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## **Glossary of Terms**

- **Air Journeys:** Also referred to Journeys. A unit of measurement for the number of flights taken by passengers.
- **Air Traffic Movement:** Abbreviated to 'ATM'. Defined as an aircraft landing or taking-off for commercial purposes.
- **Belly-hold:** A term referring specifically to passenger aircraft (as opposed to freighters). This term refers to the hold of the aircraft that is utilised for the carriage of passengers' baggage and freight.
- Capacity per ATM: A unit of measure defined as the number of seats or freight capacity on each ATM. Often an average of a larger sample.
- Capacity: The total capacity of an airport or aircraft to transport passengers or freight.
- Catchment Area: Airports draw their passengers from within a catchment area. The size of the airport and its network affect the size of the catchment area. Typically, the smaller the airport the smaller the catchment area that it can draw upon.
- **Discovery Park Limited:** Also referred to as Discovery Park. An entity that is closely linked to Stone Hill Park Limited through shared ownership.
- Freight per ATM: A unit of measure defined as the number of tonnes of freight loaded on each ATM. Often an average of a larger sample.
- **Freight:** Also referred to as Cargo or Air Freight. This includes all shipments that are transported for commercial purposes on board the aircraft under an Air Waybill excluding 'Mail'.
- **Freighter:** An aircraft specifically designed for the transportation of freight. This type of aircraft has no seats fitted, and in their place, has a cargo hold.
- Full Service Carrier: An airline business model that includes carriers who have traditionally offered all services included in one ticket price. This includes carriers such as British Airways, Lufthansa, Air France-KLM and Virgin Atlantic.
- IATA Airport Code: A three letter code designated by IATA to many airports around the world. All major airports are assigned a code, the most commonly used in this report are.
- **Kent Airport Limited:** Formally Infratil Kent Airport Limited. An entity whose main purpose is the operation of Manston, Kent's International Airport.
- **Kent Facilities Limited:** Formally Infratil Kent Facilities Limited. An entity whose main purpose is the provision of facilities to the operator Manston, Kent's International Airport. This entity in effect owns the airport site.
- London System: Also referred to as London Area Airports. A term referring to six airports of London (LHR, LGW, STN, LTN, LCY, SEN).
  - o London City LCY
  - London Gatwick LGW
  - o London Heathrow LHR
  - o London Luton LTN
  - o London Southend SEN
  - London Stansted STN
- Low Cost Carrier: Abbreviated to LCC. Low cost carriers are one of the major airline business models. Major European LCCs include Ryanair, easyJet, Norwegian, Wizz, and Vueling.
- Million Passengers per annum: Abbreviated to mppa. A standard unit of measurement for airport capacity or throughput.
- Narrow-Body: A type of aircraft, typically distinguished as one which has a fuselage wide enough for one passenger aisle. Includes aircraft such as Boeing B737 series and Airbus A320 family.
- **Passenger Movement:** A unit of measure referring to the number of passengers arriving or departing from an airport.
- **Passenger:** Abbreviated to PAX. The fare paying passengers on board an aircraft. Excludes those travelling on non-revenue tickets such as airline employees.
- Passengers per ATM: Abbreviated to PAX per ATM. A unit of measure defined as the number of passengers carried on each ATM. Often an average of a larger sample.
- **Peak Demand:** The demand at its highest point for an airport. There are several forms of peak demand, these include a daily peak (often early morning) and annual peaks (often around holiday seasons).
- RiverOak Investment Corporation LCC: Also referred to as RiverOak. An American investment firm that is seeking to acquire the Manston Airport site.
- RTK: Revenue tonne kilometre. A unit of measure in the freight industry. Calculated as the tonnes uplifted multiplied by distance flown.



- Stone Hill Park Limited: Previously Lothian Shelf (718) Limited. The current entity that owns Manston Airport.
- **Unaccommodated Demand:** A term referring to the demand that cannot be accommodated at a particular airport or combination of airports due to it exceeding the capacity available.
- Wide-Body: A type of aircraft, typically distinguished as one which has a fuselage wide enough for two passenger aisles. Includes aircraft such as Boeing 767, 777 and 787 series and Airbus A330, A340 and A350 family.



# 1. Introduction

#### 1.1. Context

Thanet District Council ("TDC") appointed AviaSolutions to provide independent advice on whether a reopened Manston Airport might a have financially viable future as an operational airport.

The airport closed in May 2014 and the current owner, Stone Hill Park (formally Lothian Shelf 718), has submitted a planning application for a mixed-use development on the site, comprising 2,500 dwellings, general business and commercial areas which is reported to support the creation of up to 4,000 jobs, and a range of leisure and sports activities.

RiverOak Investment Corporation ("RiverOak") is an American investment firm that wish to acquire the Manston site and re-establish airport operations. The re-established airport would be freight focussed but would also offer passenger services along with ancillary businesses. RiverOak are seeking a Development Consent Order (DCO) under the Planning Act 2008 to compel the sale of the site as a Nationally Significant Infrastructure Project.

TDC is seeking guidance on whether the airport has a reasonable prospect of operating as a financially viable, standalone entity within the period of the Local Plan which extends to 2031.

AviaSolutions commenced this study on 13th July 2016.

# 1.2. Scope and Limitations

The scope of AviaSolutions work was set out in the procurement document issued in June 2016 by TDC and our proposal for services submitted in the same month. Specifically, the scope requested:

"The Council requires an independent assessment advising whether or not it is possible to run a viable and economically sustainable free-standing airport operation from Manston. The Council is seeking advice from an independent expert aviation consultant who can make this assessment within the context of the national and international air traffic market, the viability of airport operations at a national and international scale and likely future developments in airport operations."

Source: TDC Briefing Document

Our proposal and this subsequent report have been developed in the context of these requirements. It is therefore necessary to indicate specifically those areas which fall outside of the scope of our works, and to which we have given no credence in the application of our analysis. These areas include:

- Whether Manston Airport is an asset of national significance
- The effect of any scenario on the wider Kent economy, or subsequently the effect on the UK economy as a whole
- The legal, planning, environmental, or social effects of any scenario, or whether these elements would present any challenges
- The economic benefit or need for industrial or housing units in the Thanet area
- The comparison between any airport scenario and any other alternative use of the airport site
- Passing judgement on the use of the site beyond that of whether an airport may be viable
- We take a neutral view with regards to the local campaign groups, both those for and against the airport

It should also be noted that many of the stakeholders engaged by AviaSolutions sought to broaden the discussion to include a wide range of airport-related topics. Whilst this has provided useful context and highlights the political sensitivity of the airport, AviaSolutions study is restricted to commercial analysis and does not seek to provide any legal, environmental or socio-economic advice or comments.



## 1.3. Our Approach

AviaSolutions commenced the study with a review of the various documents that describe the history of Manston Airport, the local and national planning context and the current development proposals for the site. The two main aspects of our work however were seeking the views of stakeholders relevant to the specific topic of airport commercial viability, and an extensive analysis of the relevant air transport market.

In conjunction with TDC, we agreed the primary and secondary stakeholders to be contacted for this engagement. Our interview programme was not intended to canvass the views and opinions of the many parties and individuals with views, many strong held, about the airport and its future. It was intended to seek facts about its historic development and proposed future development from the two prospective developers (Stone Hill Park and RiverOak) and from a range of parties within the air transport and freight industries. It is these parties and their like who will determine whether commercial aviation activities could be viable on the Manston site. Whilst conducting these interviews, many companies and individuals spoke on the condition of anonymity.

Our analysis added to our existing knowledge of the air transport industry the specifics that are associated with Manston Airport, namely its historic traffic performance, details of its catchment area, and the experiences of previous airline and freight users of the airport. AviaSolutions has developed two models specifically for this study. The first assessed the capacity of six airports serving the London Area and how future passenger and freight traffic might be distributed between these airports including Manston, and the second was a financial model to assess the potential cashflow outlook for Manston Airport.

## 1.4. Report Structure

In this report, we first summarise the history of Manston Airport and describe the different visions of its future put forward by Stone Hill Park and RiverOak. We next describe different scenarios for possible air transport use of Manston Airport, before investigating the passenger and freight traffic potential of each scenario. We then describe our financial model, setting out the basis of our revenue and cost assumptions if Manston were to be brought back to use as an operational commercial airport. Finally, we bring together the different threads of our analysis and reach our conclusions on the financial viability of Manston Airport.

# 1.5. AviaSolutions' Qualifications

AviaSolutions has been appointed to provide an independent assessment of the prospects for Manston Airport. We are is an aviation management consultancy, established in 2001. In October 2012, GE Capital Aviation Services acquired 100% ownership, adding consultancy to the leasing business for which it is known. Since then, AviaSolutions has grown rapidly, building an airline business in addition to our traditional airport advisory services. Over the past 15 years AviaSolutions has earned a strong market reputation in a number of key areas:

- Airport Strategy and Support
- Airline Strategy and Support
- Airport and Aviation Transactions
- Air Service Development
- Regulation, Policy and Planning
- Passenger and Cargo Traffic Forecasting
- Route and Network Strategy
- Ground Handling
- Business and Commercial Advisory



# 2. Executive Summary

## 2.1. Summary

AviaSolutions was appointed by Thanet District Council ("TDC") to advise on whether viable airport operations could be re-instated on the site of Manston Airport. Following ownership by the Ministry of Defence, three separate private companies tried and failed to operate Manston Airport profitably and the airport closed in May 2014. TDC needs to prepare its next Local Plan looking forward to 2031, and has two proposals for the use of the site: an operating airport or a mixed residential, business and leisure development.

AviaSolutions has discussed the re-opening of Manston Airport with a number of organisations and individuals, and carried out a detailed assessment of the air transport market and the potential finances of a re-opened Manston Airport. On this basis of this work, we have concluded that it is most unlikely that Manston Airport would represent a viable investment opportunity even in the longer term (post 2040), and certainly not during the period of the Local Plan to 2031.

The assessment of financial performance of a re-opened Manston Airport is based on relatively favourable assumptions for Manston Airport. We would typically position the financial forecast as a 'High Case' as a number of tailwinds are required to deliver the financial forecast in terms of passenger and freight volume and the revenue yield that can be achieved. Throughout the research AviaSolutions has consistently taken a positive outlook with regards to the underlying demand assumptions. Specifically, this means that we have opted for the upper bounds of traffic, the upper bounds of unit operating revenue, the lower bands of unit operating costs, and minimal asset costs and capital investment requirements.

## 2.2. Background

Since the Ministry of Defence sold Manston Airport in 1998, three separate private sector investors have attempted to develop the airport as a viable commercial undertaking. These ventures have all been unsuccessful and have incurred substantial losses in the process. The airport closed in May 2014. TDC has undertaken extensive exercises to find new investors prepared to re-open the airport, but has failed to identify an appropriate party. One interested party, RiverOak Investment Corporation LLC ("RiverOak"), has though emerged from this process, and is interested in acquiring the site and developing Manston Airport as a freight airport. RiverOak has been critical of previous owners, considering that they were not sufficiently active in seeking to develop and market Manston as a freight airport. In contrast, the current owner of the site, Stone Hill Park Limited ("Stone Hill Park"), has brought forward plans to develop the area for mixed residential, employment and leisure uses. TDC has identified a need to understand whether an airport would be a viable use for the site, and whether there is a reasonable prospect of that occurring within the period of the Local Plan to 2031.

# 2.3. Historic Performance of Manston Airport

During its years of operation as a commercial airport, Manston had a range of air services to domestic and short haul Europe points, and handled around 30,000 tonnes of freight a year, almost exclusively imports of fresh produce coming on dedicated freighter aircraft. The scale and nature of the passenger traffic suggests that Manston has relatively few air journeys originating or destined for a catchment area of East Kent that it might reasonably be expected to serve: we estimate that demand from this catchment area is about a third of the size of the demand in a catchment area of Southend Airport. While we consider that a re-opened Manston Airport would attract some passenger services and regain freighter operations at a level similar to its historic performance, our financial assessment is that this would be insufficient to support financially viable operations of the airport.

# 2.4. Manston as an Overflow Airport for London

Manston is located in the South East of England, where there is a need for additional runway capacity. This issue has been researched extensively over recent years, including the Davies Commission which recommended in 2015 that a third runway be constructed at Heathrow. A decision on the new runway



capacity is expected to be made in October 2016. In addition to the recommendation for Heathrow, Davies also considered a second runway at Gatwick, opening up the possibility of alternative decisions, including of course that either both or neither runway may be approved. We have developed a detailed model of how future passenger and freight demand might be distributed around the six airports in the London area under different airport capacity scenarios, in order to assess how much unaccommodated demand would be generated by 2050. We have also assessed how much traffic might be attracted to a re-opened Manston Airport.

These traffic estimates have been inputs to a financial model which AviaSolutions has developed to assess Manston's viability to 2050. We have based our estimates of unit aeronautical revenue, commercial revenue and operating costs on those levels achieved at other UK airports of a similar scale to that projected for Manston. We have also assumed that the site could be acquired for £10 million, and that further capital expenditure of £27 million would be required to re-commission the site as a licensed commercial airport. We further assume that the business is financed initially through an equity injection from shareholders of £50 million with no debt funding.

The scenario recommended to Government by the Davies Commission is the construction of a third runway at Heathrow. Under this scenario, the forecast passenger traffic at Manston would initially grow to almost 2.5 million passengers per annum (mppa) immediately before the opening of the third runway in 2030, but would fall materially afterwards. Retained earnings would not become positive until around 2040, preventing payment of dividends to equity investors until around that date. EBITDA margin would become positive in the early 2030's and grow and reach 41% by 2050. On this basis, we would very much doubt that an informed private sector investor would consider an equity stake in Manston Airport.

The scenario which most supports the re-opening of Manston Airport is one in which no new runways are built in the South East of England in the period to 2050. In this scenario, forecast operating cash flow of Manston Airport is negative until 2025; re-financings of £20 million are required in both 2028 and 2029 to fund terminal expansion; and retained earnings remain negative until 2029 preventing the payment of dividends. Thereafter, financial performance improves significantly, but it is 2043 before EBITDA margin reaches 50%.

It should be noted that these conclusions are based on a set of assumptions that favour Manston Airport at all times, with examples including above market aeronautical yield, aggressive cost reduction projections and minimal acquisition costs, which, while in our opinion are achievable, would nonetheless require some significant management attention. This attention would be focused on two aspects, securing new business at advantageous aeronautical revenue per passengers from LCC's and structuring the business to take advantage of unit cost reduction through scale. These would not be assumptions which AviaSolutions would suggest are presented as a Base Case to an Investment Committee considering the proposition, but rather ones describing a potential upside scenario. In our experience, it is likely that an Investment Committee would not consider investing on this basis.

This scenario of no runway development in the South East of England before 2050 is also a low probability scenario in our view. It also carries a high risk that a decision in 2016 not to commission another runway could be reversed at any time in the future. If Manston were operational at the time a decision were reversed the impact on the business would be considerable, and the decision is not one in which the owners would have any control whatsoever To give just one minor illustration of the risk, it was reported in early September 2016 that Heathrow Airport Limited was considering requesting permission to operate an additional 19,000 ATMs each year, which if granted would reduce the traffic that might spill to Manston.

The other runway scenarios which collectively are more likely than 'no runway development', produce worse financial forecasts for Manston Airport.

#### 2.5. Conclusions

AviaSolutions concludes that airport operations at Manston are very unlikely to be financially viable in the longer term, and almost certainly not possible in the period to 2031.



# 3. Manston Airport: History and Development Proposals

#### 3.1. Introduction

In this chapter, we briefly describe the history of Manston Airport and the different development proposals that are currently being tabled. We also summarise the information and views that we gathered during our interviews with each prospective developer of the site.

## 3.2. Manston Airport History

The history of Manston Airport has been well documented in a series of reports and investigations about its prospects. Like many airports, it started life as a military airfield and played an important role during the Second World War. Although it continued as an Air Force base after the war, civilian operations were permitted. In 1998, the Ministry of Defence sold the site to the Wiggins Group plc, which endeavoured to build up commercial operations, including investment in an airline (EU Jet) to provide passenger services. However, the airline quickly ceased operations in July 2005 and the parent group (renamed Planestation), went into administration.

The following month, Infratil Limited acquired Manston Airport from the administrators, and sought to continue commercial air transport operations. However, without the support of a based airline, passenger numbers returned to the historically low levels experienced prior to EU Jet. In each year that Infratil Limited owned Manston it incurred losses of more than £3 million per annum and wrote off the purchase price of £17 million. Infratil disposed of the airport and associated liabilities in November 2013 for the notional price of £1.

Manston Skyport Limited completed its acquisition of the airport in December 2013, but in the face of continuing financial losses gave notice to staff in March 2014. The airport closed for operations on 15 May 2014.

TDC then explored the possibility of using a Compulsory Purchase Order (CPO) to buy the airport, and then sell immediately onto a private sector investor willing to use the site as a commercial airport. A month-long search yielded a small number of interested parties but further scrutiny indicated that none provided the Council with sufficient confidence that it would be indemnified were it to exercise its CPO rights. This led the Council to reach an initial conclusion in December 2014 that it was unable to find a CPO Indemnity partner.

At the request of RiverOak Investment Corporation (one of the previously interested parties), in May 2015 it started a review of this decision and in October 2015 reached the same conclusion. Nonetheless, at the start of 2016, the Council launched a further search for a CPO Indemnity partner, but this again proved unsuccessful.

In the meantime, the former airport site was sold in September 2014 to the current owners, Stone Hill Park Limited

# 3.3. Commercial Activity at Manston Airport

Immediately after Wiggins Group plc acquired the airport Manston saw an increase in freight traffic. This grew rapidly to circa 30,000 tonnes per annum, however the passenger element of the business stagnated. After Wiggins Group plc invested in an airline specifically for the region, EUJet, the airport saw rapid growth in passengers increasing to 200,000 in 2004. EUJet however, quickly fell into financial difficulty and ceased operations in July 2005 bringing an abrupt halt to the passenger growth.

In the years since, through the ownership of Infratil and Manston Skyport, freight volumes were maintained at circa 30,000 tonnes per annum. Passenger volumes increased with the introduction of Flybe in 2010 but



fell back as the routes were withdrawn. Most recently, KLM began operations from the airport in 2013 but were also withdrawn due to the announcement of the airports closure.

Since being taken into private ownership the airport has averaged 30,500 passengers and 25,000 tonnes of freight per annum, with the peak being 207,000 passengers in 2005 and 43,000 tonnes of freight in 2003.



# 3.4. Stone Hill Park Development Proposal

Stone Hill Park Limited has lodged a planning application with TDC to construct a mixed development of residential and business units on the site of the former airport.

Stone Hill Park set out its position with regard to the history of the airport, indicating its years of financial losses under various ownerships. The company also outlined the steps that had been taken by management and consultants, both when the airport was operational as Manston SkyPort, and when it came into its ownership, to revive the airport's fortunes. It should be noted that Stone Hill Park indicated that no documents or reports were available to evidence these efforts. Stone Hill Park concluded that the airport site would be better utilised as a redevelopment site than as an airport<sup>1</sup>.

# 3.5. RiverOak Investment Corporation Development Proposal

RiverOak was perhaps the most interested party in TDC's search for an Indemnity Partner to support its consideration of a CPO. It has indicated that its plan for the re-opening of Manston Airport is based on attracting 10,000 annual movements by freighter aircraft.

During AviaSolutions interviews, RiverOak provided a high level review of why it wished to acquire the airport and its vision of the airport's future development. The strategy is to develop a freight hub with supporting passenger services. RiverOak criticised the previous owners' lack of effort to develop air freight traffic at Manston.



<sup>&</sup>lt;sup>1</sup> The scope of this report does not extend to a consideration of other uses for the airport, and AviaSolutions is therefore not able to comment on the reasonableness or otherwise of the alternative use proposals.

RiverOak was unwilling to disclose any material detail of its Business Plan for reasons of commercial confidentiality. Therefore, the discussion over future viability was at a more generic high-level basis, with RiverOak not disclosing any traffic projections, revenue projections, cost base or specific airlines (passenger or freight) with whom it had discussed plans (with the exception of Ryanair). It did not name any parties that had given firm commitments to use a re-opened Manston<sup>2</sup>.

A critical factor for RiverOak's proposal is that in order to establish an airport on the Manston site it will need to obtain ownership of the site from the current owners. They have not secured the site's sale through negotiation with the owners and are currently preparing for a DCO process, a part of which shall aim to demonstrate to the relevant authorities that the airport site is nationally significant transport infrastructure. If successful, RiverOak may then be granted the ability to purchase the site on a compulsory basis. Without this power, there appears little prospect at present of the group securing ownership.



<sup>&</sup>lt;sup>2</sup> For the avoidance of doubt, AviaSolutions therefore does not offer any opinion about the reasonableness or otherwise of RiverOak's commercial plans for the airport.

# 4. Potential Development Scenarios

#### 4.1. Introduction

In this chapter, we describe a number of possible development scenarios for Manston Airport. These scenarios have been developed on the basis of our experience of the air transport industry and provided the background for our discussions stakeholders within the air transport industry.

We first describe two scenarios (4.2 and 4.3) that consider possible developments at Manston with regards to cargo and passengers. These scenarios are considered in isolation from decisions made in relation to the provision of a runway in the London area. However, given that Manston is in the South East of the UK, its potential development is likely to be directly influenced by any runway decision. Consequently, we incorporate the first two scenarios into a wider consideration of possible developments in the London area in view of the possibility that Manston might provide some 'over-flow' airport capacity. These considerations are drawn together in our four distinct demand scenarios for Manston Airport.

# 4.2. Cargo Activity

In the past, Manston Airport was able to attract a certain level of cargo activity, and a potential future role would be for it to again serve this market. In our assessment, we assume as a minimum that Manston attracts this previous freight, totaling 30,000 tonnes per annum.

We also consider whether the scale of activity might be greater than experienced in the past. There would be two possible causes for this:

- The selection of the East Kent area by a major multinational manufacturing (e.g. an Asian electronics or white goods company) or retail group (e.g. Amazon) as the location of its distribution network. Such location decisions can have a significant impact on freight volumes. However the UK's planned exit from the EU leaves makes this less likely.
- As a consequence of their lower sensitivity to airport location, freighters are generally amongst the first category of traffic to be 'squeezed' out of busy airports. With the pressure on runway capacity in the South East of England, it is possible that freighters currently operating through the London airport systems might seek to move to an alternative airport. We discuss this further throughout the remainder of this chapter.

We also considered the role of integrators in the air freight market. Whilst general cargo traffic tends to be more flexible about the location of the airport it uses than passenger traffic, this does not apply to the major integrated freight operators. The business model of operators such as DHL, FedEx and UPS is based on a hub and spoke principle involving both aircraft and road feeder services: the surface element of the network has a greater requirement for a central location within the market being served. We consider the geographic location of Manston precludes it from being a suitable base airport for an integrator in particular when compared to UK competitors such as East Midlands Airport.

# 4.3. Regional Passenger Airport

Manston Airport played a role from the early 2000s until its closure as a local airport serving the East Kent region. Although our research and analysis (described in Section 5) has indicated that its core catchment area produces significantly less demand for air travel than the area around Southend Airport, we consider that it might nonetheless be able to support an operation equivalent to one or two 150-200 seat passenger aircraft operated by a LCC based at Manston. However, the longevity of such a development may be limited since if a new runway were to be built at Heathrow or Gatwick, the LCC concerned would in all probability transfer its aircraft to the new runway. There are many reasons why these aircraft would be rebased, including:

Gaining access to vitally important catchment area



- Competitive positioning, the major LCCs are likely to fiercely compete and attempt to gain first mover advantages
- The airlines will need to base multiple aircraft at the airport with a new runway in order to achieve economies of scale on the cost lines of their business
- Securing slots at valuable airports to secure slots
- Airlines have finite resources, including the number of aircraft they have to operate. A major structural change in the runway capacity environment will demand that those resources be reviewed and the optimum allocation revised.

In our analysis we make the assumption that the airport quickly ramps up to 800,000 passengers per annum on this basis until such a time as a new runway is opened, at which point the aircraft are re-based and the passenger traffic lost. This volume of annual passengers is equivalent to two B737-800 based aircraft with a typical LCC seat configuration. We also assume that Manston would not feature in the network plans of airlines for non-based aircraft.

## 4.4. Runway Development in the South East

The shortage of airport capacity in the South East of England has been widely debated for many years, if not decades. The most recent public investigation was undertaken by the Davies Commission which reported to Government in 2015. No decision on its recommendation to provide a third runway at Heathrow has yet been made, although one is expected in October 2016. Even if a decision is made as currently planned, it could be ten years or more before that runway would be operational. The Davies Commission considered a long list of possible locations for additional runway capacity in the South East, although it should be noted that Manston Airport (still open at the time) was not one of them, and despite its available capacity a new runway was still deemed necessary.

The Commission short-listed two schemes at Heathrow for a third runway (LHR3) and the provision of a second runway at Gatwick (LGW2), and recommended LHR3. During the next ten years, there will be a shortage of airport capacity in the South East, leading to a scenario in which Manston acts as an overflow airport for demand that cannot be accommodated elsewhere. We consider that there are four possible outcomes from the Government's current decision process:

- Build LHR3: While in line with the Davies Commission recommendation, this choice would nonetheless be the most controversial, and probably take the longest time to deliver.
- Build LGW2: It is likely that a runway at Gatwick would be available earlier than at Heathrow. It is probably the outcome that would be least supportive of a re-opening of Manston Airport, since Gatwick is the closest airport to Manston, and a runway there is likely to be operational several years before one at Heathrow.
- Build both: Should Government indicate that its policy would permit both to be built, Gatwick shareholders might well conclude that while its runway could be operational first, there would be a significant risk of loss of traffic to Heathrow as and when its additional runway opened.
- No expansion: It is possible that Government will not sanction any runway expansion in the South East. It is the outcome that would be most supportive of a re-opening of Manston Airport, albeit an outcome that could be reversed at any time in the future, thereby depriving a re-opened Manston of traffic.

It is feasible that there would be a legal challenge, irrespective of which of the above possibilities were chosen (possibly less so with the fourth 'do nothing' option), further delaying the opening of a new runway. It is unclear whether the Government's decision would indicate simply its preferred location with the airport operator then following the normal planning process to obtain the necessary permissions, or whether it would seek to provide the permissions through a Parliamentary process.

# 4.5. Dynamics of Traffic in the London Airport System

The six airports of the London Airport system all have different owners, and each has a particular characteristic in the traffic which it handles. However, there is a dynamic in the distribution of traffic between the airports, which also have a particular hierarchy.

Heathrow is the premier airport, and there are numerous examples of airlines moving services there when they are able to do so. This has been evidenced with airlines purchasing slots from incumbent Heathrow



airlines, for example in February 2016 Oman Air purchased a pair of Heathrow slots from Air France-KLM for a reported \$75 million.

Gatwick is clearly the second airport in the system, and secondary slot trading is also beginning to take place. The airports of Stansted and Luton to the north of London play similar roles in supporting the low cost airline market. London City Airport is very much a niche airport and has marginally relieved pressure on Heathrow by serving an increasing range of short haul (often business-oriented) destinations. The least busy airport is Southend which has grown again in the last few years as a result of easyJet basing two to three aircraft at the airport.

#### 4.6. Model Scenarios

Before the construction of a new runway at Heathrow and/or Gatwick, there is expected to be a shortage of airport capacity with passenger demand growing. We have developed a simulation model to estimate the size of unaccommodated demand at one airport, and how the demand might respond to an airport capacity shortage. Our demand cascade follows the form of:

- Some passengers using the airport to connect between flights will choose to use other airports as their connection point (voluntarily to avoid over-crowded facilities and delayed flights, or as a consequence of airlines increasing fares to such passengers);
- Some passengers will choose not to travel, or not to travel by air (as air fares are increased);
- Some passengers will endeavour to use another London airport; and
- The remaining potential travellers are available for attraction by UK airports other than the six London area airports.

