Thursday, 26th July 2007

(10.00 am)

MR BOYLAND: I think most people have probably been here on many occasions, so the reminder to sign the attendance sheet and switch your mobile phones off is probably unnecessary, but I will give it anyway. Any other matters before we proceed? No. Right, Mr Humphreys.

MR ROSS (continued)

Cross-examination by MR HUMPHRIES

MR HUMPHRIES: Morning Mr Ross.

MR ROSS: Morning, Mr Humphreys.

MR HUMPHRIES: Yesterday, we looked at issues relating to tourism and the balance of trade, we looked at climate change, and we looked at a range of issues relating to direct user benefits. Today we are going to move on, first of all, to talk about the concept of wider economic effects. That part of SSE's case is dealt with in section 3 of Professor Whiteleg's evidence: that's SSE/9, so we can see where it is.

Professor Whiteleg makes points in relation to four issues, those being: business location decisions, section 3.1; foreign direct investment, section 3.2; international trade, which is in section 3.3; and international tourism we've talked about, that's section 3.4, but the final point that he deals with in section 3.5 is productivity improvements. And so it's the first three and the last one that I'm going to ask you about. International tourism we've discussed in some detail already.

Can I just by just raising some points with you in relation to the first two of those, business location decisions and foreign direct investment, and I'm going to try and deal with them together. For these purposes, could you have out the OAF report, CD/120.

MR ROSS: Yes, I've got it.

MR HUMPHRIES: I want to take you, please, to section 5, which starts on page 41 --

MR ROSS: Yes, I am ready.

MR HUMPHRIES: -- and the section that deals with the issue of aviation supporting investment. This section of the Oxford Economic Forecasting Report is based on the results of some survey work undertaken, and those are set out for us in a number of charts, and I want to, Mr Ross, look at those with you, first of all, and then I can ask some questions arising from that.

You can see the first chart is on page 43, chart 5.1, which is the importance of factors in determining the country in which the organisation chooses to invest.

MR ROSS: Yes.

MR HUMPHRIES: Obviously a number of different factors there are identified as being important to companies, but one of them, the fourth in the list, is clearly air transport networks.

MR ROSS: Yes.

MR HUMPHRIES: I hope you've got the colour copy, but we can see --

MR ROSS: I don't have that, I can see the shades.

MR HUMPHRIES: Clearly, the survey gives an indication of the proportion of companies identifying air transport networks as being important to determining the country in which they invested, and those who thought it was vital or very important or somewhat important, and obviously those who thought it wasn't important at all.

I think we can agree, can't we, from the survey work that, clearly, air transport network is regarded as an important factor for companies determining where they are going to invest?

MR ROSS: Yes. The general point is entirely agreed. Just some points to put it into context. I think, first of all, and I'm not rubbishing the survey, but I think it's important to put it into context. If you go to the back of the same report, if we can refer to some of the survey results. If you go to page 87 --

MR HUMPHRIES: Of annex A?

MR ROSS: Annex A.

MR HUMPHRIES: This tells us about the --

MR ROSS: Well, I was just going to --

MR HUMPHRIES: Well, if I ask a question and then you can respond to it. This tells us about the size of the survey based on the number of respondents, 165, and the text that follows table A1 tells us about the views of OEF on the size of that survey. We can see, for example, it tells us:

"Statisticians generally regard particular responses as representing a reasonable sample on which to base analysis, more or less regardless of the size of the population ..."

And so on. The conclusion of that section is that OEF regard the survey as giving a robust indication -- my words, not theirs, but the Inspector can read what it says -- robust indication of the responses from companies generally.

MR ROSS: Would you like to provide the remainder of the answer I was going to give, or will I carry on now?

MR HUMPHRIES: Well, I was trying to do it on a question and answer basis, but I've now put the point and you can respond to it.

MR ROSS: I won't say anything else about -- the key point is there's 165 replies out of 6,000, which I thought it was very surprising that 97.5 per cent of those asked to comment on the importance of airports to location actually didn't take the trouble to reply. But put that to one side.

There are many reports written about the importance of transport to business location decisions, though only Athers(?) addresses the issue. The Department for Transport commissioned the McQuaid Report, which both BAA refer to and I refer to in our evidence, but there are a number of surveyors. I place less reliance on the OEF survey, not so much because it was a low sample size, but I think principally because it was commissioned largely by the aviation industry. And indeed, three times the aviation industry have sought external economic advice, in 1999, in 2002, and in 2006, and on each occasion they have gone to OEF. There may be good reason that they have particular expertise in that area, but, as I say, I'm a bit wary, frankly, about the OEF report, but happy to discuss specific points with you.

Perhaps the very final point I'd make on this: on the general principle that good access to airports can help businesses in the area, there is no disagreement between us on that point. The disagreements would only be shades of difference, how important is it, and it's not as if the argument between us is one of closing

Stansted Airport or retaining it; it's a question of whether a specific proposal to increase it by 10 million passengers is beneficial.

MR HUMPHRIES: I note -- obviously I don't agree with you, but I note your reservations about OEF as a present organisation, but if the Inspector was to look at the questionnaire, which is the very last part of the document CD/120 -- we can see the questions, and I don't think it's suggested, I've certainly not seen in any of the evidence it being suggested, that the questionnaire is anything other than proper and responsible. It's not loaded or biased; it simply asked people about the importance of different factors to their organisations.

I don't think you're suggesting that the survey questionnaire is biased.

MR ROSS: No --

MR HUMPHRIES: That's very fair.

MR ROSS: I have made all the points I want to make about it.

MR HUMPHRIES: Okay. Returning to page 43, we can see -- and I'm not going to be tiresome, or at least not more tiresome than I usually am, and take you through all of these charts in detail, but we can see -- the Inspector can see, if he looks at page 44, 45, 46, and so on, the answers to a number of different questions which relate to the importance of good air transport links to companies' locations and their investment decisions.

Certainly Professor Whiteleg, in his evidence, doesn't suggest at any point that any of those survey reports, or indeed the OEF approach to the questioning of the particular companies, are unreliable.

MR ROSS: No, he hasn't suggested that at all.

MR HUMPHRIES: Again, the general conclusion that can be drawn from those survey results is that good air transport links is important, both to the location of investment in the UK and, in some cases, to whether an investment is made in the UK at all.

MR ROSS: I will not disagree on the general point. It's how important and what is the significance between the airport handling 25 and handling 35; how much added value would that bring. That's the only area where we would disagree.

I'm sorry, I'm just trying to narrow down and perhaps avoid unnecessary questions where we're in agreement.

MR HUMPHRIES: That's helpful. I want to take you now to one more chart in the table before we then move away from this document, although we will have to come back to it. Could you turn to page 50 in the OEF report,CD/120.

MR ROSS: Yes.
MR HUMPHRIES: Chart there, 6.1. Again, I suspect we will be able to agree on this and then who have off to those other documents. Chart 6.1 tells us, amongst other things, that air services are particularly important to, amongst other things, high-tech manufacturing. You see the size of the bar there and the 61 to 100 per cent. The red, for those that have it, is an indication of the proportion of the companies' sales, 61 to 100 per cent, that depend on air services, and just over 20 per cent of high-tech manufacturing companies indicated that their companies' sales depended on air services to that extent.
MR ROSS: Yes, this is where I get a bit cautious because of the low survey size, and I'm looking for -- I do have the number somewhere, just to give the exact reference, but only seven, I think, high-tech manufacturing companies were amongst the respondents, so this was based, really, on seven companies.
MR HUMPHRIES: Certainly. But --
MR ROSS: So I don't doubt that's what the report says. Do you understand what I'm saying?
MR HUMPHRIES: Yes.
MR ROSS: I'm not trying to be contrary. The report says that, but it is based on seven companies replying.

MR HUMPHRIES: You mentioned McQuaid just now. Don't put CD/120 away but put it to one side. Let's again look at McQuaid --

MR ROSS: Can I just make one point before we put it to one side?

MR HUMPHRIES: Yes.

MR ROSS: Because, again, it might narrow the area of difference between us. If you turn to page 74, this is the conclusions of the report, paragraph 9.5 -- are you with me?

MR HUMPHRIES: Section 9.5, yes.

MR ROSS: Yes, section 9.5. Towards the end of the paragraph, I think three or four lines up, you will see the phrase, "Since it is only business passengers that we expect to generate these wider benefits."

MR HUMPHRIES: Towards the end of the overall section?

MR ROSS: No, sorry, towards the end of the first paragraph.

MR HUMPHRIES: Sorry, yes.

MR ROSS: In fact, you can read the whole sentence, " ... 7 billion of wider economic benefits", and so on. But the only point I'm trying to make is that OEF took the view that the wider benefits arose from business passengers, in terms of improved productivity and access and so on. You can think of the reasons quite easily. Arguably, they relate to freight as well.

I'm trying to translate the significance of this report to the specific application that is before the inquiry. And so it's quite possible using this report, and quite legitimate using this report, to say that, given that Stansted Airport would generate -- the proposal would create a net 145,000 additional business trips per annum, you might take the view that you could apply the sort of valuation that OEF put on that, and that would be a legitimate argument.

But the important point is the direct relationship to business passengers, and that's the only point I wanted to make.

MR HUMPHRIES: Fine. We may need to come back to that, but let's turn now to CD/322.

MR ROSS: Yes, I'm with you.

MR HUMPHRIES: This is the --

MR ROSS: The McQuaid Report, Ron McQuaid -- or Professor McQuaid, I should say.

MR HUMPHRIES: I want to turn on to the section that starts at page 35, "The role of transport in business location".

MR ROSS: Yes.

MR HUMPHRIES: I'm just waiting for the Inspector to get it.

MR BOYLAND: Actually, while we're looking at this document, it reminds me of a point I meant to raise in the past, which is that a number of the documents in these yellow folders, which I think were the core documents put in by SSE, such as this one, have either extracts or whole reports. In many cases we don't have the cover page, so it's not clear from what's before me what the document is. If copies of the cover pages could be provided at some stage -- no desperate rush for it -- that would be very helpful.

MR ROSS: I'm very sorry about that, sir. It doesn't matter the reasons for it, we'll fix it.

MR BOYLAND: It's not a criticism, but I'm just saying it would be helpful if that could be done.

MR HUMPHRIES: Now, within the document, turn to page 38, and there are some paragraphs there. The first of which I want to draw your attention to starts with the phrase, "Key to the increase in globalisation of industry"; do you see that?

MR ROSS: Yes, I am with you.

MR BOYLAND: The second full paragraph on the page.

MR ROSS: Yes, "Key to the increase in globalisation", yes.

MR HUMPHRIES: And, again, I'll try not to be tiresome by just reading it out, but you can see what it's dealing with: critical factors to companies' decisions to locate near airports; airports serving as an important role in attracting inward investment; points that we've talked about before. Just look through it so that you can see what it says.

MR ROSS: All entirely fair points.

MR HUMPHRIES: In the next paragraph, just a theme that I wanted to touch on and pick up:

"Business in computing software, research and development, biotechnology, and some food manufacturing, as well as banking, finance, and insurance, are heavily dependent on air freight and air services."

And, again, in the next paragraph, just over halfway down:

"Wider clusters may develop.industries depends on frequent air transport, such as business services and high-technology manufacturing."

Again, I don't think, from reading Professor Whiteleg, or anything else in the SSE case, that there is any dispute between us that those sorts of industries, particularly high-technology and biotechnology companies, are particularly dependent on air freight and indeed air services generally.

MR ROSS: There is no argument between us on this, really. Stansted is already the third largest airport in the United Kingdom. We're not advocating that it should close or contract. But, you know, if you take

Ron McQuaid's report, it's a fairly lengthy report, and we can cherry-pick all day, but I'm not cherry-picking. Let me just take to you where he tries to draw some conclusions.

If I take you to page 91 of the same report -- page 90, you will see the section starts with "Key messages and gaps in the evidence", and, of course, the evidence in this type of exercise is never perfectly clear, but in paragraph 7.2.1 he tries to put down the key evidence, "The drivers of business location", and the first point he makes is that:

"The evidence suggests that transport is a necessary but not sufficient condition in determining business location."

The second point he makes is that:

"Other factors, such as a skilled and/or inexpensive workforce, and the quality of the local environment, and cost of premises, have been shown to be equally, if not more, important when considered in isolation."

The point there, I think, is also echoed by the KPMG study, by the Euromonitor study, which suggest that actually quality of life -- a number of studies, actually -- is one of the key determinants of business location. Companies like to bring their employees, or set up business in an environment which is, not necessarily quiet, perhaps, but at a minimal. And so you can't look at either issue in isolation. Air transport links are important, but other factors are important also. It doesn't actually prove either of our cases. But we can go through all of the reports and that's really the message that you will get.

MR HUMPHRIES: The first of those bullet points, "a necessary but not sufficient condition". The point, and I think the point I hopefully put fairly, in relation to the first of those charts, 5.1, is that good air transport links is an important factor in business location decisions and foreign investment.

MR ROSS: We have already the third largest airport in Britain and, I think, the 12th largest in Europe. I think they are.

MR HUMPHRIES: Good. And as far as, of course, quality of life is concerned, we know that with that third largest airport, Uttlesford is identified in various surveys as actually having the highest quality of life in the UK.

MR ROSS: That was the case a few years ago --

MR HUMPHRIES: Well, fairly recently, I think.

MR ROSS: Well, Stansted was certainly less than half the size it is now, but it's not moving in the correct direction, I think at least we can agree there.

MR HUMPHRIES: Coming back to the theme that we were on, where I think we're agreed, about high-technology industries, we know, don't we, that those sorts of industries are currently important to the subregion around Stansted, and indeed to Uttlesford as well, as a district.

MR ROSS: No problem with agreeing that.

