate estimates. If you turn to table 4  
22 in my main proof, it shows, for 2004, which is the  
23 baseline -- these are BAA's numbers I am pretty  
24 sure -- 2.3 -- what is the source, CAA passenger survey  
25 reports -- 2.3 tourist visits, foreign visitors arriving

1 at Stansted, visiting the UK, 4.4, 4 million, outbound  
2 leisure -- these are leisure trips only.

3 Now, the spending figures we can estimate based on  
4 Office of National Statistics data, they publish  
5 spending figures in and out and they publish it on  
6 a regional basis. In any event, for the first year,  
7 using these estimates we can come to a deficit of  
8 £1.08 billion. For the 25mppa case, our estimate here  
9 is based on the BAA numbers that we looked at a short  
10 time ago in table 5 of their economics volume of the  
11 Environmental Statement. So these are BAA numbers here,  
12 and the spending figures are again the Office of  
13 National Statistics' spending numbers. Likewise for the  
14 35mppa case, these are BAA's numbers, and ONS spending  
15 numbers. I will not go beyond that, but you will see  
16 essentially that Stansted Airport, just so far as the  
17 tourism spending was concerned, accounted for just over  
18 £1 billion of UK trade deficit last year, and that would  
19 rose to 1.29 at 25mppa and to 1.8 billion at 35.

20 If I just quickly explain, table 4(a) then takes the  
21 aeroplane tickets as well. And we had to make an  
22 estimate because there is not a specific estimate for  
23 Stansted. The national figure is 17 per cent; we  
24 estimated Stansted at 16 per cent actually, that you add  
25 16 per cent to the expenditure. And the slightly lower

1 percentage at Stansted arises because, whilst actually  
2 the great majority of Stansted flights are with foreign  
3 owned airlines, notably Ryanair and Air Berlin, and so  
4 on, actually the average ticket prices are relatively  
5 low. We came up with a 16 per cent figure, which  
6 I think it quite reasonable, and we are very happy to  
7 share the analysis with BAA.

8 In any event, when you add the air ticket figure in,  
9 then these deficit numbers are a bit higher, as you  
10 would expect. So the comparison between 25 and  
11 35 million, you will see on the final column of  
12 table 4(a), the differences between 1.51 and 2.11 is  
13 £600 million per annum additional trade deficit arising  
14 from the proposed development.

15 Q. I am obliged. Can you take us on to the regional  
16 position?

17 A. Yes. Just to be absolutely clear, the Stansted figure  
18 is, of course, also the national position. So  
19 £600 million would be the difference nationally.

20 So far as the regional position is concerned, again,  
21 we can calculate, or estimate -- in a similar way we can  
22 estimate the impact upon the economy of the east of  
23 England region. We know that in 2004 the region  
24 received -- and I am reading from paragraph 4.2.10 of my  
25 main proof -- 1.492 million foreign visitors by air, and

1 we know that there were 4.72 million overseas trips by  
2 air by east of England residents. So actually about  
3 three times as many, so far as the east of England is  
4 concerned.

5 The expenditure balance, or imbalance was even more  
6 pronounced. Overseas visitors spent £517 million in the  
7 east of England in 2004. Spending by east of England  
8 residents overseas amounted to £2.43 billion in 2004,  
9 which is 4.7 times as much money was spent overseas as  
10 was earned by the east of England region. These are not  
11 SSE estimates, these are published Office of National  
12 Statistics figures.

13 The next outflow from the east of England in 2004  
14 was £1.9 billion. That is a net outflow from the GVA or  
15 effectively GDP of the east of England. Again,  
16 published figures. That incidentally is about  
17 2 per cent of east of England GDP. Sorry, these days  
18 they call it GVA. Now, we know what the baseline  
19 numbers are. In table 5 we try to estimate what they  
20 would be in future. Again, we use BAA's projected  
21 numbers, so far as passengers are concerned, and we use  
22 Office of National Statistics numbers so far as tourism  
23 spending is concerned. The same basis as before. So  
24 looking at table 5 --

25 MR BOYLAND: Mr Ross, the footnote under the table says the

1 estimates are based on CAA passenger numbers. Is that  
2 an error?

3 A. I see that, I see that. Sorry. Can I just check, sir.  
4 I do see that. (Pause).

5 MR BOYLAND: If you can't check now perhaps you could check  
6 it later?

7 A. Can I check it later? I would hazard a guess -- but  
8 I will check this -- that we have used the actual CAA  
9 data for 2004, and we would have used BAA data for  
10 25 and 35, because the CAA do not produce projections.

11 MR BOYLAND: That sounds a reasonable assumption, but if you  
12 could check I would be grateful.

13 A. Sir, I was in table 5 and just pointing to the  
14 difference between the 25mppa case and the 35mppa case  
15 so far as the east of England is concerned, and it is  
16 670 million rising to 940 million. And if we look at  
17 the following table you see we carry these numbers  
18 through to column 1 in the following table -- actually,  
19 strictly, it is column 2. It is the first column of  
20 numbers. 670 rising to 940, then the air tickets are  
21 added, 110 million and 150 million, and so the total  
22 deficit 780 million rising to 109 million. And I am  
23 just comparing the 25 and 35mppa cases.

24 Now, that is where the numbers arise from. The next  
25 piece of arithmetic -- I think I can ignore -- if we

1           turn the page to page 8, I think I can -- I don't need  
2           to read through all of that, frankly. Let me take you  
3           to the top of page 9, which is the final piece of  
4           calculation involved here. This is to convert these  
5           annual figures into what is called a net present value,  
6           so that we can get a direct comparison between -- well,  
7           with the way in which the government presents the data  
8           in net present value terms. In order to do this, it is  
9           a pretty standard procedure, actually. We follow the  
10          Treasury guidelines, although I will comment on that  
11          just in a moment. But you enter the numbers into  
12          a spreadsheet with the discount factor set, and you run  
13          it over the prescribed period. I should add, actually,  
14          that, of course, it is not £600 million from day one, or  
15          whatever it is, the difference annually, it is a bit  
16          more than that. It is a Stansted figure, which is the  
17          UK figure. But it is not that figure -- whatever the  
18          difference is, you don't apply that from day one. It  
19          takes maybe eight or nine years, of course, before the  
20          deficit builds up to that figure. In other words, the  
21          traffic grows from 25 to 35 million. And then you hold  
22          it at that figure and run it through for the remainder  
23          of the period, and you come out with a pretty  
24          straightforward calculation.

25                 In paragraph 4.2.19 I just want to make another

1           slight correction. We refer here to ourselves using  
2           a higher discount rate than the DfT. Actually the DfT  
3           kept changing the discount rate, and in fact I can  
4           confirm now that we both used the exactly the same  
5           discount rates, and so the simple thing actually in  
6           paragraph 4.2.19 is to put a full stop after "The Green  
7           Book", in other words two thirds of the way along the  
8           second line, and delete the rest of paragraph 4.2.19,  
9           which implies that we were more conservative than the  
10          DfT. We were not, we were the same.

11                 So, just in summary, if you look at 4.2.21 and  
12           I will just take what I think the inspector would  
13           consider to be the key number here, and that is:

14                 "Expansion to 35mppa would represent a cost to the  
15           UK Balance of Payments of ... [12.6 billion, net present  
16           value] on the basis presented by BAA ... [that is] the  
17           difference between ... [the] 35mppa [scenario] and ...  
18           25mppa scenario."

19                 We can go through all the other numbers, but even  
20           accepting BAA's basis for comparison, the figure would  
21           be 12.6 billion net present value.

22   MR STINCHCOMBE: Is there anything else in section 4.2 of  
23           your main proof that you need to take the inspector to  
24           before we come back to your summary? (Pause).

25   A. Yes, perhaps just to point out that this is purely based

1 on a current account. If I just comment briefly,  
2 actually, on the points toward the end of page 9.

3 There are other implications. In fact let me read  
4 paragraph 4.2.22:

5 "Our assessment above has been based purely upon the  
6 impact on the [UK] Balance of Payments current account.  
7 There may also be an adverse impact on the capital  
8 account due to the boom in low-cost air travel.  
9 HM Treasury have advised us that no official statistics  
10 are kept on overseas home purchases or ownership by  
11 UK residents ..."

12 I should say that we wrote asking:

13 "... but unofficial estimates (by overseas estate  
14 agents) put the number at about 1.3 million homes in  
15 France, Spain and Portugal alone."

16 And those are three countries, 1.3 million homes  
17 owned by UK residents:

18 "Anecdotal evidence suggests that the increased  
19 availability of low cost flights is a significant factor  
20 behind the growing trend for UK residents to purchase  
21 second homes on the Continent. (This resonates with our  
22 own knowledge of individuals who purchase multiple  
23 airline tickets (at favourable prices) at the start of  
24 the [holiday] season so as to be able to travel to and  
25 from their second homes on the Continent throughout the

1 year).

2 "Overseas estate agents advise that proximity to an  
3 airport linked to the UK by Ryanair or EasyJet can add  
4 significantly to local house prices."

5 Of course, this is local house prices in France and  
6 Spain and Portugal and so on:

7 "This seemed to be borne out when Ryanair axed  
8 a number of Buzz routes after its acquisition of this  
9 airline in 2003. This led to a group of UK residents  
10 who had purchased second homes in the vicinity of  
11 airports previously served by Buzz complaining openly to  
12 the media that they had been left 'high and dry' by the  
13 closure of these routes."

14 Principally this is anecdotal soft evidence, but  
15 there is some references to the newspaper coverage at  
16 that time.

17 4.2.24:

18 "It is also known that Ryanair has been able to  
19 secure subsidies from provincial/local governments ..."

20 This is in France, Belgium and elsewhere, Italy:

21 " ... when it has open new routes to 'off the beaten  
22 track' European destinations ..."

23 Actually EasyJet does not do this, this is purely  
24 Ryanair. EasyJet just serves major cities. Anyway,  
25 Ryanair obtains subsidies, and the reason that local

1 chambers of commerce in France and Belgium and elsewhere  
2 give money to Ryanair is in the expectation that:

3 "... the new routes would bring ... tourists from  
4 the UK but also second home buyers [from the UK] and  
5 that both categories of UK residents would contribute to  
6 the local economy."

7 Their local economies.

8 4.2.25:

9 "Given the absence of reliable data, it would be  
10 inappropriate to attempt to quantify this issue ..."

11 We have attempted to quantify the issue, but they  
12 are very round numbers and open to question:

13 "Nevertheless, the anecdotal and 'soft' evidence  
14 should not be entirely discounted and we believe it is  
15 reasonable to say that the expansion in low cost flights  
16 encourages outward personal capital flows relating to  
17 the purchase of second homes abroad."

18 We are just unable to quantify it.

19 Q. Thank you very much. Can I take you back to your  
20 summary. Section 4.3, the "Economics of climate  
21 change", and ask you to read 4.3.1 and 4.3.2.

22 A. "The Stern Report arrived at an estimate of £238 per  
23 tonne (at year 2000 prices) for the social cost of  
24 carbon. This equates to about £281 per tonne today, or  
25 to about £76.50 per tonne of carbon dioxide (CO<sub>2</sub>)."

1           It is important, as you say, not to get these two  
2           concepts mixed up. The cost of carbon is 3.67 times the  
3           cost of carbon dioxide:

4           "Stern specifically addressed the issue of the  
5           unsustainable growth in aviation emissions ..."

6           And he recommended that, and I am quoting here from  
7           Stern:

8           "'The level of carbon price faced by aviation should  
9           reflect the full contribution of emissions from aviation  
10          to climate change. As outlined in Box 15.6, the impact  
11          [of aviation] is two to four times higher than the  
12          impact of the CO2 emissions alone.'"

13        Q. And paragraph 4.3.3?

14        A. "Based on our estimate of Stansted's emissions of carbon  
15          dioxide in 2006 and our projection for 35mppa  
16          ... (Reading to the words) ... of CO2 equivalent."

17          Which incorporates the multiplier of between two and  
18          four times referred to above by Stern.

19        Q. Now, pausing there, has BAA disputed those figures?

20        A. No. In fact, our figures have been around for quite  
21          some time, although we have finessed them. But BAA  
22          surprised us, actually, by producing some estimates in  
23          Mr Pratt's evidence, his proof of evidence on air  
24          quality. They were in an appendix to that. And in fact  
25          the BAA estimates are higher than our estimates.

1 I don't have them right in front of me, but from memory,  
2 whereas we said 3.79 -- no, sorry, let me get it right.  
3 Yes, I will explain where I get this figure from later,  
4 but whereas we estimated that the proposed development  
5 would result in CO2 emissions of 3.606 million tons  
6 per annum, BAA's estimate is, I think, 4.11 million tons  
7 per annum, but I know exactly where it is -- I don't  
8 have it here in front of me, but it is in Mr Pratt's  
9 proof of evidence, and it is in the appendix in  
10 table 5.2, I think.

11 Q. I am obliged.

12 A. Should I go there?

13 Q. Well, we can check the reference perhaps when we have  
14 a coffee break, and if we need to change the reference  
15 for the inspector we can do so. For the moment --

16 A. Actually, sorry, also it is BAA/4C. And I don't need to  
17 have actually, because I have it written down here. And  
18 what Mr Pratt concludes in paragraph -- you can check  
19 this -- 5.3.19 of BAA/4C he says:

20 "My quantification of the carbon dioxide emissions  
21 from the proposed G1 development is broadly consistent  
22 with those of NT [that is the National Trust] and SSE  
23 when compared on an equivalent basis."

24 And, and as I say, in fact, Mr Pratt's figure, in  
25 terms of pure CO2 -- forget the Radiative Forcing -- in

1 terms of pure CO2, his number is 1.062 million  
2 additional tons, and ours 0.99. So it is slightly  
3 higher than ours, whichever way you look at it.

4 Q. That is helpful. Can I now ask you to read from  
5 paragraph 4.3.4 of your summary right through to the  
6 end.

7 A. "Applying Stern's estimate of the cost of carbon enables  
8 us to convert CO2 equivalent to a financial cost of  
9 ... (Reading to the words) ... between £147 million and  
10 £290 million per annum."

11 It is in that range if you take the two to four  
12 times. Incidentally the £290 million figure is not  
13 precisely -- it is not quite double the £147 million  
14 figure, and that is because surface access does not get  
15 inflated by what is called the Radiative Forcing Index,  
16 so that is not quite double. So that is the range.  
17 £147 million to £290 million per annum being the  
18 incremental cost.

19 Again, we can put this into a spreadsheet to  
20 calculate the net present value, and the result is  
21 somewhere -- the result is £3.2 billion if you take  
22 Stern's lower estimate of twice, up to £6.3 billion if  
23 you take Stern's higher estimate of aviation emissions  
24 causing four times the damage.

25 And again, this range of 3.2 billion to 6.3, and it

1 is slightly on the conservative side given the BAA  
2 analysis, the methodology is exactly as per the Treasury  
3 Green Book.

4 Now, we have quantified in hard numbers the Balance  
5 of Payments impact and the climate change impact --  
6 I should say the current account Balance of Payments  
7 impact and the climate change impact.

8 We have quantified these numbers because there is  
9 hard evidence or unarguable evidence to make these  
10 numbers very robust estimates. There are other areas  
11 where there would be other adverse economic impacts,  
12 upon the regional tourist industry, directly the  
13 implications there, a determinate impact on inward  
14 investment, although others would say that works both  
15 ways. There are displacement costs or displacement  
16 impacts. And there is a cost to the local housing  
17 market. I will not go back over that. There was quite  
18 a bit of discussion yesterday.

19 Of course you can argue how much that figure is. We  
20 have submitted our evidence. There has not actually  
21 been counter-evidence, but the principle that there is  
22 an impact on house prices is accepted by the Government.  
23 Indeed, it is in a core document, which we can go to, if  
24 you like, but the core document is aviation and the  
25 environment: using economic instruments" which I think

1 is on BAA's list.

2 But in any event we have focused upon these two  
3 areas where there are very hard economic costs, and they  
4 are sufficient in themselves, actually either one of  
5 them is sufficient in itself, to outweigh any claim of  
6 economic benefits for the proposed development.

7 Q. And your conclusions?

8 A. "The economic analysis provided by BAA ..."

9 This is in volume 5 of the Environmental Statement:

10 " ... starts by stating that negative impacts will  
11 be identified ..."

12 In fact that is in paragraph 2.1.4, where BAA agreed  
13 with the requests by Uttlesford District Council two  
14 years that they would identify negative economic  
15 impacts. In the analysis that BAA presented not  
16 a single negative impact as identified. However, let me  
17 go back to my script:

18 "However, it is even more interesting that not  
19 a single economic benefit [not a single economic  
20 benefit] has been evidenced by BAA.

21 "BAA has relied upon broad generalisations relating  
22 to the importance of airports to the UK economy  
23 ... (Reading to the words) ... arising from the increase  
24 in overseas leisure breaks by UK residents.

25 "We have identified negative economic impacts

1 amounting to between 12.6 billion and 34 billion ..."

2 The 34 of course is at 50 million passengers  
3 per annum:

4 " ... for the UK Balance of Payments ... and between  
5 3.2 billion and 6.3 billion for climate change costs, as  
6 per Stern. In both cases we have ... (Reading to the  
7 words) ... in other proofs of evidence.

8 "For the approval of any development that would have  
9 such significant adverse social ...(Reading to the  
10 words)... particular case; indeed, the economic impacts  
11 are substantially and demonstrably negative.

12 "It follows that the application should be refused.

13 Q. Thank you very much. I wonder if we can now turn to  
14 SSE/31, which is your rebuttal of Mr Rhodes' evidence.

15 A. Yes, I am there.

16 Q. I wonder if you could read from paragraph 2.1.4 to  
17 2.2.2.

18 A. Sorry, 2.1.4?

19 Q. Is it 2.1.4 we start at?

20 A. Yes, sorry:

21 "Mr Rhodes concludes this section ..." this is the  
22 section dealing with generalised economic benefits:

23 "(he) concludes this section by stating ... (Reading  
24 to the words) ... that these matters are thoroughly  
25 examined in the course of this inquiry."

1           Should I read on?

2   Q.   If you move on now to your rebuttal of his section 17.

3           If you can read that section.

4   A.   "Mr Rhodes states that the Air Transport White Paper  
5           policies are the starting point for a decision in this  
6           case. That is incorrect. The starting point is  
7           ... (Reading to the words) ... of the same act is also  
8           of fundamental importance."

9           That incidentally is the statutory obligation to  
10          contribute towards the achievement of sustainable  
11          development:

12          "It is common ground that the Air Transport White  
13          Paper is a material consideration in this case, but the  
14          Air Transport White Paper ... (Reading to the words) ...  
15          the economic effects of an airport expansion proposal  
16          such as this."

17   Q.   Pausing there, Mr Ross, a question has been raised at  
18          this inquiry as to why there was no judicial review of  
19          the economic case asserted within the White Paper. Can  
20          you clarify that issue?

21   A.   Well, from SSE's point of view, frankly it was not  
22          necessary for us to seek to challenge the economic  
23          analysis that was carried out before the Air Transport  
24          White Paper, because it was inconceivable that that  
25          could be the last word on the matter. These were

1 broad-brush estimates, it seemed crystal clear to us  
2 that they would have to be examined. We were not  
3 concerned about that; they would be examined in the  
4 planning process. The Air Transport White Paper was  
5 never intended to provide economic analysis which would  
6 be a substitute for the examining the pros and cons of  
7 a site-specific proposal at a public inquiry. The Air  
8 Transport White Paper was simply designed -- well,  
9 I should say the analysis preceding the White Paper was  
10 simply designed to provide ministers with a sufficient  
11 feel for the overarching economics, to determine a broad  
12 policy framework, which would inform the planning  
13 process.

14 So if you look at the -- well, you can turn to the  
15 Air Transport White Paper, but it has been quoted  
16 before. There is a phrase in chapter 11 -- I can't  
17 remember exactly -- where it says that making full use  
18 of Stansted would generate large economic benefits. In  
19 fact, can I just check exactly what it says, because it  
20 is quite important.