We have used our experience and discrete analyses to determine the likely sizes of the first two categories above, and then estimated the passenger handling capacities of the airports. In general, this is based on the number of Air Transport Movements (ATMs) that each airport's runway system can handle<sup>3</sup> and the average number of passengers per ATM at the airport. There is a long-term and widespread trend for passengers per ATM to increase, meaning that the passenger handling capability of an airport can grow even though there may be no change in the number of ATMs that it can handle. We have also divided the maximum ATMs between passenger and freighter operations, maintaining freighter operations at the average level seen over the five years 2011 to 2015<sup>4</sup>, except at Stansted. Within this model we have also considered freight demand and the ability of airlines to carry this demand, either on the dedicated freighter ATMs or in the belly-holds of passenger aircraft.

Once the total unaccommodated demand for the London System has been identified we then apply analysis to identify the share of this unaccommodated demand Manston might attract. These 'spill' demand scenarios are in addition to the base loads of 800,000 passengers (up until a new runway) and 30,000 tonnes of freight. Our demand scenarios are therefore:

- LHR3: The spilled passenger demand Manston would capture if a third Heathrow runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes or freight per annum until FY2030.
- LGW2: The spilled passenger demand Manston would capture if a second Gatwick runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes or freight per annum until EV2025
- Both: The spilled passenger demand Manston would capture if a third Heathrow runway were developed and a second Gatwick runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes or freight per annum until FY2025.
- No Runway: The spilled passenger demand Manston would capture if no new runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes or freight per annum until FY2050.

<sup>&</sup>lt;sup>4</sup> One of Stansted's S106 conditions specifies the division of ATMs between passenger and freighter, with freighter ATMs being 20,500 per annum, and passenger ATMs 243,500 per annum



<sup>&</sup>lt;sup>3</sup> In the cases of Heathrow. Stansted and London City there are also statutory limits

## 4.7. Development Options Outside of Scenarios

We have not included in the possible scenarios any development that does not include commercial air transport operations. Hence, we do not consider the potential use of the Manston site as; a Maintenance, Repair and Overhaul (MRO) centre, an aircraft refurbishment or fit-out location, aircraft 'tear-down' or storage centre, or flight training facility. These and similar activities are often sought by owners of airports with low levels of aircraft activity as a means of generating ancillary revenue to boost income. However, the operators of these businesses are often flexible about the location of the works, and as such, the businesses providing these types of activities are highly sought-after by existing airports and the businesses are able to negotiate favorable commercial terms.

Given the intense competition that exists for these types of business, in our judgment no private sector investor would re-open Manston Airport based primarily on this type of activity. Similarly, while the site has an historic position in aviation and has a heritage centre, and this activity could add to viability, this would be only a marginal financial contribution and would be dependent on there being a commercially viable airport around which to build such an activity.

We also discounted the possibility of Manston developing as a business aviation (GA) centre: it is simply too distant from London to be an attractive offering to corporations and high net-worth individuals using private jets and would struggle against established airports such as Farnborough and London City.



# 5. Passenger Analysis

#### 5.1. Introduction

In this section, we discuss the passenger market both at Manston and in the London Area as a whole. We then explore the potential demand scenarios outlined in section 4.6.

# 5.2. Historic Passenger Traffic at Manston Airport

Various passenger services have operated at Manston Airport in the past. In general, they were consistent with the type that might be expected at a small UK regional airport, namely scheduled services to major short haul domestic and European destinations, supplemented by charter flights to the more popular Mediterranean holiday resorts.

Passenger volumes peaked in 2005, when EUJet, then a subsidiary of Planestation, was operating from Manston Airport. A large number of destinations were served, although EUJet was achieving a load factor of only 41% when it ceased trading in July 2005.



Destinations/Origins of Manston Airport Passengers, 2005

| Airport    | Passengers | Airport             | Passengers |
|------------|------------|---------------------|------------|
| Edinburgh  | 32,259     | Gerona              | 6,177      |
| Dublin     | 26,879     | Newcastle           | 5,118      |
| Amsterdam  | 16,600     | Belfast             | 4,563      |
| Manchester | 15,091     | Barcelona           | 4,351      |
| Malaga     | 14,119     | Ibiza               | 3,657      |
| Prague     | 10,434     | Shannon             | 2,897      |
| Nice       | 9,848      | Valencia            | 2,316      |
| Murcia     | 9,774      | Glasgow             | 2,200      |
| Alicante   | 7,822      | Madrid              | 2,077      |
| Palma      | 7,584      | Other international | 12,186     |
| Geneva     | 6,801      | Other domestic      | 18         |
| Faro       | 6,502      | Total               | 209,273    |

Source: CAA Airport Statistics



After EUJet ceased trading, passenger volumes fell dramatically, and remained persistently below 20,000 per annum until 2010/11 when Flybe commenced some limited flying to domestic destinations. The service to Manchester performed poorly, with an average load factor of 26% (source: CAA) and was soon terminated. A Belfast service had a marginally better load factor at 44% but ultimately was unsustainable. The highest performing route in terms of load factor was to Edinburgh which reached a load factor of 53% Passengers were mainly outbound from Manston and travelling for personal or leisure reasons resulting in fare yields being relatively low. The culmination of this poor demand resulted in Flybe ceasing services from the airport (source: Flybe Interview).

In 2013, KLM commenced a twice daily service on weekdays from and to Amsterdam, aiming to feed its connecting hub at Schiphol as well as facilitating travel to and from the city. KLM operates to many airports in the UK on this basis and in 2013, KLM carried nearly 36,000 passengers. However, in that same year, a further 48,000 passengers from Manston's core catchment area travelled to Amsterdam from other London Area Airports, meaning that the Manston service captured just 42% of the demand that arose from Manston's core catchment area (albeit services started only in April 2013).

Passengers to Amsterdam, 2013

| London Area Airport                          | Passengers to Amsterdam from Manston<br>Catchment Area, 2013 |
|--|--|
| Heathrow                                     | 22,008   |
| Gatwick                                      | 20,048   |
| London City                                  | 4,091  |
| Stansted                                     | 1,932  |
| Luton  | 596  |
| Total  | 48,675   |
| Passengers on KLM service from Manston       | 35,854 (42%)   |
| Total Catchment Area Passengers to Amsterdam | 84,529 (100%)  |

Source: CAA Passenger Survey (N.B. Southend not included in survey)

#### 5.3. Local Demand

We have defined an area of eastern Kent as Manston's core catchment area, as shown in the diagram below.



To gauge the demand from Manston Airport's core catchment, we analysed the number of journeys from the core catchment to a basket of easyJet destinations (using Southend Airport's easyJet network as a typical example). The London airports captured 517,000 air journeys to these UK domestic and short haul



European destinations<sup>5</sup>. This figure does not include the small number of passengers that travelled via Manston to Amsterdam in the first three months of the year.

| District  | Passengers from Manston's Catchment Area |
|---|--|
| Ashford   | 59,463                                   |
| Canterbury                                      | 78,339                                   |
| Dover   | 48,575                                   |
| Maidstone                                       | 74,279                                   |
| Medway  | 131,123                                  |
| Shepway   | 41,159                                   |
| Swale   | 47,074                                   |
| Thanet  | 37,315                                   |
| Total Using London Area Airports                | 517,327                                  |
| Passengers on Services from Manston             | 12,344                                   |
| Total Catchment Area Passengers to these points | 529,671                                  |

Source: CAA Passenger Survey (N.B. Southend not included in survey)

In contrast, in 2014, the core catchment area for Southend generated more than 580,000 passengers to and from these points flying from the other London Airports. This is in addition to the passengers carried by easyJet from Southend to these destinations.

A proportion of the passengers that used services from Southend will have come from outside the airport's core catchment area. The analysis indicates that the maximum proportion of demand from a core catchment area that a small airport might attract is around 60%. This assumed percentage capture is broadly in line with the 42% capture by KLM from Manston during its first nine months of operations in 2013.



| Airport Used                                    | Passengers from Southend Catchment Area |
|---|---|
| Gatwick   | 270,450                                 |
| Stansted  | 251,443                                 |
| Heathrow  | 21,978                                  |
| London City                                     | 20,868                                  |
| Luton   | 16,820                                  |
| Total using London Area Airports                | 581,559 (38%)                           |
| Passengers on easyJet services from Southend    | 959,523 (62%)                           |
| Total Catchment Area Passengers to these points | 1,541,082 (100%)                        |

Source: CAA Passenger Survey (N.B. Southend not included in survey)

If this same percentage were applied to the 2014 demand from Manston's core catchment area, it suggests that the maximum number of passengers that might be attracted to these points on services from a re-opened Manston would be some 330,000 per annum (529,000  $\times$  62%). To sustain operations, it is therefore conceivable that Manston would, like Southend, almost certainly need to attract passengers from outside its catchment area. Southend is some 55 minutes from central London by rail (with pedestrian access between airport terminal and station), while Manston is scheduled to be 75 to 105 minutes from

<sup>&</sup>lt;sup>5</sup> Barcelona, Belfast, Amsterdam, Faro, Alicante, Ibiza, Malaga, Jersey, Palma. Geneva, Venice, Edinburgh, Berlin, Krakow, Tenerife



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Central London. Manston would face a significant challenge to match Southend's attraction to passengers from central London.

Train to London from airport, (Assumes Ramsgate connection for Manston)

| Airport     | Train to London   | Connect to Terminal | Vs. Manston        |
|-------------|---|---------------------|--------------------|
| Heathrow    | 15 minutes every 15 minutes from Paddington                                       | Direct to terminal  | 75 minutes quicker |
| Gatwick     | 30 minutes every 15 minutes from Victoria   | Direct to terminal  | 60 minutes quicker |
| Stansted    | 50 minutes every 15 minutes from Stratford / Liverpool Street                     | Direct to terminal  | 40 minutes quicker |
| Luton       | 40 minutes every 10 minutes to Kings Cross St Pancras                             | 10 minute shuttle   | 50 minutes quicker |
| London City | On the DLR Line   | Direct to terminal  | Variable           |
| Southend    | 53 minutes to Liverpool Street, 44 minutes to Stratford. 8 trains an hour at peak | Direct to terminal  | 37 minutes quicker |
| Manston     | 75 - 105 minutes to Ramsgate, four trains per hour to Kings Cross St Pancras      | 15 minute shuttle   | n/a                |

Source: Airport website, national rail

This potential level of passenger demand at Manston for short haul services would be approximately equal to that which could be handled by one 150 seat narrow-body aircraft (such as a Boeing B737 or an Airbus A319) operated by an LCC based at Manston.

#### 5.4. Airline Interviews

AviaSolutions spoke to several passenger airlines with regards to potential future operations at Manston airport. More detailed notes are provided in Appendix A.

Ryanair provided the most positive indication of future service concluding that:

'Ryanair are constantly reviewing their network and remain open to approaches from any airport. If the airport became operational, the airline would review its potential and fit within the wider airline network in due course, and is available to discuss terms with the owners at any time' Ms. Kate Sherry, Deputy Director of Route Development, Ryanair

Whilst Ryanair remained somewhat open to the possibility of future services, it was in our opinion, far from a commitment to serve Manston airport if it should re-open. We received a similar positon statement from KLM, effectively citing that a re-opened Manston would be included in the annual network review.

Discussions with other carriers indicated a less positive outlook for the airport, with Flybe, an airline that had previously served Manston stating:

'It is unlikely that, even if Manston should reopen, the airline would choose to serve the airport.' Mr. Martin Pearce, Flybe

Other airlines and individuals interviewed had similar stances, stating that:

'...Manston would not be a consideration for us...' Major European LCC

#### and that:

'Following the BREXIT vote many airlines will be considering their approach to the UK. During a period of uncertainty, it will be difficult for Manston to convince carriers to open routes to the airport'

Ex-Director of Network Route Development for Major European LCC

We also discussed with a major UK carrier its views on Manston Airport as part of an operational resilience strategy. This is an aspect of the airport which has been made promoted as a potential benefit to the UK aviation sector. Flight Operations within an airline is a highly scrutinised function, in particular with regards to fuel and diversionary airport selection. When calculating a Flight Plan, airlines plan contingency fuel based on regulatory standards that ensure sufficient fuel is available upon landing, meeting this minimum landing fuel is a core part of the duty of all aircraft commanders. Our contact stated that:



'It is my personal view that Manston does not offer any safety or resilience benefits of a material nature to the UK system. The airport is located in close proximity to six London airports which offer excellent resilience already'

Manager, Flight Operations, Major UK Carrier

Based on AviaSolutions interviews in relation to passenger services, we conclude that whilst there is some notional interest in passenger services at Manston Airport, no airline was committed at present, or in the future seeking to serve to the airport should it re-open. No airline wished to give any more commitment beyond that it would consider Manston as part of their process of reviewing their network.

# 5.5. Potential Overflow from London Area System - Model

We outlined in Section 4 the principles on which we have based our model of how passenger traffic might cascade around the London Area Airport system. In this section we set out the main assumptions and results.

#### Capacity

The starting point of our assumptions is the ATM capacity of the London airports. At a number of airports, the ATM capacity has a statutory cap (as opposed to an estimate based on its physical capacity). At these airports we have assumed up to 97.5% of the movement cap to reflect constraints on the optimal scheduling and peak demand profiles.

#### Airport ATM Capacity

| All port ATTT Co | <u>'</u>            |  |
|------------------|---------------------|--|
| Airport          | Annual ATM Capacity | Comment  |
| Heathrow         | 480,000             | With two runways. Statutory limit                            |
|                  | 720,000             | With three runways, from 2030 if added                       |
| Gatwick          | 280,000             | Estimated capacity of single runway                          |
|                  | 480,000             | With two runways, from 2025 if added                         |
| Stansted         | 264,000             | Statutory limit. Includes 20,500 for freight flights         |
| Luton            | 100,000             | Estimated. Statutory passenger cap of 18 mppa                |
| London City      | 111,000             | Statutory cap (noise-adjusted) - passenger limit of 6.5 mppa |
| Southend         | 53,300              | Statutory cap  |

These ATM capacities are converted into a passenger capacity by multiplying by the average number of passengers per ATM. Passengers per ATM have historically increased over time as a result of larger aircraft with more seats and the increase in the number of seats occupied (the load factor).

We have assumed a continuation of this trend, although at a rate of 0.5% per annum, much lower than seen in recent years. It may be seen that even by 2050, the number of passengers per ATM with this assumption never exceeds 200 at any airport. This assumption acts to increase the demand that cannot be accommodated at the six London Area airports. However, it is likely that when faced with runway capacity constraints, airlines will increase passengers per ATM at a faster rate than would otherwise be the case. Our assumed rate of increase is consequently likely to lead to an over-estimation of the demand that is available to be handled at Manston.

#### Passengers per ATM

| Airport        |       | Passer | ngers po | er ATM |       | CAGR<br>2011 to | CAGR<br>2015 to | Pax per  |
|----------------|-------|--------|----------|--------|-------|-----------------|-----------------|----------|
|                | 2011  | 2012   | 2013     | 2014   | 2015  | 2011 to         | 2015 to         | ATM 2050 |
| Heathrow       | 146.6 | 149.5  | 155.0    | 156.8  | 159.7 | 2.2%            | 0.5%            | 190.2    |
| Gatwick        | 137.9 | 142.5  | 145.2    | 149.7  | 153.5 | 2.7%            | 0.5%            | 182.8    |
| Stansted       | 142.3 | 144.1  | 146.3    | 149.2  | 155.9 | 2.3%            | 0.5%            | 185.6    |
| Luton          | 136.4 | 139.0  | 141.8    | 143.3  | 145.1 | 1.5%            | 0.5%            | 172.8    |
| London<br>City | 49.2  | 46.9   | 49.7     | 52.0   | 54.5  | 2.6%            | 0.5%            | 64.9     |
| Southend       | 33.8  | 84.9   | 102.4    | 95.5   | 100.4 | 5.7%*           | 0.5%            | 119.5    |
| + 2012 +- 20   | 115   |        |          |        |       |                 |                 |          |

<sup>\* 2012</sup> to 2015



#### **Demand**

We have based our forecasts of future passenger traffic on those set out in the Davies Commission Report - unconstrained carbon traded forecast (the most optimistic). Given that the early forecast volumes have been superseded by actual performance, we have uplifted the forecast figures to reflect actual demand seen across the London System in the intervening years.

#### **Demand Allocation London System**

Demand is then compared to capacity available, and assigned to the airport which Davies assumes is its natural first choice. The greatest demand is for Heathrow, and traffic not accommodated there is assumed to (a) spill to other non-London Area airports for connecting traffic, (b) 5% is assumed not to travel (by air), or (c) spill to Gatwick.

A similar process is then followed for Gatwick, with any unallocated demand being allocated to one of the other four London Area airports, until each has reached its capacity. At this point, any unaccommodated demand becomes available for other airports outside the London System to handle. We summarise below the forecast demand at the London Area airports in 2050 for each of our defined scenarios, together with unaccommodated demand.

Forecast Passenger Demand (mppa) at London Area Airports, 2050

| Airport        | Scenario |        |      |         |  |  |  |
|----------------|----------|--------|------|---------|--|--|--|
|                | LHR R3   | LGW R2 | Both | Neither |  |  |  |
| Heathrow       | 134      | 89     | 134  | 89      |  |  |  |
| Gatwick        | 51       | 88     | 88   | 51      |  |  |  |
| Stansted       | 45       | 45     | 45   | 45      |  |  |  |
| Luton          | 17       | 17     | 17   | 17      |  |  |  |
| London City    | 7        | 7      | 7    | 7       |  |  |  |
| Southend       | 2        | 2      | 2    | 2       |  |  |  |
| Unaccommodated | 44       | 40     | 5    | 79      |  |  |  |

Unaccommodated Demand (mppa) by Scenario and Year

| Year |        | Scenario |      |         |  |  |  |  |
|------|--------|----------|------|---------|--|--|--|--|
|      | LHR R3 | LGW R2   | Both | Neither |  |  |  |  |
| 2020 | 5      | 5        | 5    | 5       |  |  |  |  |
| 2025 | 11     | 9        | 9    | 11      |  |  |  |  |
| 2030 | 17     | 6        | 2    | 25      |  |  |  |  |
| 2035 | 9      | 9        | 4    | 36      |  |  |  |  |
| 2040 | 16     | 16       | 5    | 49      |  |  |  |  |
| 2045 | 27     | 27       | 3    | 61      |  |  |  |  |
| 2050 | 44     | 40       | 6    | 79      |  |  |  |  |

#### **Demand Allocation - Regionals**

This Unaccommodated Demand is potentially available to airports other than the six London airports and specifically to airports in regions other than the South East as well as to Manston. Using CAA data, we have calculated the origin and destination distribution of passengers at the London Airports split by the part of the UK they are travelling either to or from. This indicates that 49% of total passengers are travelling to or from Greater London and 4% to or from Kent. We have assumed that the distribution of future Unaccommodated Demand matches the pattern of demand seen in 2014, such that if 100 passengers were unaccommodated, 49 of those are travelling to or from Greater London and 4 to or from Kent.

We have then estimated how much of this Unaccommodated Demand Manston may reasonably be assumed to capture. Given its location in Kent it is reasonable to assume it would capture a large share of the Unaccommodated Demand for Kent (4 passengers in the example above). We have assumed that this share is 90% (90% of the 4 passengers). Applying a similar logic, we assume that the Greater London passengers would have more choice and therefore Manston would capture a smaller share of this market. We have assumed Manston will captures 10% of the Greater London market (10% of the 49 passengers).



It is also important to recognise that currently 27% of passengers using the London Area airports do not have origins or destinations in the South East region, but use surface means to access the air services at the London airports. It is our view that airlines will consider adding additional capacity at airports to the North and West of London (potentially Southampton, Bournemouth, Cardiff, Birmingham, Manchester) to dissipate this excess demand and permit the London System to absorb the demand growth in the Greater London area. These non-London airports, in general, have a wider catchment area already provide services from many carriers with the associated economics of scale and mature presence in these markets.

Surface Origin/Destination of Terminating Passengers at London Area Airports, 2014 (mppg)

|                   |      |      |      | g-:  |     | p ,   | - · /···· - / |
|-------------------|------|------|------|------|-----|-------|---------------|
| Area              | LHR  | LGW  | STN  | LTN  | LCY | Total | %             |
| South East        | 36.0 | 28.1 | 11.6 | 10.2 | 3.3 | 84.2  | 73%           |
| of which          |      |      |      |      |     |       |               |
| Greater London    | 24.9 | 15.0 | 10.1 | 5.3  | 3.1 | 56.7  | 49%           |
| Kent              | 0.9  | 2.5  | 0.4  | 0.1  | 0.1 | 4.1   | 4%            |
| Other UK regions  | 11.3 | 7.2  | 7.5  | 5.0  | 0.3 | 31.2  | 27%           |
| Total Terminating | 47.3 | 35.2 | 19.1 | 10.2 | 3.6 | 115.4 | 100%          |
| Connecting        | 25.8 | 2.6  | 0.8  | 0.2  | 0.1 | 29.5  |               |
| Total Terminal    | 73.1 | 37.9 | 19.9 | 10.4 | 3.6 | 144.9 |               |

Source: CAA Passenger Survey

In addition to this overflow of unaccommodated demand, in each of our scenarios we have added the introduction of an LCC base of two aircraft supporting 800,000 passengers per annum from 2018, equivalent to two Ryanair B737-800 aircraft. This base continues at Manston until a new runway is opened at Heathrow and/or Gatwick. In the year when new capacity is introduced, the Manston based aircraft are assumed to transfer to the airport with the new runway, as the airline concerned seeks to establish presence at that airport at the same time as consolidating its operations in the London area.



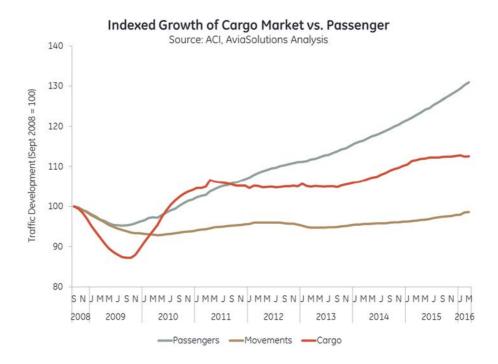
# 6. Cargo Analysis

#### 6.1. Introduction

In this chapter we examine the air cargo market and its overall prospects. We also consider how freight traffic might develop at Manston Airport in our scenarios.

# 6.2. Overall Cargo Market

The air cargo market declined significantly after the global financial crisis of 2008. Although cargo volumes recovered to previous levels within two years following the crash in 2008, growth over the last five or six years has been modest.



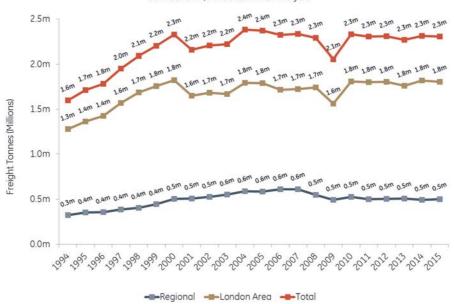
A similar pattern has been observed in the UK. Indeed, total air freight handled at UK airports has been virtually constant at around 2.3 million tonnes per annum since 2000, with the exception of reductions immediately after the start of the recession in the early 2000s and the financial crisis in 2008. Prior to this period, demand for air freight had grown at CAGR of 8% since 1990.

There is a reasonably even split between freight set-down (imports for international freight) at 52.5% and freight picked-up (exports) at 47.5%. More than 95% of UK air freight in 2015 was international.



#### Total UK Freight Freight by Airport Type

Source: CAA, AviaSolutions Analysis



Within this national context, individual airports' performance has varied, with the five London area airports (Heathrow, Gatwick, Stansted, Luton and City) increasing their aggregate share slightly to just under 80%, with regional airports reducing by an equivalent amount.

The busiest airport for freight has consistently been Heathrow, responsible for two thirds of the country's air freight. This position owes much to the very considerable cargo capacity in the holds of the wide-body aircraft providing the many long haul passenger services from the airport. In contrast, East Midlands' position as the second busiest freight airport is due to its role as the centre of the UK distribution network of the integrated cargo carriers, especially DHL but also UPS and Royal Mail. Stansted is preferred by FedEx and is also used by the cargo operations of a number of airlines. These included British Airways before it discontinued its all-freighter operations in April 2014 and switched to the freighter operations of Qatar Airways.

It has been argued by, for example, York Aviation on behalf of the Freight Transport Association that the stagnation of growth in UK air freight market since 2000 has been caused by a lack of airport capacity in the London area and specifically at Heathrow. Whilst the lack of ATM growth at Heathrow has undoubtedly hampered the development of the national air freight market, it is also true that over this period there was adequate airport capacity available at both Stansted and Manston to support additional dedicated freighter movements. Freighter movements at Stansted decreased over the period<sup>6</sup>, while Manston closed. This strongly suggests that the stagnation of UK airfreight is not a consequence of capacity constraints given the excess capacity at Stansted and Manston.

Air freight activity in the UK is highly concentrated, with just six airports handling 95% of the UK's air freight volume.

<sup>&</sup>lt;sup>6</sup> Stansted's freight ATMs declined from 13,967 in 2000 to 9,956 in 2015



#### Freight by UK Airport

| Airport                  | Freight (Tonnes) |           | % of          | Cumulative | % carried on          |
|--------------------------|------------------|-----------|---------------|------------|-----------------------|
|                          | 2013             | 2015      | 2015<br>Total | Share      | Freighters in<br>2015 |
| Heathrow                 | 1,422,939        | 1,496,551 | 65%           | 65%        | 5%                    |
| East Midlands            | 266,968          | 291,689   | 13%           | 78%        | 100%                  |
| Stansted                 | 211,952          | 207,996   | 9%            | 87%        | 100%                  |
| Gatwick                  | 96,724           | 73,371    | 3%            | 90%        | 0%                    |
| Manchester               | 96,373           | 100,021   | 4%            | 94%        | 10%                   |
| Manston                  | 29,306           | -         | 0%            | 94%        | 100% (2013)           |
| Belfast<br>International | 29,288           | 30,389    | 1%            | 95%        | 100%                  |
| Luton                    | 29,074           | 28,008    | 1%            | 97%        | 96%                   |
| Birmingham               | 21,067           | 7,164     | 0%            | 97%        | 0%                    |
| Edinburgh                | 18,624           | 19,322    | 1%            | 98%        | 99%                   |
| Total                    | 2,267,812        | 2,304,345 |               |            | 30%                   |

Source: Analysis of CAA Statistics

In 2015, there were around 60,000 ATMs by all-freight aircraft across UK airports. These were split almost equally between international and domestic operations. Freight movements are relatively concentrated on a small number of airports, with East Midlands and Stansted accounting for 64% of movements in 2015.

| Airport               | Domestic | Freighter ATMs<br>International | Total  | Int. as %<br>of 2015<br>Total |
|-----------------------|----------|---------------------------------|--------|-------------------------------|
| Heathrow              | 3        | 2,385                           | 2,388  | 8%                            |
| East Midlands         | 9,603    | 12,516                          | 22,119 | 42%                           |
| Stansted              | 3,445    | 6,511                           | 9,956  | 22%                           |
| Gatwick               | 0        | 3                               | 3      | 0%                            |
| Manchester            | 205      | 830                             | 1,035  | 3%                            |
| Belfast International | 4,091    | 17                              | 4,108  | 0%                            |
| Luton                 | 183      | 1,519                           | 1,702  | 5%                            |
| Birmingham            | 0        | 0                               | 0      | 0%                            |
| Edinburgh             | 3,883    | 1,088                           | 4,971  | 4%                            |
| Other                 | 10,136   | 5,032                           | 15,168 | 17%                           |
| Total                 | 31,549   | 29,901                          | 61,450 | 100%                          |

Source: Analysis of CAA Statistics

It is important to note that, in the UK market, only 30% of airfreight is carried on dedicated freight aircraft. This is substantially less than the global average, where approximately 56% of RTK's are transported on freighters. In part, this disparity is due to the excellent belly-hold networks available from UK airports and in particular from Heathrow.