MR HUMPHRIES: And, again, we know -- we can look at it, but I suspect we can agree it from that UDC corporate plan that I looked at with Mr Mitchell what now seems a very long time ago, but I don't think it was quite that long ago -- that the growth in those sort of high-tech industries is also seen as important to Uttlesford itself.

MR ROSS: And indeed important to SSE, actually. There's no disagreement on that generally point. The disagreement is the importance of expanding the airport to do that.

MR HUMPHRIES: Sure. Still on that theme, can we just look at the RES: that's CD/119.

MR ROSS: Yes, this is the Regional Economic Strategy.

MR HUMPHRIES: Turn, if you would, to page 41. This page in the document sets Regional Economic Strategy goal.

MR ROSS: Yes.

MR HUMPHRIES: 3, "Global leadership and development and realising innovation in science technology and research." Again, we can all read the document for ourselves, but I hope I don't summarise unfairly by saying that clearly the Regional Economic Strategy recognises the existing position of the region as a centre for high-tech industries and innovation, and indeed wishes to strengthen that as part of its regional strategy for the future.

MR ROSS: Mr Humphreys, I'm not sure whether you're asking the questions or giving evidence, but honestly we're not disagreed about this.

MR HUMPHRIES: Now, clearly, we can see, therefore, that there is a connection, isn't there, between the Regional Economic Strategy for the east of England, its desire to move into and strengthen its base in high-tech industries, and those survey results, both in OEF and McQuaid, that suggest that good air transport links are particularly important for those very sorts of industries? We can see that --

MR ROSS: I haven't quite said that, but let's not quibble. Good air transport links are important, yes, to a modern economy. They are helpful in developing these types of business, of course they are. There isn't an argument about the general point. Other things are also important. I don't want to get into quality of life because it's not my field, but it is worth, actually, since you've brought this document out, looking at the very beginning of the document, at page 9 -- not the very beginning, but page 9 of the document.

MR HUMPHRIES: That's the one that relates to quality life being part of the vision?

MR ROSS: Yes. The document is entitled "A Shared Vision". It's the economic strategy. But it's interesting, I think, that the very first key point, they describe:

"Our vision for the region is a leading economy, founded on our world-class knowledge and the creativity and enterprise of our people, in order to improve the quality of life of all who live and work here."

Now, you say that's the vision. Maggie Sutton might not agree that airport development improves her quality of life. But I think really the substantive point that I'm trying to make is you have to strike a balance between ensuring that you don't waste the key attractiveness of this region for inward investment by expanding an airport when only a tiny part of that expansion actually relates to the business, or provides some business benefit. That's my point.

MR HUMPHRIES: Yes. But we know that the expanded airport will have some 19 per cent of all passengers on business trips; it's not a small proportion.

MR ROSS: What we're comparing, and I think you've suggested to us so many times that you insist we look at the difference between 25 million passengers and 35 million passengers, and so what we're looking at is an extra 145,000 business trips.

MR HUMPHRIES: Yes, but -- we discussed this yesterday and I'm keen not to simply re-go over things, but one needs to recognise this that, in that constrained 25 m/PPA case, the business passengers, and indeed all other passengers, will be paying higher fares. Higher fares in 2014. But, of course, as time goes on, and the airport remains constrained, those fares will rise still further.

MR ROSS: If you want to revisit the things we did yesterday, we can do that, but I think the Inspector has all the notes he needs on those points.

But just to be even clearer, actually, the application which you're putting forward has 145 additional business trips, minus, actually -- the airport is less able to accommodate business jets. You might think I'm a terrible person, but I used to fly in and out of Stansted in a private business jet, and I'll probably be thrown out of SSE for admitting to that, but it was extremely important in some circumstances, and very valuable. Now, the airport is going to go in the opposite direction, so far as that is concerned, if your application is approved.

The third element in this mix is the freight, of course, and there's no difference in the freight.

We can speak all day about the conceptual business benefits, but we're considering the application before us.

MR HUMPHRIES: Yes. But I think we know -- and, again, let's try not, you and I, to get too side-tracked -- but we know, on business jets, they don't disappear altogether; they get displaced to other airports, such as Southend, Ford being an example.

MR ROSS: In which case, the business passengers and the leisure passengers don't guess displaced altogether; they go to Luton, perhaps.

MR HUMPHRIES: Moving on, then, in the RES, if we just stay with this theme for a moment, page 45. Again, under that overall goal of innovation in science technology and research, we can see on page 45 that priority four is to facilitate international partnerships that enable knowledge transfer and collaboration on R&D.

MR ROSS: Yes.

MR HUMPHRIES: Again, we can see their point is made, that:

"The east of England hosts many facilities that enable companies to access partners and funding in respect of innovation and R&D from the European Union. These should be encouraged to expand and increase the breadth of the service offered."

Now, facilities that enable companies to access partners and funding include, of course, the airport.

MR ROSS: They include the airport, indeed they do. One of the reasons why some people have speculated that business travel is declining, apart from the low-cost leisure flights, is actually because business increasingly is taking -- I was going to say a more responsible view -- perhaps a more cost-effective view of the environment. And, whereas face-to-face meetings were always seen to be essential in the past, there are opportunities, and particularly when you think of high-tech companies around Cambridge and so on, to communicate with their head offices and do meetings without travelling on an aeroplane.

In this area, actually, of all areas, where we have so many high-tech companies, the opportunity to do teleconferencing, certainly in my experience, becomes easier and more efficient every year, and people say that's consistent with reducing the need to travel.

I don't know. I don't have any numbers on it, I don't have any hard evidence on it, I just put it to you that you can't draw quite the simplistic relationship that you're trying to draw.

MR HUMPHRIES: No. But we know, don't we, that Mr Maiden

specifically includes video-conferencing? Do you remember Louise Condon's comment about some of the parameters, VidCon being one of them?
MR ROSS: Yes.
MR HUMPHRIES: They are specifically modelled by Mr Maiden in his forecast.
MR ROSS: Actually, I thought I heard him say that he'd taken that sensitivity out of his forecast, but it doesn't matter, I may be wrong.
MR HUMPHRIES: Okay. Again, just to see the final bit that we need to look at in the Regional Economic Strategy, page 63, goal six.
MR ROSS: Yes.
MR HUMPHRIES: Again, we know that it is an express part of the region's economic strategy to make the most from the development of international gateways, and we can see from priority one, on page 65, that taking advantage of the opportunities for sustainable airport expansion in the region is one of those, and the RES supports, we know, the growth of Stansted Airport.
MR ROSS: Yes.
MR HUMPHRIES: And clearly sees that as an important factor supporting wider economic growth and benefits in the region.
MR ROSS: Yes. Well, the RES makes specific reference to

the expansion of Stansted airport.

MR HUMPHRIES: Yes.

MR ROSS: Actually, I think it supports sustainable expansion of Stansted Airport and speaks about need for balance and so on. We don't have any argument about that. Are you finished with this one?

MR HUMPHRIES: Yes, finished with that one.

MR ROSS: Sorry, just before you put it away, again, because it's important to set these things in balance so that we're not seen to be too selective in picking points out, and, in fairness to Professor Whiteleg, he refers to a number of reports, but I'll not going through them all, but can I just mention one of them to put it into context.

MR HUMPHRIES: Just give me the reference.

MR ROSS: The reference, actually, is page 26.

MR BOYLAND: In which document?

MR ROSS: In the RES -- or if we go to Professor Whiteleg's proof, he puts it in full, actually, doesn't he, in paragraph 4.1.4. It's on page 11 in the actually document. It's in paragraph 4.1.4 in his evidence.

MR HUMPHRIES: 4.1.4. I've got on page 20. Sorry, am I in the wrong bundle?

MR ROSS: No, if you're on page 20 of his evidence.

MR HUMPHRIES: Yes.

MR ROSS: He just highlights the place where, within the RES, it recognises that there are competing objectives, if you like, within the region, in terms of trying to maintain quality of life. It refers to the pressures in the area -- sorry, this is the RES refers to the pressures in the area, and further down, in paragraph 4.1.5 -- let me read this one out -- he says:

"In a regional labour market exhibiting some signs of overheating, the focus for action must be where market failure is greatest, and potential to meet the needs of a changing economy, increased economic activity rates, within the most disadvantaged communities must be an integral part of the region's regeneration programmes."

And this particular area is certainly not one of the disadvantaged areas within the region.

"Equally, achieving a better balance between labour supply and demand in local economies showing signs of overheating must be central to developing more sustainable patterns of growth."

I mean the whole region. This is the area that's showing signs of overheating.

"The use of migrant labour to address skills shortages and other equipment difficulties is likely to be an increasing trend as a result of EU enlargement.

The regional need to coordinate supported services for migrant workers to ensure their skills are fully utilised ..."

That's from the Regional Economic Strategy.

MR HUMPHRIES: Yes.

MR ROSS: I'm simply trying to say that there are a number of issues that need to be weighed, not just airport expansion equals economic growth. That's the point.

MR HUMPHRIES: Certainly there are many points to be weighed. Overheating I'm going to come back to in relation to employment.

Now, we've been talking about business location and foreign direct investment.

MR ROSS: Yes.

MR HUMPHRIES: International trade: that was another of Professor Whiteleg's headings. We can --

MR ROSS: Sorry, just before, if you're leaving regional business investment, I do have the statistics, which I would be happy to provide to the inquiry, either right now or afterwards, but the statistics actually are quite interesting in terms of the amount of foreign direct investment in the region over the past six years.

MR HUMPHRIES: It's entirely a matter for you, if it's something you want to --

MR ROSS: Well, if you're finished with the subject now, can

I suggest, rather than prolong this, we'll put them in as a core document later.

MR HUMPHRIES: That sounds perfectly acceptable.

International trade, which Professor Whiteleg deals with in SSE/9, section 3.3, I think we can agree that, although his text in section 3.3 relates to the carriage of freight, and makes the point that freight carried through Stansted will be the same with or without the G1 development, of course, international trade is also reflected in sales and marketing trips: in other words, trips by businessmen to sell their goods or buy goods in other markets.

MR ROSS: Yes.

MR HUMPHRIES: Again, if we can look at OEF -- so, CD/120 -- and again, I suspect this will be an area where we will rapidly agree on what is said but maybe disagree on inferences to be drawn from it --

MR ROSS: Sorry, which page?

MR HUMPHRIES: Page 34 is where the section starts in CD/120, but the various charts are on page 35.

MR ROSS: Yes. Subject to the caveats I have already given about the size of the samples and so on, I'm quite comfortable with the general points that are being made here and I wouldn't challenge them.

MR BOYLAND: I was just wondering if you could perhaps wait for the question.

MR ROSS: I thought you asked me to look at the charts.

MR BOYLAND: He was just taking you to the right place, and then, I think, he was going to ask you a question. Possibly you've anticipated him --

MR ROSS: I'm trying to get finished by lunchtime.

MR BOYLAND: Possibly you've anticipated the question, but was that the question, Mr Humphreys?

MR HUMPHRIES: Well, I suppose that would be a wrap-up answer to the sort of question. The important point, I think, for us to stress here is: clearly, we need to recognise -- no criticism of Professor Whiteleg, he was addressing a slightly different point -- but passenger services are also important for international trade because they give the ability for direct sales and marketing trips to be made. Now, I think you can then give me the answer that you gave me just a moment ago.

MR ROSS: I refer to the answer I gave you --

MR HUMPHRIES: I think, in raw terms, you accept the proposition, do you not?

MR ROSS: Yes.

MR HUMPHRIES: Thank you. Maybe from here on in you should just anticipate all the questions and I'll just pop back upstairs and get on with some other work.

Now, clearly, we need to recognise, of course, that many of those business trips for sales and marketing may result in trade which does not itself come through Stansted Airport; it may be that it's trading goods that are shipped by sea and come through Harwich or other ports, or whatever.

MR ROSS: Yes, of course. And equally the converse would apply, insofar as much of the freight moving through Stansted Airport might have been generated by business trips from other airports or by telephone calls.

MR HUMPHRIES: Yes.

MR ROSS: But, yes, I have no problem agreeing that.

MR HUMPHRIES: The final heading that Professor Whiteleg dealt with and I want to just touch on was his 3.5, productivity improvements. Again, same format, Mr Ross. I just want to look at these survey results in the OEF study to see how they help us. We need to go to section 8 of the report, which starts on page 61, and we see there are three charts on pages 62 and 63: "Importance of air services for management of organisation", "Implications of being able to serve a bigger market", and "The importance of passenger air services to organisations".

Again, I'll try and speed things up by asking a sort of omnibus question. Clearly the survey results indicate that good air services are important for the management and running of companies, and indeed the productivity and efficiency of companies.

MR ROSS: Those are your words, but, again, the general point, I'm entirely comfortable with. And, in fact, if you go to -- are you on page 62 or 63?

MR HUMPHRIES: 62 or 63. I was trying to --

MR ROSS: If you go to page 61, just while we are there, and you will see the key points are listed, all of which I would agree with -- and I'd prefer to agree with them based on my independent understanding and having read other reports rather than agreeing on the grounds of the survey, the limited survey. But anyway, looking at these bullet points, you will see the third bullet point where they refer to the earlier econometric work they did, and it said:

"On the impact of business use of air services and the productivity of the rest of the economy..."

And in the following bullet point -- the final bullet point in the box:

"The results imply that if growth in business use of aviation services, both passenger and freight, were held back by 1 percentage point, it would have to effect on GDP ..."

Throughout the OEF report, they actually disregard leisure passengers. They do not recognise any benefit to the economy arising from leisure passengers in their calculation of the benefits, and that's why, in a sense, I'm not arguing with any of your general points here; I'm asking you to focus on the particular application before us.