21 Q. CD/87, chapter 11.

22 A. It is 25 or 26, let me just find it.

23 MR HUMPHRIES: It is 26.

24 MR STINCHCOMBE: 26, I think my learned friend was  
25 indicating.

1 A. Yes, it is chapter 11, paragraph 26 where the Government  
2 states:

3 "Making full use of Stansted would generate large  
4 net economic benefits. We therefore support growth at  
5 Stansted to make full use of the existing runway."

6 So in fact it was cause and effect. The presumption  
7 which led to the policy framework supporting full use,  
8 the presumption was there would be large economic  
9 benefits. Fair enough, that was the view then, based on  
10 the information then.

11 I think it is also -- I do not want to drift away  
12 from the economics, but it is important in this context  
13 that the government repeatedly said that the Air  
14 Transport White Paper was not a predict and provide  
15 approach. It was not a question of just taking the  
16 forecast and saying, well, let us provide that capacity.  
17 The Government was at pains to emphasise -- it was the  
18 Department for Transport -- the Secretary of State was  
19 at pains to emphasise the White Paper was measured and  
20 balanced, the thrust of it, the heart of it, was forming  
21 a judgment about the economic benefits and the  
22 environmental impacts, forming and making decisions or  
23 setting out a policy framework based on that judgment.  
24 So it did it nationally, and then in the planning  
25 context you look at these issues in more detail.

1           In fact, the very nature of a measured and balanced  
2           approach means that proper measurement is essential.  
3           I mean, otherwise what would be the point of trying to  
4           precisely quantify all the environmental benefits if you  
5           relied upon a broad-brush view of the economic benefits  
6           taken five or six years ago? I say five or six years  
7           ago, because the analysis was done long before the White  
8           Paper.

9    Q.    You have just mentioned those two words, "white paper".  
10        You have worked in government, have you ever worked on  
11        a white paper?

12   A.    I have worked on three white papers. And I have smiled  
13        actually when I have heard others describe the nature of  
14        a white paper, because white paper is not law and it is  
15        not above the law.

16                This is an unusual white paper. It is unusual  
17        because it is not dealing with an area of economic  
18        activity or activity where the Government has direct  
19        control. So normally, for example, white papers deal  
20        with defence policy, education, health, those types of  
21        issues where the Government sets of policies and has  
22        control with regard to implementation. This one relates  
23        to private sector development. Governments do not build  
24        runways. So by its very nature this white paper must be  
25        less prescriptive, it is a broad-brush approach. And

1 the Government itself in fact describes it as  
2 a strategic framework.

3 There may be just one other observation I will make.  
4 It is idealistic to assume that government policy is  
5 seamless. It is not seamless. That is partly because  
6 there is a time lag between the evolution of policy and  
7 the articulation of policy in white papers, legislation  
8 or wherever, across all Government departments. It is  
9 also partly because there is constant rivalry -- very  
10 friendly rivalry, but there is constant rivalry between  
11 Whitehall departments. Each one is trying to advance  
12 its own priorities.

13 The way you get around that in practice, when you  
14 are drafting a white paper -- and, of course, the  
15 Air Transport White Paper, although the  
16 Department for Transport had lead responsibility,  
17 representatives from Defra and other departments would  
18 have been involved -- the way you get around it is that  
19 you learn to deal with ambiguity. And you also -- well,  
20 dealing with that, you have to avoid being  
21 overprescriptive. And you also deliberately leave the  
22 more difficult issues to be decided further down the  
23 line. You leave these sort of tough specific decisions  
24 for later, because the devil is always in the detail, so  
25 you -- not quite pass the buck -- but you set the

1 broad-brush approach in the White Paper.

2 MR HUMPHRIES: Sir, bearing in mind, of course, that it is  
3 not open to us at the planning inquiry to question the  
4 merit of government policy either, I don't really see  
5 how this sort of line of question and answer takes  
6 things forward. What is in the White Paper is  
7 government policy. We are not here to question that.

8 MR BOYLAND: No, but we are here to interpret it. And in  
9 order to do that, I think we need to understand a little  
10 bit about how it is formulated.

11 MR HUMPHRIES: Sir, we do, but there is no suggestion, of  
12 course, that Mr Ross or anyone else from SSE was  
13 involved in the formation of this white paper. And, as  
14 Mr Ross reminded us a moment ago, this is an unusual  
15 white paper, and therefore his experiences on other  
16 white papers, for that very reason, are only of limited  
17 value. I am not going to say anything more, we clearly  
18 need to get on, but I do want to put down a marker.

19 MR BOYLAND: The point is noted, Mr Humphries. I trust we  
20 are going to move on in any event.

21 MR STINCHCOMBE: Yes, sir, to section 2.3 of the summary.  
22 If you can read from paragraph 2.3.1 -- not the summary,  
23 the rebuttal.

24 A. "In paragraph 1.1.5 of Peter Wood's evidence ..."  
25 He was the author of the appendix 1 -- the Tribal

1 report. Anyway, in paragraph 1.1.5, he:

2 "... emphasised the economic importance of the  
3 aviation industry in ... (Reading to the words) ...  
4 Secretary of State for transport."

5 I am not going to read all of that quote. I do not  
6 think it is necessary. But essentially, if I just read  
7 the three lines at the end of the paragraph, they have  
8 not been italicised, the three lines that are normal  
9 text:

10 "Far from being profoundly important ... (Reading to  
11 the words) ... based on generalisations."

12 Actually that is the key point. The SACTRA analysis  
13 stressed the importance of avoiding conclusions based on  
14 generalisations. The specific local circumstances need  
15 to be examined:

16 "Peter Wood made a similar point in paragraph 2.2.3,  
17 this time relying upon the Eddington Report."

18 And again the SACTRA findings are relevant here, and  
19 emphasise the importance of looking at the specific  
20 economic effects of the proposal under consideration  
21 rather than at broad generalisation:

22 "In paragraph 2.2.34 [this is the Tribal appendix]  
23 Peter Wood appears simply to have used the headline  
24 numbers ... (Reading to the words) ... executive summary  
25 of the Stern Report."

1 I can go into that if you wish, but in any event he  
2 used the wrong numbers:

3 "SSE/2.8 in paragraph 4.3.3 provides the correct  
4 basis for conversion ... (Reading to the words) ...  
5 should be included in the cost of carbon for aviation."

6 This is the range of 2 to 4 times:

7 "In paragraph 2.10, Peter Wood ... (Reading to the  
8 words) ... capacity is provided."

9 And it was his emphasis, by the way, it is not  
10 possible:

11 "Indeed it is not. One of the reasons why averaging  
12 is inappropriate is that the benefits are so very  
13 heavily skewed towards business passengers."

14 This is the economic benefits:

15 "BAA predicts that the proposed G1 development would  
16 result in only an extra 300,000 ..."

17 Actually as I think we saw earlier it is  
18 290 thousand:

19 "... business passengers per annum. But Mr Wood  
20 has applied an average figure to an additional  
21 ... (Reading to the words) ... and the additional  
22 economic outflows arising from the higher trade  
23 deficit."

24 Q. Pausing there, Mr Ross, is there anything else you would  
25 like to say about the economic benefits estimated for

1 maximum use of Luton Stansted and Gatwick?

2 A. Yes. Could I refer to CD/113. This is the Future of  
3 Aeroplane Transport White Paper consultation document  
4 and I want to refer to page 132.

5 Q. If you wait a while whilst the inspector gets his copy.  
6 (Pause).

7 MR BOYLAND: Sorry, could you say again where we are going?

8 A. We are going to page 132, sir. I apologise, this is  
9 a slightly tedious process, but it is extremely  
10 important that we understand some of these numbers and  
11 how the economic benefits assessed in the first  
12 instance, and indeed how Mr Wood has interpreted these.

13 Now, we are looking at table 14.7, where you will  
14 see there is a baseline along the top of the page, and  
15 it shows -- we start -- this is airports in the south  
16 east, in fact it is Heathrow, Gatwick, Stansted, Luton  
17 and London City.

18 Unfortunately there is no total here but I will give  
19 you these. Just scan the numbers on the top, the first  
20 set of numbers for the year 2000. This is the baseline.  
21 11.4 million foreign business trips -- I think actually  
22 they mean passengers, by the way, rather than trips.  
23 12.5 -- actually, sorry, I correct myself, they mean  
24 trips. They mean trips. 11.4 million foreign business  
25 trips, 12.5 million UK business trips, 22 million

1 foreign leisure trips, 39 million UK leisure trips.  
2 That is what we started with at south east airports in  
3 the year 2000.

4 Ignore the next row of numbers and go to what the  
5 assumptions were for maximum use. You will see, for  
6 example, foreign business trips, the assumption that  
7 these would increase from the 11.4 to 33.8; they would  
8 treble. UK business trips from 12.5 to 32.5; it is more  
9 than two and a half times bigger. Foreign leisure trips  
10 would increase from 22 million to 37.3 million  
11 trips; about two thirds, 60 per cent anyway, increase.  
12 UK leisure trips, trips by outbound UK citizens or  
13 UK residents travelling overseas would increase only  
14 from 39 to 41.3. Now, it was on the basis of these  
15 assumptions that the Department for Transport assessed  
16 economic benefits of £13.8 billion.

17 Now, the reality of the proposal we are looking at,  
18 that BAA has presented for Stansted, is an extra  
19 410,000 -- actually in trips it is 205,000, isn't  
20 it -- 205,000 UK business trips. It is 65,000 fewer  
21 foreign business trips -- I have not worked out the  
22 numbers -- on the leisure side. By order of magnitude  
23 of course, it is very clear that there are big increases  
24 in outbound UK leisure trips.

25 That has a dramatic impact upon the economics. The

1           2.9 billion figure suggested by Mr Wood -- we have  
2           looked at two different ways of trying to do a revised  
3           estimate, and the highest of those two ways -- the  
4           highest figure you can get to is perhaps 1 billion, if  
5           you work it out on that basis. Either way, it is  
6           a number which is dwarfed by the hard economic  
7           disbenefits included in our proof of evidence.

8           There is perhaps just one other document that might  
9           be worth referring to at this stage, while we are on  
10          this subject. If we could look at CD/372, which is the  
11          appraisal framework for airports in the south east and  
12          east of England.

13 MR HUMPHRIES: I am sorry, what was the number again?

14 A. It is number 372, Mr Humphries. (Pause). Sorry, while  
15          you are there I also want to look at 365 -- actually  
16          just one second, let me check. Sir, could I suggest  
17          actually -- I am conscious of the time, but I can  
18          probably more efficiently deal with two or three points  
19          at once here. If we look at CD/365 -- if we pull out  
20          CD/365, 390, 391 and I also mentioned 372. (Pause).

21 MR BOYLAND: I don't appear to have 390.

22 A. You might be in luck, sir, I might have a spare copy.

23 MR BOYLAND: Is that the Green Book?

24 A. Yes.

25 MR BOYLAND: I am sure I have seen that, but let us be

1           generous and say I have misplaced it.

2   MR HILL:   Sir, I have a copy. (Handed).

3   MR BOYLAND:  That is kind, thank you.  Like you, Mr Ross,

4           I am conscious of the time.  I am also conscious that we

5           are taking quite a long time of the

6           examination-in-chief.  I think the estimate is one hour

7           and we are well beyond that already and we still have

8           another proof to go.

9   MR STINCHCOMBE:  Sir, if you recall, I did forewarn at the

10          timetabling meeting that we would take some time.

11          Sir, if we can deal with this issue and take a large

12          part of the remaining part of this summary as read

13          thereafter, adjourn for the break, and then we will be

14          quicker with the employment matters.

15   MR BOYLAND:  Very well.

16   MR STINCHCOMBE:  Right.

17   A.  Right, let me try and deal with this very quickly.

18          I want to run through documents 365, 390, 391 and then

19          finally 372.  In document 365 -- in fact, we may not

20          need to go there, this is the House of Commons

21          Environmental Audit Committee, where a number of

22          criticisms were made of the way in which the Department

23          for Transport had assessed the benefits --

24   MR BOYLAND:  Sorry, could I just ask you to pause for

25          a moment.  I have pulled the wrong one out actually.

1 I have 363, not 365.

2 A. Right. (Pause).

3 MR BOYLAND: I have it now, thank you.

4 A. Okay. I do not want to go through all of those  
5 criticisms which the Environmental Audit Committee had.  
6 I wanted to focus upon the reference to the inclusion of  
7 foreign benefits, and actually it is on page -- it is  
8 summarised on page 4, paragraph 9, where it says:

9 "The Department for Transport has failed to follow  
10 guidance issued by the Treasury by including in its  
11 economic appraisal the benefits accruing to foreign  
12 travellers. And doing so has significantly distorted  
13 and overstated the benefits."

14 That was the Environmental Audit Committee's  
15 view: that the department should not have included  
16 foreign benefits. And actually there were a very large  
17 number, because, as we have just seen, they assumed  
18 a very big increase in foreign visitors.

19 Now, that is all I want to show there, so we can put  
20 that away. If we go into 391 next, this was the  
21 Government's response to it, and if we turn to page 4,  
22 at the foot of page 4, where the Department for  
23 Transport -- actually it is the issue at the foot of  
24 page 4 and the response to it is at the top of page 5.  
25 Well, the Government does not accept this, they did not

1 accept the criticism, and it says here:

2 "The inclusion of benefits accruing to foreign  
3 travellers is consistent with the Green Book guidance in  
4 paragraph 5.2.5, footnote 4."

5 So they have not accepted that criticism and  
6 specifically refer to paragraph 5.2.5, footnote 4. That  
7 is where I want to go next. So this is CD/390 and  
8 paragraph 5.2.5 is on -- sorry, it is 5.25, it is on  
9 page 21. Paragraph 5.25 in the Green Book -- and if  
10 I just explain, the Green Book guidance is the bible.  
11 This is issued by the Treasury. It is applicable to all  
12 Government departments. This is how you are supposed to  
13 do the arithmetic. And what it says is:

14 "In principle, appraisal should take into account of  
15 all benefits to the UK. This means that as well as  
16 taking into account direct effects ... (Reading to the  
17 words) ... these wider effects should be clearly  
18 described and considered."

19 Now, there is a footnote, footnote 4 and what it  
20 says:

21 "All impacts, including cost benefits both direct  
22 and indirect, on non-UK residents should be identified  
23 and quantified separately, where it is reasonable to do  
24 so, and if such impacts might affect the conclusions of  
25 the appraisal. Generally proposals should not proceed

1 if, despite a net benefit overall, there is a net cost  
2 to the UK."

3 For instance, after taking account of the  
4 environmental costs. So what the Treasury says  
5 essentially is: fine, if you want to identify benefits  
6 to foreign nationals, then do so, but you can't use  
7 those as justification for proceeding with the project.  
8 You can only really use them if the project stands up  
9 without them, if it makes sense to do it even without  
10 the foreign benefits.

11 So that is the area, if you like, of dispute. To be  
12 honest, the scope for dispute is much less now than it  
13 was five years ago, because it is now clear that the  
14 actual number of additional foreign visitors is far, far  
15 smaller than was assumed way back then. So it was  
16 a very -- well, if we start with these original numbers,  
17 it would be a big issue, but on the current numbers it  
18 is not such a big issue, because the foreign benefits  
19 are pretty low anyway.

20 But finally let me take you to CD/372. Here I just  
21 want to -- let me explain what this document was. When  
22 the Department for Transport consulted on various  
23 airport options, very transparently they published the  
24 appraisal framework. In other words, the methodology  
25 they would use to assess all the different options that

1           they were considering. This document explained the  
2           methodology. If you turn to -- sorry, I have not  
3           got -- I am not sure I have the full -- sorry, sorry,  
4           I do have, it is just the way it is printed. I am  
5           looking at table 8.2, which is on page 3 of 17 in the  
6           version I have. Is that consistent with the version  
7           others have?

8   MR BOYLAND: Three going over to four.

9   A. Yes. I am looking at table 8.2, and this set out how  
10   the Department for Transport intended to evaluate the  
11   economic benefits. You will see the various headings  
12   they have there: UK passengers and cargo, UK leisure  
13   passengers, UK business passengers, UK passengers -- you  
14   can go through it.

15           There is no heading for foreign passenger benefits.  
16   The only element they have was intended, quite  
17   legitimately, to include benefits arising from overseas  
18   was in relation to taxes, tax receipts from foreign  
19   passengers.

20           So whatever the Department for Transport said after  
21   being challenged by the environmental audit committee,  
22   if you read through all this document, it makes it quite  
23   clear that it was not their intention, essentially, to  
24   include foreign passenger benefits. At some point along  
25   the line they choose to do so. Perhaps they had the

1 numbers. But, as I say, I think this clearly shows that  
2 it was never their intention.

3 As I say also, if we look at the numbers today, it  
4 is a much less significant issue, because the  
5 anticipated growth in foreign passengers is nothing like  
6 what was forecast four, five or six years ago.

7 I apologise for going through all of that in detail,  
8 but it might save considerable time later on, and I hope  
9 it sets the record straight in that area.

10 Q. Can we turn back to your rebuttal proof, then, and with  
11 a very firm eye on the clock, is there anything else in  
12 section 2.3 that you need to read or can we come on to  
13 section 2.4?

14 A. No, I can skip the rest of 2.3 in the interests of time.  
15 But, Mr Stinchcombe, quite honestly, I would like to  
16 spend a bit of time on 2.4; it is quite important. And  
17 I do not want to be the one to have held back coffee  
18 time.

19 Q. So do you want to break now?

20 MR BOYLAND: I was going to say, in that case I think we  
21 will have a break before we do that. It is 11.35 am, so  
22 we will adjourn until 11.45 am.

23 (11.35 am)

24 (A short break)

25 (11.50 am)

1 MR BOYLAND: Thank you, the inquiry is resumed.  
2 Mr Stinchcombe.  
3 MR STINCHCOMBE: Mr Ross, we were turning to section 2.4 of  
4 your rebuttal evidence on Mr Rhodes.  
5 A. Yes. The Tribal technical note -- and 2.4, I should  
6 say, deals with the second appendix -- or, sorry, it is  
7 appendix 1, actually, but it is a separate appendix in  
8 Mr Rhodes' evidence. It is a technical note on the  
9 Balance of Payments.  
10 MR HUMPHRIES: Sir, just for your note, and it is just  
11 a typo, but I think it is appendix 4 of Mr Rhodes'  
12 appendixes, BAA/1C.  
13 A. Thank you, I am sure you are right, actually. My  
14 apologies if I have described it as appendix 1.  
15 MR HUMPHRIES: Well, nothing turns on it.  
16 A. Right. It is the technical note on the Balance of  
17 Payments. The Tribal technical note on the Balance of  
18 Payments completely misunderstands the nature of SSE's  
19 point in relation to the Balance of Payments impact of  
20 the G1 proposal. That is our point. It is not  
21 predicated upon a protectionist trade policy, the motive  
22 which is implied by Mr Wood in paragraph 2.1.8, where he  
23 says:  
24 "To restrict the operation of Stansted with the aim  
25 of limiting competition in the travel and tourism

1 industry."

2 I can only conclude that this is a mischievous  
3 misrepresentation of the point being made by SSE and,  
4 I believe, UDC, perhaps to detract attention from the  
5 real issue which should be fairly obvious: the proposed  
6 development, if approved, would result in the annual  
7 transfer overseas of very significant amounts of  
8 economic wealth from the east of England economy and the  
9 UK economy as a whole. The onus is upon BAA to  
10 demonstrate that, despite this and other economic  
11 impacts, there would still be sufficient net economic  
12 benefits from the G1 proposal to justify the  
13 considerable harm that would arise from the proposal.

14 BAA recognises inbound tourists as an economic  
15 benefit, and quite rightly so. It is common ground that  
16 aviation supports tourism, and there is no disagreement  
17 either that this support works far more strongly to the  
18 benefit of outward tourism than inward tourism.  
19 However, Peter Wood seems to miss the basic economics of  
20 this outflow, while at the same time suggesting it is  
21 not a matter for the inquiry.