As passenger demand increases additional belly-hold capacity will enter the market. This capacity growth is unhooked from the demand scenario for belly-hold cargo and can result in excess capacity in the market. As a result airlines will often sell this belly-hold capacity using a marginal cost pricing structure. This pricing structure does not need to account for the high cost of the aircraft and must only meet the additional marginal cost that each kilogram of cargo incurs. Through the application of this pricing

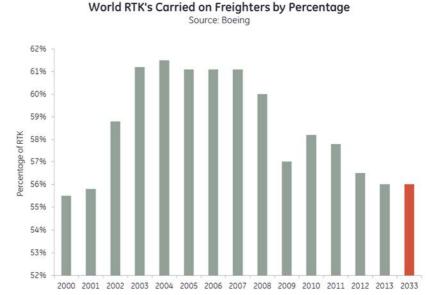


structure, belly-hold cargo often undercuts the minimum price that can be charged on dedicated freighter operations.

As a result of this market dynamic, an airport focused on airfreight carried by dedicated freighters may be overly exposed to a declining or stagnant total market, or at best to a market that is not exposed to strong potential.

However, there are some elements of the market that appear to be limiting the increase in belly-hold capacity. These include

- Some of the newer aircraft types have a smaller bellyhold cargo capacity than the aircraft they replace; and
- Low Cost Carriers (such as easyJet and Ryanair) are gaining market share but generally ignore the freight market.



#### **Manston**

Before its closure in 2014,

Manston Airport was the sixth busiest airport in the UK for freight. For the last ten years of operations the airport handled between 25,000 and 30,000 tonnes of freight annually, representing just over 1% of the UK market (refer table 'Freight by UK Airport' on previous page)

In 2013, the overwhelming majority of the airport's freight was carried on all-freight aircraft, CargoLux being the primary operator. There were 511 freighter movements (landings or take-offs) during the year, with an average of 57 tonnes of freight per movement. In reality Manston was almost exclusively used for

imports, and this averaged 107 tonnes per import, with virtually no export volume.

# 6.3. Freight Industry Interviews

Our discussions with representative of the cargo industry indicate that much of the cargo at Manston was fresh produce from Africa. The airport was popular with shippers as it was uncongested, offered good quality handling services (provided by airport staff) and the airport charges were competitive. While it is close to continental Europe, airlines/shippers nonetheless had to incur the costs of flying freight aircraft virtually empty

Manston Airport Freight History 1.5% 1.496 30k 1.296 25k 1.0% 5 0.896 15k 0.6% 0.496 0.296 0.096 2009 2006 2007 2008 2010 2011 2012 2013 Freight Tonnes -Share of UK Market

on the return leg to their base airport (e.g. Luxembourg, Ostend and Liege) after off-loading. When Manston closed, it is understood that some movements transferred to Stansted, whilst others switched to airports on the near-Continent and their loads trucked across the Channel to the UK.

Our primary interest in interviewing representatives of the freight industry (current and former executives), and previous users of the airport was to assess potential future use. It was clear from these discussions that whilst the airport clearly offered a professional service, the strategic position of the airport was a clear disadvantage.

'Airlines base the decision on where to operate their freighters based on a multitude of factors. However, the overriding factor is based on where investments in infrastructure have been made by



their clients, freight forwarders. These capex investments by freight forwarders are required to ensure they maintain economies of scale through their transit facilities and distribution centres. In the UK, these investments are centred at Heathrow, and more recently Stansted' Senior Executive in Cargo Division for airline operating freighters at Stansted.

The individual went on further to discuss the possibility of relocating his freighters to Manston Airport and was unequivocal in his position:

'The airline would be extremely unlikely to consider moving services to Manston, even if we were no longer able to serve Stansted, regardless of the commercial terms offered. If the airline had to move services, we would consider East Midlands and Manchester or other centrally located airports before Manston'

Senior Executive in Cargo Division for airline operating freighters at Stansted

This view was echoed by Mr. Stanley G. Wraight, a cargo professional with a global reputation, and over 40 years' experience in the cargo industry:

'The conclusion is there is virtually no incentive for operators to move operations to Manston, there are alternative UK airports that offer competitive services on reasonable terms. The UK doesn't need another airport for freight that has no USP. If Manston were to be developed it would be essential for it to gain a niche market such as becoming an Amazon or Alibaba e-commerce base' Mr. Stanley G. Wraight – Senior Executive Director Strategic Aviation Solutions Limited

Balancing this view were those of an air cargo charter broker who had previously used Manston for charter services. The airport had offered excellent service and, while the broker's use might be for a moderate level of ATMs, it would be keen to re-establish a presence, provided the right commercial terms could be agreed:

'...we would certainly be interested in using the airport again if it re-opened but in order to do so, we would be looking to secure competitive rates for landing, parking and screening charges...'

Air Cargo Charter Broker – UK

We conclude therefore that there is limited interest from the cargo industry in using a re-opened Manston Airport for air freight. The larger scheduled freighter operators are unlikely to relocate their services to the airport, particularly if the airport does not have a unique product offer. We believe it is more likely that were Manston Airport to re-open, the most likely role would be to serve smaller freight operators and the larger operators on an *ad-hoc* basis. There is no compelling reason to believe that the airport would be able to generate appreciably more freight activity than previously, other than in the context of a shortage of airport capacity in the London area.

# 6.4. Potential Future Freight Operations - Model

Based on our research and analysis, it is AviaSolutions' view that if Manston were to re-open as an airport, it would attract some dedicated freighter operations. However, in the absence of a firm commitment from a multinational to establish a distribution centre near Manston, the growth of freight activity at the airport would be in line with historic performance, with incremental growth resulting from a general expansion of the UK cargo market and a diversion of freighter flights if these were constrained at Stansted.

#### Demand

There are very few national forecasts for the development of air freight. One example is the report developed by Oxford Economics and Ramboll for Transport for London as part of the investigation of the development of an estuary airport for London. A potential cause of the stagnation of growth in air cargo since 2000 was identified as the increase in oil and jet fuel price. Trend forecasts were based on average growth from 2000 to 2012 (the Lower Bound) and from 1990 to 2012 (the Upper Bound). The difference in growth rates of the two periods produce very different forecast outcomes.

Average Annual Growth Period London Area Airports UK



| Belly Hold Cargo | 1990-2012 | 2.95% | 2.87% |
|------------------|-----------|-------|-------|
| Belly Hold Cargo | 2000-2012 | 0.49% | 0.48% |
| Dedicated Cargo  | 1990-2012 | 2.76% | 3.52% |
| Dedicated Cargo  | 2000-2012 | 0.02% | 0.40% |

Source: Oxford Economics

We note that despite being one of the world's leading economics consultancy's, Oxford Economics relied on a forecasting technique based on historic trends, rather than econometric regression analysis seeking to correlate historic growth in air cargo with changes in external/exogenous variables such as GDP, international trade etc. that might be driving the freight growth. Boeing and Airbus base their long term forecasts on GDP changes. The Oxford Economics' approach is consistent with it either not being confident in any relationships that exist, or simply not finding any explanation for the stagnation of air freight. Certainly, the forecasts produced have an exceptionally large range between low and upper bounds, which indicate the difficulty of forecasting cargo growth with confidence.

We have used the mid-point of these forecasts to drive our cascade model of how traffic might be distributed across the London area airports as and when airport capacity becomes constrained. We have estimated available capacity for cargo based on belly hold capacity generated on passenger services and on dedicated freighter flights.

#### Capacity

We have considered only belly-hold capacity Heathrow and Gatwick. At Heathrow with a significant number of wide-bodied aircraft (35%), we estimate the average belly-hold freight capacity to be 7 tonnes per ATM at LHR (2015), significantly higher than the actual freight per ATM of 3 tonnes. In an environment of freight growth, we have assumed this figure would increase at 1% per annum, reaching 4.3 tonnes per ATM in 2050, a load factor of 61%.

Currently, the majority of flights (85%) at Gatwick are narrow-bodied aircraft to short haul destinations, and likely to carry minimal volumes of freight. We estimate Gatwick's belly-hold capacity to be two tonnes per ATM. In 2015, actual belly-hold loads averaged less than 0.3 tonnes per ATM. We have assumed that this increases at 1.5% per annum, and reaches just over 0.3 tonnes per ATM in 2050, reaching a load factor of 15%.

We have assumed that the number of dedicated freighter flights remains at the average activity of the last five years at Heathrow and Luton. However, at Stansted permitted freighter movements may approach the statutory cap of 20,500 per annum. We have not included freighter movements at any of the other London airports. As the capacity per ATM on freighters at both Heathrow and Stansted was significantly above the loads actually carried, we have assumed that loads on freighters at these airports would grow by 1.5% per annum if UK freight market was growing at the forecast rate noted above. These assumptions take average loads on freighters to 55 tonnes and 53 tonnes respectively in 2050, still materially lower than the available capacity. We have assumed that the average load on freighters at Luton continues at 2015 levels.

| Airport  | Capacity Type            | 2011  | 2012  | 2013  | 2014  | 2015  | Capacity 2015 |
|----------|--------------------------|-------|-------|-------|-------|-------|---------------|
| Heathrow | Belly Hold load (tonnes) | 3.0   | 3.0   | 2.9   | 3.0   | 3.0   | 7             |
|          | Freighter ATMs           | 2,456 | 2,380 | 2,365 | 2,084 | 2,388 | 2,388         |
|          | Freighter load (tonnes)  | 31.3  | 30.0  | 29.9  | 32.8  | 32.9  | 83            |
| Gatwick  | Belly Hold load (tonnes) | 0.4   | 0.4   | 0.4   | 0.3   | 0.3   | 0.3           |
| Stansted | Freighter ATMs           | 9,359 | 9,602 | 9,788 | 9,340 | 9,741 | 20,500        |
|          | Freighter load (tonnes)  | 20.3  | 21.3  | 21.2  | 21.7  | 21.0* | 80*           |
| Luton    | Freighter ATMs           | 1,717 | 1,810 | 1,716 | 1,520 | 1,701 | 1,693         |
|          | Freighter load (tonnes)  | 15.6  | 15.9  | 16.3  | 15.1  | 15.8  | 15.8          |

<sup>\*</sup> The average load in international freighter ATMs in 2015 was 31.7 tonnes per ATM, and the capacity on these movements 80.3 tonnes. We have used this as our forecasting base since most freight traffic is international.



#### **Demand Allocation**

These assumptions indicate that all forecast freight demand can be accommodated in all scenarios up to 2045. It is only in this year that some demand remains unaccommodated in two of the scenarios, although by 2050 there is unaccommodated demand in all scenarios.

Unaccommodated Demand (Tonnes x 1,000) by Scenario and Year

| Year |        | Scenario |      |         |  |  |
|------|--------|----------|------|---------|--|--|
|      | LHR R3 | LGW R2   | Both | Neither |  |  |
| 2020 | 0      | 0        | 0    | 0       |  |  |
| 2025 | 0      | 0        | 0    | 0       |  |  |
| 2030 | 0      | 0        | 0    | 0       |  |  |
| 2035 | 0      | 0        | 0    | 0       |  |  |
| 2040 | 0      | 0        | 0    | 0       |  |  |
| 2045 | 0      | 35       | 0    | 123     |  |  |
| 2050 | 173    | 178      | 62   | 278     |  |  |

There is strong anecdotal evidence that a material proportion, probably around 20%, of air freight flying to and from the UK actually originates or is destined for continental Europe and is trucked across the channel. We have assumed that 20% of unaccommodated demand is lost to the UK air freight industry and flies from continental European airports. For the purposes of our assessment and in recognition of RiverOak's stated intention to develop Manston as a freight airport, we have assumed that half of the remaining unaccommodated demand is flown via Manston, with the other half going to other UK regional airports, potentially led by East Midlands and Manchester.



# 7. Financial Analysis

#### 7.1. Introduction

In this section, we present the findings of our financial analysis based on the passenger and cargo forecasts set out in the earlier sections following an assumed re-opening of Manston Airport. The principles of the financial model and underlying assumptions are explained, followed by the outputs of the model for the Heathrow Third Runway scenario as it is the recommendation of the Davies Commission to Government. Finally, we present summary results of the other scenarios. A more comprehensive description of the outputs for the other scenarios is given in Appendix C.

# 7.2. Model Description and Input Assumptions

#### 7.2.1. Financial Model

AviaSolutions has developed a model to assess the financial viability of a re-opened Manston Airport. This model assesses the financial performance of the airport based on various assumptions for four London area capacity scenarios which result in different demand scenarios for Manston. The assumptions have been developed in a number of different ways and draw on a wide range of sources including; analysis of the wider aviation industry, published financial accounts of the companies responsible for Manston Airport, benchmarking of comparable airports, information from our stakeholder interviews and our independent judgment based on knowledge and expertise within the aviation industry.

#### 7.2.2. Brief Overview of Model

The model simulates the financial performance of the airport under different scenarios. This performance is measured through simplified financial statements including a Profit and Loss Statement (P&L), Cash Flow Statement and Balance Sheet. It should be noted that these are simplified statements used to illustrate performance and have not been produced to GAAP standards. The financial statements are modelled over a period from FY2017 to FY2050, on the assumption that the airport is reinstated on the site in FY2018. The Financial Year is assumed to correspond to the calendar year. This time period is typical of that used to evaluate long term infrastructure assets such as an airport, and the specific dates correspond with the period of the passenger forecasts used by the Davies Commission.

#### 7.2.3. Approach to Assumptions

Throughout the research AviaSolutions has consistently taken a positive outlook with regards to the underlying demand assumptions. Specifically, this means that we have opted for the upper bounds of traffic, the upper bounds of unit operating revenue, the lower bands of unit operating costs, and minimal asset costs and capital investment requirements.

We therefore conclude that the assumptions and analysis that follow present the prospects of Manston airport in a very favourable context. We would consider these outputs to represent a 'High Case' and believe they present the airport in a situation where there is a very limited prospect of additional revenue or lower cost structures.

#### 7.2.4. General Assumptions

#### Revenue

Airports generate revenue from two primary sources: from the charges levied on airlines for using their facilities (referred to as Aeronautical Revenue), and from more discretionary activities including retail, car parking and property (referred to as Non-aeronautical or Commercial Revenue). Manston Airport historically provided ground handling services to its customer airlines, and revenue from these activities is included in Aeronautical Revenues. Previously Manston Airport supplied fuel to some airlines, and our model includes this as a separate revenue line (as a net revenue so that the cost of the fuel does not need to be considered).



#### Revenue Assumptions within AviaSolutions Model

| Revenue                            |        |  |  |  |  |
|------------------------------------|--------|--|--|--|--|
| Aeronautical Revenue per Passenger | £7.00  |  |  |  |  |
| Revenue per Tonne of Freight       | £50.00 |  |  |  |  |
| Commercial Revenue per Passenger   | £5.00  |  |  |  |  |
| Fuel Revenue per WLU               | £0.93  |  |  |  |  |

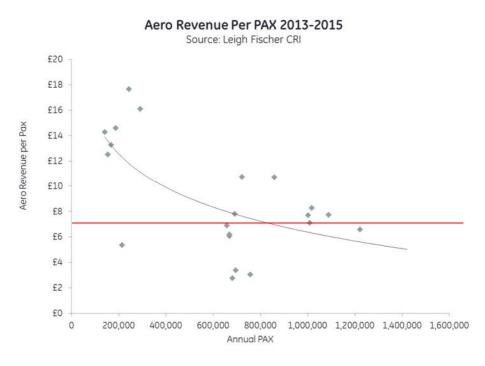
#### Aeronautical Revenue per Passenger

This revenue includes all airline related fees, including landing charges, passenger charges, and aircraft parking charges. However, it excludes Air Passenger Duty (APD), which is collected by the airline but passed on directly to the UK HMRC. It is normal industry practice, however, and for LCCs in particular to agree a fixed fee per passenger covering the entire range of airport operations (excluding any property rental).

Our experience is that the fees generated by the airport are greatly affected by the type of airline operating at the airport and the level of throughput achieved by the airline. Ryanair's airport charges, across its entire European network in 2015, amounted to €7.80 per total passenger (€15.60 per departing passenger) and during our stakeholder interview the airline indicated it would need to secure a highly competitive airport charge to base aircraft at Manston. The Ryanair average airport charge of €7.80 will include many capital city airports where the airline is very likely to be paying significantly above this average.

We also considered the average aeronautical revenue per passenger of airports that operate with a large share of LCC traffic, as would be expected at a re-opened Manston Airport. In the most recently published accounts (2015) Luton and Bristol airports reported aeronautical revenues of £5.66 and £4.24 per total passenger (£11.32 and £8.48 per departing passenger) respectively.

We have also assessed the aeronautical revenue per passenger achieved across a large sample of similar sized airports in the UK.



Based on these comparisons, we have concluded that a reasonable aeronautical revenue assumption for Manston Airport would be £3.50 per total passenger (£7 per departing passenger) for LCC traffic, and £7.00 per total passenger (£14 per departing passenger) overflowing from the London area.



#### Revenue per Tonne of Freight

The published accounts of Kent Airport Limited from 2013 identified revenues generated by freight activities. These revenues will reflect the landing charges from freighter movements, the use of the freight warehouses and the handling services provided to the airline. We have confirmed through an independent source that the historic revenue per tonne for freight achieved at Manston is consistent with market rates generally in the UK.

#### **Commercial Aeronautical Revenue**

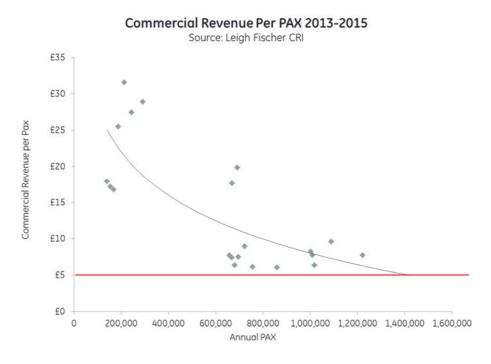
Commercial revenue is generated from passenger-facing services at the airport. One of the main sources of revenue are the airport concessions to operators of the retail shops (including duty free), food and beverage (F&B) outlets, car rental and currency exchange services. The operator will typically pay a percentage of turnover to the airport. Car parking is another source of revenue, with some airports managing operations in-house, whilst others out-source to specialist operators, such as APCOA or NCP.

Property revenue at Manston was £110,000 in 2014, and we have assumed that at a re-opened Manston Airport arrangements would continue on a similar basis.

We have built-up an estimate of potential commercial revenue per passenger by considering typical passenger spending and concession rates (turnover rent) that could be expected at a relatively small airport such as Manston.

In aggregate we have assumed that Manston could generate around £5.00 per total passenger (£10 per departing passenger).

We have also compared the unit commercial revenues generated at a number of smaller UK regional airports. It may be seen that there are a number of airports with low passenger throughputs which record high levels of commercial revenue per passenger. This is almost certainly caused by dividing a relative fixed rental income by a small number of passengers leading to an artificial inflation of the commercial revenue when measured on a per passenger basis.



We therefore conclude that a reasonable initial assumption for commercial revenue per passenger across all non-aeronautical activities is £5.00.



We have also considered the forecast expansion of the terminal to provide the necessary passenger capacity in later years under some scenarios. The terminal expansion would be expected to improve the retail and F&B offer and is assumed to contribute increased commercial revenue by £2 per passenger.

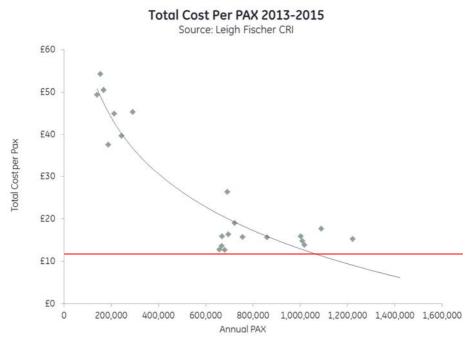
#### **Aviation Fuel**

The forecast for aviation fuel revenue is based on the net revenue after cost of fuel has been subtracted. The revenue is effectively the margin payable to the airport for fuel flowage. The margin has been estimated based on industry experience ranging from 3.5% - 7.5%. We have assumed Manston is able to achieve a margin of 5.5% and applied this to the total fuel revenue published in Kent Airport Limited's accounts (2014) to identify the fuel revenue per passenger or tonne of freight.

#### **Total Operating Costs**

Airports with very low throughput have a high cost of operation per passenger: the fixed cost of airport operations can only be distributed across a low volume. Within a limited range, the marginal operating cost of an additional passenger is zero, but the marginal revenue of an additional passenger will be close to the average revenue per passenger.

This financial characteristic is common to capital intensive infrastructure assets. The chart below illustrates the relationship between volume and unit operating costs (per passenger) at a sample of small UK regional airports.



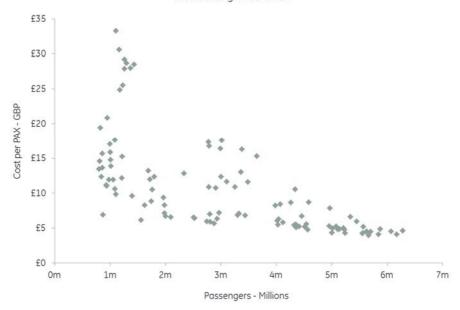
To reflect the expected evolution of the airport's operating costs over the forecast period we have assumed a fixed total operating cost of £7 million when annual passenger throughput is below 0.5 million. As passenger volume increases beyond 0.5 million we assume that the total operating cost per passenger will decline on a linear basis to reach £12 per passenger at around 1.0 million passengers. This would position Manston Airport amongst the best in class cost per passenger within its UK peer group.

It is reasonable to assume that unit operating costs will continue to decline with further increases in throughput leading to additional economies of scale, as illustrated below. We have linked unit costs to annual passenger throughput such that when annual throughput reaches 6.5 million passengers the unit cost would be £5.00.



#### Total Cost per Passenger - Larger Airports

Source: Leigh Fischer CRI



Costs specifically associated with freight have been estimated at circa 60% of freight revenue based on the historic performance at Manston.

#### **Overheads**

Overheads have been obtained from the published accounts of Kent Airport Limited (2014) and exclude any restructuring costs. In a standard business plan these would often be linked with elasticity to revenue growth. However, as growth would come from a very low base AviaSolutions' view was this would have introduced too many additional costs into the business. Therefore, we estimated that these costs grew at a rate of 0.1x Work Load Units.

#### **Other Assumptions**

We have made several assumptions about the initial equity and purchase price of the airport. These assumptions have come from our stakeholder interviews and other research. They are for illustrative purposes only and may differ significantly from any actual investment.

Our estimate of the site purchase price is derived from the recognised value of the airport in Kent Facilities Limited's 2014 published accounts (£7 million) inflated by circa 50%. It is believed that this could be considered a conservative valuation of the site, dependent on the designation of the land at the time of acquisition. The current owners (Stone Hill Park) are seeking planning permission for up to 2,500 dwellings, should this permission be granted, we would assume the land to be valued far in excess of £10m.

We have developed our own estimate of the costs of re-establishing the site as an operational airport based on our industry experience and a site visit. The estimate includes the necessary work to return the airport to a serviceable condition that would satisfy the CAA and facilitate the handling of up to about 2 million passengers annually. We have excluded any advisory or legal fees associated with the Development Consent Order, though these may be considerable.

| Cash Flow & Balance She             | Cash Flow & Balance Sheet |  |  |  |  |  |  |  |  |  |
|-------------------------------------|---------------------------|--|--|--|--|--|--|--|--|--|
| Initial Capital Injection           | 50,000,000                |  |  |  |  |  |  |  |  |  |
| Airport Site Purchase Cost          | 10,000,000                |  |  |  |  |  |  |  |  |  |
| Airport Site Development Costs      | 27,000,000                |  |  |  |  |  |  |  |  |  |
| Debt Interest Rate P.A              | 3.0%                      |  |  |  |  |  |  |  |  |  |
| Straight Line Depreciation Years    | 60                        |  |  |  |  |  |  |  |  |  |
| Effective Tax Rate on Net Income    | 20%                       |  |  |  |  |  |  |  |  |  |
| Dividend Payment % of Profit / Cash | 0%                        |  |  |  |  |  |  |  |  |  |



We have also assumed that the investment in Manston is funded solely by equity with no debt facility. This is in part to reduce the assumed cash outflow in the early years of operations, but also because we believe that debt-financing would be difficult to secure and relatively expensive.

#### **Additional Capital Expenditure (CAPEX)**

Additional capital expenditure is assumed to be required at the point when the airport reaches 2.0 million passengers per annum and is forecast to remain at this level or above. Where the airport is growing rapidly (notably in the 'No Runway' scenario), the additional capacity investment is in two £50 million stages. Where the airport is expected to grow more slowly, additional capacity investment is assumed in a single £30 million stage.

#### **Financial Statements**

Taking the combined effect of the financial assumptions and the demand scenarios we have developed a number of illustrative financial statements. These include:

#### **Profit and Loss:**

- Operating Statistics
- Revenue Lines
- Direct Cost Lines
- Gross Income
- Overheads
- EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation)
- EBITDA Margin (EBITDA as a percentage of revenue)
- EBIT (Earnings Before Interest and Tax)
- Net Income (EBIT less Interest and Tax))

#### **Cash Flow Statements:**

- Opening Cash Balance
- Net cash flow from Operating activity
- Net cash flow from Investing activity
- Net cash flow from Financing activity
- Closing Cash Balance

#### **Balance Sheet:**

- Total Assets
- Long Term Liabilities
- Owner Equity
  - o Retained Earnings (which in part determines the ability to dividends to equity investors)
  - o Share Capital



#### 7.3. Outputs for LHR Third Runway Scenario

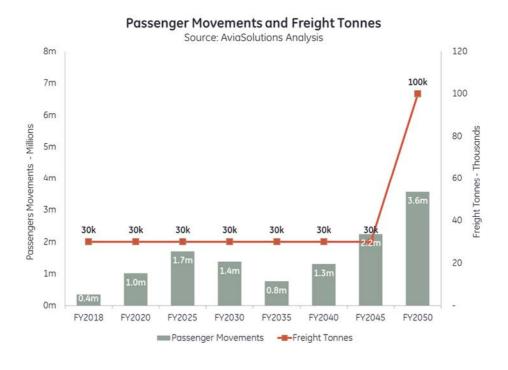
In the following paragraphs we explore the financial viability of Manston Airport based upon there being a third runway at Heathrow. This is the option which was recommended by the Davies Commission and therefore may be presumed to be the most likely outcome. However, the likelihood is that a runway at Heathrow would take longer to commission than one at Gatwick so consequently, Manston may have an initial boost to traffic before falling back and then growing again. This scenario takes spill from the London system in addition to a base level of activity generated from the presumed small LCC operation and freighters. This scenario is more favourable for Manston Airport than a development at Gatwick, and is perhaps the most likely.

#### 7.3.1. Volume Profile

Passenger numbers are forecast to grow to nearly 2.5 million by 2029, the year before the assumed opening of the third runway at Heathrow Airport, but immediately fall back from 2030 and decline to a low of 0.5 million in 2033. From this low point, traffic volume grows as a result of the resumption of overflow, reaching 3.5 million passengers in 2050. Overall growth between FY2018 and FY2050 averages 10% annually.

Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until FY2040, but at that point, freight is assumed to spill from the London Area taking it to some 100,000 tonnes by FY2050.