MR HUMPHRIES: Yes. Clearly, having gone through all of that, and recognising the importance of air services, we can see that an airport which is capacity-constrained by condition m/PPA1, not just in 2014 but into the future, it becomes a permanently capped airport, does little or nothing to support the strategies of the Regional Economic Strategy for growth in areas of high-technology and research.

MR ROSS: I don't actually agree with that point.

MR HUMPHRIES: That's a point, obviously, where we begin to diverge.

MR ROSS: I don't agree there. In the first instance, your client's choice, we don't have forecasts beyond 2015, and so -- you say to me it's constrained; you haven't provided any evidence to suggest that it would be constrained beyond 2015 because you haven't provided any forecasts beyond 2015.

There are only two points here.

The second point is that, if Stansted were constrained, let's just say for the next five years, Luton could accommodate the additional passengers from the region. Luton is within the region. Luton is identified as an area requiring economic regeneration within the region, whereas Stansted is not, is it? It's overheating. Now, I'm not playing pass the parcel; I'm just giving you economic facts.

MR HUMPHRIES: Well two, points arose there. First, forecast. We know, of course, that in the 25 m/PPA case, where the existing condition, which will be reached, I think, on current forecasts, next year -- we know that its capacity, if that condition is not lifted, is then fixed into the future. So the capacity is not between us.

MR ROSS: Yes. When you say it's fixed into the future, how far -- you even talked about planning application (inaudible). But leaving that to one side, BAA might come back in three years' time, when you have a stronger case, and argue the case for expanding the airport. So it's not fixed forever and ever; I think it's fixed until such time as BAA is able to demonstrate that the economic benefits would outweigh the environmental harm, and I don't think that time is yet.

MR HUMPHRIES: So, clearly, there is a recognition -- and I think I'd understood this from SSE's case -- that economic benefits could be capable of outweighing the harm.

MR ROSS: Yes.

MR HUMPHRIES: And, therefore, the issue between us -- I think with Mr Saunders he said SSE was not opposed to sustainable growth -- the issue between us is how one weighs that balance between the benefits and the impacts.

MR ROSS: Yes.

MR HUMPHRIES: And, clearly, if the Inspector or the Secretary of State thought the benefits were greater than is SSE's view, clearly it would be appropriate, wouldn't it, to expand the airport, and indeed, on SSE's case, that would be sustainable?

MR ROSS: Yes, if the Secretary of State took such a view -- I mean, clearly, we'd be very interested to see where he got the economic benefits from, and if he wasn't able clearly to demonstrate those economic benefits, then the legal recourse that we did not consider was appropriate four years ago -- it would have been premature -- you know, would then be something we would look at. That's the fundamental issue: is the onus is upon BAA to demonstrate the economic benefits outweigh the harm.

MR HUMPHRIES: Returning, however, to the theme, you made the point that we'd not provided forecasts that the airport would be constrained. Assuming the condition was left in place, as SSE is currently arguing for -- we know, I think, on BAA's forecast, and indeed the Department's forecast, that demand in the south-east will rise into the future.

MR ROSS: Yes.

MR HUMPHRIES: And we know, therefore, that the airport, constrained at 25 million, will become increasingly expensive to use because of the forces of supply and demand.

MR ROSS: Yes. Actually, it becomes increasingly business-focused, Mr Humphreys. If you follow through the logic of the argument, which demonstrates that, as the airport becomes constrained and prices rise, it caters more for the business market and less for the leisure market -- you haven't produced forecasts beyond 2015, but the logic of that argument is, as you get to 2016 and 2017 and so on, that becomes increasingly the case, and so the proportion of business passengers at the airport increases indefinitely while it's capped, and so the airport becomes much more appropriate to serving the business needs of the community. That's the logic of the cap.

MR HUMPHRIES: Yes. I'm not going to go with you on whether that is right, but assume that is right: the consequence of that is that the airport becomes increasingly

expensive for business users to use.
MR ROSS: Yes, it's a question of how much --
MR HUMPHRIES: Yes. And then for companies making investment decisions, either as to whether to invest in the UK at all or, if they're going to invest in the UK, where in the UK they invest, the consequence of that is that there will be a greater tendency for businesses either not to invest in the UK or to invest elsewhere other than eastern England region.
MR ROSS: Well, I think we should put this in context --
MR HUMPHRIES: Well, do you want to --
MR ROSS: Let me please do that. You're putting the point to me. I mean, broadly, that's the direction it would move in, yes, but I want to put it in context, because the average Ryanair fare presently is just under £30; something like £28 or £29. The average easyJet fare is actually about 50 per cent higher than that, around £43. I mean, these aren't big amounts of money in the context of business investment decisions. If these fares were to rise 50 per cent, or even by £60 for a round trip, I mean, that's not going to make any material difference in a business location decision, especially when Stansted already is perhaps the -- if the price of air fares is a critical factor, then there is no better airport than Stansted for a business location.

MR HUMPHRIES: Yes. Well, firstly, it's not possible to look, of course, is it, at current circumstances, where the airport is not capacity-constrained, and make judgments about the level of air fares in a constrained airport? But, of course, what message, Mr Ross, is sent out to a potential foreign direct investor in the east of England region if that investor is told that the international airport which best serves investment in that country is capacity-constrained by a planning condition? It tells the investor: this is not somewhere where you want to be in order to have a growing company, doesn't it?

MR ROSS: I really don't think this is a strong argument on your part. Presently, I can fly any day of the week from Stansted to Torremolinos or Tenerife. I cannot get a flight to Paris or to Frankfurt. Stansted has chosen -- or the airport operator has chosen to develop the airport as leisure airport -- principally as a leisure airport --

MR HUMPHRIES: Mr Ross, all UK airports are --

MR ROSS: Please let me finish my answer, because you're putting it to me that capping the airport at 25 m/PPA would have an adverse effect upon business investment decisions, and I just think that's a very, very thin argument.

If there was a demand for Stansted to provide services far more long-haul than at present, far more business-oriented, of course Stansted has got the capacity to do it. It's the third largest airport in the UK and, I think, the 12th largest in Europe. If it's capacity-constrained, it's because so much of it is being devoted to providing leisure flights. I won't get into the detail of that, but that's a choice. That's a choice in terms of the way BAA has positioned and developed the airport.

MR HUMPHRIES: Yes, but it is not consistent with the facts, is it, Mr Ross, in fairness, that Stansted has the same business passenger percentage as Gatwick, Luton and Manchester? It's only --

MR ROSS: I checked these figures last night and I was too hasty and generous in agreeing with you, but, you know, they're not substantially different.

MR HUMPHRIES: Slightly higher than Gatwick and almost exactly the same as Manchester and Luton.

MR ROSS: Actually, it's 2 percentage points behind Luton, but never mind. As I say, I checked the numbers this morning.

But since you raised that point, actually, there's also a slight difference in the characteristics. Whereas the other airports do tend to be people who are, to use your social argument, your two weeks on your holiday, Stansted is not quite like that; it's short trips, short leisure trips. But that's a detail.

MR HUMPHRIES: Now, let's move on and hopefully make rapid progress on some slightly different points. Some employment-related points first of all. You deal with this in SSE/8, first of all, where you make the point, in section 3.1, that Stansted is dominated by Ryanair. Can we agree, first of all, that airports are often dominated, or have a very large proportion of their slots taken by a single carrier? Charles de Gaulle, Frankfurt, Schiphol, all examples.

MR ROSS: If you can give me an example of one which has got more than 66 per cent scheduled services.

MR HUMPHRIES: Well, I don't know the percentages, but we know Charles de Gaulle is dominated by Air France, Frankfurt by Lufthansa, Schiphol by KLM, a lot of the American airports are dominated by US carriers.

MR ROSS: Okay, I don't think any one is quite as high as that unless you go to North Korea. But there's a big difference, of course, between the ones you quote and Stansted. Apart from the fact most of these airlines are state-owned, the big difference, actually, is these are big city airports, where the people who live in Paris or Frankfurt or whatever, if there isn't a job for them at the airport, there's plenty of other job opportunities. This is an unusual airport insofar as it's set in a rural community with no big urban population centre. That's, I think, the key difference.

MR HUMPHRIES: Yes. We also know, of course, that Ryanair is one of the most financially-successful airlines in the world, isn't it?

MR ROSS: Absolutely. I have no problem with Ryanair's financial success. And I see you submitted a research note from Davy Stockbrokers as a core document yesterday.

MR HUMPHRIES: CD/413.

MR ROSS: CD/413. I was surprised, actually, you chose that one because, as you, I'm sure, know, Davy are the Dublin-based house brokers to Ryanair. No matter. The others would have been almost as generous in praise of Ryanair. And, yes, I have perfectly cordial relationships with Mr O'Leary and the highest respect for him and his business.

MR HUMPHRIES: There's no reason to believe, is there, that Ryanair's position, having a large number of the slots -- majority of the slots at Stansted, would reduce if Stansted remained capped at 25 m/PPA? The very position you seem to be drawing attention to would be perpetuated by that cap.

MR ROSS: I don't know, actually. I haven't thought that one through. My view, actually, for what it's worth, is that, if Mr O'Leary had somewhere else to go, he would move out of Stansted tomorrow, if it didn't damage his business interests. He is -- Ryanair are footloose. I don't put that as a criticism, but it's no secret the relationship between Ryanair and BAA is very difficult, to say the least, which I think is why, perhaps, Mr O'Leary and I have a cordial relationship. But if he had somewhere else to go without damaging his business, he would go.

MR HUMPHRIES: Of course, Ryanair, we know, is, in fact, just one of a large number of employers at the airport; a large number of other companies are based at the airport.

MR ROSS: Yes, but so many of them are dependent upon Ryanair. Their employment -- whether you're in a shop or you clean the place, or whatever you do, if two thirds of the scheduled passengers are Ryanair, then the airport is very dependent upon Ryanair.

MR HUMPHRIES: Yes. But, Mr Ross, SSE's forecasts don't show a fall-off in passenger numbers; SSE's forecasts show greater passenger growth at Stansted than BAA's forecasts.

MR ROSS: Well, I mean, we're not predicting the demise of

Ryanair. Please understand, the point we're trying to make -- and I'm just trying to cut things short again -- is to say, if you're trying to develop a sustainable local economy, you want things to be broadly based. It's no criticism of Ryanair, and it's no suggestion that Ryanair are not financially stable.

I think the point really is -- and I think we could agree upon this -- that the aviation industry, in the long-term -- in the long-term, there are three major risks that face the aviation industry: you think of international terrorism, you think of the oil prices and availability, and you think of the environmental problems with climate change from aeroplanes at high altitude. Three big strategic long-term threats. Now, I have no idea whether any of those will come to pass. I simply say that it's prudent not to put too many eggs in one basket for the local economy.

MR HUMPHRIES: Mr Ross, you've got to examine the consequence of the position. We're here at an inquiry where what BAA is asking for is two planning conditions to be removed.

MR ROSS: Yes.

MR HUMPHRIES: If you were right, which of course we don't accept, but if you were right, there is no adverse consequence of lifting these two planning conditions.

All you are saying is, if the two planning conditions were lifted, the impacts that we have assessed at 35 m/PPA may not come about.
MR ROSS: No, I'm saying there are adverse implications, I'm sorry. I'm saying there are adverse implications --
MR HUMPHRIES: But only if passenger growth does grow to 35 million, as you believe and as we believe.
MR ROSS: Yes, I'm saying there are adverse impacts in the area I've been describing, in terms of over-dependence upon Stansted Airport, if the airport grows from 25 to 35.
MR HUMPHRIES: Right. If the airport does grow from 25 to 35, that actually gives the opportunity for new entrants to the airport and a wider range of airlines to operate from Stansted, giving greater diversity.
MR ROSS: Possibly. Possibly, yes. There are two parts to the argument, aren't there: one, that Stansted itself is hugely dependent on one airline; and the other, that the local community will become even more dependent upon Stansted Airport --
MR HUMPHRIES: That's the thing you take --
MR ROSS: There are those two sides to the argument.
MR HUMPHRIES: Yes. That's the thing you take up in SSE/10, in section 4.1. If we look at that, that's where you make the second part of the argument, local dependency

on Stansted Airport. And that, again, is an argument that you made in your response to the consultation on the Air Transport White Paper.

MR ROSS: No, we didn't make that argument at all.

MR HUMPHRIES: All right, CD/261.

MR ROSS: You're about to prove me wrong, and I honestly don't recall us ever making that argument before.

MR HUMPHRIES: Mr Ross, if I've written the wrong reference down, I may be proved wrong myself.

MR ROSS: I'm sure you haven't. It's four years since I've read this document, and I was only in the fringes involved in writing it. Sorry, where do you want to take me to?

MR HUMPHRIES: I think there was a section on page 71 of the document.

MR BOYLAND: Can I just have the document again, Mr Humphreys? I was making notes of the previous points.

MR HUMPHRIES: 261. But what I haven't done is -- or is it 270? 270 is dealing with local impacts and terms of employment.

MR ROSS: Sorry, which page should I be on?

MR HUMPHRIES: I think it's the top of page 71:

"The consultation document appears to suggest that 30 per cent of the expanded workforce in the catchment area would be directly employed at the airport, compared to 15 per cent at Heathrow at present. The large community around Stansted would therefore become highly dependent on a single industry. Such communities are vulnerable to traumatic upheaval when their industry declines. In order to avoid this over-dependency, there would have to be massive development for other reasons."

MR ROSS: I couldn't have put it better myself, and I hadn't even realised it was written so long ago.

MR HUMPHRIES: What we know, of course, though, is that that's not an argument which the government accepted.

MR ROSS: Well, I think I mentioned yesterday that there were 470,000-odd responses to the White Paper, and a company called AviaSolutions summarised responses such as ours.

MR HUMPHRIES: Yes, but you're not suggesting that AviaSolutions didn't do a proper job? Obviously --

MR ROSS: That's exactly what I'm suggesting. Let's not beat about the bush. AviaSolutions were a BAA offshoot, with three of the four directors from BAA. That's exactly what I'm suggesting, I'm sorry.