22 The Government has made clear that while the Air  
23 Transport White Paper provides the strategic framework  
24 for airport expansion in the UK, it is down to the  
25 normal planning process to examine specific development

1 proposals, and to assess whether the good outweighs the  
2 harm.

3 "Mr Wood makes the point in paragraph 2.1.9 that the  
4 Balance of Payments must always balance. Of course, it  
5 must. However, Mr Wood understands perfectly well that  
6 all of our evidence and analysis relates to the  
7 ... (Reading to the words) ... to justify the  
8 considerable economic environmental and social harm that  
9 would arise from the development."

10 Q. Thank you very much. Is there anything else on this  
11 rebuttal before we turn to the employment and housing?

12 A. No, but perhaps I could just summarise the economic  
13 issues in layman's terms, so the non-economists among us  
14 can understand. Some of us might be able to remember as  
15 far back as Howard Wilson, who, when there was some  
16 foreign currency problems in the UK, there was a limit  
17 actually to how much money -- I think it was a £50  
18 spending limit --

19 MR HUMPHRIES: Sir, we do need to try and make progress. We  
20 are now summarising the summary. We have the proofs, we  
21 have the summaries. We have been going now for two  
22 hours, less the break, we have two more proofs of  
23 evidence to deal with, SSE/9 and SSE/10, and other  
24 witnesses with far more evidence have been able to  
25 properly summarise and allow us to get on. A line has

1 to be drawn somewhere, sir.

2 MR BOYLAND: I think that is a fair point. Can we make some  
3 more progress, Mr Stinchcombe?

4 MR STINCHCOMBE: Yes, sir, we can make some more progress.  
5 Without teetering into the experience of the Wilson  
6 administration, though, is there anything you wanted to  
7 say additional by reference to that last proof, or do we  
8 now move on to the SSE/10 documents --

9 A. I am sorry, sir, I wanted to just try and put it in very  
10 simple terms. It is a very simple point, sir.

11 MR BOYLAND: I have read the evidence very thoroughly. You  
12 have taken us through substantial parts of it.

13 A. Fine, let us move on.

14 MR BOYLAND: I think I would rather we moved on, thank you.

15 MR STINCHCOMBE: So can we move then on to the SSE/10  
16 documents and in particular to your summary proof 10/b  
17 on employment and housing.

18 A. Yes.

19 Q. And we can go straight to section 3.1 of that summary  
20 proof, where you identify the key issues. I think if we  
21 turn back quickly to 10/a, to your paragraph 3.1.1, you  
22 have those key issues identified by bullet points.

23 A. I am sorry, I am trying to find the right papers then  
24 I will be with you.

25 Q. Of course.

1 A. Sorry, when you were referring to the bullet points, can  
2 you just remind me to where you were?

3 Q. I am trying to take it as quickly as I can, for obvious  
4 reasons. I want to take you first to section 3 of your  
5 summary, so do you have that to hand, because that is  
6 where you are going to read from. And I have identified  
7 the title was "Key Issues". And then for background,  
8 before you read those key issues, I wanted to take you  
9 to paragraph 3.1.1 of your main proof where you have six  
10 bullet points.

11 A. Yes. The six bullet points are six questions which  
12 BAA should have addressed, and indeed this relates back  
13 to BAA's Environmental Impact Assessment on Employment,  
14 where they went through a number of issues, but actually  
15 did not answer these six key questions, three of which,  
16 I should say, were asked at Uttlesford. So the  
17 structure of my evidence in this area addresses those  
18 six questions.

19 Q. I am obliged. Well, can we then turn to the summary at  
20 section 3 and read from paragraph 3.1.

21 A. "The employment and housing impacts of this proposal run  
22 counter to the objective of achieving sustainable  
23 development which is the core principle underpinning  
24 planning' (PPS1)[CD/92]."  
25 "Between 26 per cent and 37 per cent of Uttlesford

1 jobs would be airport-dependant if this application were  
2 to be approved. This would run counter to the objective  
3 in the Local Plan aimed at making Uttlesford less  
4 dependant upon Stansted for job opportunities."

5 "Stansted is highly dependant upon Irish airline  
6 Ryanair which accounts for 66 per cent of scheduled  
7 passengers. EasyJet accounts for most of the  
8 remainder."

9 "Stansted not only has a narrow customer base but  
10 also a poor financial track record:

11 "Stansted has the lowest profit per passenger within  
12 BAA and relies upon car parking and retail income to  
13 offset losses on aeronautical operations;

14 "Return on capital is only about 4.6 per cent on net  
15 assets;

16 "About 75 per cent of Stansted's operating profit  
17 stems from car parking."

18 Paragraph 3.1.5 --

19 Q. Just pausing there, Mr Ross, in your main proof you also  
20 refer to the dependency on Ryanair. Any further comment  
21 in respect of that dependency?

22 A. As I say, it is not predicting Ryanair's imminent  
23 demise, but I think the analogy is if you were running  
24 an investment fund or a pension fund, you would not  
25 place two thirds of your investment in any single

1 company or industry. You would aim to have a broadly  
2 balanced portfolio. And that is just as true in  
3 relation to investing in the future sustainability of  
4 a local economy.

5 Q. Turning on, then, to section 3.2, "Quality of Jobs".  
6 Could you read 3.2.1 and 3.2.2?

7 A. Yes.

8 "BAA suggests that 50 per cent of the jobs created  
9 would be in managerial, professional, technical and  
10 highly skilled occupations. This seems remarkably high.  
11 We think of airports as generating jobs for check-in and  
12 security personnel, baggage handlers, shop and hotel  
13 workers, cleaning and catering staff, warehouse staff,  
14 cabin crew, airport management,  
15 administration/secretarial staff, car park attendants,  
16 coach/taxi drivers, maintenance staff et cetera."

17 "Even if BAA's 50 per cent figure were accepted,  
18 this would still represent a significant mismatch with  
19 the local workforce. 79.6 per cent of the Uttlesford  
20 workforce is in SJs 1-5; for the Stansted 'Inner Area'  
21 it is 68.9 per cent and for the 'Outer Area', 69.9 per  
22 cent. A jobs mismatch would create a conflict with one  
23 of the underlying principles of sustainable development  
24 ie achieving a balance between employment and housing  
25 and reducing/minimising the need to travel. This would

1           exacerbate the problem of 'double commuting', whereby  
2           skilled/highly qualified local residents commute to  
3           London whilst Stansted recruits employees from London  
4           and overseas because it cannot find people locally to  
5           fill the jobs it has available."

6    Q.   I am obliged. Can we move on to section 3.3, the  
7           "Employment Displacement Impacts"?

8    A.   Yes, in BAA's statement they said there were no  
9           employment displacement impacts. There are three  
10           identified here -- actually more than three, but let me  
11           go through the three significant ones.

12                 "Encouraged by the policies set down in the ATWP  
13           Luton Airport also has ambitious expansion plans. Both  
14           Stansted and Luton focus on [the same markets]."

15                 Let me try and cut this short. They are both in  
16           direct competition, so the expansion of Stansted reduces  
17           the scope for expansion at Luton. Indeed, there are  
18           already concerns that Luton may be delayed, because  
19           concerns of financial viability. In fact, in the course  
20           of this inquiry -- it is not so much the plans have been  
21           delayed, but they have announced a slight variation of  
22           the plans. 3.3.2:

23                 "The employment impact of expansion at Luton would  
24           be more beneficial for the region because Luton has far  
25           higher local unemployment than Stansted and is better

1 place today provide the labour force to fill the new  
2 jobs from its own local area. Stansted, on the other  
3 hand would need to increase its recruitment efforts in  
4 London and overseas."

5 There is two points on that. The detail behind that  
6 is included in the main proof and, just to emphasise,  
7 this is not an argument for saying, "pass the parcel to  
8 Luton", it is simply a matter of fact.

9 Impact on regional tourism:

10 "If BAA's application were to be approved there  
11 would be an additional financial outflow from the UK  
12 economy relating to international tourism of about £840  
13 million pa at 35mppa rising to about £1.75 billion at  
14 50mppa. If these additional overseas leisure trips were  
15 to be at the expense of domestic tourism about 27,000  
16 jobs would be lost at 35mppa rising to about 56,000 at  
17 50mppa. Even accepting that the impact would not be  
18 purely substitutional, the number of jobs lost (many in  
19 rural areas) is likely to exceed the number of jobs  
20 created by the proposed development."

21 Which is 3,800.

22 Discouragement of inward investment:

23 "Studies repeatedly show 'quality of life' and  
24 'availability of suitable employees' as of equal or  
25 greater importance than transport links in attracting

1 inward investment. Expanding Stansted would reduce  
2 these attractions and would also increase road and rail  
3 congestion thereby discouraging inward investment which  
4 could bring greater diversity and more highly skilled  
5 jobs to the local area."

6 At the top of the next page:

7 "If aviation continues to expand apace and is  
8 included in the EU carbon trading scheme, it will become  
9 the 'cuckoo in the nest', gradually forcing  
10 manufacturing businesses (or at least those which are  
11 energy intensive and need to compete internationally) to  
12 relocate overseas because the price of carbon permits  
13 will become unaffordable for them."

14 Impacts upon the local labour market:

15 "ES volume 6 [CD/9] inadequately explains the  
16 evidence used to project the future size of the  
17 workforce. BAA assumes a major increase in the  
18 available labour market but this is not supported by  
19 other evidence."

20 3.5.1:

21 "BAA has disregarded housing impacts but the  
22 proposed development would have significant  
23 implications."

24 Mr Stinchcombe, I am just reading straight through  
25 this in the interests of time.

1 Q. Indeed.

2 A. All right, but on housing impacts there are two  
3 particular points that have not been addressed by BAA,  
4 but in our view require to be addressed. The first one  
5 is in relation to recruitment from London, where about  
6 7 per cent of employees already commute from London.  
7 And that would, of course, increase if the application  
8 were approved, resulting in more long distance commuting  
9 contrary to the objective, that is PPG3, of reducing the  
10 need for travel:

11 "This will also accentuate the need for more local  
12 affordable housing to reduce the need to travel and to  
13 provide opportunities for airport employees to integrate  
14 into the local community consistent with 'sustainable  
15 communities' principles."

16 On overseas recruitment:

17 "A more recent development at Stansted has been the  
18 recruitment of employees from overseas. There needs to  
19 be proper (housing) provision for integrating these new  
20 members of our community. The current arrangements  
21 appear largely to depend upon private rented  
22 accommodation. Such temporary accommodation is not a  
23 sustainable arrangement and is already creating price  
24 and availability pressures in this sector. Expanding  
25 Stansted would accentuate these problems."

1           In short, 3,800 additional jobs and no specific  
2           housing needs attached to the proposed development in  
3           the local area.

4           Commuting:

5           "BAA has not provided projections for the impact of  
6           its proposed development upon employee commuting. If  
7           projections had been provided we believe these would  
8           clearly highlight a contradiction between the expansion  
9           proposals and the planning policy objectives set down in  
10          PPG13 (CD/106)."

11          To conclude, again coming back to the six questions,  
12          and I seem to have summarised them:

13          "The proposed development would:

14          "Result in over-dependency upon Stansted for jobs.

15          "Provide the wrong type of jobs to an area of low  
16          unemployment.

17          "Have significant employment displacement impacts  
18          because it would:

19          "have adverse job displacement impacts upon Luton  
20          airport;

21          "create job losses in the domestic tourism industry;

22          "make the local area less attractive for inward  
23          investment;

24          "displace jobs in manufacturing and processing  
25          industries.

1           "Have significant adverse implications for the local  
2           housing market.

3           "Increase long-distance employee commuting."

4   Q.   One final matter.  Professor Whitelegg's proof of  
5           evidence, anything you would like to say about that?

6   A.   Only to say that whereas our analysis was specific to  
7           G1, and indeed focused upon BAA's Environmental  
8           Statement, Professor Whitelegg's paper is of a more  
9           generic nature, so there is very little overlap between  
10          his work and ours.  I am happy to answer questions on  
11          Professor Whitelegg's evidence, but as before, or in  
12          relation to all of the work done for us by external  
13          experts, we had no editorial control over it.

14   Q.   Thank you very much indeed.  I am sure my learned friend  
15          will have questions for you.

16   MR BOYLAND:  Thank you.  Just on the point of  
17          Professor Whitelegg's evidence, my understanding was,  
18          I think from your opening submissions, that his evidence  
19          is effectively adopted by Mr Ross.  So although Mr Ross  
20          seemed to be distancing himself from it somewhat, am  
21          I to take it that that still remains part of SSE's case?

22   MR STINCHCOMBE:  Yes, it remains part of our case, and  
23          should be treated as an appendix to Mr Ross's proof, and  
24          he is happy to answer questions on it.

25   MR BOYLAND:  That is fine, thank you.  Mr Humphries.

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Cross-examination by MR HUMPHRIES

MR HUMPHRIES: Thank you, sir. Mr Ross, good afternoon once again.

A. Good afternoon.

Q. Mr Ross, perhaps a note of caution at the beginning. Obviously I am going to ask a lot of questions. Could you do your best, and I know it is not always easy, but to answer first and then qualify. The reason for that, simply, is I am going to try and ask things that go to highlight the issues between us, and the inspector needs to know what your position is and if you don't answer --

A. I will promise to do my best.

Q. Well, it is not easy, and I do understand that. Now, you are dealing with, in effect, four proofs of evidence that we have, one of which is adopted now as an appendix, SSE/8, 9, 10 and 31, and I am going to divide the questions into three broad groups. I am going to look first at economics, which involves us looking at SSE/8 and 9 to some extent, then employment, which requires us to look at 9 and 10 to some extent, and then housing issues, which are in SSE/10, and SSE/31 fits into some of those categories to some extent.

So we will start with economics and the characteristics of Stansted Airport. You have made the

1 point in SSE/8, in section 3.1, and clarified this point  
2 in your evidence-in-chief, that the number of additional  
3 business travellers is some, I think you said, 210,000,  
4 because obviously each journey is a two way trip. Can  
5 we agree this, that that is in fact, 210,000 trips  
6 per annum, a very large number of business trips?

7 A. Yes. First, to get the number correct, it is  
8 145,000 -- it is 210,000 additional UK business trips,  
9 and 65,000 fewer foreign business trips. Is that  
10 a large number? In absolute terms it is a large number.  
11 In percentage terms it is a very low number.

12 Q. Indeed, we can look at the percentages, and I will come  
13 on now to percentages in an slightly different context.  
14 We know that in the 35mppa case the percentage of  
15 business trips is about 19 per cent?

16 A. Yes.

17 Q. Broadly the same as currently in the recent years?

18 A. Yes.

19 Q. And that number, again, is broadly similar to the  
20 figures for Luton and Gatwick and Manchester; slightly  
21 higher than some, slightly lower than others, but  
22 broadly the same?

23 A. Yes.

24 Q. The only major UK airport, large UK airport, with  
25 a significantly higher number of business passengers and

1 a significantly higher percentage is, of course,  
2 Heathrow?

3 A. Yes. What is the definition of major? Now, under the  
4 definition of major, a number of other airports would  
5 come into that category.

6 Q. Okay, well let us approach it the other way. Certainly  
7 of the south east airports, the one that has --

8 A. Of the south east airports, correct.

9 Q. -- significantly higher number is Heathrow, and that has  
10 a percentage up in the low 30 per cents?

11 A. Yes. Heathrow, I think, is one third of all UK air  
12 passengers, and it must be close to about a half of all  
13 UK business -- of all business passengers. So it is  
14 very big, in terms of business.

15 Q. The 25mppa case at Stansted in the 2014 forecasts is  
16 a forecast of a capacity constrained airport, is it not?  
17 Constrained by condition mppa1?

18 A. Yes.

19 Q. And Mr Maiden explained, and I do not think this to be  
20 in dispute between us, that in that scenario, forces of  
21 supply and demand means that the prices of travel from  
22 Stansted would rise because of the constraint?

23 A. Yes.

24 Q. The forecast effect, Mr Maiden's forecast effect of that  
25 capacity constraint and that rise in price is that

1 leisure passengers will be disproportionately  
2 discouraged from travel when compared with business  
3 passengers. And I do not think, again, on that there is  
4 anything between us?

5 A. It is almost there. There is not much between us, but  
6 there is a bit between us, insofar as, in the leisure  
7 field supply creates demand as well as the conventional  
8 model of demand creating supply. And actually it was  
9 the airlines who made that point to Uttlesford last  
10 year, but of course it is absolutely true. So where you  
11 have an unconstrained situation, in this case an airport  
12 which is allowed to expand to 35mppa, the leisure  
13 operators are able to develop more services, and then  
14 their aim is to fill their aeroplanes. And so in that  
15 sense, as I say, supply creates demand, but, with that  
16 proviso, Mr Humphries, we are entirely agreed.

17 Q. Good. You say the "leisure operators"; of course there  
18 are very few, or relatively few, charter operators at  
19 Stansted. The main airlines -- Ryanair, EasyJet and  
20 Air Berlin -- are all scheduled services --

21 A. Yes, I will give you the number. It was 3.9 per cent  
22 charter last year. It has been declining for ten years.

23 Q. So we can see, can't we, that in the constrained 25mppa  
24 case there is some reduction that you have identified as  
25 being the number of business trips compared with the

1 35mppa case, but there is also a higher cost in the  
2 25mppa case for passengers, both leisure and business;  
3 a higher price to be.

4 A. Yes, you would expect airfares to be higher under  
5 a 25mppa scenario as compared to a 35mppa scenario.

6 Q. Now, we will come back to some of the those things  
7 a little bit later, but I want to move on now, and I am  
8 just going to tell you what the next thing we are going  
9 to talk about is, and that is balance payments impact  
10 relating to tourism.

11 Mr Ross, I have taken up some points already with  
12 UDC, because this is a point that they took on board, so  
13 I am going to clearly take up a number of the points  
14 that you raise, but I am not going to repeat all of  
15 those things, for obvious reasons.

16 Now, again we need SSE/8 and we can see, I think you  
17 can probably agree with me, that a lot of the arguments  
18 on Balance of Payments impact from tourism in SSE/8 are  
19 substantially the same as those made in CD/261, that was  
20 SSE's representations in relation to the Air Transport  
21 White Paper. So could you have that document, SSE/261.

22 A. Yes.

23 Q. Just so that we can see in broad terms where the points  
24 are made, in that document turn to section --

25 A. Yes, sorry, I do agree with you.

1 Q. -- 3.2.2 -- thank you very much. 3.2.2. That is kind  
2 of you to do so.

3 Now, we know, therefore, don't we, that in  
4 formulating the Air Transport White Paper the Government  
5 had heard SSE's representations on exactly this point?

6 A. This is a "yes, but".

7 Q. Okay.

8 A. There are two "buts"; the first one is that this was  
9 written in the very early days of SSE, I think we were  
10 barely at our first birthday -- in fact it was the days  
11 before they had an economics adviser. So clearly our  
12 analysis and our ability to present these arguments  
13 I think has improved a bit.

14 The second "but", actually, is that there were some  
15 470 or 480,000 replies to the Air Transport White Paper.  
16 The Department for Transport, indeed the Government,  
17 said it was the largest response they had had to any  
18 consultation document ever.

19 As a consequence, the Department for Transport  
20 subcontracted the analysis and summarisation of the  
21 responses to two organisations. One was NOP, who dealt  
22 with all the questionnaire responses, and the other was  
23 a company called Aviasolutions, who dealt with the more  
24 detailed written responses from companies like ourselves  
25 and CBI and so on, and they filtered it. We have the

1 documents listed actually amongst the core documents.  
2 If you like we will go there. But if we did go there,  
3 you would find that, in summarising all these documents,  
4 to try to give the DfT something they could deal with,  
5 there was no reflection of addressing -- this argument  
6 was not addressed at all.