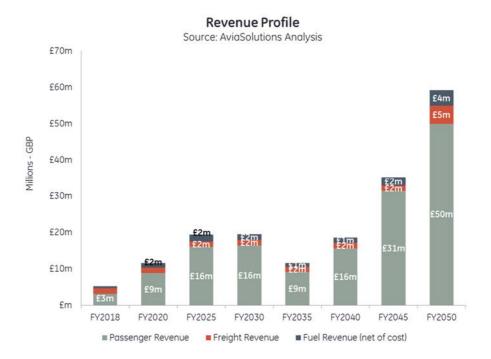
|                     | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Passenger Movements | 350k   | 1,010k | 1,700k | 1,370k | 760k   | 1,300k | 2,240k | 3,570k |
| Freight Tonnes      | 30k    | 100k   |
| Total ATMs          | 1,100  | 2,900  | 6,400  | 9,600  | 5,300  | 9,200  | 15,800 | 28,000 |



#### 7.3.2. Revenue Profile

Airport revenue is forecast to grow at CAGR 12% between FY2018 and FY2030, driving revenues to about £20m by FY2030, and at CAGR 8% between FY2018 and FY2050 to reach total annual revenues of around 0m by FY2050.





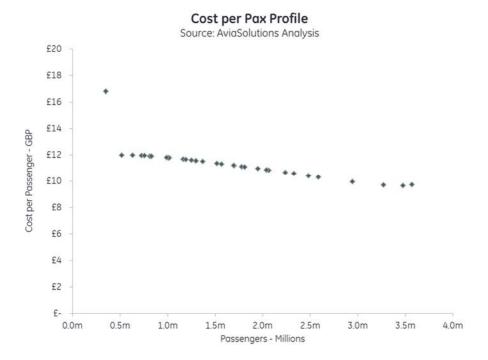
#### 7.3.3. Cost Profile

Total Costs are forecast to grow at 8% per annum on average between FY2018 and FY2030, resulting in total costs of about £15m by FY2030, and at 5% per annum between FY2018 and FY2050 to produce total annual costs of £35m by FY2050.

|            | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Cost | £7m    | £12m   | £19m   | £16m   | £10m   | £16m   | £24m   | £35m   |







#### 7.3.4. EBITDA Profile

EBITDA is initially forecast to be negative, indicating that the airport would be loss making in the early years at an operational level. It first returns an operating profit in FY2030, generating £9m of operating income and an EBITDA margin of 16%. As the third Heathrow runway comes on-stream, EBITDA at Manston would stagnate due to the lack of available volumes. The EBITDA margin in the long term is forecast to reach 41%, with an EBITDA of £24m in FY2050. This level of EBITDA is significantly below that which we would typically expect for an airport to be attractive to the investment community.

|               | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA        | -£2m   | £m     | £m     | £3m    | £2m    | £3m    | £11m   | £24m   |
| EBITDA Margin | -32%   | 0%     | 0%     | 16%    | 17%    | 16%    | 31%    | 41%    |

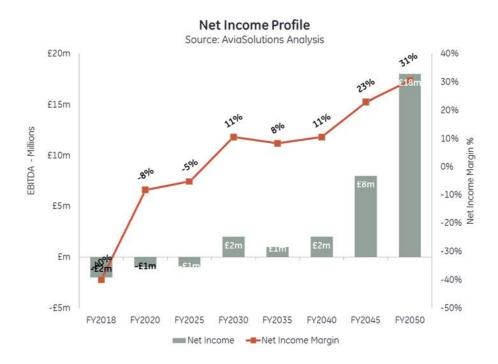




#### 7.3.5. Net Income Profile

Net income, the profit after deductions, is forecast to be negative until FY2025. The first positive results are generated around FY2030 when the airport is expected to generate net income of £2m. The income stream remains constant for the following 15 years before increasing as capacity becomes constrained once more in the London system. It reaches £18m in FY2050.

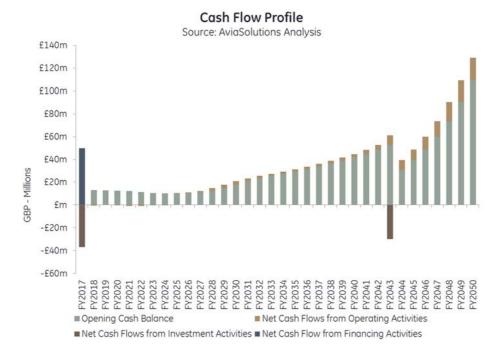
|                   | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Income        | -£2m   | -£1m   | -£1m   | £2m    | £1m    | £2m    | £8m    | £18m   |
| Net Income Margin | -40%   | -8%    | -5%    | 11%    | 8%     | 11%    | 23%    | 31%    |



#### 7.3.6. Cash Flow

The airport is forecast to develop its cash position with limited additional capital requirements until FY2042 when there would be a requirement to expand the terminal. We have assumed that although demand would exceed terminal capacity in the late 2020s, new terminal capacity would not be provided in anticipation of the loss of traffic following the commissioning of the third runway on 2030. The position shown below excludes any dividend payments that the owner may wish to extract from the asset: such payments would reduce its cash position.

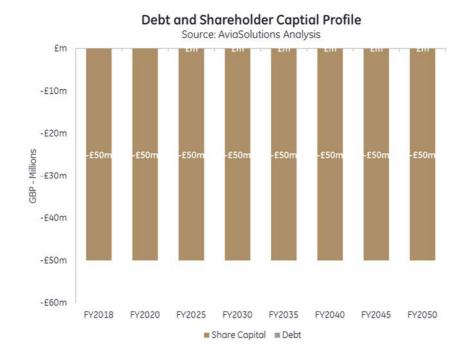




#### 7.3.7. Debt and Shareholder Capital

Whilst the exact nature and mixture of debt and shareholder capital would be subject to complex financial optimisation, we have illustrated below a simple capital structure used in the analysis to illustrate the need for additional capital throughout the period. To maintain the business no further financing would be required. Whilst the business does not generate significant revenues or income, there is little requirement for significant CAPEX investments, thereby eliminating the requirements for additional financing

|               | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Debt          | £m     |
| Share Capital | £50m   |

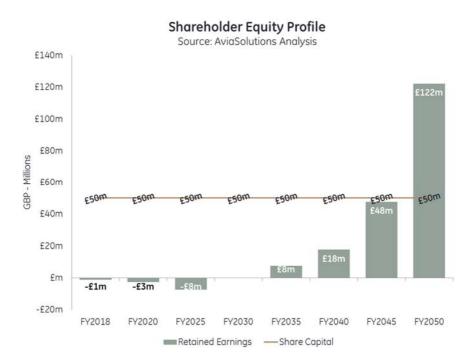




#### 7.3.8. Shareholder Equity

Considering the effects of earnings on shareholder equity, the business does not post positive retained earnings until nearly FY2035. This in effect limits the business's ability to pay dividends to shareholders until this point at the earliest.

|                   | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Retained Earnings | -£1m   | -£3m   | -£8m   | £m     | £8m    | £18m   | £48m   | £122m  |
| Share Capital     | £50m   |



#### 7.3.9. Conclusion

The asset would require significant long term investment but would only generate a marginal return on the capital invested. These returns are also predicated on a large number of external variables over which the owner of Manston Airport has limited influence. It is AviaSolutions' view that based on this scenario there is no viable long term prospect of an economically viable airport being established at Manston. It should also be noted that the scenario outlined above excludes any return to the investor, and we have therefore effectively weighted the cost of equity at zero in our model. Investors will always be seeking to maximise the return on their investment in a manner appropriate to the risk they bear in the asset. Given the risks involved with Manston, it would be right to consider that any investor would be seeking the potential for above average returns, which, according to the analyses, may not materialise.

#### 7.3.10. Non-Technical Summary

AviaSolutions' analysis indicates that the airport, operating as a standalone trading entity and in the scenario where a third runway is built at Heathrow, is unlikely to be a financially viable proposition. Airport operations are not anticipated to generate material profit until FY2040.

This is due to the relatively low level of revenue that can be generated and the high level of fixed costs required to operate the airport. This in turn means that the airport would not be able to distribute profits to investors in the airport for many years.

Generally, investors seek to achieve a return on their capital with an expected return commensurate with the risk of the investment. As the risks of investing in Manston are significant there would need to be reasonable prospects of a high return, which does not appear likely based on our analysis.



#### 7.4. Summary of Other Scenarios

We have presented in this main body of text the scenario deemed most likely to occur e.g. LHR3. This is the current recommendation of the Davies Commission and therefore, at the time of writing, believed to be the Government's current preferred option. Details of the three other capacity development scenarios are given in Appendix C.

### 7.5. Comparison of Scenarios

We compare some key aspects of the four scenarios below.

| Measure                               | LHR R3 | LGW R2 | Both  | Neither    |
|---------------------------------------|--------|--------|-------|------------|
| First year retained earnings positive | 2031   | 2032   | N/A   | 2029       |
| Retained Earnings at 2050             | £122m  | 109m   | -£20m | £516m      |
| Refinancing                           |        |        |       |            |
| When?                                 | None   | None   | None  | 2028, 2029 |
| Why?                                  | n/a    | n/a    | n/a   | Capex      |
| How much?                             | n/a    | n/a    | n/a   | £40m       |
| EBITDA Margin                         |        |        |       |            |
| Year first greater than 50%           | n/a    | n/a    | n/a   | 2043       |
| or in 2050                            | 41%    | 40%    | 34%   | 60%        |
| Probability                           | 40%    | 40%    | 10%   | 10%        |



## 8. Conclusions

#### 8.1. Introduction

In this chapter we draw together the conclusions of our research and analysis to form our conclusions, specifically to opine on whether there is a realistic prospect of a financially viable airport operating on the Manston Site.

#### 8.2. Summary

It is AviaSolutions view that having considered the stakeholder interviews and independent research and analysis into historic accounts and 'reasonable' adjustments for one-off costs that there is little prospect of a financially viable airport on the site.

The only circumstances in which we believe the airport may be viable is that in which no new runway were developed in the South East of England. However, this scenario presents extreme risk to the investor, as a decision to increase runway capacity at those not physically constrained (e.g. legally constrained LHR and STN) could be made at any time, or a new runway may be authorised at any time in the future.

#### 8.3. Stakeholder Interviews

Our stakeholder interviews were split between those focused upon passenger development and those focused upon freight development. The range of interviews provided an understanding from the industry as to their position on the airport.

Our passenger service interviews suggested that overall there is little interest in serving the airport, in particular from airlines that had previously served the airport such as Flybe. There was some limited interest from airlines such as Ryanair and KLM, who would consider the airport as part of their standard UK market review, however they were not actively seeking to serve the airport. It is our view that we must consider this in light of its context; for an airline that bears no risk in an airport's reinstatement and for whom its reinstatement may present upside risk, it would be illogical to rule out the possibility of serving it. Overall, our interviews suggested there was very limited interest in the airport for passenger services thus suggesting a long term viable passenger service may be difficult to sustain.

Our freight interviews indicated that the demand to use the airport for freight was very limited. This, in large parts, is due to two factors; the infrastructure investments that have already been made by the industry around Heathrow and Stansted, and the geographical location of the airport. Infrastructure, and the associated knowledge, skill and supporting industry at airports such as Heathrow and Stansted, as well as the major European hubs such as Frankfurt, and Paris, would be almost impossible for Manston to replicate. The geographic location of the airport, tucked into the corner of the UK, cannot compete with airports such as East Midlands for Integrator services that are sold as fast delivery, due to the increases in surface transportation times. The interviews did however indicate that charter services and ad-hoc freighter flights would certainly return, providing some revenue income for the airport. In summary, we conclude that freight would return to the airport in limited quantities, not dissimilar to the tonnage previously processed at the airport.

#### 8.4. Simulations

AviaSolutions' models provided simulations of the financial performance of an airport on the site under different demand scenarios. These scenarios were developed with a positive view of the potential demand profile, unit revenue and unit cost and investment costs. Two simulations (LHR3 and LGW3) suggested that the airport was unlikely to generate profits at an operational level (EBITDA) until circa FY2025, and that these profits would remain muted through until FY2040. The EBITDA profile suggests that, based on recent industry exit multiples, it would not be possible to recover the initial equity through a sales process as this point. Furthermore, these scenarios suggest that retained earnings would not turn positive for 15 to 20 years, thus limiting the ability of an investor to recover their costs of equity. In summation, these scenarios present very large risks with small returns over a long time horizon.



Our 'Both' runway scenario, naturally, provides an even less favourable result for Manston airport. If this runway scenario were to materialise there would be no prospect of Manston operating on a sustainable basis.

Our 'No Runway' scenario presents some opportunity for the airport. As demand through the London System increases and capacity remains muted, this demand will be spill to alternative airports. Manston, located within reasonable distance to London could be an airport to benefit from this spill, along with airports such as Southampton and Birmingham who are well connected by train to London. In our simulation, this scenario generated sufficient operational income (EBITDA) to support itself, and only required additional financing to expand. However, we must caution that this scenario is balanced in a careful equilibrium, should this be disturbed through the introduction of additional capacity via a new runway or loosening of regulation, the prospects of Manston could be severely diminished.



## 9. Appendix A: Stakeholder Interviews

Throughout the study, AviaSolutions spoke to many companies and individuals to gather their feedback. Given that these companies operate in a competitive commercial environment, it is not unsurprising that many of those spoke on the condition of anonymity. This is not unusual, particularly given the particular sensitivities around the project. In the following section detailing our interviews, and summarising the comments made, any company or individual that spoke on the basis of anonymity has been identified by only their sector and seniority.

AviaSolutions spoke to the follow stakeholders and / or their representatives:

- Discovery Park / Stone Hill Park
- RiverOak Investment Corporation
- Ryanair Ltd
- Flybe
- KLM
- Mr. Stanley G. Wraight
- Sir Roger Gale MP

#### **Anonymous Sources**

- Major European LCC
- Freighter Operator at Stansted
- Air Cargo Charter Broker UK
- Ex-Director of Network Planning Major European LCC
- Manager, Flight Operations, Major UK Carrier
- Ex-Senior Executive DHL

Disclaimer: The following Stakeholder Interview notes are representative of the views and opinions of the stakeholders only and not that of AviaSolutions. The notes represent, in AviaSolutions view, an accurate account of the interview but are not a verbatim account of our interview.

#### Mr. Paul Barber, Managing Director, Discovery Park

Mr. Paul Barber is the Managing Director or Discovery Park, and represents the current owners of the airport site.

- Mr. Barber outlined the ownership structure of the airport site. The airport is owned by Lothian Shelf 718 which is ultimately owned by Chris Musgrave, Trevor Cartner and Ann Gloag.
- Paul Barber is Managing Director and responsible for the day-to-day running of Discovery Park which is the *de facto* administrator of the site.
- The current owners, Mr. Cartner and Mr. Musgrave, are specialists in the redevelopment of the brownfield sites; they have redeveloped Discovery Park and a second site in the north of England.
- Mr. Barber gave a frank view as to the difficulties PricewaterhouseCoopers had when attempting to dispose of the site. After two years the only offer made on the site was from Ann Gloag for £1. Thus, in the view of the current owners, demonstrating the lack of financial interest in the site as an airport.
- During the period of ownership by both Manston Skyport, and under Lothian Shelf 718, Mr. Alistair Welch was heavily involved in the airport. Whilst under Manston Skyport, Mr Welch was chairman of the airport. Later in his career Mr. Welch became Managing Director of Southend Airport and was responsible for introducing EasyJet to Southend.
- Throughout the period of ownership whilst the airport was open Mr. Welch made high-level contact with every reputable airline and not a single airline was interested in operating from Manston, even with aeronautical charges at zero. The only airline that even considered operations was Ryanair, but the option was declined within 48 hours.
- Whilst the airport was open for operations freight was the main source of income. This freight was predominantly import driven from Africa. Whilst the site was able to offer quick access from aircraft to road there was little value-add to clients.



- Thanet Parkway Railway Station will add little value. It is not certain if or when it will be operational, and costs appear to be overrunning already. There is a funding gap and it does not improve journey time to London by more than 10-12 minutes.
- Due to the lack of airlines operating from the airport, Mr. Barber stated that the airport losses were running at close to £5.0m per annum.
- Mr. Cartner and Mr. Musgrave bought into the airport site after the airport had closed. They had no stake in the business whilst it ran as an airport. The business men approached Ms. Gloag given their proximity to the airport and specialisms in the development of brown field sites.
- Stone Hill Park Ltd was formed with Ms. Gloag, Mr. Cartner and Mr. Musgrave. The company believe that Thanet District Council require an additional 15,600 homes. The development will offer around 2,500 of these homes, mixed between starter homes up to five bed executive homes. The planning application includes a provision for social infrastructure such as schools.
- At present there are some small costs associated with the site, but these are mainly the single employee and the security of the site, and utilities. The current owners are not fundamentally against the concept of an airport being run, however they see no credible business plan to evidence its possibility, nor do they believe it is best economical use of the site.
- When pressed on RiverOak's desire to reopen the airport, Discovery Park "don't know where RiverOak are coming from stating an airport is viable". Discovery Park has not had sight of any business plan from RiverOak and RiverOak have not made any credible offers for the site.

#### RiverOak Investment

AviaSolutions met with RiverOak Investment and its representatives:

- Mr. Tony Freudmann
- Ms. Sally Dixon
- Mr. Richard Connelly
- Ms. Angela Schembri
- RiverOak Investment (RiverOak) became interested in Manson airport due to a previous project in the U.S.A. A RiverOak Partner (Nial Oldman) had organised a bond for a U.S airport that was freight driven and found excellent returns on the investment, thus sought an investment of similar characteristics.
- With regards to the asses itself, RiverOak believes the airport is geographically well positioned to capture freight, being in the South East and near the Channel Tunnel. It acknowledges that considerable investment will be required to return the airport to an operational state. However, they are confident through their initial plans that this is feasible and the asset can quickly be returned to a state in which is can handle in excess of 10,000 freighter movements per annum.
- The total investment that RiverOak would seek to make is in the region of £300m over the course of a 12 year period. This would ensure the airport site delivers a high level product and service. Further to this investment, the group would need to sink costs in the DCO process, the DCO purchase cost (circa. £4m in RiverOak's view) and finally in compensation to the current owners (although RiverOak have a value in mind, they are unable to disclose). RiverOak believe the minimum investment needed to bring the airport back to viability is circa £20m, excluding DPO, site purchase and compensation.
- The driving force behind the business plan is air freight and is the vital link to secure a NSIP designation.
- The absence of a national freight strategy is an opportunity which RiverOak seek to influence and develop.
- When probed as to the previous failures at the airport, the RiverOak team held strong views as to the causes of this, and what could be done to overcome this situation in the future. The team had strong views that whilst the airport offered excellent service, the previous owners had done nothing to exploit the asset, or its niches, or to improve its market position. In particular, the team felt strongly that the airport had not made any efforts to promote the airport to Freight Forwarders.
- It is RiverOak's understanding that the airport should be heavily involved in the sale of capacity on board freighters. They believe the previous owners were satisfied to allow freighters to depart with unutilised capacity, and this is an area they would seek to address as owners. (Note, AviaSolutions understand this to be an irregular market position to take and pressed to clarify this point during our interview).
- RiverOak have also considered the geographic location of Manston airport and how it feeds into the ATC systems. They believe Manston is ideally located for aircraft to plug in and out of the national ATC



- network. Furthermore, they would expect to receive an EASA license and have had discussions with the CAA to understand the processes required to re-license the airport.
- Further to passenger and freight traffic, RiverOak believe the airport would offer additional services as a diversionary airport within the UK system. There may also be revenue streams from permitting the airport to be used for training purposes.

#### **Traffic**

The team talked to AviaSolutions briefly on their Traffic forecast, this area of the business plan has been developed by Ms. Sally Dixon.

- Initially, Ms. Dixon began by reviewing the currently available literature. York Aviation's report of January 2015 suggested that due to capacity constraints 2.1m tonnes of freight will be lost from the London system if no runway is built. RiverOak estimate that this is the equivalent to 100,000 truck movements across the Channel, should this freight all be lost to Europe.
- With regards to capacity type, RiverOak stated that capacity is 70/30 split in the UK with only 30% of capacity offered on Maindeck-freighter services. In Europe, it is stated that this is much closer to 60/40. It is RiverOak's belief that this is caused through a lack of slot availability for freighters in the UK, thus the demand is being constrained.
- The business plan forecast that Manston would achieve 10,000 freighter ATMs in the fifth year of service, these ATMs would be predominantly wide-body aircraft. This level of freighter movement is supported, in RiverOak's view by the wider industry.
- The airport would also seek to develop a passenger business and seek volume from several sources. RiverOak believe that KLM would be keen to return to the airport (despite low load factors). They also state that they are in advance discussions with Ryanair over the potential to base two to three aircraft at the airport. RiverOak are also in preliminary discussions with EasyJet. Finally they believe there is a potential to develop Charter traffic, in particular with the cruise markets and Dover port.
- Taking all these considerations together RiverOak state that they would 2m passengers per annum in the second year of operations.

#### Ms. Kate Sherry, Deputy Director of Route Development, Ryanair

- Ryanair have recently discussed with RiverOak potential future operations at Manston airport. These
  conversations have been on the same basis as Ryanair is open to discussions with any airport wishing
  to obtain services from the airline.
- Previous to these discussions, Ryanair held talks with the owners of Manston airport prior to its closure. These talks were halted when the airport closed and therefore not concluded.
- If Manston were to become an operational airport once again, it is not a foregone conclusion that Ryanair would serve the airport. The airline would look to base any decision on a multitude of factors, including the size and depth of the catchment area and also the commercial terms proposed. Securing a low cost base to the airline is a core aspect of the analysis; this includes the handling and airport charges, effects of APD, operating economics of the route, and in the case of the UK, FX rates to Euros.
- When considering the Catchment delivered from population size Ryanair would look to the airport to sell the benefits of their specific catchment. It is difficult to comment at present on the quality of the Catchment.
- When considering the effects of the London System, Ryanair are not currently concerned with spillage from the London System to periphery airports. The airline is comfortable that there is room for expansion at Stanstead.
- If Ryanair were to serve the airport, the depth of the network would permit the airline to serve it without necessarily basing aircraft at Manston. However, it is possible in the future that the airline could choose to base a single aircraft at the station.
- Once a decision to operate had been reached, generally a lead time is permitted to allow the sales and
  marketing processes to embed. This also ensures the airline can plan its schedule appropriately,
  working approximately six to nine months in advance.
- As has been recently stated in the media, BREXIT remains a concern for Ryanair and any effects of the UK's exit from Europe would be factored in to a decision to operate.
- In summary, Ryanair are constantly reviewing their network and remain open to approaches from any airport. If the airport became operational, the airline would review its potential and fit within the wider airline network in due course, and is available to discuss terms with the owners at any time.



#### Mr. Martin Pearce, Flybe

- Europe's largest regional airline, Flybe, operated several routes from Manston in the years' preceding
  its closure. The airline did not base aircraft at Manston. In their experience the service offered was
  excellent with no issues arising from handling or passenger services. The passengers traffic was were
  mainly leisure and VFR, with very few business passengers.
- Mainly outbound e.g. Manston to the destination, very little in terms of other end originating
- These routes closed predominantly due to poor load factors, there was insufficient demand for the service from the local catchment area and very little demand for inbound traffic to Manston. Furthermore, the yield profile of the traffic did not meet with the airlines expectations.
- In normal circumstances the airline would permit a two to three year ramp up period following a route opening, however given the operating conditions the airline ceased operations within 12 months.
- The reasons the route performed below expectations are varied, but these are believed to have been exacerbated by the relatively small local catchment, less favourable average economic development and poor public transport infrastructure links to London.
- The airlines have reservations as to whether the airport could serve the South East catchment, and do not believe that the airport could realistically serve spilled traffic from the London system.
- It is unlikely that, even if Manston should reopen, the airline would choose to serve the airport.

#### Major European LCC

- Manston is not an airport the airline is considering. The company focuses on core catchment areas with less than 60 minute travel to the airport, and at most 90 minutes.
- Manston has a weak demand and the local catchment area is not overtly wealthy.
- Alternative airports offer better options, Southend and Stansted tap the London catchment area and can be really cost-effective airports
- Manston would have to tap into Gatwick's catchment and price would need to be very low (no more than a few pounds per passenger.
- The airport is probably not for the LCC in question. If there was no runway capacity available in the South East, the LCC would opt for a larger aircraft type before selecting Manston and would probably consider alternatives such as Southampton and Bournemouth first.
- Other carriers without a footing in Gatwick might consider Manston, as might freighters.

#### Ex-Director of Network Route Development for Major European LCC

- Following the BREXIT vote many airlines will be considering their approach to the UK. During a period of uncertainty it will be difficult for Manston to convince carriers to open routes to the airport.
- LCC's would look to secure deals with minimal aeronautical charges. Without an extremely competitive
  rate there is no possibility an LCC would locate services at an airport. In some cases, LCC's have walked
  away from airports offering negative aero-charge deals due to poor volumes.

#### Manager, Flight Operations, Major UK Carrier

- The individual plays a key role in the Flight Operations team at a major UK carrier.
- It is the individual's view that Manston does not offer any safety or resilience benefits of a material nature to the UK system. The airport is located in close proximity to six London airports which offer excellent resilience already.
- The airline would also not consider using Manston airport as diversion airport except in an on-board Mayday emergency (which are extremely rare).
- When considering diversion airports the airline considers multiple factors such as; does the airline already offer services at the airport, the size of the airport, the facilities at the airport to handle passengers, the local facilities to provide hotel and accommodation, the equipment at the airport to handle all types of aircraft required e.g. GSE equipment, and other legal requirements such as the provision of sufficient Fire Cover. On these measures, it is considered unlikely that Manston would be selected as an alternative airport, when Gatwick, Heathrow and Stanstead can all provide superior services within London.
- In the individuals view, whilst Manston would be used in an absolute emergency, it would be very unlikely to receive regular diversions for routine operational reasons, such as weather or runway closures.



#### **KLM Position**

- We are evaluating our network to the UK on a yearly basis. We are constantly being approached by airports who would like us to operate to their airports. These opportunities that arise are being looked into and MSE could be one of them.
- It is not possible to say how likely the chance would be that this would materialize in a new operation in the next 5 years in case MSE airport would be operational again

#### Senior Executive in Cargo Division for Airline Operating Freighters at Stanstead

- Airlines base the decision on where to operate their freighters based on a multitude of factors. However, the overriding factor is based on where investments in infrastructure have been made by their clients, Freight Forwarders. These CAPEX investments by Freight Forwarders are required to ensure they maintain economies of scale through their transit facilities and distribution centres. In the UK, these investments are centred at Heathrow, and more recently Stanstead.
- The airlines first choice of destination was Heathrow, as the majority of Freight Forwarders have their major infrastructure in and around Heathrow. The airline was unable to access slots at Heathrow and so selected Stanstead due to runway length, a mature offering including infrastructure development and third party handlers
- Stanstead operates a world class facility and has the competencies to handle freighters. It is questionable whether this would be possible, at least initially, at Manston.
- The airline would be extremely unlikely to consider moving services to Manston, even if they were no longer able to serve Stanstead, regardless of the commercial terms offered. If the airline had to move services they would consider East Midland and Manchester or other centrally located airports over Manston.
- The individual also believes that there is virtually no chance that a Freight Forwarder would choose to relocate services to Manston.
- Furthermore, as air cargo is a commodity virtually all operators offer the same service and compete on prices. Therefore, most operators implement similar strategies and business models. The result of this is that, in the individual's opinion, other freighter operators would also take a similar stance.