MR HUMPHRIES: Mr Ross, as you rightly say, they are not BAA employees. I think some of the employees may once have worked for BAA; a lot of people have once worked for BAA.

MR ROSS: I've said my piece.
MR HUMPHRIES: I don't accept that for one moment, but there we are.
Again, local dependency on Stansted Airport. Again, I don't think you're suggesting, are you -- when you draw attention to Stansted's track record, I don't think you're suggesting that the Secretary of State should refuse planning permission for G1 because Stansted is not sufficiently profitable?
MR ROSS: No. Does it say that that's what I'm suggesting? Of course not.
MR HUMPHRIES: No, I just said I don't think you are suggesting that.
MR ROSS: No. No, that point is made in the context -- you know, I'll come back to this, because you're, in a sense, overstating the argument that's being made here, whether in relation to Stansted's level of profitability, or its dependence upon Ryanair, or the external potential for shops. The only point that's being made, Mr Humphreys, is that when you take a long-term view of developing the local economy, it's a bit like being an investment manager of a pension fund and you don't put all your -- Ryanair might be the best investment around, but you wouldn't actually put two thirds of your shareholders' or investors' money into

one company, and that's the simple point.

MR HUMPHRIES: Yes, but I had understood -- maybe incorrectly -- that it was also part of SSE's case that Stansted G1 was only providing an additional 3,000 or so jobs, and that that was a relatively small proportion of the overall job creation as set out in the RSS. Now, since you can't have it both ways, we're either dominating the market --

MR ROSS: Sorry, please tell me where that is.

MR HUMPHRIES: Well, I'm going to come on to some of those other things. Maybe it's best if I confirm it the other way. SSE, then, are not suggesting that the 3,000 plus additional jobs for Stansted are small or unimportant as an economic benefit in themselves?

MR ROSS: No.

MR HUMPHRIES: Good. Now, look at paragraph 4.1.15 in SSE/10.

MR ROSS: Yes.

MR HUMPHRIES: You make the point there that between 16 per cent and 22 per cent of Uttlesford jobs were dependent on Stansted Airport in 2003. I won't come on to the second part of that for a moment. But that demonstrates, doesn't it, that, far from there being a strong mismatch of skills within Uttlesford and opportunities at the airport, in fact, a large proportion -- between 16 and 22 per cent -- of Uttlesford jobs are related to the airport?

MR ROSS: Yes.

MR HUMPHRIES: Now, as to the second part --

MR ROSS: Sorry, can I just qualify that slightly, because there's just one important point in the statistics, which is that temporary residents within Uttlesford are counted as Uttlesford. And so, you know, if you ask some of the people, they might not say their home is Uttlesford, but for the purposes of the labour force survey it's Uttlesford.

MR BOYLAND: Can I just clarify that. When you refer to Uttlesford jobs, does that mean jobs for Uttlesford residents or is it employment in Uttlesford?

MR ROSS: I'll tell you what it means. I can't remember the exact number, but if there were somewhere around 23,000 economically-active people in Uttlesford, it's the percentage of that 23,000.

MR BOYLAND: Right, yes. So it doesn't include people that commute into the district to work?

MR ROSS: No. But it would include people who are temporary resident in the district.

MR BOYLAND: Yes, I understand that.

MR ROSS: And just to be clear also, these figures aren't just the direct employees or indirect; these are the direct employees multiplied by the BAA multipliers. Are you with me, sir? And I think the range -- there's a big footnote, I think, to try and describe it. Yes, the footnotes try to describe the detail of those estimates.

MR HUMPHRIES: Now, in the footnote, you draw attention to multipliers used. The multiplier that BAA has used is a multiplier from direct or induced employment of 1.24. You've used here much higher multipliers.

MR ROSS: Yes.

MR HUMPHRIES: But those multipliers, I believe -- but correct me if I'm wrong -- the higher ones, are multipliers for much larger areas: in other words, the larger the area, obviously, the greater the multiplier.

MR ROSS: They're national multipliers, yes. In that sense, that's correct.

MR HUMPHRIES: Yes.

MR ROSS: Although, actually, working them out, the multiplier effect tends to be more concentrated the more local you are. Do you follow my point? I don't want to get into an hour's debate about multipliers.

MR HUMPHRIES: Well, the answer to your question is: no.

MR ROSS: Let me try and do this simply. If you say there are 10,000 jobs at the airport, and 5,000 of those are in the immediate vicinity and the other 5,000 are more distant, and there's an average multiplier, let's say, of 2.7, strictly, you should apply a higher multiple to those jobs that are actually in the immediate vicinity and a lower one to those that are further away. But, to be honest, economic multipliers is not a precise science. BAA made a couple of estimates, I think 2.1 was one of the estimates and the other one was a multiplier of 3, and if you look back at the OEF report, it assumes a multiplier, I think, of about 2.7. It really depends who you count.

MR HUMPHRIES: Yes. But the reason why national multipliers are higher than local multipliers, Mr Ross, is because, if an employee expense money -- and this induced employment effect, we're talking about employees at the airport who go out into the community, they spend their money, and that creates jobs for other people.

MR ROSS: Yes.

MR HUMPHRIES: Now, if someone spends 50 per cent of their money in Uttlesford, another 25 per cent in east of England region, and another 25 per cent in the rest of the UK or the rest of the world by buying imported goods, the multiplier globally might be 100 per cent; all the money is spent somewhere in the globe.

MR ROSS: Yes. Well, actually, it's more, but I don't want to get into that --

MR HUMPHRIES: (over-talking), and this was trying to look at induced employment in Uttlesford, only a small proportion of the money is spent in Uttlesford. So a local multiplier will always be less than a national multiplier.

MR ROSS: No. Only if you apply the local multiplier to the total number of employees at the airport. If you apply the local multiplier to the number of employees in that district, then it's going to be higher, actually, the closer you are to the airport.

But the main effect -- it's not just induced and catalytic. Multipliers actually get into really vague terms, that your local newsagent depends partly upon the airport, that local taxi companies, which is perhaps an easier example -- but honestly, we could spend hours.

MR HUMPHRIES: Well, let's not spend hours. But if you are right on this, the consequences of the economic benefits of Stansted Airport, paradoxically, are higher than BAA has estimated.

MR ROSS: Yes, they are, if you count the multipliers. But, of course, if everybody counts multipliers -- national GDP is about three times what the statistics say it is.

MR HUMPHRIES: Yes. But the point for the Inspector to understand in this is that we have only used a multiplier of 1.24 and claimed the benefits of that.

If we were to use a multiplier, as you say, of 2.1 or 3, the economic benefits of this employment would be correspondingly larger.

MR ROSS: Yes, absolutely. If you wanted to use a multiplier of 2.7 or whatever, the economic benefits would be higher. But, in fairness, in the comparisons I have made, if you see where there's financial comparisons involved, or employment comparisons involved, I have been careful to use non-multipliers to compare to your statistics, which are -- I count them, actually, as non-multipliers, to be honest. I'm prepared to accept that the core employment at the airport is the number that you show at your table, direct, indirect. Induced and catalytic are relatively small. So I haven't downgraded your numbers or applied any multiplier to them, but equally, I haven't applied any multiplier to my numbers.

MR HUMPHRIES: Sir, you may not be surprised to learn we're still making slightly slower progress than I had thought. I do genuinely try to estimate, but it is quite difficult. Again, no criticism. Sir, this is now half 11.

MR BOYLAND: Yes.

MR HUMPHRIES: I've got about four or five pages of things to look at, a few more questions on employment things --

I think we might actually speed up with some of these -- and then a few points on housing things. I'm sorry, but we will take a bit longer.
MR BOYLAND: Okay. Well, I think it's a convenient point for a break in any event, so we'll adjourn until 11.45. Thank you.
(11.30 am)
(A short break)
(11.45 am)
MR BOYLAND: Mr Humphreys.
MR HUMPHRIES: Yes. Mr Ross, we are going to just turn now to a slightly different aspect of employment, and that's impacts on the local labour market. That's your section 4.4 in SSE 10.
MR ROSS: Yes.
MR HUMPHRIES: In relation to this point, we can agree, I suspect fairly readily, that the employment forecasts for Stansted G1 are within the RSS -- draft RSS allocations for employment numbers within the east of England region.
MR ROSS: Yes, I think that is right. It's not explicitly stated, but implicitly, I'm sure that's right.
MR HUMPHRIES: Well, I think it is fairly explicit. Could we look, then, at CD/74, just to --
MR ROSS: We can do, but either way, I'm not disputing it.

MR HUMPHRIES: That's good. What I will do, then, is simply, in CD/74, take you to the reference, as much for the Inspector, frankly, as for you, if you will forgive me putting it like that.

Paragraph 4.9 starts on page 14, and the fourth bullet point is on page 15.

MR ROSS: Sorry, I'm looking at wrong document. CD?

MR HUMPHRIES: 74. I'm starting with that one. That's the original draft.

MR ROSS: Oh, it is the original plan. I should be on page?

MR HUMPHRIES: Page 15 is the fourth bullet point in paragraph 4.9. We can see that is dealing with --

MR ROSS: I'm sorry, paragraph which?

MR HUMPHRIES: Paragraph 4.9, which starts on page 14 of the document.

MR ROSS: Ah, it starts on my copy on page 12, but it doesn't matter, I'm in paragraph 4.9, and you want me to look at the fourth bullet point, which starts, "Addressing the issues"?

MR HUMPHRIES: Correct. That deals with addressing the issues of major economic growth, focused on Stansted Airport and the M11 corridor, and the need for regeneration. It talks through issues relating to growth, and in about the sixth line, it says:

"The draft RSS was largely prepared before the

publication of the Government's Aviation White Paper and rests on acceptance of the principle of allowing for maximum use of the existing single runway. However, key studies on which the draft RSS relies have allowed for the contingency of an additional runway at Stansted" --
MR ROSS: Yes. Sorry, when I said it didn't tell you explicitly, I probably meant specifically. There are no numbers which say, you know, we will see an extra 3,800 jobs, but yes, I'm comfortable with that.
MR HUMPHRIES: Sure. If we, in this document, turn to page 107, we see "Policy E2", which is job growth, and we can see in the Stansted/M11 subregion part -- and the reason for the word "part" is it's that part in Essex, and if you look under "Hertfordshire" you have the same heading again, again with "part". But the Essex part, we can see the allocation is for 31,100 jobs to 2021, and the Essex total, which is not given there, but I'll give it to you, is 116,000 jobs.
MR ROSS: Yes.
MR HUMPHRIES: That already allowed for the growth of Stansted, but if we in fact look at CD/76 to see what happened in the proposed modifications, and we look at the equivalent policy, which has now become E1, on page 102. It starts on 102, and you will see the equivalent numbers on 103. Some of the subcounty areas

have been slightly renamed, but I think, unless I'm corrected, it's broadly the same four that we had in the original draft. But the area which is now called Central and North Essex (Harlow, Uttlesford, Chelmsford, Braintree, Maldon), now has an allocation of 42,000.
MR ROSS: Yes.
MR HUMPHRIES: And we see the overall total has gone up from 116,000 to 231,000. So we can, I think, agree, can't we, that, not, in fact, just G1, G2 also, but we're only concerned here with G1 -- the G1 employment growth is well within that which is planned for the region and the subregion in any event?
MR ROSS: Yes. That's the only point you're asking me to agree, what's said in the plan?
MR HUMPHRIES: Yes.
MR ROSS: Yes.
MR HUMPHRIES: The reason for doing it, Mr Ross, is in part to assist the Inspector when these things are agreed, so that he knows where the figures come from.
MR ROSS: Agreed.
MR HUMPHRIES: That then brings us on to the related point of overheating, and this is a point made in SSE/9, in section 4.2, if we can look at that. You can perhaps now understand my slight consternation yesterday when it was proposed that the cross-examination be divided into

two parts. You can see we're having to switch between the different proofs.

4.2 in Professor Whiteleg's proof deals with employment impacts, and he comes to what he describes as the key problem in paragraph 4.2.19.

MR ROSS: These two documents, actually, that we're cross-referring to are intended to be in the same part, but that's by the way.

MR HUMPHRIES: He says there that the key problem of employment growth in Stansted is not its quantitative significance, but whether or not it is contributing to overheating of the regional economy. In that context, we've seen already, haven't we, that the Stansted growth is simply part of a much larger planned growth in employment numbers in the region and the subregion?

MR ROSS: Yes.

MR HUMPHRIES: We also know, and perhaps we can agree, that the studies underlying the RSS anticipate either a labour supply/demand balance or a labour supply/demand surplus, i.e. some unemployment, in 2014?

MR ROSS: Let me come back to that. There's not a huge argument between us in this area, really. The regional plan, of course, is through to the period 2021, and all these allocations, you might correct me, but I don't think they're carved up annually or in five-year chunks or whatever between now and then. I think the regional plan is that, you know, by the time we get to 2021, things will be in reasonable balance. That's, presumably, one of the key objectives they aimed for when they were putting together the plan. So we won't disagree about any of that.

It's perhaps the timescale, actually. I think we would both accept that presently there is overheating in the local area, and you say: well, over what period of time can that be resolved? When do you reach the stage when the amount of new employment generation that's coming into this area is overtaken by the number of new people in houses and so on? So it's a time factor, really.

MR HUMPHRIES: Okay. But in that context, we need to remember, of course, that the additional Stansted jobs, the 3,800 that we talked about, the direct/indirect/uninduced and so on jobs, is not a number that happens on the ground of planning permission; it's a forecast of growth in 2014/15.

MR ROSS: Oh, indeed, it doesn't all immediately happen on back of planning permission, absolutely correct. It's the difference between the two scenarios in 2014/15, yes.