7 Q. Well, Mr Ross, I think we can see the Government did  
8 address the argument. Can we look, then, at the Air  
9 Transport White Paper, which is CD/87. Turn, please, to  
10 page 49. We can see a section there on aviation and  
11 tourism and I am not going to read out all the parts of  
12 it, but we can see in 4.22, the point is picked up there  
13 that outbound tourism too, although sometimes presented  
14 as encouraging people to holiday abroad to the detriment  
15 of the domestic economy, also contributes significantly  
16 to the economy through revenues earned by tour operators  
17 in the air transport sector.

18 And then in the next section, again we can see  
19 references made to encouraging domestic tourism in the  
20 face of a widening gap in the tourism balance of  
21 payments, Britain can compete on its strengths, and  
22 then, towards the end:

23 "Limits on air capacity would greatly disadvantage  
24 incoming tourism through decisions by travellers from  
25 overseas to switch to more convenient and low cost

1 destinations away from the UK."

2 So we can see, first of all, can't we, that the  
3 Government clearly was seized of this issue about  
4 outbound tourism and the effect on the balance of trade?

5 A. They didn't address the issue which we presented to  
6 them, which was the economic impact of it. And we can  
7 go into it. If you look at the words, it does not  
8 express the words in quite the way that you put them.  
9 And I suppose I am, perhaps, relying more significantly  
10 on -- coming back to the Environmental Audit Committee  
11 Report, where they, I think, more sharply defined or  
12 expressed their -- I can't remember, their astonishment  
13 I think was the word they used, at the way in which it  
14 had not been analysed -- and that is what I mean, fine,  
15 okay, there are some words there, but it had not been  
16 analysed. I take your point up to a stage.

17 Q. And we know -- again, it may not be necessary for us to  
18 look at it -- that SSE also produced other documents on  
19 the effect of tourism on the balance of trade, for  
20 example CD/262, which I think was a paper to  
21 HM Treasury, although I don't know whether it went to  
22 other departments. Did it go to other departments?

23 A. No, it went to Treasury, and the other one went to  
24 a different department to --

25 Q. Media, Leisure and Sport.

1 A. Yes, Culture, Leisure and Sport, yes. Yes, we did feed  
2 in, and indeed presented it to John Healey, who was the  
3 Economics Secretary at the Treasury at that time. I do  
4 not want to go into the detail of all of this,  
5 Mr Humphries, because in a sense -- well, it would take  
6 quite a long time, but it would suggest to you that  
7 there were tensions within Government on these issues  
8 and so on. But, yes, I accept the general point. The  
9 arguments in relation to the economic impact of outbound  
10 tourism were presented by SSE to the Government before  
11 the policy decision was taken on the Air Transport White  
12 Paper to support the development of airports in the  
13 south east including Stansted.

14 Q. Again, I suppose, a statement of the blindingly obvious,  
15 we know from the Air Transport White Paper that  
16 Government took the decisions it did in that document,  
17 including the decision on maximum use of Stansted, in  
18 the light of those representations?

19 A. Yes, indeed. And, again, that was at a time where they  
20 were -- if you remember, I referred you to  
21 a table -- I will not go back there, but you remember  
22 I referred you to a table in the Air Transport White  
23 Paper consultation document, where we compared -- it was  
24 table 14.6 -- what the Government was expecting to  
25 happen in terms of a fairly dramatic increase in inward

1 tourism, and a very tiny or modest increase in outbound.  
2 So, in that expectation, the significance of the  
3 arguments we were making then was much less than the  
4 significance today.

5 Q. Yes. We will come on to the details of some of those  
6 points a bit later. Again, I am trying not to get ahead  
7 of myself.

8 If we look at SSE/8 and look at table 7, which was  
9 the table which brought a lot of this analysis together  
10 to look at the net present value of the Balance of  
11 Payments impact. Can we, in the light of that, just  
12 understand what SSE is saying should be the appropriate  
13 response to that, because in your evidence-in-chief you  
14 were critical of Mr Wood for suggesting that that meant  
15 there should be some restriction on air transport and  
16 the ability of people to fly to holidays  
17 abroad -- I think I have understood that correctly?

18 A. Yes. He was turning the argument on its head. That is  
19 why I was critical. If I say -- I should say, actually,  
20 I am a free market economist, and I would not accept  
21 that you should have artificial constraints upon  
22 people's freedom of choice.

23 Q. Right.

24 A. But the price you pay for that, in a sense, is you have  
25 to ensure that there is not artificial pricing in the

1 market. And central to our arguments, indeed my  
2 arguments, is that the demand for leisure travel at  
3 Stansted is artificially inflated; because of artificial  
4 pricing we have an artificial market, and if we have  
5 sensible pricing you will have sensible demand, and the  
6 market will take care of that somehow.

7 Q. But is that an argument that comes back to taxation?

8 When you say sensible pricing, obviously it is an open  
9 market --

10 A. It is not necessarily taxation, but it is probably some  
11 form of economic instrument. But even in the absence of  
12 an economic instrument, rationing of course we achieve  
13 the same objective, except that in the case of  
14 rationing, in other words if airports were constrained,  
15 then the additional pricing which would ensue from that,  
16 the higher airfares that would ensue from rationing, the  
17 benefit would accrue to the airport operators and the  
18 airlines, they would simply be in a situation where  
19 demand could not meet supply and they would make excess  
20 revenues or profit. You could also achieve it, as  
21 I say, through taxation or some other form of economic  
22 instrument.

23 Q. Again, I am just sort of gently wanting to explore SSE's  
24 policy position on this. Is the consequence of that  
25 that SSE believes that airport capacity should be

1 constrained in order to drive up prices, a fiscal  
2 instrument, in order that less well-off people are  
3 priced out of air transport. Because that is the  
4 consequence. That is why, of course, in the constrained  
5 25mppa case, it is business travellers who continue to  
6 travel. They have greater financial muscle. It is  
7 tourists, it is the rest of us that get priced out.

8 A. Mr Humphries, I am sorry I interrupted, but there were  
9 quite a number of questions or related points there.

10 Q. The rest of us, as someone who has never travelled on an  
11 aeroplane for business, at least I do not think I have.

12 A. I really was listening intently, but could you please  
13 repeat that one just so I have a clear note of the  
14 points you were making?

15 Q. Of course. I am trying to understand what the position  
16 is. You have confirmed that you are a free market  
17 economist and I am not suggesting that one distorts the  
18 market. You have said, however, that the market should  
19 be brought into balance by constraining capacity which  
20 drives up price, which is an economic effect, and the  
21 consequence of doing that is that --

22 A. I didn't say that, sorry, but carry on.

23 Q. -- the people least able to afford the price of tickets  
24 are the people who are priced out.

25 A. Okay, well, in a sense again you are turning the

1 argument around and that is not what I am saying at all.

2 There is no disagreement that it is the policy of  
3 the government that the polluter should pay. The White  
4 Paper confirms that policy with a slight caveat that it  
5 adds the words "over time". Now, we can debate that,  
6 but the policy that the polluter should pay is not just  
7 a UK policy, it is an EU policy, it is in the Treaty of  
8 Amsterdam, they express it as --

9 Q. Mr Ross, I do not want to interrupt you, but the  
10 question is directed to SSE's approach, not the  
11 government's approach. What I want to understand is  
12 what is SSE policy? I am sorry to interrupt you.

13 A. No, no, I promise you, I am coming to your question.  
14 I am dealing with your question actually. SSE's  
15 approach is consistent with that government policy and  
16 EU policy, that the polluter should pay and you should  
17 internalise the external costs of aviation. When you  
18 have done that, you will have a realistic pricing for  
19 air travel, realistic fares and a realistic demand.  
20 Then I think you take a view and say, "What capacity  
21 increases do we need in those circumstances?"

22 So it is not a question of saying that you just cap  
23 every airport as a matter of, I do not know -- let us  
24 put it the other way around. I think it is very  
25 difficult to justify the case for airport expansion on

1 the back of a pricing model which does not reflect the  
2 polluter should pay principle.

3 Turning now to your point about least able to afford  
4 it. You are making an emotional point to me here,  
5 a moral pleading point, as opposed to an economic point,  
6 but of course in every walk of life in economics the  
7 least able to afford things are penalised. The  
8 government does not subsidise the price of champagne or  
9 caviar so that it is not the exclusive preserve of the  
10 well-off. It is no different. In any market, in any  
11 market, the price should be the proper price.

12 Q. Yes. There is no moral judgment one way or the other,  
13 I am just simply wanting to understand SSE's position.  
14 Now, you have told us there that because of "polluter  
15 pays" and internalising costs there should be realistic  
16 fares and demand. Now, I just want to understand this,  
17 because, of course, SSE's forecasts of demand, far from  
18 being lower than BAA's -- suggesting that the additional  
19 capacity is not needed -- SSE's forecasts of demand are  
20 actually higher than BAA's?

21 A. Yes, indeed and particularly so -- not so very different  
22 actually in 2014 or 2015, but certainly our numbers  
23 through to 2021 and to 2030 are much higher than BAA's,  
24 yes. Unconstrained amount.

25 Q. So the effect, as I think now -- well, we will not place

1 a moral judgment on it, but the effect, therefore, of  
2 the capacity constraint will be to price out people who  
3 would otherwise want to pay, and, indeed, on SSE's case,  
4 you would be pricing out even more people than on BAA's  
5 case?

6 A. Yes. That is true. But before we get too hung up about  
7 the moral --

8 Q. Well, leave that aside --

9 A. -- rectitude of this -- no, let me just finish. The  
10 average income for a passenger using Stansted last year  
11 was £51,000. That is a CAA number, you can check it in  
12 the core documents if you wish, £51,500, I think. So  
13 that is the first point.

14 The second point actually -- and this number is in  
15 the Mayor of London's Carbon Action Plan published in  
16 February, again it is a core document -- but 80 per cent  
17 of the flights are taken by 11 per cent of the  
18 population, and it is not the poor 11 per cent, because  
19 there is a third set of numbers you can check in the CAA  
20 documentation, and it shows the social categorisation,  
21 the economic social categorisation of passengers using  
22 Stansted Airport last year: As, Bs, C1s, C2s, Ds and Es.  
23 And 83 per cent of the passengers using Stansted last  
24 year were A, B, C1s. It is a myth to think that cheap  
25 air travel has democratised air travel. The statistics,

1 I am sorry, show that over the years. The trend has  
2 gone down rather than up in terms of the percentage of  
3 poor people that are flying.

4 Q. But, Mr Ross, does that not reinforce exactly my point?

5 It is the other 17 or 20 per cent who are not in those  
6 higher income groups who have the opportunity to travel  
7 through airlines like Ryanair and EasyJet and the  
8 low-cost phenomenon. They are exactly the sort of  
9 people one would expect to be priced out if you force up  
10 prices through capacity constraints?

11 A. I agree, these are exactly the type of people you would  
12 expect to be priced out, if you force up prices, or  
13 indeed priced in when you bring down prices. But what  
14 I am saying to you is: if you look at the actual numbers  
15 for the past -- I can't say 10 years, but we have  
16 certainly gone back seven years. If you look at the  
17 actual numbers for the last seven years, and the  
18 statistic I am pointing you to is to the percentage of  
19 Ds and Es -- Ds are unscaled and Es are unimplied, but  
20 broadly the poorer sectors of the society, the  
21 percentage of Ds and Es who are using air travel today  
22 is lower than it was seven years ago.

23 So despite the boom in budget air travel, the facts  
24 show that it is not the poor people who are being  
25 democratised into flying, it is the wealthy people who

1 are flying more and more and more. Now I am not making  
2 any moral judgment on that. I am simply saying, that is  
3 the fact.

4 Q. Yes, the percentage of Ds and Es may be lower, but  
5 I think your statistics will confirm that the numbers of  
6 Ds and Es is higher. They are just a smaller  
7 proportion.

8 A. I might give you that actually, I might give you that  
9 because the percentage reduction has been relatively  
10 small. I can't swear to that, but you may be correct  
11 that the absolute number may have increased. If it has  
12 done, though, Mr Humphries, it would only be slight. We  
13 can check that.

14 Q. Now, we have diverted slightly from the theme, because  
15 I wanted you just to explore the particular answer you  
16 gave at the beginning of that train of questions, but if  
17 I just return to the theme of tourism and the Balance of  
18 Payments. We need also to recognise, don't we, that  
19 whether it be money leaving the country because of  
20 tourism or money leaving the country because someone  
21 buys an import -- I don't know a Japanese DVD player or  
22 a French shirt or whatever -- but the same applies with  
23 a holiday, of course. Although the money leaves the  
24 country, the good or service, or the benefit of the good  
25 or service, travels in the other direction. I think

1 I put it to Mr Harborough that if someone buys a German  
2 car they may have our money but we have their car. It  
3 is the same with a holiday: by travelling abroad we are  
4 not giving foreign countries money, we receive in return  
5 for that money services and benefits that we want, and  
6 that also ought to be reflected, should it not, in any  
7 assessment?

8 A. Yes. It is not a great analogy frankly. If you buy  
9 a car you are quite right, we have the asset, we have  
10 the Mercedes Benz or whatever it is. When the import is  
11 an overseas holiday, of course, there is not a tangible  
12 asset at the end of that, there is some consumer utility  
13 value, a fairly vague concept that the individual who  
14 enjoyed the holiday in Spain is a happier individual as  
15 a consequence -- but it is not a quantifiable one. So,  
16 as I say, the analogy is not terribly good. It is not  
17 terribly good for another reason, and that is because  
18 when you buy an imported Japanese car, or a DVD player  
19 or whatever, you do contribute quite a significant  
20 amount of money to the UK Exchequer in terms of VAT, but  
21 more importantly a great deal of the added value of an  
22 imported product is in the distribution chain, in  
23 wholesale and retail. So when you say, for example,  
24 that £2 billion worth of money which is presently spent  
25 on overseas leisure trips -- I just choose this as an

1 example -- could perhaps instead be diverted towards  
2 consumer spending in the domestic economy, some of which  
3 would be spent on imports, a large part of the money  
4 spent on imports would actually remain in the domestic  
5 economy, namely the value added and the distribution of  
6 retail system, the profit margin and of course the VAT.

7 Q. Yes, but that is, Mr Ross, exactly the point the  
8 Government was making in paragraph 4.22 of the Air  
9 Transport White Paper that we looked at. Of course,  
10 there are benefits to the UK economy of foreign  
11 holidays, through things like travel agents and the  
12 money they earn. Can we pick up  
13 a slightly -- a particular aspect of your answer, which  
14 is this: you said the benefit of the holiday is not  
15 quantifiable; in an sense, of course, it is  
16 quantifiable, isn't it? If I pay £500 for a week's  
17 holiday in Spain, the value of that to me is £500.

18 A. Yes, indeed.

19 Q. We know exactly what it is worth.

20 A. It is the utility value to you, yes, I was using  
21 economic jargon. It is quantifiable in that sense. It  
22 is not tangible I think I said, not quantifiable. Just  
23 one more point, so it does not slip by. When you  
24 mentioned added value in terms of travel agents, it is  
25 important to understand that actually Ryanair and

1 EasyJet -- I do not know about Air Berlin -- they don't  
2 use travel agents, of course. It is all direct booking.  
3 Travel agents are yesterday's game so far as Stansted is  
4 concerned.

5 Q. Well, it depends obviously whether people buy a hotel  
6 and other things independently.

7 A. Well, whatever.

8 Q. But we know what our positions are. Now, you are right,  
9 of course, that the Environmental Audit Committee looked  
10 at this, and you went through the various documents  
11 earlier, CD/365 and then CD/391, in a slightly different  
12 context. Can we just look at those two documents in  
13 relation, not this time to the treatment of user  
14 benefits for foreign residents, but tourism deficit. So  
15 365 and 391.

16 In 365 --

17 MR BOYLAND: Can you just keep an eye on the clock,

18 Mr Humphries? Is there going to be a point soon?

19 MR HUMPHRIES: There will be. It seemed to me probably  
20 worth dealing with this because it is part --

21 MR BOYLAND: Oh, yes, I was not intending you to stop you  
22 dealing with this, but I was just flagging up that we  
23 will break in five or ten minutes.

24 MR HUMPHRIES: Thank you.

25 Mr Ross, page 14. Again, some text that has been

1           looked at earlier in the inquiry, paragraphs 37 and 39.  
2           39 is the one that you alluded to earlier about the  
3           Committee being astonished at the overbias the DfT  
4           displayed by emphasising so consistently economic  
5           benefits, and then drew attention specifically to the  
6           tourism point, and if we look at --

7   MR BOYLAND:  Mr Humphries, I am sorry, you seem to have  
8           drifted quite a far way away from your microphone.  I am  
9           having difficulty hearing you, I don't know whether  
10          other people are.

11  MR HUMPHRIES:  Sir, I would leave it up to you whether you  
12          regard it as a benefit or otherwise, but maybe for the  
13          transcript if nothing else, I should be closer to the  
14          microphones.  Sir, I apologise I am trying to have sets  
15          of papers in front of me also.

16  MR BOYLAND:  I understand the difficulty.

17  MR HUMPHRIES:  Is that better?

18  MR BOYLAND:  It is fine, I think, yes.

19  MR HUMPHRIES:  I have taken you to that reference just to  
20          remind ourselves of what the Committee said.  I also  
21          want to remind us of what the Government said in  
22          response to that.  So CD/391, paragraph 8, which is on  
23          page 4 of the document.  Again, there is little point in  
24          my reading it to you and just asking if you that is what  
25          is said, but I think we can just perhaps examine

1 a couple of points. Four or five lines from the bottom,  
2 the Government say:

3 "If aviation capacity is restricted, foreign  
4 residents are likely to switch to lower cost  
5 destinations resulting in a widening of the tourism  
6 deficit."

7 I want to just ask you some questions about that  
8 point. Can we agree, first of all, that for a UK  
9 resident and a non-UK resident, the choice of holiday  
10 through a UK airport available to them is somewhat  
11 different? I will give you the two scenarios. For a UK  
12 resident, they can holiday in the UK or they can holiday  
13 abroad. And if they holiday abroad it has, whether it  
14 is by air or channel tunnel or ferry, the effect on the  
15 UK economy in terms of Balance of Payments is the same.  
16 But for a foreign resident they have a difference. They  
17 can either -- if a resident of France -- holiday in  
18 France, or they can holiday in a whole range of other  
19 places around the world that don't involve the UK. They  
20 have a wider range of choice.

21 A. I understand, that is an obvious point. It is an  
22 obvious point. If we were one country looking out, the  
23 world is our oyster and every other country looking  
24 in -- of course, it is an obvious point.

25 Q. But the consequence is this: if UK airport capacity is

1 constrained so that prices are forced up, UK residents  
2 either have to give up travelling abroad or they pay the  
3 higher price and they go abroad, but their numbers will  
4 be reduced by the constraint to some extent. Of course,  
5 the foreign French national, if prices go up, don't have  
6 to force their way through to England, they can just  
7 simply decide they will go to Italy or somewhere else.

8 So the effect of a constraint on capacity at UK  
9 airports is actually to exacerbate the imbalance in  
10 tourism?

11 A. You were fine up until the last phrase. You were fine  
12 up until that point. Or we were fine up until that  
13 point. But let us not speak about the  
14 generalities -- there is no evidence incidentally for  
15 the Department for Transport's argument for this, but it  
16 does not matter actually. What we are looking at here  
17 is a proposal for 25mppa versus a proposal for 35mppa.  
18 The numbers you have set out, very clearly, what happens  
19 under these two scenarios and that is what we need to  
20 look at. Not some obscure -- I don't mean to be rude,  
21 but we don't need the theory, we can look at the  
22 specific site proposal using the numbers you have  
23 presented in your application.