#### Air Cargo Charter Broker - UK

- The company had made use of Manston Airport in the past (circa. Up to 2 x flights per week) and found it to be a reliable and efficient airport that was well placed for access to the South East of England. The airport had the facilities to handle many aircraft gauges, from small freighters right through to B747F operations. The airport provided good access and the company had no difficulty in obtaining slots. The cost of operating from Manston was more effective than at Stansted, this included the aeronautical landing fees and associated handling costs.
- The company's over riding view was that Manston was an easy airport to use, it provided a good service and gave priority to freight.
- The airport provided all services on the ground, including ramp handling for freight.
- The company was aware that many of its competitors also used the airport along with scheduled operators such as Cargolux and ANA.
- The company was cognizant that, whilst the inbound demand for freight existed, there was little demand for outbound freight, which resulted in aircraft departing with unutilised capacity. The inbound demand was largely from West Africa, with strong volumes of fresh flowers and produce imported. Manston was particularly efficient at handling this cargo and permitted road feeder services to access the apron which resulted in quick access to the UK road network.
- Alongside produce, the airport had a reputation as being able to handle outsized freight such as enaines and turbines.
- The airport's location prohibited its use for more northern destinations, East Midlands and Doncaster were favourable in these instances
- The Air Cargo Charter Broker confirmed that they would certainly be interested in using the airport again if it re-opened but in order to do so they would be looking to secure competitive rates for landing, parking and screening charges.



#### **Ex-DHL Aviation Senior Sales Executive**

The individual has held senior positions in the cargo industry for over 15 years.

- Whilst Manston may offer an opportunity for some it is unlikely that DHL would relocate its operations. The setup at East Midlands is tuned to its needs. Further, East Midlands is geographically well located for quick access to the UK road network which is exceptionally important for the courier business model.
- In their experience, they believe it unlikely that any integrator would be interested in moving their operations to Manston.
- Generally, more and more freight is being shipped as General Cargo from Heathrow. Given the six hour
  close out period, it is reasonable to assume carriers could then use road feeder services to distribute
  this via Manston.
- Regarding other freight uses, Charter operators and scheduled all cargo operators may wish to locate services at Manston but this is highly dependent on the commercial offer. The sole purpose of utilising Manston would be to reduce cost, either through reduced flight operations or lower airport charges.
- One point of note is that the UK is a lot cheaper to export form at present. Thus, a lot of freight originates in continental Europe and moves via belly hold.
- Overall the individual's view was that whilst Manston would undoubtedly attract some business it is unlikely to be significant volumes.

#### Mr. Stanley G. Wraight - Senior Executive Director Strategic Aviation Solutions Limited

Mr. Wraight is an industry veteran with over 40 years' experience in the air cargo industry. Previously, Mr. Wraight held the position of CEO at AirBridgeCargo, and Senior Executive roles at Atlas Air and KLM.

- The airport offered a good location for freight being imported from Africa; this was the predominant origin market. Generally, the freight that was imported was pre-packed shop-ready fruit and vegetables that could be transported directly into the supply chain.
- When the airport closed, Doncaster and Stanstead tried to win the business from Manston, whilst some gains were made, the majority of the business relocated to European hubs as they are more closely located to the final destination, thus reducing overall cost.
- There are few all-cargo operators who would consider locating operations at the airport. Operators will be tied into their networks, in part due to their clients locating their facilities at the main airports (Heathrow and Stanstead). One opportunity could be Cargo Logistics, an off chute of AirBridgeCargo.
- In order to secure freighters movements at the airport, it will be necessary to demonstrate a cost advantage over competitors. This could be through a reduction in the overall Flight Hours required for operations, however the ability to do this is limited given much of the freight is destined for Europe. The ideal origin market for freight, on minimum Flight Hours basis is the USA.
- With regards to Integrators basing operations at Manston, the probability of this is viewed as slim. The Integrators have committed large capital expenses to existing operations at Stanstead and East Midlands, these barriers to exit are substantial and would be difficult to overcome, in particular given Manston's inferior geographical positon within the UK.
- It would be difficult for Manston to compete with East Midland or Stanstead. EMA in particular offers 24/7 cargo operations with customs available 24/7. They have developed economies of scale in both service and cost
- Further to this, the saturation of regional airports in the UK and Scotland in conjunction with additional wide-body passenger aircraft create difficult trading conditions for a new regional airport.
- Finally, the centre of power within the industry is held by Freight Forwarders, the majority of whom are based at LHR. As the industry is ever increasingly commoditised, Forwarders refuse to divert their business from Heathrow, instead choosing to truck cargo in from the regions to feed the facilities and consolidation business centred there and achieve the necessary economies of scale required to compete.
- The conclusion being that there is virtually no incentive for operators to move operations to Manston, there are alternative UK airports that offer competitive services on reasonable terms. The UK doesn't need another airport for freight that has no USP. If Manston were to be developed it would be essential for it gain a niche market such as becoming an Amazon or Alibaba e-commerce base.



#### AviaSolutions Meeting with Sir Roger Gale MP - 13th Sept 2016

As part of the stakeholder engagement process AviaSolutions has, at his request, interviewed Sir Roger Gale (MP for North Thanet) to seek his perspective on the commercial viability of and political support for, Manston Airport. The following comments are intended to reflect the substance of the meeting, rather than a verbatim transcript.

- Sir Roger Gale MP ("SRG") stated that Manston Airport and its associated runway are national assets of strategic importance to UK PLC.
- SRG noted that he does not support any particular group wishing to use the asset as an airport and that his interest is in solely in keeping the airport open. He notes, however, that to date RiverOak offers the only sustained and viable interest in operating Manston as an airport. SRG noted that he had seen the outline River Oak business plan which in his view was credible. SRG was not surprised that River Oak did not disclose the plan to AviaSolutions, and was not willing to divulge any of the details for reasons of commercial confidentiality. However, SRG also added that all of RiverOak's case would be made public when the company submitted its' application for a Development Consent Order to a Planning Inspectorate that was qualified to subject the submission to detailed public scrutiny and inquiry.
- SRG said that it was clear that the intentions of those currently in control of the site were to develop
  the land for residential and commercial purposes, rather than invest in the airport facilities and expand
  the air service network.
- SRG provided a brief summary of the historical evolution of the airport, including services by Silver City to Jersey and Clive Bourne, a logistics operator.
- With regards to the development of a railway service to the airport SRG noted the scope to develop the railway is limited by the physical constraints of laying the line and precludes a link directly into the airport. The practical alternative is a Thanet Parkway station, which would initially be linked by a shuttle bus service, and ultimately could be linked by a Gatwick-style monorail.
- SRG is of the view that the primary reason that the airport has not been financially sustainable in the past is the nature of the business model that has been pursued. Previous operators have focussed on developing the passenger business, rather than the freight capacity of the airport, which is the reverse of the model that SRG believes, would be more sustainable.
- SRG noted that UK PLC is losing business to Europe already, with freight being switched from the UK to other European hubs (Frankfurt, Amsterdam, and Paris). SRG also noted that a major courier has expressed an interest in relocating to Manston. He was of the view that the UK has reached maximum capacity for London originating freight services and that excess demand was being lost to other hubs.
- SRG observed that post-Brexit it was going to be vital that the UK develops additional and alternative markets outside the European Union. These greater distances will inevitably mean an increase in the demand for air freight capacity between Britain and the rest of the world if the country is not to lose still more aviation business to mainland Europe.
- In terms of runway capacity, SRG suggested that freighter traffic currently using Heathrow could be relocated to Manston, freeing these slots to facilitate additional passenger services to the Far East. SRG also noted that operators that were forced to re-locate following the closure of Manston were waiting for the airport to reopen and would be keen to return.
- SRG stated that Low Cost Carriers are very interested in operating from the airport, and that if the airport were to re-open, would be very likely to start services at the appropriate time in the airport's re-development. However, SRG was not willing, for reasons of commercial confidentiality, to disclose the source of this information nor the airline in question.
- SRG was keen to stress the importance of ancillary businesses to the airport's viability, which included aircraft dismantling and engineering firms. SRG also noted the Search & Rescue operations which had recently been permanently located at Lydd. Further options for the airport would include General Aviation (GA) which would be able to access London via Battersea Heliport.
- SRG noted the widespread political support for Manston Airport, including Sir Patrick McLoughlin, the former Transport Minister, The Minister of State for Aviation, John Hayes and David Cameron when Prime Minister. He indicated that that political support at national and local levels was, particularly in the light of the Brexit decision, on-going. SRG also noted that there would not be any need for financial support from Central Government and that the airport should be able to attract sufficient private capital to exist as a standalone business.
- SRG spoke at length on the alternative proposal by Stone Hill Park for the site, noting that that the
  ability to develop the site for residential and commercial purposes was questionable, with several
  potential challenges including the likely presence of a war grave, buried low level radio-active waste,



archaeological interests, and issues with the effect upon Thanet's aquifers all needing to be addressed prior to any redevelopment. He indicated that any alternative development would, prior to change of use, require the same intensive Environmental Impact Assessment as that currently being undertaken by RiverOak for airport purposes. Furthermore, SRG noted that there is limited demand for additional industrial space in the area, that there is already a more than adequate supply of industrial land available in East Kent and that the number of new jobs generated at Discovery Park is, contrary to the claims made by the Leader of Kent County Council, low.

• With regard to a new runway in the South East, Sir Roger indicated that he believed that a runway decision would be made fairly soon but that any actual new runway would not be operational for at least 15 years. It is his belief that, even with a new runway in the London airport system, the Manston Airport remains a viable facility with freight as its primary purpose supported by passenger traffic.

#### Non-Reply

- The following airlines were sent a request for their position on Manston airport but chose not to submit a response.
  - o Monarch
  - o Thomas Cook
  - o Tui



# 10. Appendix B: Condition Report Manston Airport

#### Introduction

The following section contains our report on the condition of the airport assets, it should not be read as a definitive summary of the asset condition. Our report is based on a visual inspection of the airport on 3 August 2016 under the supervision of the current airport owner's representative.

#### **Terminal Building**

#### Summary

The current facility has an approximate footprint of 1,900m² and in general would have been suitable for single and dual aircraft operations simultaneously. On balance we would suggest that the building in its current configuration could be re-instated but that the cost of such modifications may make it more economically viable to demolish it and erect a purpose built low cost facility. In general the basic fabric of the building was intact, although there is evidence of water entering the building via the roof at various locations.

#### General

We observed that the drop off/pickup area was located adjacent to the front of the terminal building. This is in contravention to current security requirements and would necessitate the offsetting of the drop off pickup area. In-turn, this would require the transforming some land currently allocated to parking. The current site could facilitate this change through lateral expansion of the parking area.

We note that the current configuration of the terminal building, along with the apron, limits lateral expansion. To accommodate significant traffic volume would require a significant change to the current layout.



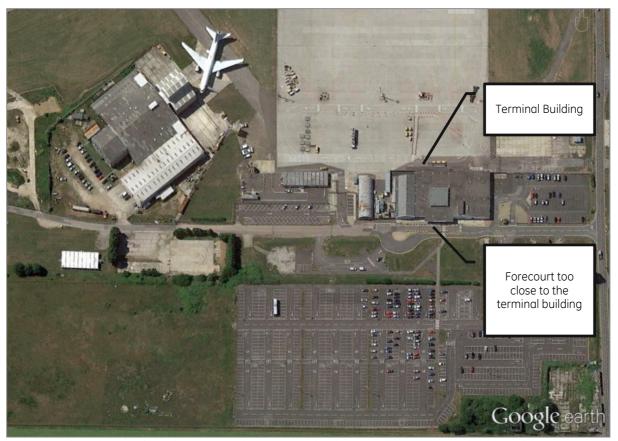


Figure 1: Google Earth image of aircraft maintenance hangar, terminal, parking area and apron (prior to the closure of the airport)



Figure 2: Evidence of water entering terminal building



Figure 3: Main foyer of terminal building from arrivals. Check-in area to the left of the image.



Figure 4: Evidence of water damage in may foyer.



Figure 5: Check in hall (desks removed)

#### **Movement Areas**

#### Apron

<u>Summary</u>
The fabric of the apron appeared to be in relatively good condition with space for up to four simultaneous Code C or two Code E operations.

#### <u>General</u>

Of note was the significant depth of the apron which accommodated a large GSE storage area at the head of the stand. To become compliant the apron marking would need to be re-established, which is relatively straight forward to accomplish.



Figure 6: Apron as viewed from terminal





Figure 7: Apron Drainage. Some growth of plants which will need to be addressed.

#### **Taxiways**

#### **Summary**

In general we observed that the taxiways were of relatively good condition with only minor spot repairs required. To re-stablish services appropriate lighting and marking would be required.

#### Runway

#### **Summary**

A visual inspection of the runway indicated that overall it is in very good condition. There is evidence of some vegetation appearing. Discussions with the current owner's representatives identified a surface friction issue. We note that there were plans to address this through surface treatment issues but to our knowledge this work was not carried out.

#### <u>General</u>

The runway approach and edge lighting has been removed and require re-installing to permit operations. Additionally, the runway has been painted to accommodate 'Operation Stack'. Considerable work is required to remove the current markings from the runway and repaint it with appropriate aviation markings. However, it is our understanding that this work will be completed as part of the current agreement with the Department for Transport.





Figure 8: Runway (Rwy) 29 Threshold



Figure: 9 Large aggregate used for wearing course may be impacting surface friction characteristics



Figure 10: Shoulders of runway are paved. Evidence of plants establishing a presence in cracks



Figure 11: Runway 27 and evidence of plants establishing presence in cracks

#### **Systems**

#### **Navigation**

#### <u>Summary</u>

It is our understanding that the Instrument Landing System and supporting systems were sold upon the airport's closure. These systems, including backup power supply, would need to be re-instated.





Figure 12: Radar tower with radar removed

#### Lighting

#### Summary

It is our understanding that the approach, runway, taxiway and apron lighting systems and supporting elements were sold upon the airport's closure. These systems including backup power supply would need to be re-instated.

#### **Control Tower**

#### <u>Summ</u>ary

No appreciable control tower facilities were available to inspect. To facilitate commercial operations it would be necessary to install a new control tower and associated support systems, including appropriate radar systems.

#### **Rescue & Fire Fighting**

#### <u>Summary</u>

The current Fire Station is unsuitable for use. We believe it would require demolishing and the construction of a new Fire and Rescue Station.





Figure 13: Dilapidated Rescue & Fire Fighting Facility

#### **Ancillary Buildings**

#### Maintenance Hangar

<u>Summary</u>

Adjacent to the primary apron is a large aircraft maintenance hangar with a unique addition allowing it to accommodate aircraft larger than what it was originally designed for. It is our understanding that this building is currently under lease by a maintenance company undertaking limited maintenance work. The building fabric appeared to be in reasonable condition.



Figure 14: Maintenance hangar





Figure 15: Interior of maintenance hangar



Figure 16: Bespoke tail enclosure of hangar

#### Cargo Hangars

#### Summary

During the visit we undertook a preliminary inspection of several cargo facilities on the airport site. The location of the facilities was ideal for this type of operation, having access to the local road network and the taxiway system. In general the buildings appeared to be in reasonably good condition. We foresee no reason as to why they could not be re-instated as cargo facilities.



Figure 17: First cargo hangar exterior



Figure 18: First cargo hangar interior



Figure 19: Second cargo hangar exterior



Figure 20: Second cargo hangar interior

#### **Re-Establishment Cost Estimate**

The following is an estimate of costs associated with re-establishing the required infrastructure to operate commercial services from the airport.

For the avoidance of doubt, these costs do not include the costs associated with any acquisition of the airport site.

| Element                 | Cost Estimate £ | Note   |
|-------------------------|-----------------|--|
| Old Terminal Demolition | 400,000         | Demolition of existing terminal building                         |
| Terminal Building       | 7,500,000       | Construction of new modular single story terminal                |
| Approach Road           | 750,000         | Relocation of approach road to accommodate security requirements |
| Apron Repairs           | 200,000         | Repairs to apron surface   |
| Airport Lighting        | 3,000,000       | Complete airport navigation lighting system                      |
| Navigation Systems      | 2,500,000       | ILS/DME/DVOR   |
| Radar                   | 3,500,000       | Secondary Radar System   |
| Runway Treatment        | 1,500,000       | Grooving of runway to address low friction characteristics       |
| Cargo Building Repair   | 400,000         | Minor repair to cargo buildings                                  |
| Power System            | 2,500,000       | Complete power back up system to accommodate CATI ILS approaches |
| Mobilisation            | 1,200,000       | Ancillary mobilisation costs of re-instating airport operations  |
| Contingency             | 3,517,500       | 15% contingency  |



## 11. Appendix C

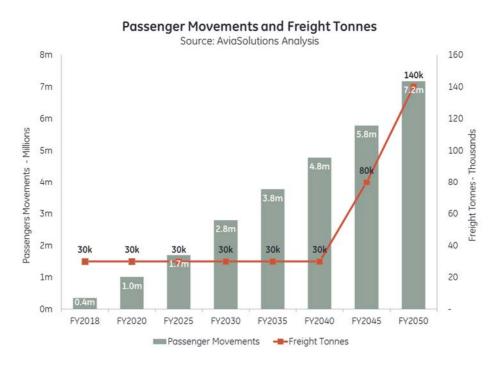
#### 11.1. Outputs for No Runway Development Scenario

In the following paragraphs, we explore the financial viability of the airport based upon there being no new runway in the South East. This scenario takes spill from the London system in addition to a base level of activity generated from the presumed small LCC operation and freighters. Whilst this scenario is the most favourable for Manston airport, as it generates the largest number of passengers and freight, it is perhaps the least likely.

#### 11.1.1. Volume Profile

Passenger movements are forecast to grow at CAGR 19% between FY2018 and FY2030, totalling circa 2.8m passengers by the close of FY2030, growth FY2018 to FY2050 is estimated to be at CAGR of 10%. Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until FY2040, but at that point, freight is assumed to spill from the London Area taking it to some 140,000 tonnes by FY2050.

|                     | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Passenger Movements | 350k   | 1,010k | 1,700k | 2,800k | 3,770k | 4,780k | 5,790k | 7,180k |
| Freight Tonnes      | 30k    | 30k    | 30k    | 30k    | 30k    | 30k    | 80k    | 140k   |
| Total ATMs          | 1,100  | 2,900  | 6,400  | 14,100 | 20,900 | 28,100 | 37,200 | 49,500 |

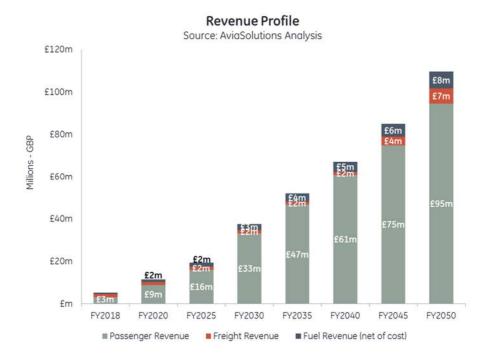


#### 11.1.2. Revenue Profile

Revenue generation is forecast to grow at a CAGR of 18% between FY2018 and FY2030, driving revenues to £38m by FY2030, and at a CAGR of 10% between FY2018 and FY2050 to reach total annual revenues of £110m by FY2050. The revenue profile is exponential in nature due to the increasingly constrained London System environment permitting increasing spill to Manston.

|               | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Revenue | £5m    | £12m   | £19m   | £38m   | £52m   | £67m   | £85m   | £110m  |





#### 11.1.3. Cost Profile

Total Costs are forecast to grow at 13% per annum on average between FY2018 and FY2030, resulting in total costs of £29m by FY2030, and at 6% per annum between FY2018 and FY2050 to produce total annual costs of £44m by FY2050. Costs are increasing more slowly than revenue, leading to greater margin generation. We consider that as the airport generates increased volumes of traffic, it is able to achieve increasing economies of scale, in particular within its passenger operation. Furthermore, as the passenger volume increases, the non-unit driven costs are distributed over an increased base, thereby reducing the average cost per passenger to the airport, an essential element in increasing margin.

|            | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Cost | £7m    | £12m   | £19m   | £29m   | £34m   | £38m   | £42m   | £44m   |





#### Cost per Pax Profile Source: AviaSolutions Analysis £20 £18 £16 £14 Cost per Passenger - GBP £12 £10 £8 £6 £4 £2 0.0m 2.0m 4.0m 5.0m 6.0m 7.0m 8.0m 1.0m 3.0m Passengers - Millions

#### 11.1.4. EBITDA Profile

EBITDA is initially forecast to be negative, indicating that the airport would be loss making in the early years at an operational level. It first turns an operating profit in FY2030, generating £9m of operating income and an EBITDA margin of 24%. The EBITDA margin in the long term is forecast to reach 60%, generating £66m of EBITDA in FY2050. This level of EBITDA is much more akin to a typical airport which requires sufficiently high EBITDA margins to cover the ongoing costs and CAPEX of a large asset base.

|               | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA        | -£2m   | £m     | £m     | £9m    | £18m   | £29m   | £43m   | £66m   |
| EBITDA Margin | -32%   | 0%     | 0%     | 24%    | 35%    | 43%    | 51%    | 60%    |

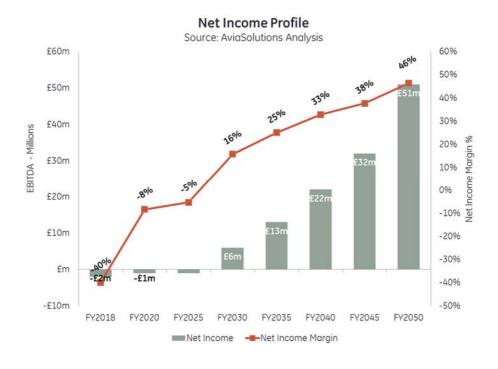




### 11.1.5. Net Income Profile

Net income, the profit left after all deductions, is forecast to be negative until FY2025. The first positive results fall circa FY2030 when the airport is expected to generate net income of £6m. This income stream steadily increases through to FY2050 at which point it is expected to be circa £51m per annum.

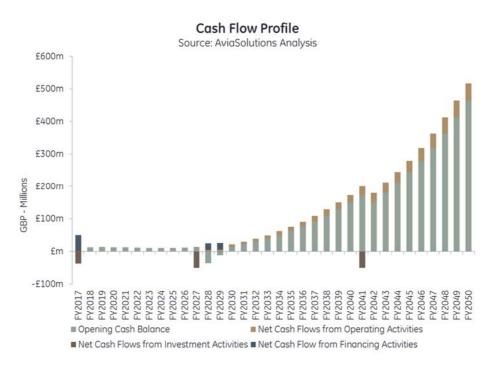
|                   | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Income        | -£2m   | -£1m   | -£1m   | £6m    | £13m   | £22m   | £32m   | £51m   |
| Net Income Margin | -40%   | -8%    | -5%    | 16%    | 25%    | 33%    | 38%    | 46%    |





### 11.1.6. Cash Flow

The airport is forecast to develop its cash position with limited additional capital requirements except those required to expand the terminal in FY2027. The position shown below is excludes any dividend payments that the owner may wish to extract from the asset: such payments would reduce its cash position.



# 11.1.7. Debt and Shareholder Capital

Whilst the exact nature and mixture of debt and shareholder capital would be subject to complex financial optimisation, we have illustrated below a simple capital structure used in the analysis to illustrate the need for additional capital throughout the period. To maintain the business it would be necessary to acquire circa £40m in additional capital around FY2027. For the purposes of modelling this additional capital has been split between debt and equity.

|               | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Debt          | £m     | £m     | £m     | £20m   | £20m   | £20m   | £20m   | £20m   |
| Share Capital | £50m   | £50m   | £50m   | £70m   | £70m   | £70m   | £70m   | £70m   |



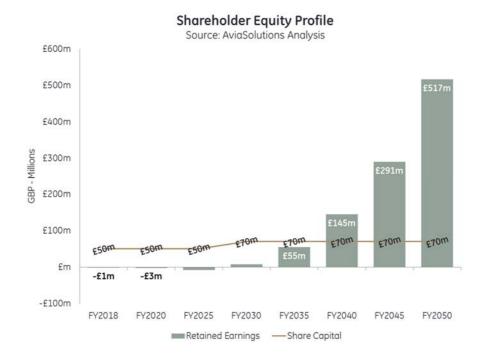
### **Debt and Shareholder Captial Profile** Source: AviaSolutions Analysis £m -£10m -£20m -£30m -£40m GBP - Millions -£50m -£60m -£70m -£80m -£90m -£100m FY2018 FY2020 FY2025 FY2030 FY2035 FY2040 FY2045 FY2050

# 11.1.8. Shareholder Equity

Considering the effects of earnings on shareholder equity, the business does not post positive retained earnings until circa FY2030. This in effect limits the business's ability to pay dividends to shareholders until this point at the earliest.

■ Share Capital ■ Debt

|                          | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Retained Earnings</b> | -£1m   | -£3m   | -£8m   | £8m    | £55m   | £145m  | £291m  | £517m  |
| Share Capital            | £50m   | £50m   | £50m   | £70m   | £70m   | £70m   | £70m   | £70m   |





### 11.1.9. Conclusion

Given the parameters of this specific scenario it could be feasible to operate a commercially viable airport on the site. However, the risks in doing so are high and many of the elements that cause the proposal to payback can be reversed (such as a new runway being authorised) and are out of the control of the asset manager.

Whilst we believe an airport on the site may be feasible in this scenario, the probability of there being no new runway in the South East is very low, even if a decision is delayed, it is still expected that a new runway will be required at some point. If Manston were to become an established airport it would need many years to reach a point of maturity where it would be able to withstand a new runway becoming operational. The probability of this occurring, given the Government's current position on runway capacity, is uncertain at best. Therefore we conclude that whilst potentially feasible, this scenario is improbable.



# 11.2. Outputs for LGW Second Runway Scenario

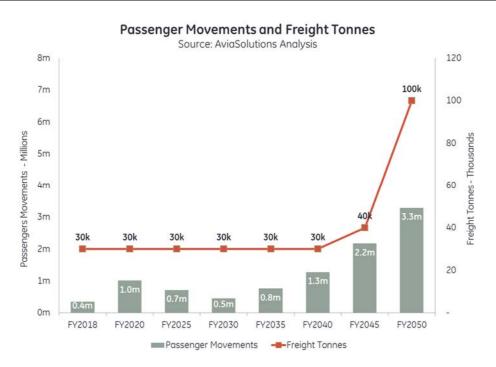
In the following paragraphs, we explore the financial viability of Manston Airport based upon there being a second runway at Gatwick. This was an option short-listed by the Davies Commission and while not finally recommend has a body of support based on its lower environmental impacts and the consequent ability to be delivered earlier (assumed here to be 2025). Manston may have a short initial boost to traffic before the second runway becomes available but then traffic falls before growing again. This scenario takes spill from the London system in addition to a base level of activity generated from the presumed small LCC operation and freighters. This scenario is less favourable for Manston Airport than would be a development at Heathrow.

### 11.2.1. Volume Profile

Passenger numbers are forecast to grow to more than 1.5 million in 2024, the year before the assumed opening of the second runway, but immediately fall back starting in 2025 and declines to a low of 0.5 million in 2033. From this low point, it grows as a result of the resumption of overflow, reaching 3.5 million passengers in 2050. Overall growth between FY2018 and FY2050 averages 7% per annum.

Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until FY2040, but at that point, freight is assumed to spill from the London Area taking it to some 100,000 tonnes by FY2050.

|                     | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Passenger Movements | 350k   | 1,010k | 710k   | 450k   | 760k   | 1,270k | 2,170k | 3,290k |
| Freight Tonnes      | 30k    | 30k    | 30k    | 30k    | 30k    | 30k    | 40k    | 100k   |
| Total ATMs          | 1,100  | 2,900  | 5,000  | 3,200  | 5,300  | 8,900  | 15,900 | 26,000 |

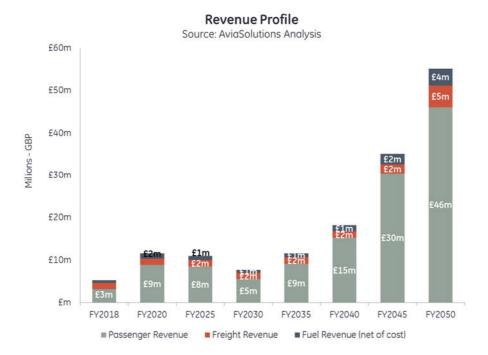


# 11.2.2. Revenue Profile

Revenue generation is forecast to grow at a CAGR of 4% between FY2018 and FY2030, driving revenues to £8m by FY2030, and at a CAGR of 8% between FY2018 and FY2050 to reach total annual revenues of some £55m by FY2050.

|               | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Revenue | £5m    | £12m   | £11m   | £8m    | £12m   | £18m   | £35m   | £55m   |





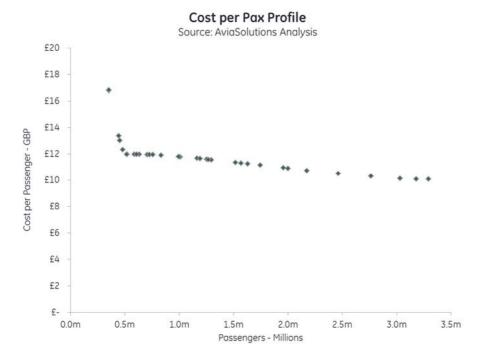
# 11.2.3. Cost Profile

Total Costs rise prior to the opening of the second runway, but then fall back to £7 million in FY 2030. Thereafter, they increase to nearly £35 million in 2050, representing an average increase between FY2018 and FY2050 of 5% per annum. Cost per passenger falls over the period of the projections.

|            | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Cost | £7m    | £12m   | £9m    | £7m    | £10m   | £15m   | £24m   | £33m   |



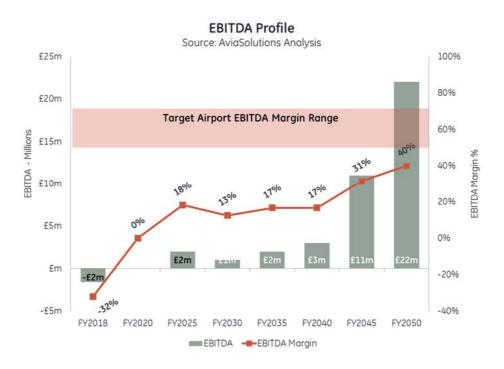




### 11.2.4. EBITDA Profile

EBITDA is initially forecast to be negative, indicating that the airport would be loss making in the early years at an operational level. It first returns an operating profit in FY2025, generating £2m of operating income and an EBITDA margin of 18%. As the second runway at Gatwick comes on-stream, EBITDA at Manston would stagnate due to the lack of available traffic volumes. The EBITDA margin in the long term is forecast to reach 40%, with an EBITDA of £22m in FY2050. This level of EBITDA is significantly below that which we would typically expect for an airport to be attractive to the investment community.

| _             | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA        | -£2m   | £m     | £2m    | £1m    | £2m    | £3m    | £11m   | £22m   |
| EBITDA Margin | -32%   | 0%     | 18%    | 13%    | 17%    | 17%    | 31%    | 40%    |

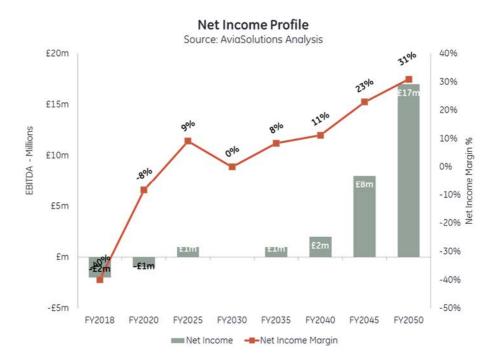




### 11.2.5. Net Income Profile

Net income, the profit left after all deductions, is forecast to be negative until after FY2020. The first positive results are generated around FY2025 when the airport is expected to generate net income of £2m, although it falls slightly thereafter as Gatwick's new runway absorbs traffic. The income stream then remains broadly constant for the following 15 years before increasing as capacity becomes constrained once more in the London system. It reaches £17m in FY2050.

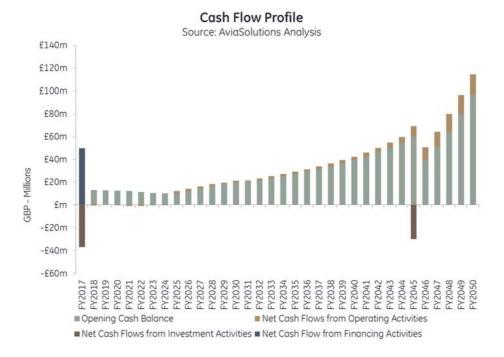
|                   | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Income        | -£2m   | -£1m   | £1m    | £m     | £1m    | £2m    | £8m    | £17m   |
| Net Income Margin | -40%   | -8%    | 9%     | 0%     | 8%     | 11%    | 23%    | 31%    |



### 11.2.6. Cash Flow

The airport is forecast to develop its cash position with limited additional capital requirements until FY2045 when there would be a requirement to expand the terminal, by which time the company could have built up sufficient cash to be able to finance the CAPEX from reserves. The position shown below excludes any dividend payments that the owner may wish to extract from the asset: such payments would reduce its cash position.

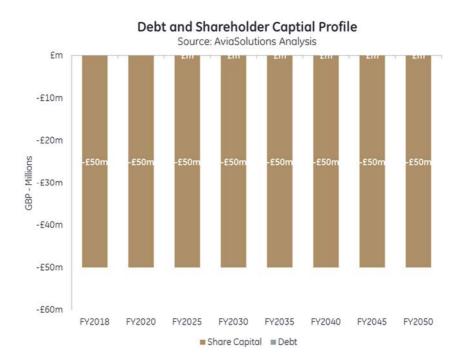




# 11.2.7. Debt and Shareholder Capital

Whilst the exact nature and mixture of debt and shareholder capital would be subject to complex financial optimisation, we have illustrated below a simple capital structure used in the analysis to illustrate the need for additional capital throughout the period. To maintain the business no further financing would be required. Whilst the business does not generate significant revenues or income, there is little requirement for significant CAPEX investments, thereby eliminating the requirements for additional financing

|               | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Debt          | £m     |
| Share Capital | £50m   |

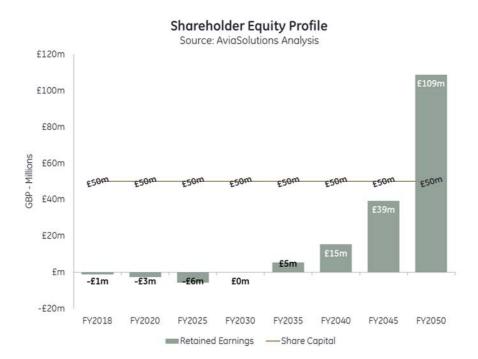




# 11.2.8. Shareholder Equity

Considering the effects of earnings on shareholder equity, the business does not post positive retained earnings until nearly FY2035. This in effect limits the business's ability to pay dividends to shareholders until this point at the earliest.

|                          | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Retained Earnings</b> | -£1m   | -£3m   | -£6m   | £m     | £5m    | £15m   | £39m   | £109m  |
| Share Capital            | £50m   |



### 11.2.9. Conclusion

The asset would require significant long term investment but would only generate a marginal return. These returns are also predicated on a large number of external variables over which the owner of Manston Airport has very little influence. It is AviaSolutions' view that based on this scenario there is no viable long term prospect of an economically viable airport being established on the site.



# 11.3. Outputs for Both Runways Scenario

In the following paragraphs, we explore the financial viability of Manston Airport based upon there being two runways constructed in the South East, one at Gatwick and the other at Heathrow. It is clear from this assessment that in the longer term there is forecast to be sufficient demand to require two additional runways. In our assessment, we have assumed that the runway at Gatwick would be opened first, followed later by that at Heathrow. It is though possible that Gatwick might decide to postpone its second runway given its likely loss of traffic Manston would have a short initial boost to traffic before the first of the runways becomes available but then traffic falls and only resumes growth towards the end of the forecasting period. This scenario is the least favourable for Manston Airport.

### 11.3.1. Volume Profile

Passenger numbers are forecast to grow to more than 1.5 million in 2024, the year before the assumed opening of the first of the runways, but immediately fall back starting in 2025. Passenger traffic remains minimal for the remainder of the forecasting period.

Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until after FY2045, but might reach some 50,000 tonnes by FY2050.

|                     | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Passenger Movements | 350k   | 1,010k | 710k   | 190k   | 290k   | 440k   | 220k   | 460k   |
| Freight Tonnes      | 30k    | 50k    |
| Total ATMs          | 1,100  | 2,900  | 5,000  | 1,300  | 2,000  | 3,100  | 1,600  | 4,300  |

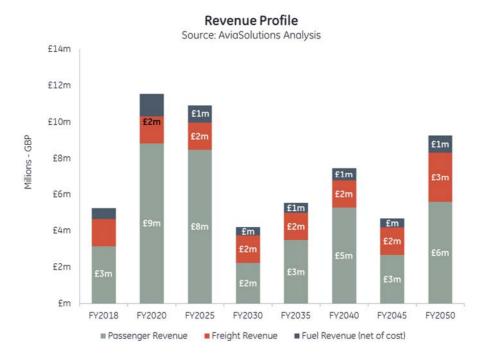
#### Passenger Movements and Freight Tonnes Source: AviaSolutions Analysis 8m 60 50k 7m 50 6m Passengers Movements - Millions 40 5m 30k 30k 30k 30k 30k 30 4m 30 3<sub>m</sub> 20 2m 10 1m 0.5m 0.2m FY2018 FY2020 FY2025 FY2030 FY2035 FY2040 FY2045 FY2050 Passenger Movements —Freight Tonnes

### 11.3.2. Revenue Profile

Revenue generation reflects the lack of traffic volume and peaks in the period up to FY2025.

|               | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Revenue | £5m    | £12m   | £11m   | £4m    | £6m    | £7m    | £5m    | £9m    |





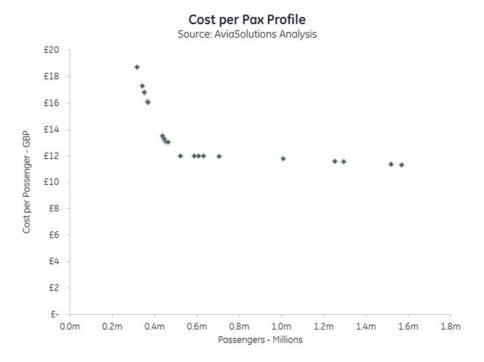
# 11.3.3. Cost Profile

Total Costs rise a little before the opening of the first of the runways, but then fall back to the core essential fixed costs associated with having the airport open

|            | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Cost | £7m    | £12m   | £9m    | £7m    | £7m    | £7m    | £7m    | £7m    |







# 11.3.4. EBITDA Profile

EBITDA is forecast to be negative for the majority of the forecast period, except for the period up to FY2025 and at the very end

|               | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA        | -£2m   | £m     | £2m    | -£3m   | -£1m   | £m     | -£2m   | £2m    |
| EBITDA Margin | -32%   | 0%     | 18%    | -75%   | -17%   | 0%     | -40%   | 22%    |

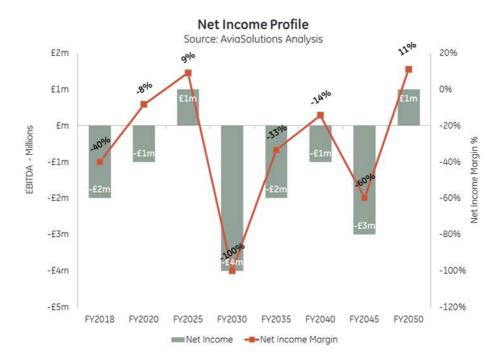




# 11.3.5. Net Income Profile

Net income, the profit left after all deductions, is forecast to be negative for almost the entire period.

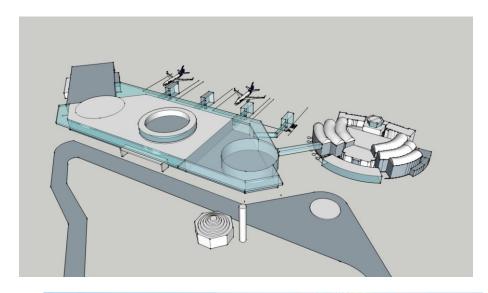
|                   | FY2018 | FY2020 | FY2025 | FY2030 | FY2035 | FY2040 | FY2045 | FY2050 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Income        | -£2m   | -£1m   | £1m    | -£4m   | -£2m   | -£1m   | -£3m   | £1m    |
| Net Income Margin | -40%   | -8%    | 9%     | -100%  | -33%   | -14%   | -60%   | 11%    |



# 11.3.6. Conclusion

If two runways were to be constructed in the South East, then it is clear that there is no realistic prospect of long term viability for a re-opened Manton Airport. The potential profits in the period to FY2025 would not be adequate to justify the costs of acquiring and re-commissioning the airport, and prospects thereafter would be exceptionally poor.







# THANET DISTRICT COUNCIL





STAGE 1 – INITIAL EVALUATION AND VALIDATION OF THE AIRPORT OWNER'S ASSESSMENT

16 JULY 2014



#### **PREFACE**

### **AIRPORTS**

### **History:**

Before considering the future of Manston Airfield, it is worth reflecting for a moment upon the history of regional airports in the UK, their role and the challenges that face them in the short to medium term future.

Unlike most other countries, the early regional airports in this county were constructed, not by a central civil aviation agency but by the councils of the cities they were designed to serve. This is important because, at the time of their inception, there was no national strategic plan for the location of airports. These airports were developed as public facilities, and managed professionally to ensure a safe operational platform for aviation activities.

In those early days of aviation, airports catered for a number of small airlines, private aviators and post office mail carriers. There was no requirement for paved runways and the operational infrastructure required was relative cheap to provide.

World War II delivered a profound change in civil aviation. Surplus military airfields offered an attractive prospect for the development of new additional airports, with the consequence that the UK abounded with airfields/airports that were uneconomically close to each other. An outstanding example of the civil use of a WWII airfield is Manchester Ringway Airport a development that curtailed the growth of purpose-built, nearby Liverpool Airport.

The War also provided a quantum leap in the capabilities and performance of civil aircraft. As a consequence, airport owners had to provide far greater sophistication in airport aeronautical facilities, typically, runways, taxiways, hard standing for aircraft parking and navigation aids such as Radar and ILS.

Ever increasing safety regulation required airports to employ dedicated personnel and costly equipment. The cost of the local councils' ownership of their local airport began to spiral upwards.

The advent of another generation of post war aircraft introduced the jet and brought air travel to the public at large, spawning a demand for the growth of passenger and cargo facilities thus requiring councils to provide ever greater capital expenditure.

Meanwhile surface transport links improved across the nation with the construction of the Motorway network and investment in the railways. As each airport sought to compete for a larger share of the "catchment" area of passengers and cargo so the airlines, anxious to focus their resources wisely, began to pick and choose the airport that offered the best surface transport "feed". Some airport's lost where others gained. It could be argued that mainland Britain has too many airports too close together and, ideally, needs one very large airport serving the South East, another perhaps in the North West and these fed by a handful of regional airports no nearer than 1.5 to 2 hours driving from each other

In 1986, the Airport's Act ended the management of airports as public assets and required them to operate as businesses. In the absence of a national airport strategy, airports competed openly with each other and a race began to build the facilities necessary to attract the airlines. Councils faced an impossible task to raise the necessary finance and most turned to various forms of private sector initiates to bridge the gap, including outright sale.

#### **Non-aviation Profit Generation:**

Although safety remained the imperative and regulation ensured its compliance, the new breed of airport managers turned their focus to the commercial exploitation of the drawing power of the airport activity and developed a diverse range of non-aeronautical activities yielding higher profits than the aeronautical services they provided. Initially focused merely upon land surplus to the airport's operation, Schiphol Airport, Amsterdam developed the concept into an "Airport City", a business and retail community that is strategically planned and marketed to have synergy with the airport's activities. Today a successful airport seeks to generate approximately half its turnover and considerably more than half its profit from non aviation activities such as real estate development, retailing and rental.

#### Airlines:

As airports developed so did the airlines. Aircraft grew in capacity and with more seats to fill, airlines reconsidered their commercial strategies. The large legacy airlines such as Air France, Lufthansa, and British Airways took their lead from the US airline industry, developing "hub and spoke" networks. This technique worked on the broad principal that ultimate market efficiency was reached when a third of a load of passengers disembarked at the destination, a third remained on board in transit to the ultimate destination and a third connected to another flight or another airline. Under this philosophy, regional airports were firmly relegated into the role of hub feed airports. The opportunity for them to attract lucrative long hauls flights receded.

The, regional airports responded to the decline in scheduled airline business and found new revenue opportunities by attracting seasonal tour traffic and all freight services.

For a while, regional airports enjoyed a niche role in a new concept of airline operation, the low cost carrier (LCC). The business model of the LCC is to provide a short to medium distance air travel product to the market that had hitherto not afforded to fly by eliminating all unnecessary costs and maximising on the capacity of the aircraft. They chose to base their operations on regional airports where they could negotiate virtually free operating costs with the desperate airport operator, arguing that the airport could generate compensating revenues from car parking and retailing, especially Duty Free. For a while this formula satisfied both airline and airport operator although the airports struggled to generate the investment necessary for upkeep and modernisation.

At the time of writing this introduction, fierce competition between all the airlines is redrawing the map once again and forcing the low cost airlines back towards the larger airports. Ever larger aircraft delivered to the major airlines offer many more seats to be filled from the major airports and the capacity and performance of these aircraft is so great that, for the moment at least, the growth is air cargo can be absorbed in the belly holds of passenger aircraft.

The seasonal tour business too is changing as passengers prefer to book individual inclusive tours on the large airlines from the main airports.

Thus the role of the regional airport has been relegated once again to hub feed.

So far, this overview has dealt with the role of regional airports in serving the airline community. However regional airports may serve a number of aviation roles from which they may generate revenues.

# **GENERAL AVIATION (GA)**

The General Aviation community is diverse, comprising private aviation, corporate aviation, crop spraying, air ambulance, gliding, helicopters, and training.

GA has enjoyed a brief period of growth exploiting the war surplus facilities, hangars and runways; in many cases facilities that far exceeded their needs. However it was not long before the cost of maintaining these facilities exceeded the meagre revenues generated by this segment of the civil aviation market. Inevitably, failing airports had to close and much of the private flying community, operating light aircraft gravitated back to grass runway airfields.

Serving major businesses, corporate aviation has flourished. Large, high performance corporate aircraft have evolved that are generally accommodated at major airports and serviced in FBO (Fixed base Operations) specially designed service facilities. Around London, where the capacity at Heathrow and Gatwick is limited, specialist corporate airports have developed at Farnborough, Fairoaks and Biggin Hill served by the excellent road and rail connections to London that are the imperative for their corporate clients. However even here, the operational constraints are limiting further growth. If Manston could offer a guarantee of long term operation, necessary to support the high levels of investment, an FBO operator might be attracted.

#### **MISCELLANEOUS**

Regional airports may also provide the operating facility for other civil aviation activities:

### AIRCRAFT MAINTENANCE REPAIR AND OVERHAUL (MRO)

MRO is a highly competitive business where the availability of high skills at low cost is the imperative. The airlines have chosen to look around the world for low MRO costs and are willing to fly the aircraft wherever this can be found. A large investment is required to construct a modern MRO facility and investors must be assured of continuity of airport operation.

#### **SPECIALIST CARGO CHARTERS**

Employing "just-in-time" manufacturing principles, some industries charter large cargo aircraft to deliver components from remote suppliers as required. Perishable commodities such as flowers and food stuffs are often transported by air.

Cargo charterers welcome the open availability of regional airports if the transport links are suitable but this invariably requires the airport to provide largely under-utilised equipment and facilities,

#### PARCEL AND MAIL HUB

A lucrative business for a regional airport, operating a post office hub (generally at night) or a parcel hub involves a large number of aircraft arrivals and departures in a concentrated period of time. However it is best located at airports that do not have community noise issues.

#### **AICRAFT BREAKERS**

Aircraft breaking is a specialist business with few participants. A substantial runway is required but the utilisation is extremely low.



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# 1 KEY OBSERVATIONS

# 1.1 Overview:

|   | Key Observations   | Comment   |
|---|--|---|
| 1 | The airport is a major (sunk) capital asset. Nevertheless it has lacked the investment needed to develop it for today's airport role, especially for the development of key transport links to London. | The closure and surrender of the CAA licence is unfortunate as is the disposal of equipment, but can be turned to an advantage. Until a positive and realistic business plan has been developed, investment is visible through construction, and the fast rail link is near completion, that airport should remain closed                         |
| 2 | The site offers ample opportunity for considerable aviation and commercial development (with other land available for acquisition).  | A Business Plan must set out the phased development of the airport in respect of both operational facilities and commercial infrastructure, so that the full synergies of both may be realised.   |
| 3 | It is located in the S.E. where airport capacity is a major issue.   | The issue of capacity saturation and the need for additional runway capacity in the S.E. should be exploited as the core business opportunity.  |
| 4 | Although there are plans for additional runways in the S.E., the reality is that a new runway is years away.   | Whatever the political decisions arising from the Davies Commission, the planning process will take at least 10 years and the benefit of one new runway may be short lived thereafter. Manston could play a significant role in providing the required capacity even if only in the short term.   |
| 5 | Many regional airports have to supplement their aviation revenues through a visionary strategy of real estate development, Manston is no exception.  | Air operators and investors in airport real estate must be assured that the airport will remain operational for at least 20 years, thus the real estate business must be integral to the aviation business  |
| 6 | Neither Infratil nor Kent Airport Limited have offered a clear strategic option to develop the airport (with financial projections)in partnership with the Council,                                    | Either the airport is written off or a long term business plan to profit is developed in financeable phases and with full council and national political support.   |
| 7 | The airport has never sustained growth. Now, the doubts surrounding Manston's survival have become a self fulfilling prophesy.   | No business plan with a credible investment plan of less than 20 years is likely to define the commitment necessary to rebuild confidence. Phase 1 investment required could be in the order of £100m with no guarantees of success. Political support will be required to attract investors and PR work will be needed to convince the airlines. |



This Report was commissioned following the unexpected closure of the airport by its owners, Kent International Airport Limited

The Report was compiled by the FCL in only 7 working days following contract signing. Further research is therefore essential to prove and develop the comments contained herein.

#### **2 EXECUTIVE SUMMARY**

Kent Airport Limited and Thanet Council have provided FCL with sufficient data to understand the key issues and opinions that have led to the airport's closure. Kent Airport Limited declined to provide the full range of information requested, restricting it to that which they considered relevant. For this reason, the FCL Team have initiated our own research in advance of Stage 2.

### 2.1 Present State

Kent Airport Limited is selling off crucial airport equipment and facilities, rendering the airport inoperable. Any proposal to reopen the airport with existing facilities would need to consider, whether to purchase new or second hand replacement equipment.

The general appearance of redundancy and the reputation of failure will conspire to frustrate any promotion of the airport to prospective operators.

### 2.2 The Role the Airport

Airports play various roles in the civil aviation industry mix. For example, Heathrow is clearly:

- A capital city gateway airport,
- A hub for global air passenger traffic connectivity,
- A major cargo airport,
- A huge retail facility
- A large real estate business.

(It is important to note that highly successful airports attract adjacent commercial land values equivalent to city centres. Under the airport ownership and properly managed and developed in synergy with the aviation activity, the profits from an airport real estate portfolio help to sustain the airport's investment planning.)

# 2.3 Manston as a UK Regional Airport

Manston has always been perceived as a Regional Airport.

Kent Airport Limited is right to identify the negative marketing features of the airport's location as a regional airport. The airport is not well located to serve as a travel interchange serving the wider UK.

Regional Airports provide an operational service to most segments of the civil aviation operation, typically regional airlines, corporate aircraft, flying training, private flying and so on.

The primary segment is commercial air transport (the airlines). However, this business is rarely profitable as airports struggle to resist the downward pressure on airport charges as the airlines seek to offer lower fares.

Cargo generates very little revenue for an airport and is invariably unprofitable.

Much of the revenue from FBO's comes from the sale of fuel and the provision of aircraft maintenance.

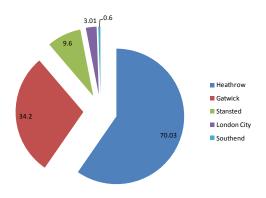
Regional Airports need the profits from rentals, retail, car parking and real estate to bridge the profit gap of the aviation activities.

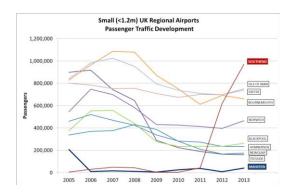
Schiphol Airport Amsterdam invented the concept of the Airport City, the development of specialised retail and business community located at the airport with synergy between the airport activity and the focused development of the real estate.

|                              | MANSTONS ROLE AS A UK CIVIL AIRPORT   |   |  |  |  |  |  |
|------------------------------|---|---|--|--|--|--|--|
| ROLE                         | ATTAINMENT  | REASON  |  |  |  |  |  |
| Regional Airport             | Repeatedly failed to sustain scheduled airline services and attract other profitable aviation activities.   | <ul> <li>Poor UK network location</li> <li>Poor surface transport links</li> <li>Limited UK catchment area</li> </ul>   |  |  |  |  |  |
| Cargo Airport                | Proven record of success in attracting all-freight air carriers.  | <ul><li>Ideal operating facilities</li><li>Ease of access.</li></ul>  |  |  |  |  |  |
| London Corporate FBO         | Failed to attract a share of the London Corporate market.   | <ul> <li>Lack of quality facilities and</li> <li>Poor surface transport links</li> <li>Farnborough to Canary Wharf 45 miles / 1.14 hrs</li> <li>Manston the Canary Wharf 72 miles 1.25 hrs</li> </ul> |  |  |  |  |  |
| London Satellite Airport     | Failed to compete with other satellite airports.  | <ul><li>Lack of quality facilities and</li><li>Poor surface transport links</li></ul>   |  |  |  |  |  |
| Airport "City" Business Park | Failed to develop a viable estate portfolio.  Failure to sustain activity growth  Lack of vision  Lack of infrastructure.   |   |  |  |  |  |  |
| NOTE 1:                      | Where airports are close to their capacity, they are able to sustain published aviation tariffs. The activity drives up real estate values and the throughput generates retail revenues. Such airports generate substantial profits.  |   |  |  |  |  |  |
| NOTE 2:                      | Manston Airport was up for sale for some time. That there was no interest reflects its poor business reputation, (it has never made a profit in all the years since the RAF moved out) and the general industry perception that it is not in an ideal location. It has failed to fulfil its perceived role as a regional airport. |   |  |  |  |  |  |

London Air Passenger Market - 2011

Total market: 134,997,486





### 2.4 Manston Airport's Passenger Market

Kent Airport Limited had commissioned a professional passenger market assessment (DF Aviation Consultancy) however this stopped short of a demand forecast. Although we were told of the contacts made with airlines, no minutes of meeting were available.

FCL agrees that as a regional airport, Manston has no natural sustainable passenger market. The practical experience of the airport's operation demonstrates that its catchment area and its propensity to travel is insufficient to generate for the airlines enough traffic on one route to sustain a twice daily operation, the minimum required to risk launching a service.

The Infratil Masterplan for Manston does not provide a sound basis to initiate a refurbishment plan nor does it convey an attractive proposition for investors and potential users of the airport. It is not surprising therefore those airlines have shown little faith in its realisation.

Nevertheless, the airport is s approximately and hour's surface travel from London. As saturation of runway capacity in the S.E. moves towards reality and decisions to build new runways seems years away, Manston's location should enable it to compete for a market share as a London airport.

Southend Airport on the opposite bank of the Thames, has demonstrated that a share of this huge and lucrative market can be captured with adequate facilities and a travel time to London competitive with other London Airports (Luton, Stansted, Gatwick and so on).

FCL's research has discovered a submission by Infratil to the Davies Commission, this has yet to be analysed.

# 2.5 Cargo

Kent Airport Limited had commissioned a professional cargo market assessment (ILS Solutions) this also stopped short of a demand forecast. The assessment pointed towards a contact list and a price based marketing strategy but we are unaware of follow up.