MR HUMPHRIES: Okay. And there's no evidence in the SSE proofs, as I understand it, which demonstrates that in that timescale, 2014/15, and bearing in mind the RSS allocations, that the Stansted employment growth will cause, or indeed exacerbate, any overheating?

MR ROSS: Well, there's a strong hint of that in our evidence. Let me explain. There's no hard evidence because, frankly, we didn't have the resources to look at the issue in sufficient detail. If you recall from my proof of evidence, and indeed from the evidence that we submitted to Uttlesford last year, we were critical of BAA's environmental statement on the employment implications. We were particularly critical of the fact that BAA had disregarded Uttlesford District Council's request in the scoping opinion to address the local implications.

And the second point we were really critical of was that BAA had used the 1997 projections from ODPM, saying that these were the most recent available, when in fact, in January 2006 -- and I'll show you the references in my proof if you like -- in January 2006, the ODPM published new labour force projections and they were much lower, or at least there were much lower levels of activity amongst older people, dramatically lower.

Now, we did run some numbers, just to have a look to see what implication this had. It had very significant implications. We weren't, frankly, sufficiently confident of our numbers to put them forward as hard evidence. What we asked, in July last year, we asked BAA to re-do its numbers using the more recent and significantly different ODPM labour force projections that were now available, and BAA hasn't done that, even now, 12 months on.

So, yes, we don't think you did a good job, frankly, on the employment implications.

MR HUMPHRIES: Yes. But, Mr Ross, what we're missing in all of this, and I suspect the reason why further work wasn't done, is that Stansted's growth is part of the regional spatial strategy. The growth in jobs and that growth in housing numbers is planned. Stansted is not driving that, it is simply a part of that.

MR ROSS: No disagreement between us there. No disagreement. But, in fairness, I think Uttlesford District Council considered it important to understand locally what the implications were, and asked you to do that so that for this particular proposal we could understand, in the period up to 2015, what implications it would have in the context of the labour market projections, and that information isn't presently provided.

I think, in fairness to you, Uttlesford, since then, have effectively dropped the point. But it is a matter of fact that the ODPM produced revised -- you know, after a period of nine years when these numbers weren't revised, they were revised in January last year and they were very significantly different, and that was drawn to your client's attention and suggested to your client that the numbers should be done again on the basis of the more recent projections, and, for whatever reason, whether it slipped through the net or whether somebody chose not to do it, it wasn't done.

MR HUMPHRIES: Well, the study area, labour supply and demand data, is set out in section 10.2 of CD/9. I'm not going to go through that. That sets out how there is projected for the study area --

MR ROSS: I know you don't want to go through it, but actually --

MR HUMPHRIES: Oh, you want to?

MR ROSS: Well, yes. Let's be clear of what our point was, because --

MR HUMPHRIES: CD/9, page 24.

MR ROSS: Yes.

MR HUMPHRIES: We see, on page 24, it starts with looking at the labour supply forecasts, and comes up, in table 23, with forecast resident labour supply for the study area in 2001, then looking at 2003 and 2014. Then, over the page, we get table 24, which set out various forecasts of labour demand, which I think were discussed in some detail at the RSS EIP.

MR ROSS: Yes.

MR HUMPHRIES: They show labour demand forecasts for the east of England region.

And then, at table 25, labour demand forecast for the study area, again, looking at the OEF and the Cambridge Econometrics forecast. The reasons for looking at those were, it was possible from that dataset to produce forecasts for the study area, whereas some of the other data sets weren't divided down into units whereby you could understand the forecasts for the study area itself.

And then, table 26, the study area labour supply/demand balance. And you can see the supply, see the demand, both the OEF and the Cambridge figures. And then the labour market balance, supply minus demand. On OEF there's broadly a balance, minus 0.2, but for Cambridge Econometrics, there's actually a surplus, as I put to you earlier: in other words, there is more labour than there is employment, which is unemployment.

MR ROSS: Yes, based on these projections. That's what's stated in --

MR HUMPHRIES: Yes. And that's for 2014, so, although you made your point earlier that the RSS looks to 2021, what BAA did in this was to use the same data, which was being looked at and was consistent with the RSS data, and come up with an intermediate forecast for 2014.

MR ROSS: I don't want to spend a huge amount of inquiry time on this, but let me just try and explain, in the space of two or three minutes, why we are very concerned about these numbers.

Your forecasts were done by EnTech using Tribal analysis. In the same document, your core document, CD/9, we can refer to appendix A2. Appendix A2 explains, or seeks to explain -- and I imagine this was written by EnTech or Tribal -- it seeks to explain how you did these projections. It's a very short appendix, four pages. If I take you to the third page of it, there's a heading there which says, "Conversion of population projections to labour force". I could query other parts of it, but I'll just deal with this one. "Conversion of population projections to labour force"; do you see that? It's on the third page of appendix A2. The very first sentence of this section says:

"There are no national forecasts for future behaviour of rates of economic activity since those produced in 1997 by the government."

Now, on this point -- and, frankly, there are many other points -- the SSE team went through your documents with a pretty fine-toothed comb last year, and on this one, it was clear that wasn't true. A new forecast had been produced by ODPM in January 2006. Now, I could understand that this document may have been far too advanced to change at that stage.

We had a look at the new forecasts. The new forecasts were very substantially different. In 1997, the assumption had been high levels of economic activity over 54 years old. The new forecast was dramatically different, and when you applied it, the numbers changed very significantly --

MR HUMPHRIES: Mr Ross, you're missing the point of this paragraph, which says: there are no national forecasts since 1997. A number of forecasters have produced their estimates, and a combination of these has been used. The point that's being made here is that BAA used a number of forecasts, including, it tells us, the conclusions reached in the recent Buchanan and Bone Wells Associates, Halcrow, Roger Tym and Partners, and Cambridge Econometrics data. All are agreed that activity rates will rise from the 1997 data.

MR ROSS: Well, the government's not agreed. The government's not agreed because the 2006 figures are dramatically different. I think, you know, I've got a point here. Leaving aside the substantial difference that it makes, I think the fact that we drew that to your attention in July last year and it remains uncorrected is disappointing.

MR HUMPHRIES: Mr Ross, I don't think there is any recognition that there is a need for correction. This doesn't detract from the overall point that the Stansted growth is part of the planned growth for the subregion. That number of jobs and those numbers of dwellings will be brought forward. The structured plans, the new-style LDS, will be making allocations in accordance with those numbers.

MR ROSS: I don't disagree with the overarching situation to 2021. I'm back to trying to focus on a particular project that is before the inquiry.

MR HUMPHRIES: All right. The next point on employment to take up, in SSE/10 this time, is in section 4.3, and this one is to do with displacement impacts on the regional labour market. The first point that is made, on page 8 of the document --

MR ROSS: Sorry, which document?

MR HUMPHRIES: SSE/10, section 4.3, which starts right at the very bottom of page 7.

MR ROSS: Yes.

MR HUMPHRIES: And then on page 8, under a heading "Luton

Airport", is some text starting at paragraph 4.3.3.

MR ROSS: Yes.

MR HUMPHRIES: Now, the argument you make there is that growth at Stansted will displace employment at Luton.

MR ROSS: Yes.

MR HUMPHRIES: But we know, don't we, from the Air Transport White Paper that the maximum use of Stansted is not seen as an alternative to Luton; the Air Transport White Paper predicates the maximum use of both of those airports? So Stansted isn't taking anything from Luton; both will grow to maximum use.

MR ROSS: Yes, by 2030. By 2030, and that's the --

MR HUMPHRIES: Not by 2030. Both will grow to maximum use in accordance with the demand arising at those airports.

MR ROSS: Can I please refer to the White Paper?

MR HUMPHRIES: Of course.

MR ROSS: I want to go to the executive summary. It's on page 13, three bullet points from the foot of the page, "South-east England". The point reads:

"The first priority is to make best use of the existing runways, including the remaining capacity at Stansted and Luton."

MR HUMPHRIES: Precisely.

MR ROSS: Over a given period of time, certainly over the next 10 years, those two objectives are in conflict. If

this planning application were to be refused, the major
beneficiary would be Luton Airport; it would move to
maximum use much more quickly.
    Let me just take you to one other paragraph in the
Air Transport White Paper.
MR HUMPHRIES: Yes, but once it had got to maximum use, it
would be at maximum use and that would be the number of
employees --
MR ROSS: Yes, I agree.
MR HUMPHRIES: The real point you're making, therefore --
MR ROSS: Sorry, let me finish.
MR HUMPHRIES: -- is not a displacement point, it's
a timing point.
MR ROSS: Yes.
MR HUMPHRIES: Now, what we actually know is that Luton have
in fact dropped their previous expansion proposals.
They're considering now what they're going to do and
bring forward in its place. But that's nothing to do
with G1. There's no reason why employment opportunities
should be lost at Stansted just because of what's
happening at Luton.
MR ROSS: Let me finish answering the previous question, and
then I'll deal with your new question. I wanted to
refer you to paragraph 11.85 of the Air Transport White
Paper. It's on page 127, and it reads:

"Luton/Dunstable is identified in regional planning guidance as a priority area for economic regeneration, and along with Bedford is designated as a growth area in the Communities Plan. The continued expansion of Luton Airport has the potential to play a key role in delivering employment-led growth in this area."

Now, the reason I wanted to point you to that is because there are two -- the word "priority" is used here also -- there are two priorities in relation to Luton. Again, I preface everything I am saying here by stressing I'm not playing pass the parcel. I don't know what the environmental issues are at Luton. I'm simply dealing with the employment and economic realities. If the Air Transport White Paper says there are two priorities, effectively, maximum use of Stansted and Luton -- these are two airports which are in competition -- then of course it's true that by the time we get to 2030, if the policy were to be implemented -- indeed, before then, perhaps 2020 -- if the policy were to be implemented in full, then both airports would be at maximum use.

The question is: what do you do during the period of time when neither is at maximum use? The policy guidance actually would suggest the preference should go to Luton.

In terms of employment fit and the unemployment rate there at the moment, it would better fulfil the government's policy objectives if Stansted were to be capped at 25 m/PPA until such time as Luton reached its capacity.

MR HUMPHRIES: We can agree several things, can't we? One, we can agree that is not government policy?

MR ROSS: No, I don't think we can agree that.

MR HUMPHRIES: All right. So the SSE case is in part based on an understanding that it is government policy that demand should go first to Luton; is that correct?

MR ROSS: No, Mr Humphreys, you know that's not correct --

MR HUMPHRIES: Well, I'm sorry, you can't have it both ways, Mr Ross, on this. Either that is SSE's interpretation and your case is based on that, in which case I can make submissions, or that is not SSE's case. I will ask you again the question: is it SSE's case that the Air Transport White Paper calls for the growth at Luton before growth at Stansted?

MR ROSS: I think the Air Transport -- I'll answer carefully. The Air Transport White Paper, viewed alongside other government policies, suggests precisely that.

MR HUMPHRIES: Thank you, that is helpful. That is very helpful. And, therefore, the Inspector, of course, can understand, can't he, that in the balance that SSE has drawn, as a body, in the presentation of its objection to Stansted, that is in part predicated on its understanding that it is government policy that growth should go to first Luton rather than Stansted? The answer must be yes.

MR ROSS: The answer is yes.

MR HUMPHRIES: Indeed. And, of course, if the Secretary of State, and indeed the Inspector, on a fair reading of the Air Transport White Paper, form a different conclusion, then they will be able to draw appropriate inferences, won't they, as to the strength or otherwise of the SSE case? Won't they?

MR ROSS: Well, let me answer it fully. First of all, the reason --

MR HUMPHRIES: Could you answer the question first and then make your point.

MR ROSS: Okay.

MR HUMPHRIES: If the Secretary of State --

MR ROSS: Sorry, yes. The answer is: yes, in a policy context.

MR HUMPHRIES: Thank you.

MR ROSS: Yes, that policy context. But we examine this application not only in a policy context, we examine it on the merits of the case, weighing the impacts against the benefits. The same would be true in relation to any application at Luton. And so there are two levels of the examination: there is the policy context, and there is the specific application to be considered, and I can't comment on the second aspect in relation to Luton because I don't know what the balance is.

MR HUMPHRIES: No, no.

MR ROSS: So there's one third qualification, or one third explanation. The reason I hesitated is because it is no part of SSE's policy to play pass the parcel and suggest that the problem of the additional capacity should be dumped on Luton. That is no part of SSE's strategy. I simply say it is a logical interpretation of government policy to point in that direction.

MR HUMPHRIES: Mr Ross, your point on this and SSE's position is very clear, and that clarification is helpful as to the basis of your case, but I'll move on.

The second aspect where you say there would be impact on employment displacement is on page 9 of SSE/10, and that's impact on regional tourism, 4.3.11. Perhaps we can take this fairly simply. This is the proposition, isn't it, that, if people are prevented from taking holidays abroad by flying through Stansted Airport, that they will instead take holidays in the UK, thereby generating employment; therefore, by travelling abroad, we forego those additional jobs?

MR ROSS: Well, I'm sorry, but you present the argument totally in the reverse manner. You present the argument as if 35 m/PPA were the status quo. The status quo is 25 m/PPA. And so the argument is: should we encourage far more people to travel abroad and thereby create job losses in the east of England?

MR HUMPHRIES: Not encourage, allow.

MR ROSS: Well, I'm sorry, encourage. I say "encourage" -- and we're not doing semantics -- I say "encourage" because -- it's the point I made yesterday -- that supply creates demand.

MR HUMPHRIES: But the essential point here is that by preventing them from travelling abroad, employment in the UK, in the tourist industry, will either be increased or some of it protected, whatever the point you're making would be, but that, as a policy, we should be stopping people from travelling abroad?