24 Q. All right, well, let us just have a look at that same  
25 point, because it is also a point made by OEF, Oxford

1 Economic Forecasting, at CD/120. Just look at that,  
2 please. If you turn first to page 27.

3 A. Yes, I am there.

4 Q. This is a section of text, 3.3, talking about visits  
5 from the UK by air. Now the inspector and others can  
6 read this, I am not going to read all the way through  
7 it, but let us just pick up a couple of passages. At  
8 page 28, the second paragraph says:

9 "And having grown used to foreign holidays, it is  
10 easy to imagine that UK residents would still seek to  
11 travel overseas if aviation were constrained. Indeed  
12 the two most popular holiday destinations for UK  
13 residents are France and Spain, both of which are  
14 accessible by a combination of ferry, road and rail,  
15 albeit at greater cost or longer journalism times."

16 And there is force, is there not, in that  
17 observation?

18 A. Mr Humphries, I am conscious of the time. If you show  
19 you my copy of the OEF report you will see it is marked  
20 up in a number of places. It would take me -- and I am  
21 quite happy to do it -- quite a long time to respond in  
22 full to the argument, but what I am trying to say to  
23 you, or invite you to accept, is that we don't need to  
24 look at these broad generalities. We are able to look  
25 specifically at your planning application where you have

1 set out projected numbers of passengers for 25mppa and  
2 projected numbers of passengers for 35mppa, and you say  
3 how many of those will be foreign leisure, foreign  
4 business, UK leisure and UK business. So we have  
5 had the numbers to work with, rather than conceptual  
6 work by academics.

7 Q. Obviously not an answer to the question and, sir, I can  
8 see what I thought might be a short section might take  
9 slightly longer. It may be best if we break now. I am  
10 happy to go on, but it may be best if we break now, but  
11 I will want to come back to one or two other points on  
12 this, if you do want to break now.

13 MR BOYLAND: Yes, it might be a good chance for people to  
14 regroup. Right, it is almost 1.05. If we make it until  
15 2.00 pm.

16 (1.05 pm)

17 (The luncheon adjournment)

18 (2.00 pm)

19 HOUSEKEEPING

20 MR BOYLAND: Good afternoon the inquiry is resumed. Can  
21 I just raise one housekeeping matter before we carry on  
22 that I did not raise with the programme officer last  
23 week in the likelihood that there will be a considerably  
24 increased attendance. I can't imagine why more people  
25 would want to come on Friday than would want to come and

1           hear Mr Ross today, but I think it is likely there will  
2           be a higher attendance on Friday, and, with that in  
3           mind, we might need more chairs than we have here.  
4           I understand from Mr Osborn that the intention is to use  
5           the emergency chairs from the terminal which are held in  
6           stock in case of long delays which necessitate people  
7           spending more time in the terminal than normal. But  
8           I assume that that is subject to them not being required  
9           in the terminal. So there remains the possibility that  
10          we will not have enough seating for everybody who comes  
11          on Friday. I would just welcome any views that the  
12          parties have on that possibility.

13 MR HUMPHRIES: Sir, the only thing I can say is that we will  
14          provide those chairs if they are available. Obviously,  
15          sir, it has to be with a proviso for very obvious  
16          reasons.

17 MR BOYLAND: I must admit I did raise it with Mr Osborn last  
18          week in the hope that that would provide time for other  
19          options to be explored, and that appears not to have  
20          borne fruit.

21 MR HUMPHRIES: Yes, sir. I mean, obviously, as with all  
22          inquiry venues, I am not trying to pass the parcel, but  
23          the planning authority are responsible for this venue,  
24          but I can assure you that we will do everything we can  
25          to try and assist with that and the offer of the

1 emergency chairs is very much in that spirit.

2 MR BOYLAND: I appreciate that, but as I say, that does  
3 clearly carry with it the possibility that they will not  
4 be available. That is what is concerning me. If you  
5 will forgive me, I will just get comments around the  
6 tables first of all, please.

7 MR HILL: Sir, just two points really. First of all, I am  
8 not really sure when we will know when the emergency  
9 chairs will be available from the airport, what is the  
10 cut-off point for that decision?

11 MR BOYLAND: I guess not until the last minute.

12 MR HUMPHRIES: I genuinely don't know the answer to these  
13 things. Apparently they are stored up either in or near  
14 the terminal. If there are large delays because of some  
15 problem, they can then be brought out. I think the idea  
16 would be that, providing there was not a problem of that  
17 sort, they would be brought down in sufficient time for  
18 them to be unstacked and used here. I genuinely don't  
19 know what the lead time is on that?

20 MR HILL: So it sounds as if a decision will be made  
21 reasonably early on Friday morning. That sounds as if  
22 that is when it would be taken. Sir, the only option  
23 that I have had put to me is that it might be possible  
24 for the programming officer to contact the school at  
25 Stansted Mountfitchet which obviously will not be open

1 at the moment, and they apparently have some chairs, but  
2 if they were available, how they would be transported,  
3 I do not know at the moment Uttlesford, I am afraid does  
4 not have any reserve supply of chairs that we could call  
5 upon I am afraid.

6 MR BOYLAND: Would they be able to help with the transport?

7 MR HILL: I am sure if there is anything we can do to help,  
8 we will certainly assist. I am not sure at the moment  
9 what resources we can call on.

10 MR BOYLAND: Can I ask --

11 MR HILL: During the afternoon I will take further  
12 instructions.

13 MR BOYLAND: If you could, yes.

14 A. Sir, could I make a comment, because I can, to some  
15 extent, speak on behalf of SSE. Of course, I have no  
16 idea how many people are going to come.

17 MR BOYLAND: Of course not.

18 A. But I would be very surprised, frankly, if we were  
19 bursting at the seams. And insofar as Mr Lynge's  
20 evidence is only going to last perhaps half an hour to  
21 read, and I am not sure how long it might take to  
22 cross-examine, but a relatively short period of time,  
23 certainly our people in the past have been accustomed to  
24 standing at public meetings if they are not there first.  
25 I do not think it is any huge hardship if some people

1           have to stand. I certainly don't think it is worth  
2           going to enormous trouble transporting chairs from  
3           Uttlesford. And if that is a matter of record and  
4           people complain, then I have put my head on the block on  
5           that one.

6   MR BOYLAND: The blame will go on you. There is a gentleman  
7           at the back who has been itching to say something, I am  
8           hoping that he has a positive contribution to make?

9   NEW SPEAKER: Well, simply that there are stackable chairs  
10           within five minutes of Takeley Village Hall which could  
11           be transported if needs be.

12   MR BOYLAND: I appreciate that offer as well. Perhaps  
13           Mr Osborn could speak to you, and explore that  
14           possibility. Thank you very much.

15   MR HUMPHRIES: Sir, I think, certainly on Day 1 we had more  
16           chairs in this room of this sort. I think there are  
17           some --

18   MR BOYLAND: They are all still in this room I think.  
19           I think most of them have found their way up here so  
20           I am sure we can maximise the use of the chairs that we  
21           have. Okay, well, I have raised the point and I would  
22           be grateful if those who can help with this would liaise  
23           with Mr Osborn, to make sure that we -- I would like to  
24           avoid the possibility of there not being enough chairs,  
25           particularly bearing in mind the media interest there is

1           likely to be on Friday. Thank you.

2   MR HUMPHRIES: Sir, we are just being told there are

3           100 chairs coming tomorrow.

4   MR BOYLAND: Definitely? Definitely maybe?

5   MR HUMPHRIES: Sir, I think it is highly probable.

6           Obviously one can't predict --

7   MR BOYLAND: It is the highly probable bit that disturbs me.

8           I am concerned about the --

9   MR HUMPHRIES: Well, 100 have been programmed to be coming.

10          You will know tomorrow whether they have come or not.

11   MR BOYLAND: Thank you. Well, let us not waste any more

12          time on it, the point has been made. Mr Humphries?

13                  Cross-examination by MR HUMPHRIES (continued)

14   MR HUMPHRIES: Mr Ross, we were just finishing off the

15          section on tourism, and I would like to just get you,

16          however, to confirm one factual issue with me. At one

17          point, in answer to a question, you gave a figure for

18          the average income per leisure passenger?

19   A. Yes.

20   Q. And I just want to check that. We think --

21   A. Per passenger, yes.

22   Q. -- the figure comes from an article -- I think it was an

23          article in The Times, but can I just get you to look at

24          CD/212, please, to look at the way of CAA collects the

25          data.

1           If you turn to the questionnaire in that document,  
2           which is page 304, you will have there a sample of the  
3           questionnaire. This particular one relates to Heathrow,  
4           but I think they are the same for all the different  
5           airports.

6 MR BOYLAND: Sorry, the reference within the document again,  
7           Mr Humphries?

8 MR HUMPHRIES: Page 304.

9 MR BOYLAND: My pages appear not to be numbered.

10 MR HUMPHRIES: It is towards the very end, sir, towards  
11           appendix B. Mr Ross, are yours numbered?

12 A. Yes, I am on page 304. Was that the one you want?

13 Q. Yes.

14 MR BOYLAND: I have appendix B.

15 MR HUMPHRIES: At the back of appendix B, appendix B is  
16           a single sheet and then a questionnaire?

17 MR BOYLAND: Yes.

18 MR HUMPHRIES: If you turn on in that document to what is  
19           page 307, Mr Ross, in our copies, but the page before  
20           appendix C in the inspector's copy, you will see the  
21           questions are divided into questions on the left hand  
22           column relating to business passengers, and in the  
23           right-hand column leisure passengers. And  
24           question 39 is:

25           "Including yourself, how many people live in your

1 household?"

2 And so on. Question 41:

3 "What is the occupation of the chief income earner  
4 in your household?"

5 But then the last question, question 42 (b), Leisure  
6 Passengers' Income Card, the question is:

7 "Can you indicate from this card the total annual  
8 income of all people living in your household before tax  
9 and other deductions?"

10 A. Yes, I do see that.

11 Q. The simple question is: our belief, but I am willing to  
12 be corrected, is that the figure you gave us earlier  
13 relates to that question, and I think it may have been  
14 misinterpreted in The Times newspaper article, but we  
15 believe that the -- I think £51,000 is the income for  
16 a family. So, for example, if an 18-year old child was  
17 surveyed and was still at school, that person would  
18 still answer on the basis of his or her parents' total  
19 income.

20 A. Yes, I see that. And in fact if you look at the left,  
21 you will see they ask a different question of the  
22 business passengers, don't they?

23 Q. Yes.

24 A. No, we have not taken our number from The Times article.  
25 In fact, in the same document, and I don't dispute what

1           you are saying, but I want to point you to where we took  
2           our number from. It is table 16.14 and on my version it  
3           is on page 194. Table 16.14. Are you with me?

4   Q. I certainly am.

5   A. The number I quoted, which was £51,500, is not this  
6           number, because we recalculated this table eliminating  
7           foreign passengers. And to be perfectly honest  
8           I can't -- well, I can see it -- it's not leisure, it's  
9           the Stansted -- the average figure of £51,500, which is  
10          off the top of my head, was based on the UK passengers,  
11          business and leisure, so in other words it was the  
12          average of these first four columns, I am fairly sure,  
13          the weighted average of these columns. If I say  
14          something further, we provided the data to The Times for  
15          the article which they published. So rather than the  
16          other way around.

17   Q. Okay, well, that is helpful.

18   A. But I do take the point, actually, that this is  
19          a curious average between households, if you like, so  
20          far as leisure is concerned, and individuals so far as  
21          business is concerned. And quite how the CAA have  
22          calculated an average, I don't know, but I take the  
23          point.

24                 I think, sorry, perhaps just trying to think it  
25          through, we would need to check to see per household,

1 but I think in any event, even per household, it is  
2 still a relatively large number. It depends how many  
3 income earners would be in the household, but I think it  
4 would still be quite a large number. I am sure we could  
5 perhaps work that out. But I take the point.

6 Q. Now, returning to the theme, we were talking about  
7 overseas tourists and we were looking at CD/120 and  
8 I had taken you to one quotation, and I was about to  
9 take you to another one on page 29, which deals with the  
10 proposition that I was putting to you based on the White  
11 Paper. At the very top of page 29 in CD/120, it says:

12 "For overseas tourists the concept of abroad is  
13 a vast one, with the UK just one more choice amongst  
14 many. They would find other places to visit if air  
15 travel were not possible. It is, therefore, more  
16 plausible that maintaining a vibrant UK tourism sector  
17 depends on good air services bringing visitors into the  
18 UK than hoping that reductions in air services would  
19 increase demand for UK tourism from domestic residents."

20 Now, again, based on some of your answers earlier,  
21 I do not understand you to be disagreeing with that as  
22 a broad proposition?

23 A. Well, I don't disagree with it as a broad proposition,  
24 and indeed I would not even argue that if you close the  
25 frontiers, so to speak, people would necessarily

1 substitute an overseas holiday for a domestic holiday.  
2 I don't argue that either from -- either that that would  
3 happen, or that it should happen.

4 I think what I was really trying to say, just before  
5 we broke up for lunch, is that we can debate the  
6 interpretation of that, just what that would mean in  
7 conceptual terms, but we actually have specific numbers  
8 for this specific project and that is the subject of  
9 this inquiry.

10 Q. Just taking the third paragraph on that page, again see  
11 if you can just comment on this, or see the extent to  
12 which you agree with the proposition, it says that in  
13 part the UK deficit -- and it is talking there about the  
14 tourism deficit -- also reflects the nation's relative  
15 wealth. Again, I think that is probably a proposition  
16 which you would accept: one of the reasons why  
17 UK residents are taking overseas holidays in greater  
18 numbers is because the UK is, in fact, a very successful  
19 economy, and people are able to take holidays in  
20 different parts of the world now, rather than being  
21 confined to holidays in the UK?

22 A. Mr Humphries, I really am quite happy to continue  
23 debating these points with you, there will not be  
24 a great deal between us. Although so far as this  
25 particular report is concerned, you should be aware that

1 earlier this year I was at the same conference as the  
2 principal author of the report, and we debated this  
3 report in some detail. Frankly, I am not impressed with  
4 the report overall, but that is largely irrelevant,  
5 I think, for the purposes of this inquiry. We have  
6 numbers, we have numbers to go on, and, frankly, other  
7 than some particular aspects of it which are directly  
8 relevant to the application, the generality of this  
9 report is not directly relevant to the application.

10 Q. My final proposition in this section that I just want to  
11 see if I can get your comment on is on page 30, the  
12 first full paragraph there and the first sentence:  
13 "Ultimately the value of UK outbound tourism lies in  
14 the fact that the chance to travel overseas enhances  
15 people's lives."  
16 Is that, again, a proposition that SSE accepts?

17 A. Well, I am giving economic evidence, and I am trying to  
18 avoid drifting into social issues, intangibles.

19 Q. If the answer is that is not a factor, you are taking  
20 into account --

21 A. Okay, you are pressing me on this report, so let me say  
22 a little more.

23 Q. I am trying not to press too hard.

24 A. Yes, I think I would accept that travel broadens the  
25 mind. It would be churlish not to accept that point.

1 But if we want to debate some of the social  
2 consequences, benefits and disbenefits of air travel,  
3 that is probably for a separate day.

4 There are disbenefits, social disbenefits, globally  
5 as well as locally relating to air travel, but as I say  
6 I am here to speak about the economics today.

7 Q. Very well. I will not ask you more about that. Let's  
8 move on to conclude this section. I think we can, again,  
9 agree, can't we, by reference to the Air Transport White  
10 Paper, that it is not the policy of Government to  
11 constrain airport capacity as a means of bringing the  
12 tourism balance of trade back into balance?

13 A. Well, there are two questions there, or two points you  
14 are putting to me there. The first one where you say it  
15 is not the policy of the UK Government to constrain air  
16 travel. Actually, it is the policy of the UK Government  
17 to slightly constrain air travel, because the provision,  
18 the capacity provision, which is set down in the  
19 Air Transport White Paper, does not quite meet the  
20 unconstrained demand forecast.

21 Q. That is why the second part of the question is  
22 important.

23 A. Okay.

24 Q. It is not the policy to constrain demand in order to  
25 bring the balance of trade in tourism.

1 A. I do not think that second part of the question featured  
2 in the balance, and that is perhaps what you are asking  
3 me to confirm. The judgment was made on the basis of  
4 the perceived economic benefits relative to the then  
5 perceived environmental impacts. So the tourism balance  
6 did not directly influence that decision, but, again,  
7 remember that the decision was made at a time when the  
8 expectation or the hope was that this tourism imbalance  
9 was just, I don't know, some sort of short-term blip.  
10 But since the year 2000 it has got very dramatically  
11 worse.

12 Q. Well, Mr Ross, that is a slightly different point, and  
13 not one that I accept, but can we move on to the next  
14 area, which is the calculation of user benefits.

15 A. Yes.

16 Q. We need to start, if I can direct you towards it, to  
17 SSE/8, and paragraph 2.3 -- sorry, wrong reference.  
18 SSE/31 at paragraph 2.3.1. You set out there --

19 A. Sorry, you are just a little bit fast for me.

20 Q. I do apologise.

21 A. I am just disorganised.

22 Q. There are a lot of papers?

23 A. SSE/31, paragraph 2.3.1, did you say?

24 Q. Correct.

25 A. I am with you.

1 Q. And in that you set out a quotation from Mr Wood, and  
2 then over the page two paragraphs from the SACTRA,  
3 a SACTRA report. SACTRA is a body that we all used to  
4 discuss at one time. Can you just remind the inspector  
5 what SACTRA stands for?

6 A. Yes, SACTRA started life looking at trunk roads  
7 actually, that is what the "TR" stands for.

8 Q. Yes, Standing Advisory Committee on Trunk Roads.

9 A. Yes.

10 Q. And my understanding, but correct me if I am wrong on  
11 this, that this report from which you are quoting  
12 related to surface access; it was not a report relating  
13 to the consideration of air transport?

14 A. Well, you may correct me if I am wrong, but to be  
15 honest, when this quote was brought to my attention, my  
16 initial reaction was exactly the same as yours: what on  
17 earth is a standing committee or whatever on trunk roads  
18 doing commenting on matters which are relevant to  
19 aviation? I checked it out to establish whether they  
20 had been asked to look at transport generally on this  
21 occasion, and my clear recollection is that they had.  
22 But perhaps you will point me to something which proves  
23 the opposite?

24 I assure you that I would not have accepted this  
25 particular piece of evidence into the proof without

1 checking that it was relevant to the subject at hand,  
2 and I was immediately, as you were, as I say, suspicious  
3 when it was SACTRA, but I checked it out.

4 Q. All right. Is that something you can check? I do not  
5 think the document is an inquiry document.

6 Then paragraph 2.3.4. You move on to the point  
7 about Mr Wood's calculation of a £2.9 billion net  
8 present value for the economic benefit of G1. I want to  
9 ask you now about that. Could you get out CD/232.

10 A. Yes.

11 Q. You might want to have out CD/113 as well. It might be  
12 necessary for us to look at that. Now, first of all,  
13 I think we can agree, can't we, that -- CD/232,  
14 Passenger Forecasts Additional Analysis, is the document  
15 in which the department calculated the overall  
16 £13.681 billion net present value for maximum use? This  
17 is the document in which they do it?

18 A. Yes, I am looking at page 79; is that right?

19 Q. I am going to come to that in a moment.

20 A. Yes.

21 Q. Turn first in fact to page 80 in the document.

22 A. Sorry, which page?

23 Q. 80, the next one. You can see there the maximum use  
24 option that was considered in that economic analysis was  
25 a additional 21mppa's worth of capacity at Luton; an

1 additional 20mppa at Stansted; and an additional 6mppa  
2 at Gatwick. Those were the three airports.

3 A. Yes, yes.

4 Q. That is different, isn't it, from the package that you  
5 invited us to look at in CD/113, if you recall,  
6 table 14.7?

7 A. Without checking back, it will be different. It will be  
8 slightly different, because I think, in the first  
9 instance, for this more recent document they used a more  
10 recent baseline.

11 Q. Yes.

12 A. I am not absolutely clear which baseline they used; you  
13 would think it would have been 2002 rather than 2000,  
14 but the other point here, the reason the numbers are not  
15 quite the same, is the number which is shown in the  
16 consultation document, CD/113, also includes  
17 London City Airport and Heathrow Airport.