The construction of an international component assembly plant (e.g. car plant) on nearby land would dramatically stimulate the cargo throughput.



#### **IMPORTANT:**

The Davies Commission is due to decide whether or not to shortlist a Thames Estuary option for new airport capacity for London, and will then undertake formal consultation on the shortlisted options.

Manston is not shortlisted.

### 2.6 **Business Planning**

Kent Airport Limited is right to identify the ongoing evolution of the airline industry as new aircraft enter service with ever more impressive performance capabilities. It is true that these developments detract from Manston's immediate market opportunity, in the short term.

Kent Airport Limited's negative operating financial projections are reasonable, based on past performance but it must be noted that an analysis of the accounts of some major airports would show a similar shortcoming. The pressure on the air travel and air cargo industry to reduce tariffs against a background of high fuel costs places inevitable pressure upon them to drive down their operating costs especially all costs associated with the time the aircraft is on the ground, including airport charges. Airport operating revenues are under pressure and must be compensated by exploiting the aviation activity base to attract other revenue generating activities.

Kent Airport Limited did not provide a comprehensive Business Plan to support their decision to close the airport. The decision would appear to have been made on the basis of past performance and short term projections without the support of a credible long term (minimum 20 years) investment plan, a key component of a detailed Business Plan (developed logically from a demand forecast through a capacity plan, phased master plan, CAPEX/OPEX projections to financial projections for the full planning term).

FCL's observations of Manston Airport at the end of Stage 1 are:

- It is not unique among the UK's regional airports in failing to secure a scale of aviation activities that will cover the cost of its aviation related operation.
- It is fortunate among regional airports in its location in the S.E. so close to London, for, given significant improvement in road and rail links to the capital, it could compete as a London airport.
- The trigger to revival would seem to be a fast rail link to London and the protracted timescale needed to properly address the saturation of the S. E. airports.
- The promotion of any revival will depend upon a credible investment plan and initial construction that encompasses the trigger (above) and provides airline user friendly facilities.
- The success of Manston revival must be proved through a 20 year business plan with financial projections based on the assumption that the trigger will be realised.
- More work must be done to engage the airlines' views on a Manston Business Plan that offers a 20 year commitment.

# 2.7 The Road to Sustained Profitability

The chart below offers FCL's view of the path to profitability. Note that, even with an associated business park, the airport is unlikely to succeed and, in our opinion, will generate substantial operating losses. However, through phased planning and investment aimed at capturing a share of the London traffic, the airport could move into profit. A nearby international component assembly plant (e.g. car factory) would add further value.



# 3 CONCLUSIONS AND RECOMMENDATIONS

# 3.1 THANET DISTRICT COUNCIL'S OBJECTIVES & SUMMARY OF CONCLUSIONS

# Stage 1 – The Brief

| THANET COUNCIL'S OBJECTIVES  | FCL'S CONCLUSIONS   |
|--|---|
| Validation of the underlying costs and profit drivers.   | We have had insufficient financial detail and insufficient time to probe Kent Airport Limited's financial figures. However, in our view, the order of costs as presented are in line with the operation as it was before closure.                                     |
| Validation of assumptions regarding investment needs.  | We are unable to validate the assumptions many of which are now rendered irrelevant by the airport's closure and the sale of assets.  |
| Take a view on whether all available opportunities have been taken to identify different aircraft operators capable of being attracted to and capable of operating from the airport – freight and passenger, and | In our view Kent Airport Limited rightly commissioned professional reviews of the commercial passenger and cargo operator markets but these offered no projections of demand.   |
| including short haul aircraft and private aviation.  | We have no evidence that the reviews were subjected to detailed scrutiny or followed up with sound commercial propositions to identified target airlines.   |
|  | In our opinion, overtures by Kent Airport Limited to airlines to introduce air services to Manston were unlikely to succeed without the tangible evidence of substantial investment necessary to convince them of the medium term sustainability of their operations. |
| Take a view on whether all available markets for ancillary airport operations which could take place at the airport have been considered.  | In our view, Kent Airport Limited has identified all the aviation related activities that are typical of regional airport but we have no evidence that these markets have been assessed and projected into a comprehensive Business Plan.                             |

#### 3.2 Recommendations

The FCL Team are not convinced that enough has been done to develop a visionary strategy and Business Plan for Manston. Therefore, FCL recommends that Thanet District Council should take the following next steps:

- 1. Revisit the Stage 2 ToRs and instruct FCL, typically:
  - a. Develop a high level Vision of the maximum planning potential of the airport, identifying any further potential land acquisitions necessary to fully realise the potential.
  - b. Develop a high level, 20 year, Business Plan, commencing from the opening of the rail link, that integrates five business models:
    - 1) Manston as a London Airport,
    - 2) Manston as a multi-purpose Regional Airport,
    - 3) Manston as a Cargo Airport,
    - 4) Manston as a Corporate FBO (Corporate aircraft service centre),
    - 5) Manston as a sophisticate Airport City (Real estate).
  - In partnership with the Council, undertake a first-cut review of the environmental issues of major development.
  - In partnership with the Council, define an aero-political strategy to promote Manston as a London airport.
  - e. In partnership with the Council, define a framework "Airport City" strategy.
  - f. In partnership with the Council, develop an investment strategy
- 2. Open discussions to establish the earliest construction of the rail link,
- Open discussions to facilitate a Phase 1 "Airport City" business park including the relaxation of Planning restrictions / Processes,
- 4. Instruct FCL to engage an expert to establish the cost of replacing the equipment essential to resume operations,
- Open discussions on investment funding,
- 6. Open discussions with Government on the S.E. Runway issue.

Meanwhile there is no commercial justification for reopening and marketing the airport in the same configuration as it was upon closure. It should remain closed but arrangements put in hand for the low level maintenance of key facilities.

#### 4 UK DEMAND FOR REGIONAL AIRPORTS

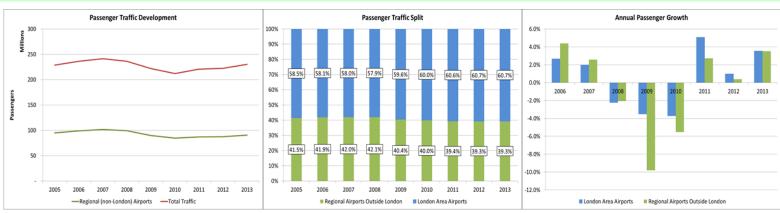
### 4.1 Passengers

In 2013 there were 230.1 million passengers using airports within the United Kingdom. Those airports serving the London Area including Heathrow, Gatwick, Stansted, Luton, Southend and Manston dominate total activity accounting for 139.7m passengers. The rest (loosely termed Regional or non-London Area airports) accounted for 90.4m passengers. The split of traffic has been steadily increasing in favour of London Area airports rising from 58.5% in 2005 to 60.7% in 2013.

Since 2005 and throughout the recession in the UK the overall development of

passenger traffic has hardly changed, rising only by 0.08% (CAGR) over the period. This masks the fact that traffic at regional airports has actually declined 0.53% compared with a rise of 0.49% for those in the London Area over the period. Furthermore, whilst growth rates at regional airports in 2006 and 2007 were ahead of those in the London Area, since then rates have been lower with the impact of the recession hitting traffic development in the regions far more severely than that in the London Area. In 2013 however growth at regional airports was (3.5%) almost the same as the London Area (3.54%).



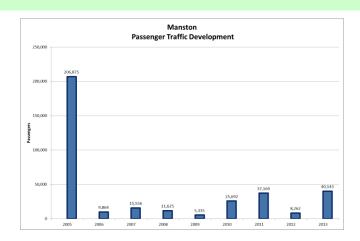


This document is confidential and its circulation is restricted.

Passenger traffic development at Manston during this period (2005-2013) has been small apart from during 2005 when a low cost carrier EUJet briefly set up a base at the airport only to collapse and cease operations

in July of that year. In the period prior to closure announcement, the arrival of the Dutch carrier KLM, providing services directly to Amsterdam, appeared to herald the beginnings of a new dawn at the airport.

Figure 2 Passenger Traffic at Manston 2005-2013



Generally speaking traffic development at the airport has been lower than might be expected for a smaller airport in the UK, especially when compared to other airports at similar coastal locations such as Blackpool, Humberside and Newquay. They all tend to have low traffic flows, yet even they have seen greater flows than Manston. Indeed there are examples at coastal locations such as Exeter and Bournemouth that can support larger traffic volumes. It therefore remains a mystery why a major piece of aviation infrastructure at a

coastal location in the UK cannot support greater volumes than at Manston.

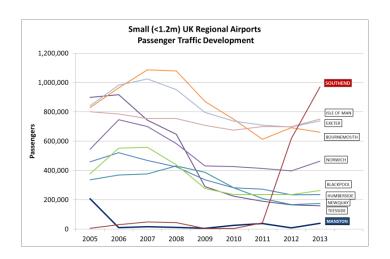
Of particular interest to Manston is the development of traffic at Southend Airport. For many years the airport handled low passenger volumes until in 2008 it was purchased by the Stobart Group and major investments followed. These included a newly terminal building, control tower and an extended runway. However the most significant development was a new station built within walking distance of

the terminal enabling access to regular rail services to central London in under an hour.

EasyJet began operating services opening a base at the airport in April 2012 and a rapid

increase in passenger numbers followed; from 42,439 in 2011 to 969,950 in 2013. In the first four months of 2014 traffic had risen by a further 40%.

Figure 3 Passenger Traffic at Smaller UK Airports 2005-2013



This is relevant to Manston because Southend has shown that where access to the London area conurbation can be achieved swiftly and seamlessly the potential for airport passenger expansion can be rapid. Traffic development is not simply a function of local catchment area but of accessibility.

This model holds considerable potential for the Thanet region because it enables the airport facility at Manston to move towards achieving a critical operating mass in a realistic time frame. If it could be replicated on the site the scale of traffic flow would generate activity to justify the levels of investment likely. This need not be necessarily measured simply in cash-flow terms for the airport operating

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account but more importantly from the regional perspective at the job creation and economic regeneration levels.

The key question is which carrier would respond to this development of the airport and its access in order to develop traffic at the airport. An extensive review of potential candidates undertaken by previous consultants concluded that EasyJet, Ryanair and Jet2 are likely targets although a further potential target could be the Low Cost-long haul operator Norwegian.

The airport owners made the following comment when asked about contact with airlines:

"....we spoke with a number of airlines. No passenger airlines with any current activities had any interest to start operations at the airport (albeit Ryanair had had an interest that went away just prior to Christmas)"

Alistair Welch July 2014

This response from the airlines is not unsurprising given that the fundamental issue of access to London area conurbation has not yet been addressed by any investment proposal at the airport. Indeed it seems

probable that the airport's history of consistently failed passenger operations and marginal airline activity would undoubtedly dissuade most carriers. It is interesting to note however the flicker of hope - which came and went - from Ryanair, demonstrates that even without access resolution, traffic expansion could be possible.

There is therefore a challenging period ahead where the issue of reduced journey time to the London area conurbation needs to be radically addressed. Even the proposed Thanet Parkway station would require some additional mode of transport to connect passengers from the terminal to the station. A solution is necessary that minimises journey time to the capital. This is a critical issue since there are so many alternative airport choices that the traveller to and from the London conurbation can decide upon.

However if an improved access could be resolved the future potential of the airport could soon be realised.

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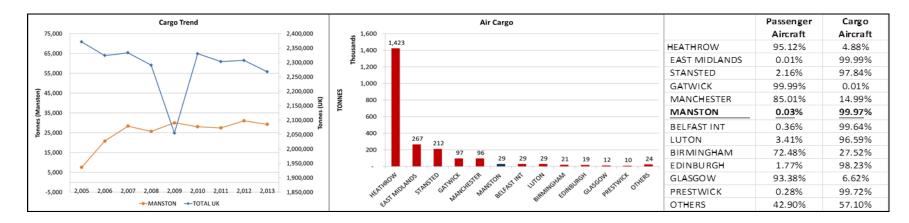
### 4.2 Cargo

# 4.2.1 UK Background

Manston is the sixth largest airport for air cargo in the UK representing an important and often overlooked aspect of the operation at the airport. In 2013 cargo reached 29,306

Tonnes. This was down 6% on the previous year in a market that was down 1.7% throughout the UK on the year previously. Almost all (99.9%) of the cargo at Manston was carried on dedicated cargo aircraft.

Figure 4 Cargo Trend; Largest Cargo Airports in UK; Proportion Cargo Carried by Aircraft Type Source CAA



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By comparison London Heathrow, the largest cargo airport in the UK handling over 1.423million Tonnes in 2013, handled only 5% on dedicated cargo aircraft with the balance carried in the under-belly of passenger aircraft. This was true also of Gatwick which handled almost no cargo on dedicated freighters with most its cargo conveyed on passenger aircraft.

East Midlands is the UKs most important dedicated cargo airport with nearly all its 267,000T carried on cargo aircraft. It is an important base for Royal Mail as a major overnight mail hub as does DHL, Fedex, TNT and UPS express cargo operators A significant factor in the success of the airport is its close proximity to an excellent motorway network which ensures that 90% of the land mass of England and Wales is within a four hours truck journey from the airport.

In addition twenty four hour operations also make the airport friendly for freighter operations. Despite all these advantages East Midlands airport cargo throughput has only grown by 5.6% in the past nine years..

Airport competition in the UK is naturally centred on London Heathrow and it is estimated that approximately 85% of the

UK forwarding industry is based with a 10 mile radius of the airport.

Manston airport also faces competition from five airports in Europe with excellent motorway links to the south east of England. Frankfurt (699km), Amsterdam (483km), Brussels (319km), Paris (377km) and Liege (403km) all have excellent cargo hub capability with fast motorway connections across Europe and to the UK.

# 4.2.2 Cargo Trends

In general airfreight business has had a turbulent period since 2010. The economic downturn and the fall in demand from China and Asia has significantly altered the key economic drivers of the cargo business. There is been very little growth in airfreight from Asia since the peak in April 2010. This has been exacerbated by the increase in aviation fuel since 2009. The current Fuel Price Index is 559 which has stabilised in the past year but the price of aviation fuel is still high at USD120/bbl.

Over recent months airfreight markets have maintained the 2013 year-end improvements but there has been no further increase in growth. Stronger economic growth has not generated the

expansion in economic trade as it has done in the past, as production has been on-shored due to a variety of factors.

Airlines are replacing their passenger aircraft with more fuel efficient aircraft at an increasing pace. Wide bodied twin aisle passenger aircraft deliveries are expected to grow by 19% this year which will effectively increase belly hold capacity worldwide by 8% allowing more and more cargo to be conveyed in the free under-belly cargo holds of passenger aircraft.

Capacity is growing at a far faster pace than demand for airfreight and as sea freight yields are falling there is also a shift from airfreight to sea freight.

The climate for cargo-only aircraft operations could not be much worse. This has led to decisions by many major airlines to move out of freighter aircraft or to down size their fleets significantly. Current developments in the carrier market include:

- Japanese Airlines (JAL) which have moved away from freighter aircraft in 2013 as have
- British Airways in May 2014.
- MK Airlines a UK Cargo Airline ceased operations in 2010. (It previously

- operated produce freighters into Manston).
- Eva Air of Taiwan is reviewing its freighter operations.
- Lufthansa is reshaping and reducing its freighter fleet
- Air France/KLM are actively reviewing their fleets and there are indications that a sale of Martinair the wholly owned subsidiary of KLM is about to be sold.
- Cathay Pacific has ordered more freighters but these are being delivered into the desert for storage. Cathay Pacific has also cancelled freighter operations to Manchester after many years and restructured its freighter operations.

By contrast the only airlines currently increasing their freighter fleets are the four Middle East carriers, Emirates, Etihad, Qatar Airways and Saudia Airways Cargo. In Asia Korean Air still operate and extensive freighter fleet but it has no operations into the UK.

In conclusion dedicated freighter operations are not finished but trade flows coupled with strong demand need to be in place to make such operations viable in the next few years.

### 4.2.3 Cargo Opportunities

Although the current climate for cargo operations is not positive especially for "all cargo operations" there are still cargo airlines who successfully manage niche opportunities.

CAL of Israel is one example of a profitable cargo only airline. UN and other relief charity organisations could use Manston as a centre for their operations. The UK is the second largest contributor in the world to disaster relief flights. A flexible low cost operation is required by the major relief organisations.

The slot position at Stansted is tighter than it was under previous ownership as the success of Ryanair and Easy Jet is beginning to put pressure on slots at Stansted. Manston could be a south east alternative to "cargo only operations" out of Stansted.

Perishable and Equine freighter charters have been operated successfully in the past and with a strong marketing effort is possible that these activities could be restarted as there was a proven track record of fast and efficient operations of these two specialised activities.

In addition the produce charters activity could be augment by industry investment if packaging and distribution on airport activity.

#### TAG Farnborough,

Recently voted International FBO of the Year by readers of Aviation International News magazine for the sixth consecutive time.

Invested more than £100 million (US\$160.7 million) over the last 10 years to improve the airport's facilities and infrastructure.



The airport now features an award-winning main terminal, control tower, on-site radar and two three-bay hangars, providing over 240,000ft2 of hangarage space, and further planned developments include re-designing one of the airport's departure lounges, with the introduction of a bar and new seating areas.

www.farnboroughairport.co.uk/

#### 4.3 General Aviation (GA) / Corporate

General Aviation is defined according by UK CAA to encompass aircraft ranging from microlights and amateur-built aircraft, through balloons, airships and gliders, to piston twins and single-engine turbine aeroplanes up to 5700kg Max Take-Off Mass (MTOM), and single-pilot helicopters up to 3175kg (MTOM).

GA provides significant economic benefits for the UK of around £1.4 billion per annum and has a large direct and indirect employment base. The sector delivers vital services, including search and rescue, mail delivery, lifesaving (organ) transport, law enforcement, aerial survey and environmental protection as underpinning the training of tuture pilots, around-based aircraft engineers

UK and international destinations that do not have, and are unlikely to develop, scheduled air services or other direct transport links. GA aerodromes can also complement commercial air transport and provide increased connectivity at important hubs such as London. These links are particularly important for

local businesses. According to a recent study ninety-six per cent of city pairs served by

business aviation in Europe have no scheduled air connection.<sup>1</sup>

The UK Government is keen that, while recognising that at congested airports this may not be always be appropriate, it encourages airport operators to ensure that GA aircraft are able to continue to enjoy equitable access to their airports.

There is evidence however that GA activity is declining and that this is not just a result of economic recession. Excessive regulation, increasing costs and taxation are all perceived to be contributing factors.

The number of annual private pilot's licence applications has fallen dramatically from 4500 in 1991 to around 2500 in 2012. There have also been recent declines in the number of hours flown by fixed-wing light aircraft: estimates<sup>2</sup> suggest 7% fewer hours flown in 2012 than 2003.

Overall revenue generated from GA is limited in scope and tends not to factor as a major contributor to airport economic activity. The range of competitor airports for Manston

Page

<sup>&</sup>lt;sup>1</sup> The Role of Business Aviation in the European Economy, Oxford Economics, October 2012

<sup>&</sup>lt;sup>2</sup> DfT GA Challenge Panel Interim Report – January 2014

#### **Business Aviation**

London Biggin Hill Airport is just 12 miles from Canary Wharf and 15 from Central London, and it has three full service FBO's to cater for all the different wants and needs of the business aviation user.



where serious high yielding corporate aviation activity takes place include Lydd, Luton, Biggin Hill and Farnborough. In several instances there are significant investments by Fixed Based Operators present at these airports.

On balance therefore the likelihood that the continuation of GA at Manston will be a reason to prompt the retention of the airport is slim. However there is no doubt that GA is a valuable contributor to airport activity for training and recreational purposes and it would seem likely that the airport would be

- Around sixty based business jets ranging from small four seat citations to ultra long range Gulfstream, Global, and Falcon jets
- Convenient opening hours.
- Maintenance and hangarage facilities for most types of business jet.
- The Airport is a Port of Entry with full border control facilities during all opening hours.
- No runway slots required.
- Very user friendly airport.
- Close to the centre of London and in the heart of the South East of England.



#### 5 PRESENT STATE OF THE AIRPORT

At the time of closure to aircraft movements the airport was operating in a safe and secure manner. The state of the airport's operating surfaces can therefore be considered as being adequate. However essential aeronautical equipment has been disposed of leaving the airport inoperative. As with any facility that becomes unused deterioration will now occur as routine maintenance and heating is withdrawn. The airport was briefly visited on the 2<sup>nd</sup> July and the following opinions formed:-

#### 5.1 Main Runway

The main runway is 2752m x 61m on a heading of 28 / 10. Originally constructed during WW2 it replaced the grass runways that had served the RFC, and then the RAF, since 1915. It has seen several re-surfacing operations, concluding with an asphalt overlay in 1999 (undertaken by the PSA) and then a slurry-seal type coat in 2013 (as advised by the current owners). The runway is therefore in pristine condition and should require only minor maintenance during the next 5 to 10 years.

Terminal Building – The passenger terminal was opened by The Duchess of York in 1989 with flights then operating to Yugoslavia and Spain. The building is set out on a single level with all the usual processes (check-in / baggage reclaim etc) well arranged. Some areas may require re-decoration but the overall impression is that the building is well maintained and more than adequate for the processing of up to, say, 750,000 passengers per annum. The running cost of the building may be high as a building of the late 1980's will not have the same thermal insulation values as a modern structure. Some elements of the building (e.g. electrical installations / flat roof covering) may need renewal in the short term; this opinion is based upon the 25 year design life often used at that time.

#### 5.2 Hangers

There are a number of aircraft hangers, and similar small sheds, on the site. These were not inspected in detail but we were advised that they are all generally water-tight and fit for purpose. It is also understood that these hanger buildings do not contain any specialist aircraft maintenance or servicing equipment.



#### 5.3 Cargo Building

The Cargo building, including a cold store and pallet conveyor, has not been extensively used as the majority of cargo handling was undertaken on the apron, direct from the aircraft to the lorry. There was one water leak noted, possibly from a blocked roof gutter, which will require attention. The cold store and pallet conveyor has had very little, if any, use and so is in very good condition.

#### 5.4 Equine Facility

The equine building was not inspected but we were advised that it is only a few years old and had only handled about 10 horses since it was opened. It is therefore reasonable to assume this facility is also sound.

#### 5.5 Aircraft Parking aprons and taxiways

There are 2 aprons, one for passenger and one for cargo aircraft. Both are formed of concrete and both are in good condition. The passenger aircraft stands nearest to the terminal building are on a significant slope, but remote, level, stands are available close by.

#### 5.6 Car and Vehicle parking

There is ample car and vehicle parking adjacent to the terminal. Local information is that the car parks have never been congested. Some minor repairs are required to the car park surface and the general area could benefit from attention to the soft and hard landscaping.

#### 5.7 <u>Air Traffic Control Tower and Fire</u> Fighting and Rescue centre

These buildings were not inspected but from a distant view they both appeared sound.

To conclude the facilities of the airport are in a generally good condition and are at least equal, or better, than some other regional airports in the UK. The airport equipment was also seen to be in a generally reasonable condition but we understand that items are now being offered for sale.





#### **AIRPORT PLANNING**

#### 6.1 The Infratil Masterplan

Kent Airport Limited do not appear to have prepared an airport masterplan but refer to the Kent International Airport, Manston – Master Plan November 2009 – developed by their predecessors, Infratil Airports Europe Ltd.

The following comments refer to the global zoning strategy of the airport estate as illustrated in that plan, the illustrations of which are contained in Pages 58 to 60 of the relevant document.:

- (a) The overall site zoning policy does not seek to optimise the operational land footprint in order to maximise other commercial activities within the current airport boundaries.
- (b) The Master Plan advocates future investment in separate Cargo and Passenger aprons, which may not present the optimal solution in terms of capital and life time costs, operational flexibility as well as consolidated servicing and staffing requirements.
- (c) The proposed Passenger Terminal development, on the eastern and western flanks of the passenger apron is likely to frustrate the

- potential future expansion of the apron pavement and limit its flexibility to accommodate a broader potential future fleet mix.
- (d) The proposed alternate location of fuel storage facilities immediate to the Threshold 28 runway strip safeguarding area places the hazardous installation in close proximity to the position of greatest accidental risk at the airport.
- (e) The Master Plan has failed to fully capitalize on the potential ground transportation resources and links in the immediate vicinity of the airport boundaries
- (f) The Master Plan did not explore additional land acquisition opportunities within the context of related commercial activities.

#### 6.2 Planning Options

In view of the above it is recommended that the airport is subject to a rigorous capacity and operational zoning strategy review. Such a study shall address the following key issues:

- (a) Current and potential future ground transportation modal interface conditions. Stimulation of commercial opportunities through enhanced transportation links
- (b) Definition of the optimal sustainable operational airfield footprint envelope commensurate with the potential unconstrained capacity of the single existing runway and the projected aircraft mix. (Saturation Capacity Plan)

The definition of a high level Airport Saturation Plan will provide a strategic framework tool and decision matrix which can then be used to test and validate the following granular development aspects:

a) Identification of operational land use requirements specific to target market sectors and their technical requirements reconciled with the demand forecast targets.

- b) Definition of the footprint(s) of residual land resources within the current airfield boundaries available for other aviation-related and general commercial activities.
- c) Illustration of short, intermediate and long term enabling tactical development initiatives to release maximum commercial land area in line with (d) above.
- d) Delivery of environmentally sensitive and sustainable solutions using leading edge and emerging technologies.
- e) Preparation of CAPEX aligned with any investment requirements to achieve those targets identified under headings (c) to (f) as outlined above.

**Appendix – A** to this report provides a range of generic illustrations consistent with the advocated planning deliverables.

At this stage of the study such illustrations are not aligned with any specific operational or commercial targets or business strategies. They are, however, representative of a holistic approach to Airport Planning with a view to optimising the use and value of the existing available land and technical resources of the airport estate.

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#### 7 INDEX OF DOCUMENTS PROVIDED BY THANET DISTRICT COUNCIL AND KENT INTERNATIONAL AIRPORT LIMITED

| TITLE  | SUBJECT  | PROVIDED BY             |
|--|--|-------------------------|
| Project Brief –  | Viability of Manston Airport, June 2014                      | Thanet District Council |
| No document Name   | Kent International Briefing Notes                            | 2 July 2014             |
| Kent International Airport and Kent facilities<br>Limited      | Management Accounts Financial year ending 31 March 2014      | Thanet District Council |
| Manston Market Assessment                                      | Market evaluation prepared by DF Aviation Consulting Limited | Thanet District Council |
| High Level Air Cargo Overview - Freighters                     | ILS Solutions High Level Market Overview                     | Thanet District Council |
| Kent International Airport, Manston – Master<br>Plan           | Infratil Airports Europe Ltd. Masterplan  November 2009 –    |                         |
| Thanet Economic and Employment Assessment December 2012        | County demographics  | Thanet District Council |
| Thanet Local Development Framework Employment Land Review 2010 | Development Planning   | Thanet District Council |
| Thanet Employment Topic Paper May 2013                         |  | Thanet District Council |

In addition to these documents, FCL accessed the Infratil submission to the Davies Commission.

#### **SIGNIFICANT EXTRACTS FROM THANET REPORTS:**

#### Thanet Economic and Employment Assessment – Report 2012

Thanet benefits from a regionally significant airport and a major cross channel port, both of which have identified growth potential. If Manston Airport can achieve its ambitious growth plans, this could result in 2,000 additional jobs and up to 420 additional induced jobs as a result of the impact on the wider supply chain. We must however be cautious in interpreting these figures, as despite some promising developments, the airport faces a number of challenges.

The majority of manufacturing sectors have continued to decline during this time, as has agriculture forestry and fishing.