MR ROSS: I know that I have drifted off and so I'm partly to blame, but I don't honestly want to get into the non-economic aspects of this, the political judgments, the moral judgments. My evidence simply states that the difference between permitting the application and refusing the application, there is an employment impact of that, and it's a negative employment impact, and the evidence for that, the analysis behind that, is all set out. I'm not making any judgment.

MR HUMPHRIES: All right. Insofar as you say there is an employment impact, am I right in thinking that, because SSE does not advocate constraining capacity in order to force people to holiday in this country, it's an impact in relation to which you would not apply very much weight?

MR ROSS: Sorry, I honestly didn't understand the question.

MR HUMPHRIES: I'm taking your proposition that by constraining airport capacity at Stansted, people won't travel abroad from other airports or by other means, that they will stay in the UK, and that the same amount of money will not be spent on a Japanese DVD or a French shirt but will be spent on holidaying in the UK, so I'm taking that assumption.

MR ROSS: My evidence doesn't say that. I'm sorry, you are putting it the opposite way round, as if 35 m/PPA is the status quo, and we start from the position that 25 m/PPA is the status quo. I'm sorry, it's the difference between the two scenarios. And if I take you to my evidence, it doesn't say what you're suggesting to me at all. In fact, if you read paragraph 4.3.17, it states:

"If all of the additional overseas leisure trips [and this is the difference between 25 and 35] were to be at the expense of the UK's domestic tourism industry, about 27,000 jobs would be lost in the UK if Stansted were permitted to expand to 35 m/PPA."

Now, the 27,000 is a calculation, and I think it's very robustly evidenced based on four different studies.

It then goes on to say about half of those job losses would be in the east of England, and that's because we could tell -- we could find out from the economic analysis the impact on the east of England and the impact on the rest of the UK. So about half would be in the east of England.

Now, we go on to say, in paragraph 4.3.18:

"In practice, the impact of the additional overseas leisure breaks that would stem from the proposed expansion would not be entirely substitutional at the expense of the UK tourism industry. Much of this would be diverted towards other forms of expenditure within the UK, but this would still generate GDP and jobs for the UK rather than for an overseas economy. Some of the 'frustrated spending' would be diverted towards imported goods, but even here there would be a significant element of value added ... "

So we're not trying to say that this has a direct substitutional impact. There's uncertainty, frankly, as to how that money would be spent otherwise, if there weren't the additional breaks. And, of course, some of it would go to Luton Airport.

MR HUMPHRIES: But, Mr Ross, we know, don't we, it is not UK Government policy to prevent people from travelling abroad if they want to?

MR ROSS: That's just not my point. My point is simply an economic comparison between the two scenarios.

MR HUMPHRIES: Which is why I asked you about the weight then to be attached to that impact. If SSE accepts that it's perfectly proper for its members and others to take holidays abroad, rather than being forced to holiday in the UK, the impact of that doesn't deserve very much weight, does it?

MR ROSS: It does deserve weight. I'm sorry, it does deserve complete weight. We don't need to argue about British Government policy -- there are some lunacies in the interpretation -- but the whole purpose of the Air Transport White Paper was, I thought, to avoid situations at a public inquiry where you and I were arguing about policy. That is not the argument.

We're looking at specific proposal in the context of that policy, and we're looking at the specific implications of the proposal, and all that my evidence does is try to flesh out the economic and employment implications, and I'm entirely happy to deal with questions on that. You can ask me all day about government policy, but I don't think we're arguing about that.

MR HUMPHRIES: That's helpful. Now, the third element, then, of employment displacement is discouragement of inward investment. That starts at 4.3.23 in SSE/10. I think the proposition here, again, will have been dealt with, in effect, before. I think it comes down to the point that, if there is more air noise and traffic on roads and so on, that the east of England region and the Stansted subregion will become less attractive places, and therefore inward investment will be discouraged?

MR ROSS: Yes. We can't quantify that. It's, I would have thought, not a point that's in contention. We can't quantify it.

MR HUMPHRIES: And, clearly, the Inspector will have to form a judgment, won't he, on the extent of those impacts, and a judgment about the likelihood that such impacts would discourage inward investment by foreign companies into that part of England and the subregion and the clusters of high-tech companies in Cambridge and so on?

MR ROSS: Yes. We can't form a judgment on it. We refer to studies which have looked at it, and you will see, for example, in paragraph -- well, I won't refer to the Ron

McQuaid study again, but you will see in paragraph 4.3.24 of my evidence that a KPMG study showed that only one in 10 top executives -- this is was across Europe -- cited air access as the reason for choice of their location --

MR HUMPHRIES: 10 per cent is a very high figure, isn't it?

MR ROSS: I'm sorry?

MR HUMPHRIES: 10 per cent is an extremely high figure. 10 per cent.

MR ROSS: I think the important thing is, at the end of the phrase, the main factor was quality of life, so clearly that was 10 per cent. But it's a judgment.

MR HUMPHRIES: But we know Uttlesford has a very high quality of life.

MR ROSS: Well, we've done this argument.

MR HUMPHRIES: All right, let's move on --

MR ROSS: In short, all I'm saying is when the Inspector forms a judgment in this area, he will, I'm sure, want to weigh the evidence on the relative importance of the two issues, or indeed whether they are mutually exclusive.

MR HUMPHRIES: Now, quality of jobs. This is another point that is made under employment. This one is still in SSE/10, but let's start by looking at CD/9, page 15, and table 13.

MR ROSS: Yes.

MR HUMPHRIES: This table sets out the survey of Stansted Airport employment for 2002/2003 and shows the mix of jobs. And I think the points you made earlier in your evidence, in your evidence-in-chief, relating to the standard job classifications, relate to this table. We can see that in SSE/10, paragraph 4.2.2.

MR ROSS: Yes.

MR HUMPHRIES: Some surprise was expressed about that breakdown.

MR ROSS: Yes.

MR HUMPHRIES: But we can agree, can't we, that that table in CD/9 is not a projection, it is a survey of actual jobs.

MR ROSS: Yes, it is. You didn't provide a projection, and I think the implication we took from that, perhaps wrongly, was that the future pattern would be similar to the 2003 pattern, I think when this study was done. It's quite plain. And so the issue revolves around how you categorise people who work at the airport into these nine areas.

MR HUMPHRIES: Mr Ross, we're slipping back slightly into my asking a fairly simple question and getting a longer answer. The simple point I said was: this is a survey, isn't it.

MR ROSS: Yes.

MR HUMPHRIES: We know, again, that this is an area -- the point you this say about the mismatch of jobs between those at the airport and the profile of local residents. It's, again, a point that you made to the Government as part of your representations on the Air Transport White Paper?

MR ROSS: Yes, not in this amount of detail, not with any factual analysis behind it.

MR HUMPHRIES: No, but the point was made.

MR ROSS: Yes, look, I'll accept that. I can't recall, but I'm sure you wouldn't have put that to me unless you checked. Yes.

MR HUMPHRIES: Yes. Again, I think I've got a reference for it. We do know, again, that this is a point that the Air Transport White Paper specifically addressed. Can we look at CD/87, and look at page 164, which is a part of the integrated policy appraisal at the end of the document. The first bullet point in the left-hand column is, "Will it result in a change in the investment of people, equipment, infrastructure or other asset?" --

MR ROSS: Sorry, which page are you on?

MR HUMPHRIES: 164.

MR ROSS: Yes, sorry, I'm with you.

MR HUMPHRIES: Are you with me now?

MR ROSS: Yes.

MR HUMPHRIES: "Qualitative Assessment: policy support for airport development should encourage airport operators to bring forward new infrastructure as the need arises", relating to a different aspect of that bullet point. But then this:

"Airports require a high percentage of skilled labour, which could cause shortages elsewhere, but airport development, both construction and operation, also provide jobs for unskilled workers, encouraging training, with benefits in terms of addressing inequalities."

Now, that is a point that specifically applies to Stansted, doesn't it, a point that was taken up with Mr Harbre: Stansted Airport does provide very extensive training and encourages local employers and employees to come and work with the airport?

MR ROSS: Whatever. I'm much more comfortable with numbers than with adjectives, and so when it says here a high percentage, five minutes ago you put it to me that 10 per cent was a high percentage. I don't know really. And, again, we're back looking at an overarching general policy, and my evidence relates to BAA's specific planning application.

MR HUMPHRIES: Yes. But it's clear, isn't it, again, in promulgating the Air Transport White Paper, the Government was aware that some of the jobs are for the less skilled, but it saw benefits?

MR ROSS: And that's self-evident, absolutely self-evident.

MR HUMPHRIES: Yes.

MR ROSS: What they weren't aware of, of course, was the detail --

MR HUMPHRIES: Mr Ross, I haven't asked you a question yet.

MR ROSS: No, but I'm answering your question. You asked me whether they were aware. They weren't aware of the detail, and that is why you have to do the environmental statement and do the assessment.

MR HUMPHRIES: Yes. What Government also recognised, and specifically drew attention to in the Air Transport White Paper, was the ability of airports to provide important training for those who have fewer skills.

MR ROSS: Happy to accept that.

MR HUMPHRIES: Now, as far as the point you make at paragraph 4.2.8 is concerned, about jobs mismatch, of course, on a local basis, it's not surprising that there will be some mismatch of jobs. Many people, we know, who live in Uttlesford don't work in Uttlesford; they have higher-paid jobs in offices in the City.

MR ROSS: Yes.

MR HUMPHRIES: And they commute to the City on a daily basis.

MR ROSS: Yes. That's not what I mean by local, of course, but yes.

MR HUMPHRIES: And, similarly, there will be people in areas such as North London, but not limited to North London, who will find jobs at Stansted attractive and will commute in the opposite direction?

MR ROSS: Yes.

MR HUMPHRIES: And we know, don't we, that the employment studies have recognised that and the service access studies have modelled those movements for people? One of the things, indeed, that Uttlesford asked us to look at were --

MR ROSS: Yes. None of that is an issue between us. Our point, so far as this is concerned, is that a mismatch results in increasing the need for commuting -- indeed, double commuting -- and creates a housing issue.

MR HUMPHRIES: Yes, but in any broad economy, there is going to be some commuting. SSE does not discourage its own members from working in London.

MR ROSS: No, of course not. We're speaking about working with the grain of government policy, and this would work against the grain of government policy, both in relation to reducing the need to travel and in relation to sustainable communities.

MR HUMPHRIES: But what we know, particularly about the London/Stansted/Cambridge corridor is it's a growth area for housing. New people, potential employees at the airport, will be coming to that growth corridor.
MR ROSS: Absolutely.
MR HUMPHRIES: And we know, again from the Air Transport White Paper, that the airport is seen as part of a wider strategy for the subregion.
MR ROSS: Yes, yes, yes, all of that. But, again, none of that absolves BAA from the responsibility of examining what the implications are for the local labour market, what the implications are for the housing market, quantifying these implications, and seeking to address these consistent with government policy.
MR HUMPHRIES: Sure. SSE is not suggesting that Stansted firms will not be able to recruit staff. That's not part of their evidence?
MR ROSS: They don't have the data, and indeed, we've made the point that we cannot form a judgment on that because you haven't provided the data.
MR HUMPHRIES: Right. So it is not part of your case?
MR ROSS: For that reason, correct.
MR HUMPHRIES: Right. We do know that for those people that take jobs at Stansted, that job is obviously more attractive than the next available option, whether that

be unemployment or some other job?
MR ROSS: Yes, that's logical.
MR HUMPHRIES: Now, housing. Again, the housing numbers sufficient for the growth of Stansted are within the overall emerging RSS numbers, aren't they? We can go through all the numbers if we want to --
MR ROSS: Yes, yes, yes. And so the debate between us here, where I differ, is that you should see specifically what are the housing implications of the application.
MR HUMPHRIES: We know that there will be some recruitment of employees from North London, but that has been taken into account in the service access studies?
MR ROSS: Well, let's leave that point until September.
MR HUMPHRIES: Recruitment, another of your topics in SSE/10; all of this is in section 4.5 of SSE/10. Recruitment from further afield, and you're there dealing with Eastern and Central Europeans. Again, let's see if we can take it quickly, but if we need to descend to detail, we can. We, again, know from the data in Mr Rhodes' evidence that some 50,000 to 80,000 migrant workers currently live and work in the east of England region.
MR ROSS: Not currently, actually. These numbers are quite old.
MR HUMPHRIES: Right. The numbers from the survey date were

the latest available. The numbers are likely to have gone up, aren't they?

MR ROSS: Yes. Are you referring to the East of England Survey On Migrant Workers as published last April or May?

MR HUMPHRIES: No, I'm referring to the data in Mr Rhodes' evidence.

MR ROSS: In any event, yes, the numbers have gone up, I think quite significantly since then.

MR HUMPHRIES: Yes. Now, there are some migrant workers at Stansted, obviously?

MR ROSS: Yes.

MR HUMPHRIES: We can agree that. But a much smaller number, then, work in many other sectors: for example, agriculture and food processing?

MR ROSS: Yes. A smaller number in agriculture and food processing, but changing, actually, if you look at the data.

MR HUMPHRIES: Obviously, insofar as there is any challenge in assimilating new workers into urban, and indeed rural, communities, that is a challenge which is common throughout the UK.

MR ROSS: Yes, in some areas much more so than others, Mr Humphreys, and the view is that it's a particular challenge in relation to proposed expansion of the airport, given what's happened over the past 12 months or so, the experience. And again, this is one of those difficult areas where a lack of data, and in an area where last July we asked BAA to provide data, because the key point is that, if we're going to bring people from Central and Eastern Europe and elsewhere into the local community, the present situation, anecdotally, is they're in pretty overcrowded rented accommodation.

MR HUMPHRIES: Yes.