18 Q. Correct. And CD/232 was also based on the Government's  
19 then updated demand forecast which, as we examined  
20 earlier in the inquiry, had changed from those  
21 underlying CD/113. Could you perhaps confirm that for  
22 me as well?

23 A. Yes, it changed. Again not significantly, Mr Humphries.  
24 They are in this document -- actually I don't know  
25 instantly where they are -- actually, they are on the

1 very next page, on page 81.

2 Q. Yes, and what we then have on page 79 --

3 A. Yes.

4 Q. -- is that calculation of 13.681 billion net present  
5 value for the maximum use package?

6 A. Sorry on page?

7 Q. 79.

8 A. Yes, we don't have the full calculation but, yes, we  
9 have the gross figure and then the investment costs set  
10 against it.

11 Q. That is right. We have the gross figure at 16.824, the  
12 costs at 3.143 and that gives us the net benefits?

13 A. Yes.

14 Q. Of course that applies to the user benefits for both  
15 leisure and business passengers, and, of course, the  
16 other forms of user benefit in the calculation, which  
17 include government taxes, money to airlines and so on?

18 A. Just to be clear, in fact, I know the numbers. There is  
19 10.8 billion of user benefits in that figure, and the  
20 remainder comes from other areas which are not actually  
21 user benefits -- sorry, with the exception of freight.  
22 But as you say, it is Government taxation, revenues and  
23 one or two other peripheral things. I can't exactly  
24 remember.

25 Q. We know, we discussed before, that as between the three

1 airports being considered -- Luton, Stansted and  
2 Gatwick -- the proportion of business and leisure  
3 passengers now and in the future is broadly similar?

4 A. Yes.

5 Q. There is no indication in CD/232 that the user benefits  
6 apply, or should apply, disproportionately to one of  
7 those three airports but not the others?

8 A. It is not easy to agree with that without seeing the  
9 underlying detail. I can say to you quite openly, the  
10 Department for Transport have been extremely reluctant  
11 to release the underlying detail. We have been asking  
12 for it for a long time.

13 The reason I don't give you a clear answer to that  
14 is because I honestly don't know. If you remember how  
15 the user benefits are calculated, they are based on  
16 essentially differential journey times; that is the  
17 biggest part of them. So if somebody who lives in  
18 London has to travel to Birmingham Airport rather than  
19 Luton or Stansted or wherever to catch the flight that  
20 he wants, the benefits are generally -- sorry, if that  
21 is what he has to do if there is no expansion, then if  
22 there is expansion and he can catch the flight locally,  
23 the user benefit is calculated by working out  
24 essentially how much time he saved by going to a local  
25 airport rather than a distant airport. I think, as we

1 say have said earlier, they are calculated on the basis  
2 of it is about almost £42 per hour for a business  
3 traveller, and £6 -- actually I think it is almost  
4 £7 per hour, nearer 7 than 6, I have the numbers at  
5 home -- for a leisure passenger.

6 So it is not easy, frankly; without seeing the  
7 underlying data you can't really say that you can  
8 pro-rata the numbers, you know, just divide them up  
9 between the airports on the basis of passengers.

10 Q. The question was: there is no indication in the document  
11 that the user benefits apply disproportionately to one  
12 against the other?

13 A. True, true. They only apply very disproportionately to  
14 business passengers, and in that sense they are  
15 disproportionate. But you are quite right, there is  
16 nothing which suggests that Stansted should be any less  
17 than Gatwick or Luton. There is nothing to suggest  
18 that. We just don't know.

19 Q. And although they are disproportionate to business  
20 passengers, we know that the proportion of business  
21 passengers is broadly the same at the three airports  
22 being considered?

23 A. Yes, we do. That is the historic position, of course.

24 Q. Now, what Tribal have done is to look at those user  
25 benefits, and apportion them on the basis of numbers of

1 passengers in the additional capacity being considered  
2 in CD/232, and we saw that, that was the figures being  
3 set out at page 80. You, I think, Mr Ross, may want to  
4 criticise that as a precise calculation, but I don't  
5 think you are suggesting that the figure of 2.9 billion  
6 isn't valid as a broad estimate?

7 A. I am suggesting it is not valid as a broad estimate.  
8 There are two aspects to this. First of all, the  
9 13.9 billion has to be recalculated to see what is that  
10 number when the proportionality of additional  
11 passengers -- this is taking the south east as  
12 a whole -- is not anywhere near what was anticipated.  
13 So --

14 Q. What do you mean by the proportionality?

15 A. What I mean by that is that the 13.7 or 13.8 billion was  
16 calculated -- and without going back to CD/113, let's  
17 just take the figures on page 81 of this document, and  
18 just look at these two columns -- it is not the two  
19 columns, I am sorry, the first two rows. Actually it  
20 still is based on the year 2000, so the difference here  
21 is obviously some sort of finessing of the forecast and  
22 of course the exclusion in this analysis of Heathrow and  
23 of London City.

24 But anyway the proportionality is the same. You  
25 will see that the expectation --

1 Q. Well, no, I think this is the problem. Page 81, unless  
2 I have misunderstood, does include Heathrow.

3 A. Okay, well let us say that it includes Heathrow. I have  
4 to tell you that the Heathrow impact is fairly marginal,  
5 because Heathrow is --

6 Q. In fact you can see some of these scenarios are --

7 A. Fine, let us accept that Heathrow is still in this  
8 figure. By proportionality I mean the assumption  
9 in -- if you look here, 11 to 35 for foreign business,  
10 it was more than travel and so on. UK business was  
11 going to more than double, foreign leisure was going to  
12 increase by two and a half times, roughly, and UK  
13 leisure only relatively marginally.

14 Now it was those numbers, those assumptions, which  
15 generated the figure of 13.7 billion, so you would need  
16 to reassess that in the light of how the world has  
17 turned out to be as opposed to how it was expected to  
18 turn out to be at that stage.

19 Q. Yes, but, Mr Ross, you are saying that as though this  
20 data is in some way inconsistent with the question  
21 I have put to you. This is showing the growth of the  
22 four types of traffic in the south east as a whole, all  
23 airports?

24 A. Yes.

25 Q. The analysis in maximum use that we were looking at on

1 the previous page is just looking at three of those  
2 airports?

3 A. Yes.

4 Q. And I think we are agreed that the business passenger  
5 percentage of those airports, and therefore also the  
6 leisure passenger percentage, stays broadly the same.  
7 They are the same as each other and they stay broadly  
8 the same now and in the future.

9 A. I don't know about future projections for business  
10 passengers at Luton and Gatwick, I have not seen any  
11 projections for those two airports. The only  
12 projections specifically which show business passengers  
13 are in the BAA planning application through to 2015.

14 Whether you accept that the correction is made on  
15 the 13.7 billion figure -- there are two ways of doing  
16 this: one is to correct the 13.7 billion figure, and  
17 then you might have a more sensible number that you can  
18 divide around pro-rata. Alternatively you look  
19 specifically at Stansted in the context of that figure,  
20 and you look at the 290,000 additional business  
21 passengers, in other words less than 3 per cent out of  
22 the 10 million. That alters the arithmetic very  
23 substantially, very substantially.

24 Q. Mr Ross, I have not discerned yet, and it is my fault  
25 I am sure, any reason why one would want to, or have to,

1           recalculate the 13.681, or any reason why it would not  
2           be appropriate to apportion that total in accordance  
3           with passenger numbers. All you have pointed me to is  
4           some data for the south east as a whole, which does not  
5           take things forward.

6   A. Yes, let me just get the Tribal report.

7   MR BOYLAND: You are going to BAA/1(c), appendix 4?

8   A. Appendix 1.

9   MR HUMPHRIES: Appendix 4, sir, is the tourism appendix and  
10        appendix 1 is the --

11   MR BOYLAND: Yes, appendix 4 is what we looked at this  
12        morning, isn't it?

13   A. Correct.

14   MR HUMPHRIES: Page 16, Mr Ross? Obviously I don't know  
15        where you want to take me, but that is where the section  
16        where the calculation has been made.

17   A. Yes, I am on page 16.

18   Q. Yes.

19   A. If you look at paragraph 3.2.6, the final  
20        sentence -- actually let us just take it all.

21   Q. Well, let us take that paragraph. What we can see  
22        Mr Wood is saying there is he has looked at the data  
23        that we have from the department, and the department  
24        have not provided any breakdown of how they made up the  
25        13.681 billion, which is why we can see, can't we,

1 Mr Wood then goes on to examine a way of attributing  
2 a value to Stansted.

3 A. Yes. I am at a bit of an advantage to Mr Wood. I do  
4 have quite a bit of material from the department to  
5 explain more clearly how they got to this number.  
6 I still don't have from the department the  
7 apportionment --

8 Q. Then you are in the same position as Mr Wood?

9 A. -- of the 16.8 billion between the four categories.  
10 Well, I don't have it, and short of filing a Freedom of  
11 Information request which would destroy some friendships  
12 in the department, we will see. I don't know. I mean,  
13 my view on this -- I think I have answered it as best  
14 I can. My view on this, honestly, is that you cannot  
15 pro-rata this in the way that Mr Wood has done  
16 unless -- if you were prepared to re-examine the 13.7,  
17 and recalculate that on the basis of how the market has  
18 evolved since the year 2000, if you recalculated that  
19 global -- or the south east figure then perhaps you  
20 could apportion it, it would be reasonable to do so,  
21 rough estimate. But you can't do it on the basis that  
22 we presently have.

23 Q. Yes. But you are relying there on something that the  
24 market has evolved in a particular way since 2000. Now,  
25 what way has the market evolved? If we were to look

1 back at business passengers percentages for around 2000,  
2 again, we would come up with, again, the same broad  
3 picture, would we not?

4 A. Maybe evolved was not the right word. Mr Humphries, our  
5 analysis has been based again on the specific project  
6 before us, and the specific project before us says,  
7 "Here is the scenario for Stansted Airport if it handles  
8 25 million passengers, and here is a scenario if it  
9 handles 35 million passengers, what are the differences  
10 in the types of passengers between one and the other and  
11 what is the economic value of that to the economy?"

12 Now let me take you back to the OEF if I may, the  
13 OEF report, which was --

14 Q. CD/120?

15 A. CD/120. Now. The OEF took a different approach to  
16 trying the estimate the economic benefits, so it is not  
17 reconcilable with the DfT analysis. But insofar as the  
18 DfT applied the rating, the extra value derived from  
19 business as opposed to leisure by this hourly rate the  
20 OEF report actually only took business passengers. I am  
21 trying to find the simplest quote here. If you look at  
22 page 61 in the box there is four bullet -- sorry.  
23 Sorry, sir. Let me rattle through a few points. If you  
24 look at page 61 --

25 Q. Mr Ross, this is a section on wider economic benefits

1 and we are going to talk about that. I was asking you  
2 specifically about the DfT's calculation of direct user  
3 benefits.

4 A. Yes.

5 Q. I am more than happy for you to take me to something  
6 that relates to that, but I do not think OEF dealt or  
7 commented on the department's calculations. Could we  
8 come back to wider economic benefits, please?

9 A. We will come back to it.

10 Q. And I will come back to it. Still on user benefits,  
11 a slightly different point now, user benefits and non-UK  
12 residents. You took us through, this morning, those  
13 various documents, the Environmental Audit Committee  
14 Report, CD/365, the Government's response disagreeing  
15 with the committee at CD/391, and then also the  
16 Green Book at CD/390. The inspector can read what those  
17 documents say, and we don't need to rehearse that again,  
18 but can I just see if you can comment on one thing?

19 A. Mr Humphries, just before you do, can I clear these ones  
20 off my desk now? 232 and 113?

21 Q. Yes. You have an advantage over me because I have not  
22 done it yet, and I do not have Mr McDonald to take my  
23 documents away.

24 A. He is very good.

25 Q. I will see if I can get him on a Bosnan free transfer at

1 the end of the season.

2 At 390 you drew our attention to paragraph 5.25, and

3 footnote --

4 A. Was it 5.25? Sorry, 5.25, yes.

5 MR BOYLAND: Sorry in which document, Mr Humphries?

6 MR HUMPHRIES: CD/390, that is the Green Book.

7 A. Yes, on page 21.

8 Q. Obviously I just want to understand the use of the

9 Green Book and this document. As I say, we can see what

10 Government have said about it, but can I get you just to

11 turn to the preface, just to remind ourselves what the

12 green book is all about.

13 A. Yes, I am there.

14 Q. The Green Book is typically used by Government for the

15 delivery of public services and, in particular, for

16 ensuring that public funds are spent on activities that

17 provide the greatest benefits to society?

18 A. Yes.

19 Q. Now, obviously, if public money, tax income, is being

20 spent on a public project, it may then be relevant for

21 Government to distinguish between benefits for UK

22 residents and benefits for non-UK residents, clearly?

23 A. Let me just think that -- I think that is valid,

24 actually. Yes, that is valid.

25 Q. But as you told me earlier, this is, in that sense, not

1 a public project, it is a private sector project, and so  
2 it is perfectly valid in those circumstances to look at  
3 user benefits generally; no public money is being spent  
4 for the benefit of non-UK residents?

5 A. That is an interesting argument, but it does not  
6 actually work. And let me -- would you like to know  
7 why?

8 Q. No, just first, factually I am correct, am I not, that  
9 no public money is being spent for the benefit of non-UK  
10 residents in this project? It is a private sector  
11 project?

12 A. I think that is broadly correct.

13 Q. Okay, now --

14 A. There is some surface access stuff, but I think that is  
15 broadly correct.

16 Q. Right. Now you wanted to go on and qualify?

17 A. Yes. There is no question that the analysis of economic  
18 benefits for this particular white paper was  
19 problematic, because airport development is a private  
20 sector responsibility, private sector finance, and yet  
21 there is a public policy issue involved.

22 It was very unusual, the way that the Department for  
23 Transport calculated the user -- or used the concept of  
24 user benefits, which is consumer surplus theory -- I am  
25 not going to bore everybody, but consumer surplus theory

1 is a fairly obscure way of calculating user benefits.  
2 It is used in public transport projects. That is how  
3 you work things out for roads and rail, and they used it  
4 for airports, which I think is slightly bizarre, but  
5 that is what they did. So once they decided to use it,  
6 you start to get into difficulties as to what you  
7 include and what you don't include, and then they mixed  
8 apples and oranges by adding tax.

9 Now the reason I think your point breaks down, the  
10 Green Book sets out the rules, but if you were trying to  
11 include foreign sector rules, and so you could include  
12 the foreign benefits, you would also have applied  
13 a private sector discount rate. And a private sector  
14 discount rate would never have been 3.5 per cent; it  
15 would have been 8 per cent or something of that order.  
16 It would have been a commercial discount rate. So you  
17 can't, on the one hand, apply the public sector discount  
18 rate, and on the other hand apply private sector  
19 benefits. Do you follow what I am saying?

20 Q. Well, I understand the words, if that is what you mean.  
21 The point, though, is this: obviously if what you are  
22 talking about is financial viability and a financial  
23 analysis, of course BAA does that and it applies private  
24 sector analysis?

25 A. Sorry, that is not -- sorry.

1 Q. The point here is a rather different one. Government in  
2 the response to the Air Transport White Paper has made  
3 it clear that it is perfectly appropriate to apply the  
4 user benefit approach in the way that it has, including  
5 benefit to foreign residents. Your point is it should  
6 not be of benefit to foreign residents, look at  
7 footnote 4. And the simple point I am saying is: the  
8 reason why one distinguishes some projects on footnote 4  
9 is because of public money. Now this is not a public  
10 money project.

11 A. Well, let me just try again. First of all, it is an  
12 interesting argument. It is not one that the  
13 Department for Transport has used, and I think the  
14 reason they have not used it is because it is not valid,  
15 because, as I say, if you want to apply a different set  
16 of rules because it is a private sector project, then  
17 you would apply a private sector discount rate. And  
18 I was not referring to BAA making a commercial decision  
19 whether to invest or not to invest, I was referring to  
20 the calculation or the estimate which was done of  
21 economic benefits to UK Plc; the estimate of economic  
22 benefits to UK Plc, even if you used a 3 per cent  
23 discount rate and if it was a public sector project.  
24 That is my view on it.

25 But I accept that we are in a very grey area here,

1           when you start using consumer surplus theory to work out  
2           benefits for an airport development.

3   Q.   Let's move on from that to the economics of climate  
4           change.  Now I am just going to put a few documents  
5           away, but we will need to get out CD/157, which is the  
6           Stern Report.

7           Now, you deal with this topic in SSE/8, so we are  
8           back to SSE/8, section 4.3.

9   A.   Yes, I am with you.

10  Q.   If we look there at 4.3.3, we get the Stern estimate of  
11           £238 per tonne at 2000 prices.  I just want to examine,  
12           first of all, where we get that from, so if you have,  
13           please, CD/157, the Stern Report?

14  A.   Yes.

15  Q.   Turn in the internet copy that I think you are working  
16           from, not the Cambridge printed copy, to page 304.

17  A.   This is the number page 304?

18  MR BOYLAND:  I am afraid I am working from the published  
19           book, so this is the section on aviation I presume?

20  MR HUMPHRIES:  Yes, sir, box 13.3.  I sent off my email for  
21           that and then bought it and read it, and found everyone  
22           else seemed to be using the internet version, and so  
23           I left mine upstairs.  But it is box 13.3, "The Social  
24           Cost of Carbon and Stabilisation".  I am very sorry,  
25           sir, I can't give you a reference.

1 MR BOYLAND: I have it, thank you.

2 MR HUMPHRIES: Mr Ross, do you have that?

3 A. Yes, this is box 13.3?

4 Q. Correct. My understanding is that your figure of

5 £238 per tonne for the social cost of carbon comes from

6 the third paragraph in box 13.3 -- it is referred to in

7 other parts of the document -- which says that

8 preliminary calculations with the model used in

9 chapter 6 suggests that the current social cost of

10 carbon, with business as usual, might be around

11 \$85 per tonne CO2. And I think what you have done is

12 convert that from dollars to pounds and from CO2 to

13 carbon, and I believe that is the reconciliation between

14 the two?

15 A. Yes. We didn't do the dollar/pound calculation. That

16 is provided actually in Stern a few pages earlier, but

17 that is not the point you are going to make.

18 Q. Well, I think if we look at page 287, is that where you

19 were? That is another reference to the 85 --

20 A. Page 288 actually.

21 Q. 288, box 13.1?

22 A. Yes, yes. The conversion factors are shown at the

23 bottom of that box. So that is where the 85 becomes

24 that other figure.

25 Q. Thank you for confirming that.

1 A. Yes.

2 Q. Back to box 13.3.

3 A. Yes.

4 Q. I think we can agree, can't we, that the £85 -- sorry,

5 \$85 per tonne CO2 figure is a business as usual figure.

6 We see that back on page 287, just in front of box 13.1.

7 Again, can you confirm that?

8 A. Yes, it is a business as usual figure, but I think there

9 is also another qualification, if you like, and it

10 depends which trajectory we are on, but you are going to

11 take me there.

12 Q. I will indeed. So that is the business as usual

13 trajectory. The other trajectory which assumes that we

14 move towards a range of 450 to 550 parts per million

15 CO2 equivalent would lead to a social cost of carbon in

16 the range of \$25 to \$35 per tonne of carbon dioxide.

17 Again, we can see that in box 13.3?

18 A. Yes, I am following you. You are taking me away from

19 economics, but I am following you. I understand.

20 Q. I am only taking you momentarily away from economics,

21 just to understand the basis of your figures in this

22 section of your proof.

23 MR BOYLAND: Just for the benefit of my note, can you run me

24 through how you come to that figure, please?

25 MR HUMPHRIES: Yes. Well, I do not think I have come to it,

1 but the \$85 per tonne CO2, if you look at box 13.1 and  
2 you look at the third paragraph above that, on,  
3 I suspect, the opposite page, you will see a paragraph  
4 that starts, "The modelling approach".