MR ROSS: If you want to make things sustainable and integrate people into the community properly, housing provision has to be made, and I think this is really saying to BAA: address the issue, put some numbers here, be open and straightforward about it and say what the housing implication is and how it can be addressed, rather than just saying: well, it's happening everywhere and it's all covered by regional plan.

MR HUMPHRIES: Within the European Union, and with the legislation on free movement of persons, people from other parts of Europe are perfectly entitled to move to the UK and work; they have a legal right to do so.

MR ROSS: Of course they have. I'm sorry, but I'm offended that you even put that point to me. That's nothing to do with the point. That's nothing to do with the point we're making.

MR HUMPHRIES: It's just a question --

MR ROSS: I am offended that you put that to me.

MR HUMPHRIES: You can be offended if you want, it's not an offensive question. People have every right to be here, and they have every right, of course, to seek what accommodation they have, and they can seek to choose freehold accommodation, rented accommodation, if they want, whether it is --

MR ROSS: I'm sorry, but that's not true. What price is an affordable house for somebody who's earning £6 an hour at the airport? Okay, this is the danger of drifting from an economic argument into a moral argument, but I don't think you can simply say that there is no issue for BAA here.

MR HUMPHRIES: Those people and those issues are ones that government have recognised throughout the United Kingdom. As Mr Rhodes points out, there is specific guidance that it is for local authorities to assist such people.

MR ROSS: I hear what you say.

MR HUMPHRIES: What we don't have from the local authority, or indeed from SSE, is any analysis to support objection on this basis.

MR ROSS: We don't have the analysis, correct.

MR HUMPHRIES: Insofar as you also refer, in section 4.5, to affordable housing, and the potential need for affordable housing, again, we know, don't we, that the Uttlesford local plan has specific policies on affordable housing?

MR ROSS: Yes.

MR HUMPHRIES: And it requires a proportion of new units to be affordable?

MR ROSS: Yes.

MR HUMPHRIES: And it also has policies supporting smaller units?

MR ROSS: Yes.

MR HUMPHRIES: And presumably, those are all things that SSE and its members support?

MR ROSS: Yes, all of that. All of that. Our point is a very simple one, frankly, and it's the arithmetic rather than the, if you like, policy context. If there was specific arithmetic for the proposal which says "you can forget the indirect jobs and the induced and the catalytic, the direct number of jobs that would be created by the proposed development is 2,400" -- I think the studies I have looked at suggest that the housing needs are about 1.1 homes per employee, per new direct job, so 2,640 homes is the difference between approving and rejecting the application. Regardless of whether they are provided for in the regional plan, they directly relate to the project proposal that's before the inquiry, and they say: where do you find 2,640 homes, the majority of which would need to be affordable to stop people commuting from London or indeed commuting from Eastern Europe?

MR HUMPHRIES: SSE recognises, doesn't it, that the overall employment numbers are planned in the RSS?

MR ROSS: Yes.

MR HUMPHRIES: The overall housing numbers are planned?

MR ROSS: Yes.

MR HUMPHRIES: SSE does not suggest one should -- perfectly properly, and I don't suggest otherwise -- does not suggest one should discriminate against people from other parts of Europe; that's not your case in any way.

MR ROSS: I thought I made it very, very clear that the difference between us is your reliance is upon the overarching fact there is an overarching policy for the east of England for the period 2020-2021. Our view is, notwithstanding that, the specific project needs to be examined, the specific housing implications of it need to be examined, and figure out how do you resolve it if you want to proceed.

MR HUMPHRIES: Mr Ross, on that, we obviously don't agree with your approach in the context of planned housing growth.

Final point: commuting. Again, I think we've touched on this. This is your SSE/10, section 4.6, and that is a matter, again, I think, that will arise in the context of the transport assessment and the things to be considered after the summer break.

MR ROSS: Yes.

MR HUMPHRIES: Mr Ross, thank you.

MR ROSS: Thank you.

MR HUMPHRIES: So I have finished there. I apologise, obviously it's taken a lot longer than I thought. I think it's actually been very useful to clarify things, but I do apologise.

MR BOYLAND: No need to apologise. Unless your re-examination is very short, Mr Stinchcombe, I think we might break for lunch before we deal with that.

MR STINCHCOMBE: Sir, it certainly wouldn't be so short as to finish by 1 o'clock, but it wouldn't be so long as to finish much after, if you would prefer to sit over a while longer.

MR BOYLAND: How much after do you anticipate?

MR STINCHCOMBE: Sir, I would expect to be able to finish between ten past and quarter past one.

MR BOYLAND: In that case, I think we might as well carry on, if everybody is happy with that. Okay, thank you.

MR STINCHCOMBE: Let's hope my estimate is not as out as my learned friend's.

MR BOYLAND: I would just be grateful if you would take it as a reasonable pace as I need to be able to take notes.

MR STINCHCOMBE: Indeed.

MR BOYLAND: Speed is not the only consideration.

Re-examination by MR STINCHCOMBE

MR STINCHCOMBE: Mr Ross, I don't want to ask you questions about all of the matters that have been covered over the last few hours, but just simply where your clarification will be helpful. Firstly, in respect of this: you were asked a number of times both, yesterday and today, about the representations which SSE had made to the Government on the White Paper, and the point generally was put to you that SSE had made certain points and that government had taken them into account and still published the White Paper in the form in which it did, and on more than one occasion you referred to the filtering process by which some of those representations may not, I think the implication was with full force, have gone before the Department?

MR ROSS: Yes.

MR STINCHCOMBE: I just wonder if you could clarify where we would find evidence of that within the core documents and what implications you draw from it.

MR ROSS: On the evidence in the core documents, I'll refer

you to the two documents. Just give me one moment. I'm looking for two reports, actually: one by National Opinion Poll (NOP), and the other by Avia Solutions, both published by the DFT in December 2003 on the results of the consultation.
MR BOYLAND: Are they core documents?
MR ROSS: They are core documents.
MR BOYLAND: Could we have the references, please.
MR ROSS: Well, that's what I'm trying to find, sir.
MR STINCHCOMBE: Sir, I don't intend to take Mr Ross to them, so if we can provide the references in due course.
MR ROSS: We will provide them, but they are listed as core evidence.
MR BOYLAND: Very well, thank you.
MR ROSS: I don't want to go into lengthy detail about this, but it was because there were some 470,000 replies, and the great majority of those were questionnaire-type things, and NOP dealt with all of that. The remaining 40,000-ish -- 43,000 or thereabouts -- were dealt with by AviaSolutions. Quite obviously, the Department for Transport Aviation Policy Division did not have the resources to read all of this stuff, and so AviaSolutions filtered it and summarised it.
MR STINCHCOMBE: And in that exercise, was there any effects on the extent to which the details of the SSE arguments

were considered?
MR ROSS: No.
MR STINCHCOMBE: You were asked several questions thereafter about the impact of this particular proposal on the balance of tourist trade and on the possibility of pricing the poor out of out of flying. I don't seek to ask you questions of clarification in respect of that, save for this: you did, on more than one occasion, say that you were less than impressed by the Oxford Economic Forecast document, CD/120, in these regards. Just briefly, can you explain why you were less than impressed by that particular report.
MR ROSS: Well, as I said earlier, three times the aviation industry have sought independent economic advice, three times they have gone to the same consultancy, and when I read their October 2006 report, which incidentally wasn't published until December 2006, so there was a two-month period when it wasn't in the public domain -- when I read it, it reminded me of the sort of reports that were written in the 1960s, or commissioned by the tobacco industry in the 1960s when they wanted to find some professor somewhere who could demonstrate that cigarette smoking wasn't bad for you and they always went back to the same professors. So I think --
MR HUMPHRIES: Sir, we need to be very, very careful on

this. We are getting very close to defamation --

MR ROSS: Well, let me be clear, Mr Humphreys --

MR HUMPHRIES: Both Avia Solutions and Oxford Economic Forecasting are professional bodies. Now, Mr Ross may disagree with those, and he's perfectly entitled to do that, but to imply that they have in some way acted improperly is an extremely serious allegation, and I do --

MR ROSS: Mr Humphreys, I'm sorry, that risk is all mine.

MR BOYLAND: Mr Ross, please let Mr Humphreys finish.

MR HUMPHRIES: Do ask Mr Ross to clarify that he's not suggesting, for either of those bodies, any impropriety. He may disagree with their views, and he's perfectly entitled to do that, but these are proper and professional bodies, who are not here and not represented, and it's quite unfair to impugn their professional integrity.

MR ROSS: With regard to the comments I just made about OEF, I made these comments three months ago in discussion at public conference with the director of OEF who wrote the report. I'm very happy to take the risk of going to the High Court on some charge of defamation. That's my risk. If called upon to do so at that stage, I will be quite happy to defend myself.

MR STINCHCOMBE: You said in respect of the economic theoretical discussions that you had with my learned friend in respect of this report that it was more important to discuss the real project and the figures that we had before the inquiry.

MR ROSS: Yes.

MR STINCHCOMBE: Which figures do you have in mind?

MR ROSS: Sorry, I thought you were asking the overarching question.

MR STINCHCOMBE: I am asking the overarching question. I just want to know, when you say you have been looking at the real project and the real figures, what do you have in mind in that? What should we focus our attention on in discussing the economic impacts of this particular proposal?

MR ROSS: Oh, I see. Well, my evidence, SSE/8A in particular -- SSE's evidence, because there was a team of us -- sets out, we think very robustly, the economic benefits and disbenefits of the proposal, and specifically we arrive at disbenefits in relation to the balance of payments impact, cost in relation to the climate change impact, and cost in relation to the housing impact and the local housing market.

Now, the latter is judgmental, open to question, (inaudible) very robust. If you add the numbers together, it's a figure of at least

£15 billion negative, 12.8 billion for balance of payments impact, and a minimum of 3.2 -- sorry, 16 billion -- 3.2 climate change impact.

MR STINCHCOMBE: Right. Well, I'll come on, in due course, to those negative impacts. Before I do so, can I just ask a question of clarification in respect of the other side of that balance, the calculation by Mr Woods of the MPV of this proposal being 2.9 billion. Do you remember questions about that issue?

MR ROSS: Yes.

MR STINCHCOMBE: Can you just simplify for me what do you say is wrong about Mr Woods' calculation of the MPV of this particular proposal at 2.9 billion?

MR ROSS: Well, he's assuming that -- it would only be correct if at least a third of those were business passengers; in fact, 3 per cent are business passengers, and the benefits are primarily derived from business passengers. I'm reluctant to give an estimate, but complete ballpark, plus or minus 50 per cent, it would be about a billion.

MR STINCHCOMBE: Right. As I understand matters, Mr Woods got to his figure by pro rata-ing down from a global sum of just under 14 billion.

MR ROSS: Yes.

MR STINCHCOMBE: Is that global sum an accurate sum?

MR ROSS: No. It was based on 2003 analysis -- 2002 analysis. At that time, I guess, it was the best estimate they could make, but it won't be anything like that now.

MR STINCHCOMBE: Right. Can I take you, then, on to the user benefits of non-residents, and the questions were you asked about the Green Book. Firstly, what criticisms do you have about the taking into account of those non-resident user benefits in appraising this proposal?

MR ROSS: Well, DFT not only went against the Treasury guidelines, as set down in the Green Book, but also actually went against its own appraisal framework which it had published in advance of doing the appraisal. Those are the criticisms.

So far as today is concerned, or this particular project is concerned, frankly, it doesn't make a huge difference. The whole concept of trying to work out the potential economic benefits based on consumer surplus theory, which is what the Department for Transport did for this particular White Paper, fine, for the purposes of informing a national policy document, yes, okay, they couldn't think of a better way of doing it, but it's history now. I think you have to look at specifics of this proposal.

MR STINCHCOMBE: Right. And just on the specifics of this particular proposal, it was put to you that because it was privately funded, that footnote concern that you expressed in respect of the Green Book didn't apply.

MR ROSS: Yes, that was put to me. The DFT haven't ever advanced that argument, but Mr Humphreys, I think, advanced that argument.

MR STINCHCOMBE: And what concern do you have about that particular approach?

MR ROSS: I thought it was quite an interesting argument, actually, but I don't think it washes, insofar as, you know, if you start to say, "Well, this is a private sector project, therefore we consider it differently", then you would start to say we use a different discount rate. Frankly, the Department for Transport have been used to using consumer surplus theory, or user benefits, as just about the only methodology you can use in relation to road schemes, highway schemes, rail schemes, and there isn't really much else you can use, so that's what they're used to. They tried to use it for the Air Transport White Paper -- they did use it for the Air Transport White Paper and, you know, it's just sort of messy, really. That's the simplest way I can answer it. They got themselves into a tangle.

MR STINCHCOMBE: Let's come on to the disbenefits that you indicated, and, as I said, I need not ask you questions about the balance of payment disbenefits in respect of tourism, but we did come on thereafter to climate change and the economic cost of climate change. At one stage during that cross-examination, you said that you thought my learned friend was over-complicating matters, so I wonder if you can simplify matters. Can you explain to us how you've taken into account the economic cost of climate change and why you've done it in that way.

MR ROSS: As the Air Transport White Paper progress reports introduced this idea of emissions cost assessment, we would have sought to do it anyway, it's such an obvious thing to do. But if there's a specific project applying for planning permission, you would try to apply some quantification of the emissions cost, in the same way that you quantify other costs and benefits. It's as simple as that. In trying to do that, we estimated the emissions, and in fact we were very robust on that, slightly lower than BAA, about 10 per cent lower, and we took the Stern figure of $85 per tonne of carbon dioxide -- it's in the executive summary -- it's a figure that Stern focuses on, and that converts these days to £281 per tonne of carbon.