5 MR BOYLAND: Yes.

6 MR HUMPHRIES: Do you see that? And then there is  
7 a sentence there that starts, "Preliminary analysis of  
8 the model used in chapter 6 ..." and points to a number  
9 of around \$85 per tonne CO2 for the year 2000, prices  
10 for the central business as usual case?

11 MR BOYLAND: Yes, I have that. It was the subsequent figure  
12 that I was --

13 MR HUMPHRIES: Oh, sorry.

14 A. Perhaps I can help.

15 MR HUMPHRIES: Sir, that is business as usual. If we turn  
16 back, sir, to box 13.3, we can see the reference to that  
17 \$85 per tonne, we know where that comes from, but if we  
18 go on into the next sentence of that third paragraph in  
19 that third paragraph, box 13.3, it says:

20 "But along a trajectory towards 550ppm  
21 CO2 equivalent, the social cost of carbon would be  
22 around \$30 per tonne of CO2, and a longer trajectory  
23 towards 450 parts per million CO2 equivalent around  
24 \$25 per tonne. These numbers indicate roughly where  
25 a range of the policy induced price permissions should

1 be if the ethical judgments and assumptions about  
2 impacts of uncertainty underlying the exercise in  
3 chapter 6 are accepted."

4 So that is where those figures come in, sir.

5 85 -- sorry \$25 to \$30, using the same conversion  
6 factors, Mr Ross, I think brings us out at about £70 to  
7 £84 per tonne of carbon?

8 A. Off the top of my head, it will be that sort of figure,  
9 yes.

10 Q. If I have got that wrong someone can correct it --

11 A. No, no, I am sure it is -- I mean broadly that is the  
12 sort of number.

13 Q. Mr Ross, don't be sure, I am not a mathematician. But  
14 I think that works and that is the social cost of carbon  
15 assuming that we move towards stabilisation at 450 to  
16 550 parts per million, which is what Stern recommends.

17 A. Yes, I agree.

18 Q. Now, let us look at the way Government has looked at the  
19 social cost of carbon, having looked at the  
20 Stern advice. Can you look at the Air Transport White  
21 Paper. That is CD/87.

22 A. Sir, I was just checking the calculations, but you are  
23 just about right.

24 Q. Mr Ross, all joking apart, I mean I am happy to be  
25 corrected, but I think it is about right.

1 A. Yes.

2 Q. Let's have a look at page 31 in the Air Transport White  
3 Paper, and the box there, "Developing Economic  
4 Instruments".

5 A. Yes.

6 Q. We can see there, in the second paragraph, a reference  
7 to the March 2003 document, "Aviation and the  
8 Environment, using Economic Instruments".

9 A. Yes.

10 Q. We may need to look at that, but we can see that that  
11 report estimated climate change costs using an  
12 illustrative value for the cost of carbon of £70 per  
13 tonne, rising by £1 per year in returns?

14 A. Yes.

15 Q. On that basis it estimated the cost of emissions  
16 associated with UK passenger aircraft at 1.4 billion in  
17 2000, rising to over 4 billion by 2030, and that is  
18 obviously over a 30-year period, moving from £70 per  
19 tonne up to £100 per tonne.

20 A. Yes, I am familiar with that paper. That is exactly  
21 correct, from 70 to 100.

22 Q. Great. We know that that is what Government did, and we  
23 can see a little bit further down in that box it tells  
24 us, about four lines from the bottom of that paragraph,  
25 that these costs have been taken into account in

1 assessing future demand for air travel?

2 A. Yes, that was in 2003.

3 Q. Indeed. So we know that in making its estimates, the  
4 Government has taken into account the social cost of  
5 carbon at approximately the levels indicated by Stern as  
6 being necessary to achieve 450 to 550 parts per million?

7 A. Well, no, that is where you have made the leap,  
8 Mr Humphries. The lower figures that are quoted in  
9 Stern are based on getting onto a trajectory which will  
10 get us down globally to 450 parts per million on one  
11 hand and 550 parts per million on the other hand. We  
12 are just not there. There may be a time, and I am quite  
13 happy to accept that, I don't know, post-Kyoto in 2012,  
14 or post-Emissions Trading Scheme globally, there may be  
15 a time when we might feel we are on that trajectory, but  
16 we are certainly nowhere near that trajectory at the  
17 present time, which is why Stern's headline number in  
18 his executive summary is the \$85 per tonne figure.

19 Q. Mr Ross, just pause for a moment. The question was: we  
20 can see that what Government have done is look at the  
21 social cost of carbon at that -- or the equivalent of  
22 that figure looked at by Stern and I think that is  
23 correct. Whether or not you think --

24 A. That is not correct, I am sorry. That is not correct.  
25 Stern's figure is much, much higher than the figure that

1 is in the paper, the "Using Economic Instruments" paper  
2 from early 2003. If you want to know the absolute  
3 current position, the Government's formal position at  
4 the moment is that, in the light of the Stern review,  
5 they are re-examining this £70 per tonne figure, and  
6 they will make an announcement in due course. Please  
7 let me finish, this might be helpful, in the sense we  
8 don't have to argue about it. They will make an  
9 announcement in due course. We did expect to see that  
10 announcement by the end of June. Indeed, if you  
11 remember, the Air Transport White Paper progress report  
12 in December announced that had there would be an  
13 emissions cost assessment for new airport development or  
14 for airport development projects, and then subsequently  
15 in Parliament it was said, well, we would have  
16 a consultation document on that by the middle of the  
17 year. Well, we have not actually got the consultation  
18 document on that, they are running late. But the  
19 official position from Defra, and it is on their website  
20 if you care to look, is that this £70 per figure is  
21 under review in the light of Stern, because Stern  
22 suggested a much higher figure.

23 Q. Mr Ross, you are just slightly running ahead.

24 A. I am sorry.

25 Q. No, no. The only point I am drawing attention to at the

1 moment, is so that the inspector can understand the  
2 conversion between pounds and dollars and CO2 and  
3 tons of carbon, and the Air Transport White Paper and  
4 Stern, is to see that the figure that was referred to  
5 there, on page 31 of the Air Transport White Paper, is  
6 broadly equivalent to that figure in Stern of  
7 \$25 per tonne CO2.

8 A. Well, that would be a thoroughly misleading comparison.

9 Q. Well, no, they are both the same figure, though, are  
10 they not?

11 A. Yes.

12 Q. £70?

13 A. Right.

14 Q. Now, what we know, however, is that the Government have  
15 moved on from that in the progress report. Maybe we  
16 need to look at the progress report now, because in the  
17 progress report -- we need to look at annex C,  
18 page 73 -- the Government did a number of sensitivity  
19 tests. We can see a heading, "Key Assumptions behind  
20 the National Forecasts", "C: Climate Change Costs", and  
21 that refers to the Defra central value of £70 per tonne  
22 of carbon rising by £1 per tonne per annum, and that is  
23 the figure we were looking at before?

24 A. Yes.

25 Q. Then what we see at paragraph 7 -- sorry, I suppose more

1 appropriately, paragraph 8 in the annex, it says:

2 "We therefore tested the impact of the full Defra  
3 range of carbon costs from £35 per tonne to £140 per  
4 tonne in 2000 as well as other assumptions."

5 Now I am not interested for a moment in the other  
6 assumptions, but in table C1 we see there that  
7 Government has tested the effect on demand of a higher  
8 social cost of carbon, doubling from 70 to 140, and also  
9 a lower cost of carbon, a halving from 70 to 35?

10 A. Yes, that is exactly the same range that they used four  
11 and a half years ago. When the original paper -- we can  
12 go there if you want -- and it was a Treasury  
13 publication, "Aviation and the Environment using  
14 Economic Instruments", it is the paper that you have  
15 just referred to, which originally suggested  
16 £70 per tonne. Within that paper it said the range was  
17 £35 to £140, it was from half to double. And they have  
18 just repeated the exercise. I have absolutely no  
19 problem with that.

20 What we don't have yet, frankly, is an official  
21 policy from the Government which says what revision, if  
22 any, they are going to make to this figure of £70 RPI  
23 plus 1 per cent for 2000, what they are going to do with  
24 this figure in the light of Stern. Are they going to  
25 increase it to the level that Stern has suggested? And

1 if so, what trajectory do they assume? 450 for business  
2 as usual or 550? We don't have that information. Our  
3 view is that the headline Stern figure is the correct  
4 one to use.

5 Q. Mr Ross, that may be your view, as you rightly say  
6 Government have not endorsed that, and we know that that  
7 is the business as usual cost assuming that society does  
8 nothing about global warming.

9 A. No, it -- okay, it assumes that society does nothing,  
10 yes.

11 Q. Absolutely nothing.

12 A. Well --

13 Q. What we can see from table C1 is that varying the social  
14 cost of carbon around that central figure of  
15 £70 per tonne of carbon has relatively little impact on  
16 the central case forecast for demand in 2030.

17 A. Agreed.

18 Q. Now, just to follow through, so the inspector can see  
19 how some of these things have been used, could we look  
20 at CD/240. This is the document "Aviation and the  
21 Environment, Using Economic Instruments", that was  
22 referred to in that box on page 31 of the Air Transport  
23 White Paper. And if we look at page 21, table C1, that  
24 shows, does it not, the figures that were being  
25 considered there for the range of the climate change

1 costs in 2030?

2 A. Yes.

3 MR BOYLAND: Did you say page 21?

4 A. Yes, table C1.

5 MR BOYLAND: I have page 21, but I do not have table C1.

6 A. This is the annex C, sir.

7 MR BOYLAND: Sorry, the annexes are numbered the same as the  
8 pages. Sorry, the annexes are not ...

9 MR HUMPHRIES: It is a short document, sir, and -- well,  
10 I have it as page 21.

11 MR BOYLAND: I have it. I found at least three page 21s in  
12 the document.

13 MR HUMPHRIES: For once I do not think I am responsible.

14 MR BOYLAND: I have table C1.

15 MR HUMPHRIES: It is a short point, Mr Ross. All I am  
16 trying to do, so the inspector can follow it -- we saw  
17 that range of over 4 billion in 2030 in the Air  
18 Transport White Paper, and it is this document in this  
19 table in particular which gives those figures?

20 A. Yes.

21 Q. That, once again, based on that central estimate of  
22 £70 per tonne of carbon?

23 A. Yes. In fact, Mr Humphries, before you put it away  
24 actually it is quite convenient if you just turn back to  
25 page 18.

1 Q. Of course.

2 A. About two thirds of the way down the page, in  
3 paragraph A4.

4 Q. That is the point about the --

5 A. You will see the last point there:  
6 "The paper also recommends the use of 35 and 140 as  
7 the range."

8 Q. Absolutely right.

9 A. I just wanted to show you I was not making it up.

10 Q. Mr Ross, I did not think you were making it up.

11 A. Okay.

12 Q. Fine. And then, again, if we can just look at another  
13 document to see the way in which Government have used  
14 these figures, CD/152. And, again, we see reference to  
15 it and I am just really picking up some references with  
16 you. Paragraph 3.5 and 3.6.

17 A. Yes, just --

18 Q. Again we see that range of 1.4 billion to 4.8 billion?

19 A. Yes, just while we are there actually, we see they use  
20 this 2.5 figure, do you see, as multiplier for RFI.

21 Q. Again, there is no need for us to go through it in  
22 detail. So we can agree, I think, that in formulating  
23 the policy in the Air Transport White Paper, Government  
24 has calculated the social cost of carbon for the various  
25 growth packages, including, of course, maximum use?

1 A. Yes. Can I just elaborate slightly on this point?

2 Q. Yes.

3 A. For the purposes of the policy document, the Government  
4 took account, or sought to take account, not only  
5 actually of the social cost of carbon, but -- we don't  
6 need to go back to, it but in the same document,  
7 "Aviation and the Environment, Using Economic  
8 Instruments", the carbon cost was the major  
9 environmental cost, but they also looked at the  
10 environmental cost of aircraft noise and the  
11 environmental cost of damage to local air quality, and  
12 actually quantified numbers there. The noise figure,  
13 incidentally, was quantified on the impact on house  
14 prices. But anyway, so they looked at the external  
15 costs, not all of them, but a number of them, and they  
16 did not include static airport environmental costs, just  
17 the flights.

18 They got to a figure of about 2 billion. They  
19 weighed that, that was part of the weighing in arriving  
20 at the policy that emerged in the Air Transport White  
21 Paper. Well, what we are looking at in this inquiry are  
22 the specific environmental costs of the specific  
23 application, and to weigh these against the benefits of  
24 the application. So we are not disagreed about the  
25 wider context, it is just: how do you apply that to this

1 specific project?

2 And, finally, if I can make the point, we have taken  
3 the headline number from Stern. I agree that at this  
4 stage the jury is out to an extent on Stern. The  
5 Government -- the last update of the social cost of  
6 carbon was contained in the "Aviation and the  
7 Environment, Using Economics" paper, in February 2003.  
8 It has not officially been updated since, except for the  
9 RPI plus £1. And we are waiting to see what figure the  
10 Government will come up with. It is actually quite  
11 a difficult decision for them.

12 Q. Thank you. I just want to then take up a couple more  
13 things.

14 MR BOYLAND: Mr Humphries it is nearly 3.30. Is this  
15 a convenient point for a break?

16 MR HUMPHRIES: Yes, sir.

17 MR BOYLAND: Could you give me an indication of how much  
18 more you have?

19 MR HUMPHRIES: Sir, a fair bit more. In fairness, I do not  
20 think it is -- I do not think I can blame Mr Ross,  
21 I think it is just difficult, frankly, to judge these  
22 things. What is happening is -- no criticism,  
23 Mr Ross -- we are getting into areas and then we are  
24 suddenly descending two or three levels of detail,  
25 because it is important to do that.

1 MR BOYLAND: Yes.

2 MR HUMPHRIES: My genuine best guess is that we will not  
3 finish today. I had very much hoped that we would.  
4 I was pretty confident, frankly, that we would. I do  
5 not think we will. It is not the first time my  
6 confidence has been misplaced, and I can only apologise.  
7 But I think it is quite important when things of this  
8 sort are raised, that you are not left unsure as to  
9 where the point goes to --

10 MR BOYLAND: I must say it has been helpful, so I am not  
11 criticising anyone. I just wondered whether we were  
12 like likely to finish today. It is not a problem, as  
13 far as I am concerned, if we don't.

14 MR HUMPHRIES: I think not. And, as I say, I think Mr Ross  
15 has been very fair today to answer questions first, and  
16 then put in the caveat. So no criticism, the blame is  
17 all mine.

18 MR BOYLAND: I am not attributing blame, I am just looking  
19 for an indicator. Okay, well, that is helpful, we will  
20 adjourn until 3.45. Or go and lie down in a darkened  
21 room.

22 (3.30 pm)

23 (A short break)

24 (3.45 pm)

25 MR BOYLAND: The inquiry is resumed. Mr Humphries.

1 MR HUMPHRIES: Mr Ross, can we just examine two more points  
2 in the Air Transport White Paper. I am going to get you  
3 to look first at a chart and then a passage of text.  
4 A. Yes, which page, please?  
5 Q. Turn first to page 25.  
6 A. Yes.  
7 Q. On page 25 we can see a chart entitled "UK Aviation's  
8 Forecast Carbon Dioxide Emissions" and we can see how  
9 the emissions from UK aviation in CO2, millions of  
10 tonnes of carbon, rise from current levels up to a peak,  
11 in around 2030, just after, and then begin to fall, and  
12 it is worth looking at the footnote, which tells us  
13 that the DfT forecast, based on three runways in the  
14 south east, does not reflect the impacts on economic  
15 instruments, and hence it represents a slight  
16 overestimation. Anyway, we can see that. And then that  
17 is referred to on page 39, and that is the passage of  
18 text I want to take you to. Paragraph 3.30. It says:  
19 "Aviation has become increasingly focused on the  
20 growing contribution of air transport to climate change  
21 ... (Reading to the words) ... UK aviation ..."  
22 And the footnote tells us that that is international  
23 and domestic departures:  
24 " ... will amount to some 16 to 18 million tonnes of  
25 carbon ..."

1           Again we saw that in the chart:

2           "... of which some 97 per cent ... (Reading to the  
3 words) ... global warming by that date."

4           Now, the point really for you, is this: we can see,  
5 first of all, can't we, that government has informed  
6 itself about growing CO2 emissions and in particular  
7 growing CO2 emissions from the aviation sector. That is  
8 clearly something it has taken into account?

9   A. Yes.

10   Q. We can see also that the Government has recognised that  
11 the contribution to UK CO2 emissions could increase as  
12 a proportion of the UK's total contribution, indeed it  
13 says: "could amount to about a quarter of UK's total  
14 contribution". And clearly the policy set out in the  
15 Air Transport White Paper has both acknowledged and  
16 accepted that. It underlies the policy context for  
17 growth?

18   A. Yes. Mr Humphries, at that time in December 2003, that  
19 is exactly right.

20   Q. Yes, but you say "at that time in December 2003"; that  
21 is pretty recent in Government policy terms, and there  
22 is nothing in the air transport progress report to  
23 indicate any change of policy in that regard?

24   A. The Air Transport White Paper progress report was  
25 a departmental progress report, not a policy review.

1           The numbers which were used to formulate the graph you  
2           have just pointed me to, and indeed which are referred  
3           to in paragraphs 3.3.5 and 3.3.6 of the Air Transport  
4           White Paper -- there is a great amount more detail, and  
5           I know we are trying to make progress, but I think you  
6           are aware that the Department for Transport published  
7           a more detailed document on this the month after the  
8           White Paper. It is CD/152. I do not think we need to  
9           go there actually, let me try and short-circuit it --  
10        Q. CD/152 just to confirm?  
11        A. You are coming to it.  
12        Q. Well, it is entirely consistent with the White Paper.  
13        A. Yes, it just contains a greater amount of detail and  
14           shows how they arrived at these numbers. And we could  
15           debate some aspects of it, but that was the Government's  
16           view then, no argument about that.  
17        Q. It still is the Government's view. The Government has  
18           not indicated any changes of view.  
19        A. No, you are quite right on that point also, because they  
20           have not reviewed it. It remains to be seen whether  
21           they will look again at some of these estimates, the  
22           dipping graph in particular, but -- I am not going to  
23           get into this, this is Roger Levett's territory, but  
24           just broadly to put this into context, of course there  
25           has been enormous academic challenge to the Government's

1 estimates, from the Tindell Centre(?), from the Oxford  
2 University Institute of Environmental Change, from the  
3 RCEP, and so on. Roger Levett, I think, will cover  
4 these points.

5 So although they are stated in the Air Transport  
6 White Paper in black and white, it is not a question of  
7 challenging the policy, it is challenging the arithmetic  
8 really of the assumptions that were made then: are they  
9 still valid for today? I think that is perhaps for  
10 Friday rather than today, but I just wanted to make it  
11 clear that there are some question marks about these  
12 projections.

13 Q. Certainly we know that people have questioned them, that  
14 is not the same as the Government doubting them.

15 A. As you say --

16 Q. As you say, that is perhaps not for you.

17 Can we then move to the effect of internalising the  
18 social cost of carbon on demand. I think to an extent  
19 we have covered this. We have seen, have we not, both  
20 in the Air Transport White Paper itself and also in  
21 those supporting documents that we looked at, that the  
22 Government, in making its forecasts of demand took into  
23 account of the social cost of carbon, in other words it  
24 internalised the social costs of carbon in the demand  
25 forecasts.

1 A. They internalised it at the rate of £70 per tonne at  
2 year 2000 prices plus £1 RPI every year. Yes, it was  
3 internalised there, for policy formulation purposes.

4 Q. The progress report also gave us its view on the demand  
5 forecasts with the cost of carbon internalised at a rate  
6 which is twice the central estimate, £140, and half the  
7 central estimate, £35. And, again, concluded that  
8 demand was robust even at higher values?