And emissions cost: there's the tonnage of emissions, there's the price per tonne, and -- we could have put a fixed number on it by saying that the radiator(?) forcing figure was 2.5, or 2.7, or whatever. We didn't, actually; we just said, look, it's in the range. We followed Stern exactly and said it's in the range 2-4. And so our cost for emissions, I think, is 3.2 billion to 6.3 billion. So the methodology isn't arguable, I don't think.

MR STINCHCOMBE: Right. It was put to you that the Government had also taken into account the same costs at the level indicated by Stern in their White Paper and the progress report; is that right?

MR ROSS: Well, I don't think it was quite put to me in those terms. It was put to me the Government had taken account of the same issues but at a cost of £70, which was the figure that the Government was working on, a year 2000 figure of £70 per tonne, whereas in Stern's figure -- actually, they're not directly comparable. If I make them comparable, that £70, if inflated today, RPI plus £1 per annum, as was intended, would be about £84/£85, I think. So Stern has come up with numbers that are three and a half times, roughly, what the Government thought it was five years ago. And the question is, the Government now have got to form a view as to, having commissioned Stern to do this work, whether they accept his number, and, as I say, that's

a tough decision.
MR STINCHCOMBE: Right. I just want to ask you a question of clarification about the internalisation of the cost of carbon so the polluter pays. To what extent would that deal with the adverse impact of this particular proposal?
MR ROSS: In the short-term, it wouldn't do anything at all. In the very long-term, yes, possibly, but we just don't know. There is presently no way of internalising those costs.
MR STINCHCOMBE: It was put to you that you couldn't set off those economic and social costs of carbon against the user benefits. What comment do you have in respect of that proposition?
MR ROSS: The whole purpose --
MR HUMPHRIES: Hang on, he's answered that. He said you couldn't -- it's on the transcript -- you couldn't directly set off. You can't just ask him the question again and hope for a different answer.
MR ROSS: Mr Humphreys, that's not quite how I answered it. What I said is you could not directly set it off across the user benefits, and that's still my answer, because user benefits are -- why set it off directly against the user benefits? Why not the other benefits also? I think I said what you do is you put everything down

into one pot, everything in a single column or into a pot, everything that you can value sensibly, in NPV terms -- that's the whole purpose of NPV analysis, so that you can compare different costs and benefits using the same yardstick. Having applied the same yardstick, you put them all in the same pot. You don't directly set one thing against another, it's the total.

MR STINCHCOMBE: Coming on to the questions asked this morning. Starting with the issue of wider economic benefits, You were again taken to the OEF report, and you again indicated your view that it was more important to look, not at the economic theory, but at the precise project in issue, and asked the question as to how much added value the additional 10 m/PPA would bring. So I ask you that question: what additional value would that additional 10 m/PPA bring?

MR ROSS: Economic value?

MR STINCHCOMBE: Economic value.

MR ROSS: It's negative to the extent of, I don't know, £15-£16 billion on the negative side, and, as far as we can establish -- these are broad numbers because we didn't have numbers on this at all except in the appendix to Mr Rhodes, but it might be 2 billion-ish in terms of benefits, a billion direct -- and here I'm comparing it to Mr Woods' 2.9 figure -- if worked out properly, I'd say give or take 50 per cent because we haven't done it, and roughly it would be a billion of wider benefits if you used OEF basis for the calculation relating to the business passengers. So you have about 16 billion on one side and two on the other, and bear in mind we haven't quantified an awful lot of things.

MR STINCHCOMBE: It was put to you, and you've accepted --

MR ROSS: Sorry, when I say "an awful lot of things", I mean, for example, home ownership abroad, for example, the environmental costs of noise and air quality and so on. Sorry.

MR STINCHCOMBE: It was put to you, and you accepted, this morning that economic benefits could, in theory, outweigh environmental harm. Have you seen any evidence that economic benefits do outweigh the environmental harm?

MR ROSS: No. I might live one day to regret having made that statement, but so far as this application is concerned, I'm on pretty solid ground.

MR STINCHCOMBE: Right. I just come on to the next series of questions you were asked this morning about employment, and just a few points to seek your clarification on. Firstly, the concern -- or your concern was raised and questioned upon as to the dependence locally on Ryanair, and it was put to other airports -- Paris, Frankfurt -- also were heavily dependent upon single carriers, and you said that Stansted was different because it was in a rural area. Why is that difference important?

MR ROSS: Well, there are no major population centres nearby, and that means that it's a big fish in a small pond so far as -- it just means there's much more dependency upon it from the local community's point of view for employment.

MR STINCHCOMBE: It was put to you that there were no adverse impacts of that over-dependence and you disagreed.

MR ROSS: Yes.

MR STINCHCOMBE: Why do you disagree?

MR ROSS: Well, it was set out in my evidence. The only thing perhaps that needs complete clarification is that we're not suggesting that Ryanair is about to go bankrupt or Stansted Airport is about to go bankrupt; it's really a question of prudence, taking account of longer-term potential risks.

MR STINCHCOMBE: Just two more matters I want to seek your clarification on. You recall the questions this morning about the local employment impacts about overheating, about regional employment displacement, and about Luton, those series of questions?

MR ROSS: Yes.

MR STINCHCOMBE: Leaving aside the interpretation of policy in these regards, and looking simply at the economic evidence, what is the comparative case for expansion at Stansted and expansion at Luton?

MR ROSS: I can only speak about the comparative employment case because there's an economic consequence there. I can answer this most quickly by just referring you to a table in my evidence. This is SSE/10A. It doesn't answer the point completely, but I think it shows -- table 4 on page 9. It shows Luton unemployment rate 7.6, Uttlesford 2.6, East Harts 2.5. The whole inner and outer area, which is the area used by BAA as the employment catchment area, so it goes as far as Bury St. Edmunds down to -- well, you can see it, it's quite a wide area -- has an unemployment rate of 4 per cent, and Luton is almost double that.

I won't take you there, but there's also a table which shows what the skills profile is of the population around Luton -- the working population around Luton, and it's a much better match.

I stress again, my comparison goes no further than that, except to say that, if the objective is economic regeneration, or employment, or whatever, then, clearly, the logic would be to develop Luton before Stansted.

MR STINCHCOMBE: Just one final topic, and just a few small questions in respect of it. When you were considering this morning the impact of the proposal on regional tourism, you stated the question was whether we should encourage more people to travel abroad and so create job losses in the east of England and you were pulled up on the word "encourage"; instead, it was put to you, it should have been "allow", and you said that you preferred "encourage" because, in this particular market, supply created demand.

Firstly, can you explain why in this particular market you say that supply does create demand.

MR ROSS: Well, it's certainly the way that Ryanair in particular has developed. He genuinely finds markets which nobody believed existed, places that nobody thought we would ever want to travel to, and he can put on a service, and, having put on the service, he will sell the tickets almost at whatever price in order to get the thing established. And, of course, he will earn subsidies very often from the government of, I don't know, some part of southern Italy for guaranteeing to send in 100,000 British tourists every year; they will pay him to do that, for the obvious reason that our economic loss, in that sense, is their gain. That's why supply creates demand, in that type of business model.

MR STINCHCOMBE: One final question, then. In summary, what would be the economic impact of encouraging more people to travel abroad from Stansted Airport?

MR ROSS: I will quantify that, as I say. If you add all the numbers together, there are 16 plus the housing figure, which -- the housing figure, admittedly, is less robust. Let's just settle for 16. Let's quantify it robustly. I think giving the Trival(?) annex the benefit of the doubt, there might be £2 billion on the other side of the equation. So, in net terms, we're speaking about £14 billion negative.

MR STINCHCOMBE: Sir, do you have any questions for Mr Ross?

MR BOYLAND: I do have a few, yes.

Questions by THE INSPECTOR

MR BOYLAND: You have quoted from the Air Transport White Paper, 11.26, on several occasions. Would you mind just turning it up, please. 11.26 on page 114.

MR ROSS: Yes.

MR BOYLAND: You've stressed on several occasions that the "therefore" in the last sentence, "We therefore support growth at Stansted to make full use of the existing runway" -- the "therefore" follows on from the previous sentence, which is that making full use of Stansted would generate large net economic benefits.

MR ROSS: Yes.

MR BOYLAND: Does the "therefore" also follow from the previous sentence, in your view, or not?
MR ROSS: Well, I think probably it does, actually. I think it probably does. I think I mentioned in my evidence that sometimes these documents are deliberately ambiguous, but I'm quite happy to accept that it may do, and if you accept that the theme that runs through the White Paper time and again is this measured and balanced approach, it implies a wave of different issues.
MR BOYLAND: Thank you. A different point entirely: you've referred to Stern in relation to the meeting of the costs of the contribution of aviation to climate change.
MR ROSS: Yes.
MR BOYLAND: Can you just tell me whether my reading of -- I presume you are familiar with the report in its entirety. I wouldn't say you have necessarily read every word, but you have read what you regard as the relevant bits. From your readings of the report, you will see that Stern does advocate that aviation should meet its own costs in that respect. Does he also argue anywhere, as far as you're aware, that the growth in aviation should be curtailed or restricted in any other way?
MR ROSS: No. As I say, I haven't read all of Stern's report, but I'd be amazed if he argued that. He's

a free market economist, and he would argue -- well, I don't think he has argued that we should deal with the issue through the market, and people should still have the choice. It's a question, really, of applying the full economic cost, including the external cost. In fact, I think he goes so far as to say that -- he speaks about a combination of economic instruments, whether they be emissions trading, whether they be taxation, a combination of economic instruments, in order not indeed to tackle any individual sector, but to tackle carbon emissions as a whole.

MR BOYLAND: The specific bit of the text that you referred to -- and I know you have been taken to other parts in cross-examination, but in your evidence you specifically referred to the relative costs of carbon and carbon dioxide, which gives you the carbon dioxide equivalent. But a couple of paragraphs above that, he describes congestion and capacity limits at airports as a form of rationing which is an inefficient way of regulating demand.

MR ROSS: Yes.

MR BOYLAND: Can I have your views on that statement.

MR ROSS: Yes. I think, in that context --

MR BOYLAND: It's difficult to point you to where it is because of the --

MR ROSS: Yes, you've got the deluxe version.

MR BOYLAND: I have got book here. It's in the section headed "Aviation".

MR ROSS: Okay. No, I'm quite content to accept that, and I think that's probably correct. I wouldn't disagree with that, actually, because when you start to ration it in an artificial way, you will get, for example, you know, at Heathrow there's pretty inefficient air traffic control problems and so on. And it's also inefficient because, if you ration in that way, then there's an opportunity to have excess pricing; because demand exceeds supply, you create an opportunity for airlines, and indeed airports, to make excess profit business overcharging the consumer. So the far more sensible approach, from a public policy point of view, is to internalise the costs in order to create the realistic price of flying so that the public purse benefits, if you like, rather than you do it through taxation or whatever. So the public purse benefits rather than the airlines or the airport.

MR BOYLAND: Thank you. On a related point, if aviation does meet the costs of its contributions to climate change through some sort of emissions charging or trading, how, in practical terms, does that address the effects of global warming?

MR ROSS: Well, in a number of respects. In the first instance, it would slow down the growth in aviation. We can debate what that would be. Certainly it would be much more dramatic than is currently allowed for in the Department for Transport's forecasts, because they're based on £70 per tonne from 2000. So it would slow down the growth in aviation.

I think there are two other key issues here, actually, and it's drifting away from economics. The first is that I think it's very difficult for the UK Government to argue its case strongly across the rest of Europe, and indeed more widely -- to argue the case for everyone else to cut their emissions when we're allowing -- what seems to be government policy -- this massive expansion of airports in the UK. I think that weakens the Government's moral position in taking the argument internationally. And finally, I think it weakens their position domestically, in terms of convincing the UK population of the need to take the issue seriously.

MR BOYLAND: Thank you. And finally, Mr McDonald gave evidence on the effects of the airport on local house prices and the local housing market, as he saw it, and I don't want to go into that debate itself again with you, but would it be fair to characterise the housing market in -- if you take a large enough area, if you take a region, perhaps, or certainly the UK -- as, by and large, a closed system, in economic terms? I appreciate there are some people moving into the country and buying properties and taking up properties, and equally there are some moving out, but, by and large, is it a closed system?

MR ROSS: In the sense that losers in one place would be winners elsewhere?

MR BOYLAND: Yes.

MR ROSS: Arguably, yes.

MR BOYLAND: And if that is the case, then, how does a loss in house values in this area, if there is a loss attributable to the airport, represent an economic loss that should be weighed in the balance when considering the airport?

MR ROSS: That's a fair point. It's an economic loss certainly within the local area, principally the southern part of Uttlesford, or slightly wider than that, into parts of East Harts and North Uttlesford. But your argument -- if you say it's a closed system, then you say those people who are deterred from buying in Uttlesford would buy perhaps in Cambridgeshire or South Cambridgeshire, thus increasing the demand in South Cambridgeshire, and supply, and would therefore push up the prices there. It's --

MR BOYLAND: So losses to people in this area are maybe offset by gains elsewhere?

MR ROSS: It's a fair point, yes --

MR BOYLAND: I'm not making a point, I'm just seeking your view.

MR ROSS: No, no, I do accept that. And indeed, I think it's fair to say that Mr McDonald pointed out, you can point to £1 billion mathematically as being the loss within Uttlesford, using the Land Registry figures, but I think he himself was at pains to point out that there were other issues involved here, and we haven't used that, frankly, as part of our hard evidence of costs.

MR BOYLAND: No, I understand that. I'm just seeking your view, as an economist.

MR ROSS: Yes, fine.

MR BOYLAND: Thank you very much indeed, Mr Ross.

That, then, completes the witnesses that we had programmed for today. The next witnesses, I think, will be coming tomorrow morning. In which case, the inquiry is now adjourned until 10 o'clock tomorrow morning, thank you.

(The Inquiry adjourned until 10.00 am
on Friday, 27th July 2007)

INDEX