9 A. Yes, yes.

10 Q. Now, I just want to now move from that to the  
11 relationship with user benefits. And, again, I want you  
12 to assume that the social cost of carbon is  
13 internalised, and for these purposes it does not matter  
14 whether it is through an EU emission trading scheme or  
15 some other financial instrument. Let us just assume  
16 that the social cost of carbon, at whatever value the  
17 Government place on it, is internalised, all right?

18 A. Yes, let us assume that.

19 Q. That effect, again, I think we can assume that  
20 internalising of the costs would take place whether or  
21 not permission was allowed for G1. In other words, in  
22 both the 25mppa scenario and our 35mppa scenario. There  
23 is no reason why Government would distinguish and  
24 internalise the cost of carbon in one case but not the  
25 other?

1 A. No. But what I -- I think you are about to make the  
2 transition between the overall picture and the specific  
3 project, and I would just guard against that, because  
4 when you take the total UK demand for air travel across  
5 all UK airports -- and this is what the government takes  
6 a view on in the graph and so on -- the 490 million  
7 forecast by 2030 and they take a view that it is not  
8 hugely sensitive, overall, to an increasing cost of  
9 carbon, if the cost of carbon is internalised. It is  
10 not enormously sensitive. But certain parts of the  
11 market are much more sensitive than others. And, in  
12 truth, none more so than Stansted, or the type of  
13 business that takes place at Stansted, where so much of  
14 it is discretionary leisure travel at very low airfares.  
15 I will not go on too long about this point but if, for  
16 example, you added £60 to the price of an average  
17 flight, that would not do anything, or very little, in  
18 terms of the demand at Heathrow, which is the premium  
19 sector of the market, and a lot of long haul and  
20 business travel and so on. It would make a much more  
21 significant impact upon demand at Stansted.

22 Q. Well, I don't know where £60 comes from, but --

23 A. Well, I could give you a rough back of the envelope  
24 explanation as to where £60 comes from but, fine.

25 Q. But internalising the social costs of carbon is not

1 going to add anything like £60 to the cost of a flight  
2 from here to, say, Rome?

3 A. From here to where?

4 Q. Rome?

5 A. Oh, yes, it would.

6 Q. No.

7 A. We are back to saying: at what price do you internalise  
8 it? Do you internalise it at £281 or at £70? As I say  
9 we can work it out on the back of an envelope, but it  
10 would not be 1,000 miles away.

11 Q. I don't accept that, and there is no evidence to that  
12 effect at all before the inquiry.

13 Let us -- we know that Mr Maiden's forecasts in the  
14 CIP 2007 have taken account of the EU ETS being extended  
15 to air traffic from Stansted, and we know what his  
16 forecasts are, but we also know that SSE's forecasts are  
17 higher than that, are they not?

18 A. Sorry, I was doing my back of the envelope calculation,  
19 I apologise. Ours are higher than whose? Than  
20 Mr Maiden's? Yes, yes, unconstrained amount, yes.

21 Q. Well, unconstrained amount, your forecasts of demand and  
22 throughput are higher than BAA's?

23 A. Yes.

24 Q. Therefore, I assume, unless you are going to tell me  
25 that your forecasts have not taken into account factors

1           such as the EU ETS and other mechanisms for  
2           internalising the costs of carbon, which would be  
3           inconsistent with the rest of your case, what we do know  
4           is that demand remains robust?

5    A.   Yes, define robust.  But, broadly -- there is no  
6           argument about that.  As you know, our forecasts are  
7           based on the DfT forecasts for the south east for  
8           unconstrained demand.  And you can fiddle about with  
9           long haul versus short haul, but in terms of total  
10          passenger numbers, understood.

11   Q.   Now, I come back to my point --

12   A.   Sorry, just one other point to clarify.  Of course,  
13          these forecasts don't assume £60 on a short haul flight,  
14          they don't assume that, they are based on the Department  
15          for Transport forecasts, and the Department for  
16          Transport forecasts assume a much lower level of the  
17          internalisation of the external costs.  So that is the  
18          reconciliation.

19   Q.   Now, of course, user benefits, as we know from reading  
20          the documents, but as you have also explained to us, are  
21          a relative benefit between two scenarios.  I will give  
22          you an example.  For example, if an airport is  
23          constrained, and the price of travel goes up against an  
24          airport which does not have that constraint and is  
25          allowed to cater for demand and the price is lower, the

1 difference between the two, the increase in price, is  
2 a relative benefit?

3 A. You mean the cheaper airfare?

4 Q. Yes.

5 A. Yes.

6 Q. And the same, obviously, with some of the other forms of  
7 user benefit, for example, ones derived from generalised  
8 costs of time. If I can't travel from my closest  
9 airport because it is capacity constrained, and I have  
10 to travel somewhere else to a more distant airport, the  
11 travel from that, again, that is a relative benefit.  
12 The benefit is comparing a constrained case against an  
13 unconstrained case.

14 A. Yes, the Department for Transport treats that as user  
15 benefit, yes.

16 Q. Now those benefits will be the same, or very  
17 substantially the same, whether the cost of carbon has  
18 been internalised, both in the constrained case and the  
19 unconstrained case, or not internalised in the  
20 constrained case and the unconstrained case. Let me  
21 again give you an example. Let us just assume that the  
22 price of a ticket is £50 in a constrained case and £40  
23 without the capacity constraint, and if we add in  
24 internalising the cost of carbon -- and, again, I am  
25 just making up figures -- it adds £10 in each case, the

1 difference between the price of the tickets is still the  
2 same. The user benefit has not changed?

3 A. You have lost me. Do you mean a constrained -- when you  
4 say a constrained case, do you mean if the planning  
5 application is refused, is that what you mean?

6 Q. Yes, let's take it in terms of the 25mppa case and the  
7 35mppa case.

8 A. Sorry, I understand. If that is the question --

9 Q. I will repeat it --

10 A. -- the answer is yes. The answer is yes.

11 Q. So the same point would apply. I have used the price of  
12 a ticket, but the same point would apply to the  
13 generalised cost of having to travel to another airport.  
14 The user benefit of not having to travel to the other  
15 airport remains broadly the same whether the price of  
16 the airfare has internalised the cost of carbon or not  
17 internalised the cost of carbon?

18 A. Yes, if you are speaking specifically about the project.  
19 The answer is yes. If you are speaking specifically  
20 about the difference between approving or rejecting the  
21 application, the answer to your question is yes. The  
22 reason I make that qualification, just briefly, is  
23 because if you internalise the cost of carbon at the  
24 number which Stern suggests, the headline number which  
25 Stern suggests, then the demand figure is a bit less.

1 Q. That is certainly --

2 A. And so fewer people are, if you like, unsatisfied and  
3 have to switch airports.

4 Q. I understand that point. We know, however, that in  
5 SSE's case the demand is, as you have told us, actually  
6 higher than BAA's demand, and actually a lot higher than  
7 the capacity. Your own figures go up to 50mppa.

8 A. Yes, but these numbers are a subset of the Department  
9 for Transport forecasts which are not based on  
10 internalising the cost of the figure that Stern  
11 suggests.

12 Q. Okay. It may be then that one may need to examine one's  
13 own forecast, but this is not the moment to do that.  
14 The point we can derive from this, though, is that if  
15 the social costs of carbon are internalised, and  
16 assuming they are internalised both in a 25mppa case and  
17 a 35mppa case, then the user benefits as between the  
18 25mppa case and the 35mppa case would be largely  
19 unaffected?

20 A. As compared to what? What is the baseline you are  
21 using?

22 Q. As between the two cases. If the social cost of carbon  
23 is internalised in both cases so that people going  
24 through the airport pay, as part of their airfare, the  
25 social cost of carbon, the benefit they derive from

1           having additional capacity ...

2   A.   Yes, I mean I could qualify that, but broadly, yes.

3   Q.   Therefore, whatever else one does with the figures --

4           looking at SSE/8, if we could look at SSE/8?

5   A.   Which page?

6   Q.   I think it is page --

7   A.   11?

8   Q.   11.   4.3.7.

9   A.   Yes.

10  Q.   For the reasons we have explored, the one thing that you

11           can't do with the net present value of the social cost

12           of carbon though, between 23.2 billion and 6.3 billion,

13           is set it off against user benefits, because

14           internalised social costs of carbon would be paid

15           through airfares, the user benefits are something

16           different.  They are the relative benefit --

17  A.   You have completely lost me.  We are not directly

18           setting it off against user benefits.

19  Q.   No, I have not suggested for a moment that you are.

20           What I am saying is that one could not do that, in case

21           anyone else wanted to suggest that.

22  A.   You can't set it off directly against user benefits.  If

23           you will forgive me, I think you are making this

24           unnecessarily complicated.  On the one hand you have

25           economic benefits, some of which are user benefits and

1           some arise from other areas such as taxation. On the  
2           other hand you have economic disbenefits or costs  
3           associated with it.

4           So if Mr Wood in his appendix -- the appendix which  
5           he wrote for Mr Rhodes -- comes up with a benefit figure  
6           of 2.9 billion, we have debated that, we have rebutted  
7           that of course, and we have explained why, and we don't  
8           need to go over that. And you say, okay, whatever that  
9           number is, and we think it is perhaps about 1 billion,  
10          but whatever the number is you say: what are the  
11          economic disbenefits or the economic costs associated  
12          with this? We have raised a range of areas, but  
13          specifically we have quantified climate change costs,  
14          Balance of Payments costs, something on housing, which  
15          you can debate. But are you saying to me that the  
16          climate change cost that we have quantified is  
17          inadmissible? Sorry, I am not allowed to --

18        Q. It is not so much you are not allowed to ask questions,  
19          it is just I am not allowed to give evidence. Which  
20          I think is very unfair.

21        A. I think so too.

22        MR BOYLAND: You should try it some time, Mr Humphries.

23        MR HUMPHRIES: No, we just must not go there, sir.

24                Mr Ross, the reason for clarifying this is so that  
25          there is no misunderstanding. The social cost of

1 carbon, I think we agree, if it is internalised that  
2 social cost is paid by air travellers, that is the  
3 meaning of internalised: it is paid by air travellers.  
4 And it may have some headline effect on demand, but to  
5 whatever extent is thought appropriate, the demand  
6 forecasts have taken that into account. Can we just  
7 agree that first and then qualify?

8 A. Not quite, sorry. If need be we can go to the Air  
9 Transport White Paper Progress Report, where it  
10 introduces the -- in fact it is the one new policy which  
11 is not decided by that document, but proposed by that  
12 document, and it is the Emissions Cost Assessment.  
13 I can't remember the exact words -- sorry, are you going  
14 to come to that?

15 Q. I can ask you questions about that. I am just really  
16 keen, Mr Ross, because these are quite difficult  
17 concepts, to get your view, frankly, on this slightly  
18 different point. That is why I am taking it in stages.  
19 If the social costs of carbon are internalised, and as  
20 I have said it makes no difference from my point of view  
21 whether it is through an emissions trading scheme or  
22 some other fiscal instrument, but they are internalised,  
23 they are paid by the travellers, then although that cost  
24 may have some effect on overall headline demand figure,  
25 I think both parties, both SSE and BAA are agreed that

1 capacity -- 35mppa's worth of capacity -- will be  
2 reached at Stansted in about 2015 or 2016, you might say  
3 slightly earlier than that. In other words that  
4 internalised costs will be paid by those passengers?

5 A. Well, I am not completely following you on this.  
6 Perhaps it is too late in the afternoon. I think  
7 perhaps I understand the general point you are trying to  
8 make, which is the assumption that essentially that will  
9 take care of itself, but it will be reflected in the  
10 price of air travel, and will not significantly affect  
11 demand, so it does not alter the overall numbers  
12 associated with the project.

13 Q. You saw the difference between Mr Maiden's Environmental  
14 Statement, forecasts and the CIP forecasts -- has some  
15 effect?

16 A. Yes, it would not be that sensitive. I might have to  
17 think about that. Perhaps it is good we are coming back  
18 tomorrow, because as you know we have done it in  
19 a slightly different way. We have looked at it in the  
20 way which we believed the idea the Emissions Cost  
21 Assessment intended, that the Department for Transport's  
22 idea of having an Emissions Cost Assessment would mean  
23 that in much the same way as at the national level in  
24 formulating the policy the environmental costs were  
25 weighed against the economic benefits nationally, that

1           that would be devolved, if you like, to the  
2           project-specific decision, so that in making the  
3           project-specific decision you would take the  
4           environmental costs on the one hand, and you would take  
5           the economic benefits on the other and you would make  
6           the judgment. That is how we have approached it and it  
7           is just --

8    Q.    But let's --

9    A.    I am trying to get my head around the different way that  
10          you are suggesting.

11  MR BOYLAND:   Excuse me. Mr Ross, you have been very  
12          helpful, as Mr Humphries has recognised in answering the  
13          questions before you qualify. It is probably me, but  
14          I am afraid I lost your answer to that question in that  
15          explanation. In brief I think it was, even if social  
16          costs are internalised then do you agree that the 35mppa  
17          level will be reached at or around 2015? Is that fair?

18  MR HUMPHRIES:  Yes, sir.

19  A.    Yes, I did accept that.

20  MR BOYLAND:   Thank you.

21  MR HUMPHRIES:  Mr Ross, that is helpful. Now, obviously one  
22          can produce a figure, as you have, for the social costs  
23          of carbon in that way, but again to recap on the point  
24          I think we came to agreement on before, you are not  
25          suggesting that in producing that figure, the

1           2.3 billion to 6.3 billion, that you directly compare  
2           that with user benefits?

3    A.   3.2 to 6.3 --

4    Q.   Because user benefits are a relative benefit between two  
5           scenarios. They are the reduced congestion, the  
6           slightly lower prices for airfares, the not having to  
7           travel so far?

8    A.   No, I am saying that you can look at all of the economic  
9           benefits on a project-specific basis, including the user  
10          benefits.

11   Q.   Yes, of course you can look at the user benefits, but it  
12          is not right to in some way sort of set off user  
13          benefits against social costs of carbon or the other way  
14          around?

15   A.   Sorry, it is perfectly legitimate to set them off.

16   Q.   Okay --

17   A.   Please let me complete the point. Insofar as you can  
18          express user benefits in financial terms, and indeed in  
19          net present value terms, and you can express social  
20          costs of carbon in financial terms and net present value  
21          terms, insofar as you can express the economic pluses  
22          and economic minuses in net present value terms for the  
23          project, it is perfectly legitimate to net them off  
24          or ...

25   Q.   Right, then that one point we need to explore, and we

1           need to understand the logic, we have agreed that if the  
2           social costs of carbon are internalised in the price of  
3           travel, that social cost is paid?

4   A.   Yes, perhaps where we differ is --

5   Q.   Let us take it in stages.

6   A.   Okay.

7   Q.   We have agreed that that social cost is paid.  So if it  
8           is 3.2 billion, it is paid by the travellers.

9   A.   No, I am sorry, we are not agreed actually.  That is  
10           perhaps where we diverge, because -- and it is certainly  
11           if we are going to 2015, as matters stand there an  
12           extremely remote prospect of that figure being paid.

13  Q.   Oh, right.  Now --

14  A.   Sorry, just to finish the point -- the Department for  
15           Transport forecasts, certainly for 2015, are predicated  
16           on there being an extremely remote prospect of anything  
17           like that being internalised by 2015.

18  Q.   The Department for Transport forecasts, of course,  
19           assume the figure of £70 per tonne or up to 140.  Now,  
20           I know you think it should be --

21  A.   No, that is not where we differ, I am sorry.

22  Q.   238.

23  A.   That is not where we differ.  Bear in mind the two words  
24           in the White Paper about internalising the external  
25           costs over time.  Over time.  The Department for

1 Transport's policy, if I remember it correctly, is that  
2 it would be on a phased basis. Now, initially it was  
3 envisaged that the phasing would commence over  
4 a ten-year period commencing 2006 to 2015. That is how  
5 they would phase in the external costs. It is unlikely  
6 to start any time before 2012, and even then on the most  
7 modest basis. So that is why I should say the  
8 Department for Transport's forecasts -- we don't have  
9 any disagreement that that will get us to 35 million at  
10 Stansted in 2015 or more.

11 Q. But we know the net present value of the user benefits  
12 is the net present value calculated over 60 years.

13 A. Yes.

14 Q. And your net present value for the social costs of  
15 carbon are a net present value over how long? The same  
16 period?

17 A. The same period.

18 Q. 60 years --

19 A. Yes, I think it is to 2060 rather than over 60 years,  
20 but it is that sort of --

21 Q. So the point being that over that period, 60 years, the  
22 social cost of carbon -- I ask you to assume -- is  
23 internalised?

24 A. Yes, yes, yes.

25 Q. Right, and on that basis, if it is internalised, the

1 people out there flying through the airport are paying  
2 that social cost?

3 A. Keep going, sorry.

4 Q. I am trying to do it step by step. You agree that step,  
5 I think, we have agreed it I think twice before?

6 A. That is why I said keep going.

7 Q. Can you just say "yes" for the transcript.

8 A. Sorry.

9 Q. Sorry is not yes, but I will take it as yes.

10 A. Yes.

11 Q. That is internalised in both the 25 and the 35 cases,  
12 and therefore the user benefits --

13 A. No, no. For the transcript, no. It is not internalised  
14 in the 25 and 35 cases, because they are 2015.

15 Q. Well, they are not just 2015, because with the two  
16 conditions mppal and --

17 A. Sorry, I thought we were talking about 2015.

18 Q. With the two conditions, they are the levels and the  
19 throughputs that the airport would stay at.

20 A. Yes, okay. I am almost tempted to give up on this  
21 because I am genuinely not sure where you are trying to  
22 go. And if I was clear where you were trying to go, it  
23 might really make it much easier. Because on the  
24 mathematics of it, I do not think we disagree.

25 Q. No, I think where I am trying to go is, very early on in

1           this, when I obliquely suggested that one might set off  
2           the social costs of carbon against the user benefits,  
3           you told me -- I don't have the precise words -- that,  
4           no, that is certainly not what you do, that is not what  
5           you suggested. And we then went on to other things, and  
6           I suppose I have just come full circle, Mr Ross --

7    A.   If I said that you don't set off the social cost of  
8           carbon against the user benefits, I apologise. I meant  
9           we don't directly set them off against user benefits.  
10          I said that you put all of the costs, all of the MPV  
11          costs and benefits, really, onto the same column of  
12          numbers, and you see the pluses and minuses. And within  
13          that there are user benefits which are pluses, there are  
14          social costs of carbon which are minuses, there are  
15          other minuses. You take the total. You take the  
16          holistic view of it. You don't specifically set off the  
17          social costs of carbon against the user benefits.

18    Q.   So you can look at all of the figures, but not  
19          specifically set off. That is fine. Can I move on then  
20          to wider economic benefits?

21    MR BOYLAND:  Before you do that, Mr Humphries, can you just  
22                  give me a rough idea of how much longer you think you  
23                  might be in total?

24    MR HUMPHRIES:  I would think, sir, another hour and a half.

25    MR BOYLAND:  I am just wondering whether -- it has been

1 a long and fairly heavy day, I just wonder if there is  
2 any benefit in stopping now and coming back afresh?

3 MR HUMPHRIES: Sir, if you were to take a vote,  
4 I think (inaudible) and, frankly, who else matters  
5 besides yourself?

6 MR BOYLAND: I would not put it that way but we will all be  
7 glad of some relief I think. I think to be honest,  
8 given that we are not under any time pressures tomorrow,  
9 I think we might make quicker progress if we came to it  
10 afresh in the morning.

11 MR HUMPHRIES: Sir, and it is a very natural breakpoint.

12 MR BOYLAND: Are you happy with that, Mr Stinchcombe?

13 MR STINCHCOMBE: Yes, sir.

14 MR BOYLAND: Okay, all right. We will do that, then, thank  
15 you. So we will adjourn until 10.00 am tomorrow  
16 morning.

17 (4.25 pm)

18 (The inquiry adjourned until 10.00 am on Thursday,  
19 26th July 2007)

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