It is however clear that whilst across the UK around 5 per cent of businesses have the potential to export, in Thanet this figure is half (2.5%). This can be partly explained by foreign ownership figures which are lower than the UK average although given the presence of Ramsgate Port and Manston Airport provided easy access to overseas markets we might expect this figure to be higher.

If Manston Airport can achieve its ambitious growth plans, this could result in 2,000 additional jobs and up to 420 additional induced jobs as a result of the impact on the wider supply chain.

#### **Employment Land Review 2010**

In line with Government guidance, the Council wishes to ensure that its strategy, land allocations and policies provide for choice, flexibility and competition, and are sustainable and based upon a realistic assessment of the needs of local business and market reality. Thanet's economy is one the key themes in the Council's Corporate Plan, with the main priorities to attract inward investment and support indigenous companies, attracting more jobs to the area and helping those who are unemployed. Note: This policy may be at variance with a priority to attract commerce to the airport.

There are very few major employers in Thanet, with over 65% of businesses employing between 1-4 people. Out of a total of 4,000 firms, only 100 firms employ more than 100 people. (Figure 10). The largest companies in the district include Thorley Taverns, Cummins, Piper Windows, Thanet Earth and Tescos.

#### **Government and European Funding**

2.39 Thanet benefits from having Assisted Area Status. Through the Grants for Business Investment (GBI) scheme the aim is to assist businesses to increase productivity by funding capital investment in equipment and technology. It is for businesses looking to expand, modernise, rationalise, diversify and increase productivity in order to maintain or establish sustainable growth and provide skilled jobs. Thanet is a Tier 2 area where any size of business can access the grant, with a possible 15% more funding available than a Tier 3 area. It is important that the District maximises the potential of its Area Assisted Status in order to promote inward investment and support the growth of indigenous companies to achieve economic development. 2.40 Under the

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European Structural Fund Thanet has Objective 2 Status which enables the district to benefit from the European Competitiveness Grants through a bidding process and qualifies for Interreg Funding which is dependent on having partners in two other European Regions outside of the UK.

**Regional Spatial Strategy: South East Plan** *Policy EKA5: The Gateway Role* recognises that the growth of gateways should be supported as catalysts for economic development. Kent International Airport should become a catalyst for economic development and growth as a major passenger terminal, and the large land reserves within and adjacent to this should remain available for ancillary and related activity.

#### Thanet District Council's Corporate Plan; 3.47 An integrated transport hub:

- work with KIA to agree a masterplan for the airport
- develop a sustainable business plan to enable the Port of Ramsgate to be successful
- Work with the transport authorities to develop a plan to improve public transport links in Thanet
- work with partners to maximise benefits of the high speed rail link

Policies EC2, EC4 and EC5 relate to the Kent International Airport (KIA) at Manston, and the surrounding land. The policies support the growth of KIA which has significant potential to encourage the economic regeneration of Thanet, and East Kent as a whole. Policy EC4 relates to the land north of the runway (the Northern Grass), and is restricted for airside development purposes; for activities that have an operational requirement for direct access to aircraft and therefore dependent on a location immediately adjacent to the runway or capable of direct access to it via taxiways. This allocation, whilst restricted, does provide additional employment land for the district, as well as supporting the development of the airport. Planning permission was granted for a large hanger for aircraft painting, but this has now expired, and a freight building for a Border Inspection Point to facilitate the movement of fresh produce has been built. The only other airside development currently present has been established at the airport for a number of years.

#### **Supporting the Growth of Kent International Airport (KIA)**

The future growth of the airport to one of regional significance is supported as a preferred option for providing economic prosperity in the District, which continues the view of the existing Local Plan. One of the currently preferred options supports the recommendations set out in the Draft Airport Masterplan. These recommendations include the release of the Northern Land, which is currently protected for airside development, for general employment purposes.

#### **Thanet Employment Topic Paper May 2013**

Facilitating further growth at the Airport and Ramsgate Port could unlock further opportunities. Current export levels from Thanet are low and there could be growth potential in this area given the close proximity of Thanet to Europe coupled with transport links. There is also the potential for growth given knock on effects from the airport in terms of the supply chain. Facilitating further growth at the Airport and Ramsgate Port could unlock further opportunities. Current export levels from Thanet are low and there could be growth potential in this area given the close proximity of Thanet to Europe coupled with transport links. There is also the potential for growth given knock on effects from the airport in terms of the supply chain.



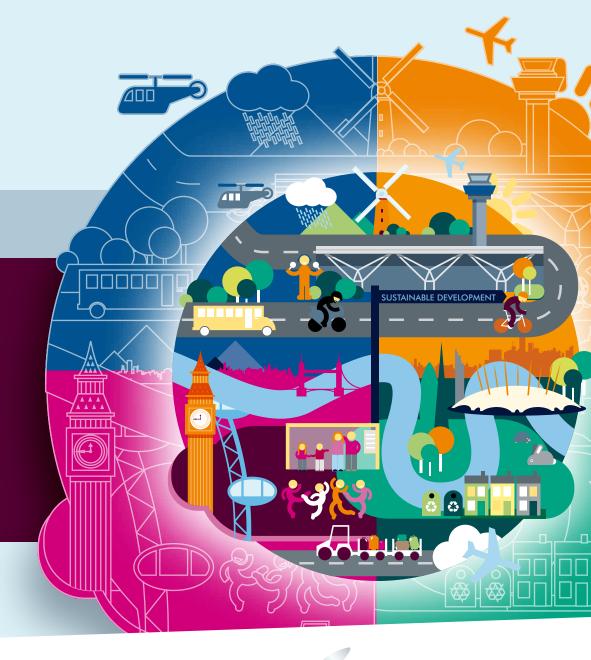
#### 9 GLOSSARY OF TERMS

| TERM  | EXPLANATION                                       | TERM        | EXPLANATION   |
|-------|---|-------------|---|
| AODB  | Airport Operational Data Base                     | PSA         | Present State Analysis                              |
| CAPEX | Capital Expenditure                               | PSR         | Present State Report                                |
| CCTV  | Closed Circuit Television                         | "Quick Fix" | A period of concentrated effort to rectify minor    |
| CUTE  | Common User Terminal Equipment                    |             | deficiencies  |
| FCL   | Falcon Consultancy Limited                        | RFFS        | The Fire and Rescue Service                         |
| FBO   | Fixed Base Operation (Corporate Aviation)         | SLA         | Service Level Agreements (typically between MSE and |
| FIDIC | Fédération Internationale Des Ingénieurs-Conseils |             | Customs/Passport Control)                           |
| FIDS  | Flight Information Display Systems                | VOR/DME     | Aeronautical Navigation Equipment (Visual Omni      |
| HR    | Human Resources                                   |             | Directional Range & Distance Measuring Equipment)   |
| ILS   | Aeronautical Navigation Equipment (Instrument     |             |   |
|       | Landing System)                                   |             |   |
| MRO   | Aircraft Maintenance repair and Overhaul Base     |             |   |
| MARS  | Multiple Aircraft Ramp System                     |             |   |
| OLS   | Obstacle Limitation Surface                       |             |   |
| OPEX  | Operating Expenditure                             |             |   |
|       | AIRPO   | ORT CODES   |   |
| AMS   | Amsterdam Airport Schiphol                        | MSE         | Kent International Airport                          |
| вон   | Bournemouth                                       | SEN         | Southend Airport                                    |
| JER   | Jersey  | SOU         | Southampton   |
| LCY   | London City                                       | STN         | London Stansted                                     |
| LGW   | London Gatwick                                    |             |   |
| LHR   | London Heathrow                                   |             |   |

10 APPENDIX A – CAPACITY PLAN

**SUMMARY** 

# SUSTAINABLE DEVELOPMENT PLAN 2015



london stansted airport

### FOREWORD by Andrew Harrison – Managing Director

Stansted is a great airport with a really bright future. Our airport is the primary airport for the East of England; serving as the key gateway for the region and also for London. We have an opportunity to support economic growth, provide better connections to the world, create employment and help attract visitors and investment. It is important to us that we build long term relationships with our local community, our partners and stakeholders.



We have ambitious plans for Stansted. Following M.A.G's acquisition of the airport in 2013, we set our sights on competing with the London airports. We want to create an airport that airlines and passengers enjoy using, as well as an asset which the communities we serve can be proud of. We've made good progress; traffic is now growing rapidly again after a prolonged period of decline and now handles 20million passengers a year. In the years ahead, a reinvigorated Stansted will continue to be one of the fastest growing airports in the UK, and with our existing runway we can serve more than double the number of passengers we are serving today.

The airport's growth will be of enormous value to the region and the UK as it strives to develop international connectivity to support increased demand, trade and investment. Stansted sits at the heart of the London-Stansted-Cambridge corridor, one of the most exciting economic regions in the world – generating over £160 billion for the UK economy. We have an important part to play in supporting London's continued growth to the east, providing airport capacity and employment opportunities to help drive this development.

Our potential for growth and ability to exploit the capacity of our single runway provides context to the long term national runway debate. The Government appointed the Airports Commission in 2012 to advise it on how to maintain the UK's leading position in the global aviation market. The Commission's Interim Report, published in December 2013, recognised the importance of Stansted in providing capacity to meet increased demand for air travel, particularly as London's other airports become ever more constrained. The Airports Commission has also identified Stansted as an important long term option for new runway capacity. This reflects the long term economic potential of Stansted's catchment, and the continuing increase in the desire to travel

The Commission's Final Report, due later in 2015, will recommend to the new Government what steps should be taken to ensure that existing airport capacity makes the biggest possible contribution to meeting demand. To help the Commission address these issues, we prepared a draft Sustainable Development Plan (SDP), setting out how Stansted will grow to the capacity of its existing single runway, along with an assessment of the associated benefits and impacts. We consulted on the draft between June and November 2014.

We are grateful for the interest shown in the draft plan. The comments we received have helped to shape this final version, and resulted in a better plan. We are committing to new methods of reporting environmental impacts; we are increasing our apprenticeship opportunities and the funding of community initiatives; and re-affirming our commitment to a partnership approach towards unlocking the economic and infrastructure capacity of the region.

### FOREWORD by Andrew Harrison – Managing Director



Our Plan provides a framework for sustainable growth of the airport on its single runway. So, it does not just concern itself with capacity and land use, it also sets out our approach to:

- supporting and unlocking the potential for economic growth in the region;
- delivering the jobs and education opportunities that that will bring;
- improving our transport links;
- meeting the demand for travel from business and leisure passengers in our catchment; and
- managing the impacts of a growing airport, influencing our industry and bringing positive benefits to local communities.

Given the scale of change we have seen in the aviation industry over the last twenty years, it is difficult to predict how it will evolve over the next twenty; this is why we have set out our commitments and approach in this way. It is clear however, that Stansted is entering a new era. I give my commitment that we will be open in our approach to the future and we'll share and consult on detailed matters at the appropriate time. It is important to me that we bring a partnership approach to our relations with neighbours, service partners and the wide range of local stakeholders who we affect or have shared objectives.

#### **ANDREW HARRISON**

Managing Director, Stansted Airport



#### INTRODUCTION

M.A.G acquired Stansted at the end of February 2013, with a clear vision for the future. Stansted is a superb, modern airport with room to grow, excellent facilities and excellent on-time performance. We were confident that we could build on these strengths by improving customer service and attracting new airlines and passengers, and by doing so, make Stansted the best airport in London, measured in terms of customer service and value to airlines.



Our strategy for Stansted is based on four key principles:

- Building on positive airline relationships;
- World class facilities and service;
- Improving our competitive position; and
- Taking a long term view.

We knew that we needed to move quickly to make Stansted strong and competitive and to start delivering benefits for airlines, passengers and the local community as quickly as possible. Since February 2013, we have made good progress in implementing our plan, including:

- reversal of the long-term decline in Stansted's traffic that started back in 2008;
- agreement of new long term growth deals with airlines;
- new routes and frequencies to meet the needs of local people and business;
- completion of the first phase of an £80 million plan to transform the terminal;

- creation of new partnerships locally and nationally to develop a shared vision for the airport and the region;
- buy-in from our service partners; and
- setting the agenda for delivering significant improvements to our rail services.

These are just the beginning of our plans. We are confident that our approach to operating and developing Stansted, based on delivering excellent customer service and value to airlines, will succeed in a market where airports across the UK and Europe are competing to attract new business. We will build on our experience and relationships to attract new airlines and develop profitable new routes, and we will work with long-haul carriers, full service carriers and our existing low cost airlines to secure growth.

Despite strong and growing demand for air travel from our region, CAA survey data shows that the majority of people travelling by air from within Stansted's catchment do so from other London airports. Having to travel from another airport often adds cost and time to a journey, and can be much less convenient for passengers. Looking ahead, we are aiming to attract a greater share of passengers from central London, from key marginal areas around London, and from our own local catchment area where there is significant scope to improve the range of services that Stansted offers. The East of England is attractive to inward investors and visitors and we aim to encourage this by working hard to improve our network of air and rail services.

#### INTRODUCTION



#### THE OPPORTUNITY FOR GROWTH AT STANSTED

From 2007, Stansted's throughput fell from 23.7 million passengers per annum (mppa) to 17.4mppa in 2012. This decline was driven by a number of factors including the recession, protracted uncertainty over the airport's ownership, disputes between BAA and major airlines and stronger competition from other airports. This has left Stansted with significant spare capacity and in a unique position among London airports. The airport is well positioned to make a significant contribution to meeting growth in passenger demand in London and the South East over the next 15 years.

#### PLANNING FOR THE FUTURE

In September 2012, the Government established the Airports Commission, led by Sir Howard Davies, to make recommendations on the steps needed to maintain the UK's global hub status. The Commission published its Interim Report in December 2013, setting out amongst other things a series of recommendations on short and medium term measures to optimise the use of existing airport capacity. The Commission recognised the important role that Stansted was likely to play in meeting demand in the period before any new runway capacity could be delivered.

The Commission is due to publish its Final Report to Government later in 2015. The Final Report is likely to contain further recommendations to Government on the steps that should be taken to ensure that existing airport capacity makes the biggest possible contribution to meeting demand. We are keen to ensure that the Commission's recommendations are informed by up-to-date assessments of the capacity of Stansted's single runway. In turn, this will help the Government develop a new airports policy for the UK.

To assist in this process, this Sustainable Development Plan (SDP) sets out how Stansted can grow to the capacity of its existing single runway, along with an assessment of the benefits and impacts of using that capacity. The consultation on the draft document demonstrated widespread support for growth, and also flagged areas of local concern, especially about noise. We have listened to the responses from the consultation and used these to shape the final version of the SDP.

Looking further ahead, we recognise the value that local communities and stakeholders attach to having a clear view of our long term plans. Over the long term, sustained growth in economic activity in Stansted's catchment will generate a substantial increase in demand for air travel. Stansted represents a significant asset in this respect because its single runway has considerable spare capacity to accommodate additional demand.

#### INTRODUCTION



The Airports Commission has identified Stansted as an important long term option for additional runway capacity. At the appropriate time, Government policy will need to consider the case for the development of additional runway capacity.

This document is focused solely on the development of Stansted up to the capacity of its existing runway. It does not address issues relating to the development of additional runway capacity. It does provide a framework for Stansted's sustainable growth by identifying M.A.G's approach to community engagement and managing the airport's impacts. Our guiding principles in preparing the SDP have been to:

- support Stansted in becoming the best London airport;
- proactively plan for growth to make best use of existing capacity;
- support prosperity and economic growth in the region;
- actively manage and contain environmental impacts;
- be active and supportive partners in the local community; and
- maintain Stansted's position as the best in the UK for public transport.

We have also been guided by the Government's advice to airports on the preparation of 'Airport Master Plans'<sup>1</sup>. Our approach to preparing the Stansted SDP is broader than that advice.

Alongside this summary, we have prepared four detailed plans that set out our approach to the Economy and Surface Access, Land Use, Environment and Community. These plans set out in greater detail how we will approach future opportunities and deal with the principal issues that we face in making full use of the existing capacity. Together they comprise our 2015 Sustainable Development Plan.



The remainder of this document summarises the consultation process and responses to the draft SDP and then the contents of the individual plans to provide an overview of the final SDP as a whole.

In preparing this SDP we have chosen to make it concise, readable and aimed at the widest audience. We have not included a large amount of technical detail or analysis in the document, although we will continue to share this additional material with stakeholders as part of our commitment to partnership working and continuous engagement.

#### CONSULTATION ON THE DRAFT SDP

It was important that the development of the SDP was subject to input from our external partners and the local community. Over several months from June to early November 2014, including a 10-week public consultation exercise (2 September to 7 November 2014) we consulted widely on a draft version of the Plan.



We consulted with local authorities, political stakeholders, business groups and other interested parties at the local, sub-regional and regional level by undertaking 35 formal and informal briefings, presentations and meetings during the consultation period. This included briefings for the Stansted MPs forum, and personal briefings for six MPs and three MEPs.

We held several discussions with the Stansted Airport Consultative Committee (STACC) including an "issues" workshop and a pre-briefing on the draft SDP prior to its public launch.

Crucial to the public consultation exercise were ten Outreach events held in the afternoons and evenings across the local area covering the key local communities of Bishop's Stortford, Harlow, Hatfield Broad Oak, Thaxted, Great Dunmow, Braintree, Saffron Walden, Takeley and Stansted Mountfitchet. These events were widely advertised in local newspapers to maximise awareness of the SDP and the opportunity to discuss issues with airport representatives. An exhibition was in place at the airport throughout the public consultation phase.

In total, 180 stakeholders visited our public consultation events, with the two events held at Bishop's Stortford being the most popular. The events provided an opportunity for residents and local stakeholders to drop-in and view the SDP documents, maps and exhibition boards, and discuss the proposals and SDP content with airport staff. At each event hard copies of the document were available to view and take-away, and iPads were also available to view electronic copies of the documents.

We were keen to collect feedback directly from people attending the events, and we developed a consultation questionnaire covering the core themes of the draft plan. We asked people attending the events to provide their responses using the iPads provided, and also encouraged people to provide more general feedback about Stansted.

A total of 146 iPad surveys were completed. We have received 62 written responses to the consultation from a range of local authorities, local interest groups, businesses, local residents and political stakeholders.

Following the formal close of the public consultation period in early November, we have continued to engage with a range of stakeholders on the issues raised by the draft SDP.

The consultation responses and the comments of those who attended the Outreach events were generally positive in support of growth to the maximum capacity of the single runway within our current airport boundary.

### CONSULTATION ON THE DRAFT SDP



Understandably, there were detailed points about the likely impacts of increased aircraft movements and in particular night noise.

Concerns over congestion on local roads and quality of rail services were also commonly expressed.

Importantly, there was wide ranging support for our Economy and Surface Access Plan and our Community Plan. Our targets of improving rail connectivity to London and Cambridge and our focus on educational attainment and employment opportunities in the communities served by the airport were welcomed.

The majority of local authorities and stakeholders recognised Stansted's important contribution to the local and regional economy. Many responses supported our efforts to broaden the range of airlines and routes; our positive approach to partnership working; our community outreach programme; the renewed investment in airport facilities; and a positive change in management culture under M.A.G's ownership.

Details of the consultation process and its outcomes are contained within a separate document, the "SDP Consultation Review". This report covers the process, the responses and how we have dealt with the comments received. We are grateful to all those who have helped shape our SDP.



#### STANSTED AIRPORT

Stansted is London's third largest airport and currently handles 20mppa. The airport serves around 160 destinations across 30 countries, providing London and the East of England with international connectivity, predominantly to short haul European and North African destinations.



Stansted is firmly positioned as a market leader for low-cost short haul travel. We have been recognised globally as the World's Best Low-Cost Airport in the SKYTRAX World Airport Awards for the last four years.

The airport is a key international gateway for the UK and it is an important point of entry for non-UK residents arriving by air. Over half of passengers using Stansted are foreign nationals either on business, visiting friends and family or on holiday in the UK. Stansted is also located at the centre of a thriving economic corridor, positioned between London and Cambridge, amongst clusters of high growth industries and surrounded by growing population centres.

The airport has the highest volume of dedicated freighter traffic among the London airports: over 230,000 tonnes of cargo were transported through the airport in 2014 which helped connect the economy of London and the region with the global marketplace.

We have the ability to grow the use of our single runway through more efficient utilisation of runway slot capacity across the day and throughout the year. We have planning permission to grow to 35mppa and 243,500 passenger air transport movements and 20,500 cargo air transport movements per annum.

In the next ten years, we forecast that the airport will be approaching its current planning cap of 35mppa. This level of throughput can be accommodated with our existing infrastructure or new infrastructure for which we already have planning permission. Beyond that, we estimate that the airport could grow to handle in the region of 40-45mppa within the current boundaries and physical constraints, as a result of improvements to the way in which we operate and use our facilities. The exact capacity will be a product of our route network, aircraft size, the spread of traffic through the day and year and the capacity drivers described in our Land Use Plan.

There is also potential for the cargo goods volume at the airport to increase, potentially doubling the current throughput of cargo on dedicated aircraft to around 400,000 tonnes per annum.

This SDP sets out how we intend to develop Stansted so that it operates in the most efficient way to achieve its full single runway capability. We also set out the assumptions on Stansted's market potential and the air traffic forecasts we have used for the purposes of guiding the development of the SDP. These provide an appropriate reference point for assessing development requirements and the consequences of growth rather than a firm guide to the future rate of growth at Stansted. The SDP also sets out our analysis of the effects on local people, on the environment, and the need for new facilities associated with full use of the runway.

#### **ECONOMY**

Stansted Airport is an important catalyst for growth and productivity in the East of England and North and East London. Our aim is to maximise our contribution to the economy; support local growth and maintain a fair and sustainable relationship with our supply chain and business partners.



Stansted already makes a significant contribution to the economic vitality of the East of England region and its wider catchment. As the airport grows towards the full use of the single runway, the scale of this contribution will grow significantly, not only in terms of the direct value of the economic activity at and around the airport, but also through the wider economic benefits associated with improved international connectivity. In increasing and diversifying our network of routes and airlines, we can play a key role in supporting the growth and development of the regional economy, helping to attract investment and sustain employment.

Stansted is the largest single-site employer in the East of England, employing over 10,000 people across 190 companies on site. This highlights its importance to the regional economy; and to Essex in particular where over half of the people working at the airport live. Stansted generates around £770 million in GVA, of which a substantial proportion is derived directly from activities associated with aviation and air transport. Other important sectors include construction, retail and hospitality, services and 'other' transport activities.

We project that the growth of Stansted to 35mppa (the current planning cap) by 2025 would be worth £1.7 billion to the UK economy in present value terms, through the impact at Stansted alone, compared to business as usual. Beyond that, further growth of the airport up to 45mppa by  $2030^1$  would be worth £4.6 billion to the UK economy and generate an extra 10,000 jobs.

We take a responsible and a considerate attitude to being an integral part of the communities we serve and we also take pride in making a positive contribution to regional prosperity and economic development.

We have put in place a proactive education and employment programme that is designed to raise standards, create more opportunities for local people and support the skills, education and aspirations of the airport's future workforce. The Stansted Airport Employment and Skills Academy opened in March 2008 and helps those looking for employment at the airport.

A well connected airport improves the economic attractiveness of the region as a place to live, work, visit and do business. We are committed to ensuring that Stansted is effectively marketed to passengers and airlines, so that the airport's potential is maximised. We will work in partnership with the local Chambers of Commerce and the small-medium enterprise community to foster long term economic growth and inward investment in the region. In turn, this will generate wider benefits for the local and regional economies.

## SUSTAINABLE DEVELOPMENT PLAN SUMMARY

#### **ECONOMY**



Enhanced connectivity to Stansted will be a key factor in driving economic regeneration and productivity in some local areas around the airport. Employment opportunities at the airport are important for regeneration areas such as those south and east of the airport, particularly along the Upper Lea Valley and the A120 corridor.

We will strengthen our partnership work with local authorities and Local Enterprise Partnerships (LEPs), as well as regional bodies such as the London-Stansted-Cambridge Consortium and Haven Gateway Partnership, to attract funding for infrastructure to drive growth and job creation into the East of England. Our partnership with the business and tourism community will help attract inward investment and visitors to the region. As well as continuing expansion of our short haul direct route network, we will focus especially on attracting long haul and full service airlines to provide direct services to the Middle East and USA, as well as connectivity to other long haul destinations.



#### **SURFACE ACCESS**

Stansted Airport is a leading UK airport for public transport use and is a pioneer in developing sustainable employee travel. The skill, imagination and innovative approach applied to developing public transport accessibility with our partners, has been recognised by a series of awards at international, european and national level.



We are committed to building on this platform to deliver high quality and reliable transport infrastructure with sustainable travel choices for both passengers and employees. Improved access is a key element in our plans to attract more airlines and passengers and to bring economic benefits to the area. It is also central to giving companies based at the airport access to the widest possible pool of labour and to ensure that local residents have access to jobs.

Our previous Surface Access Plan in 2010 set the following targets for the period to 2015:

- To achieve and sustain a 43% use by air passengers of public transport by the time the airport reaches 35mppa; and
- To achieve and sustain a target of not more than 70% of all employees who drive to work alone by the time the airport reaches 35mppa.

Data for 2013 shows that we have outperformed the targets set in 2010.

Through a collaborative approach, led by the airport's Transport Forum, Stansted has been highly successful in expanding its rail, coach and bus services over the last decade. It is among the best performing airports in the UK and Europe for the percentage of trips by public transport. The latest CAA survey (2013) confirms the continuing increase in the use of public transport by air passengers, with 51% using bus, coach and rail services.

As passenger numbers increase, we will work to ensure there is a commensurate increase in public transport use. To achieve this, we will focus on a number of key issues:

- the increasing levels of congestion on the strategic road network around the airport; which have the potential to impact on the journey time and reliability of coach services, especially to London; and
- the need to enhance the quality of rail access to Stansted from London, Cambridge and other key markets, particularly in terms of reduced journey times and value for money, to maximise the potential of rail to meet the needs of passengers and staff; and the need to encourage more passengers from our local catchment area to use public transport; where current coach and rail services either don't exist or are limited in scope and frequency.

## SUSTAINABLE DEVELOPMENT PLAN SUMMARY

#### **SURFACE ACCESS**



The Airports Commission and Government both recognise that improved surface access is crucial to making best use of London's existing airport capacity. As Stansted is the only major airport around London with spare capacity, quicker and more reliable rail access is a key priority. This will not only benefit air passengers, but also the wider economy in the London-Stansted-Cambridge corridor and those people using the line for commuting to and from London. We will continue to work with regional partners to make the case for a sustained programme of investment and improvements along the West Anglia rail corridor.

Overall, our targets are to maintain at least 50% mode share of public transport to the end of 2019; to grow rail mode share from 22% to 25% by the end of 2019; and to reduce single car occupancy for staff travel to no more than 65% by end of 2019.



#### LAND USE

We will make the best and most efficient use of our land; providing a safe, efficient and commercial operation to allow our business and those of our tenants and partners to develop and grow.



International airports are large and complex sites, with a wide range of buildings and facilities to meet the needs of passengers, airlines and service providers. Stansted benefits from being an extensive, modern and well planned airport. It was originally designed to accommodate steady and progressive development. This means much of the core infrastructure is already in place – a runway, terminal, cargo centre and road and rail system. Supporting facilities, such as maintenance hangars, hotels and car parks have been developed as the airport has grown.

The Land Use Plan identifies the land, uses and facilities required to support the airport up to the capacity of its single runway, which we assess to be between 40 and 45 million passengers a year. Our current planning permissions limit our growth to 35 million passengers. We believe the additional throughput can be handled within the constraints and limits of our planning permission and without major new facilities. Importantly, our development requirements can be met within the existing airport boundary and in line with planning policies for the region.

These factors make Stansted unique among the major South East airports. Our current site has the capability to handle a doubling of traffic. By comparison, Heathrow and Gatwick are virtually full, and have limited scope to grow without building new runways and terminals.

The basic layout of the Stansted site will remain as it is today. Within each land use zone we expect to see change, investment, redevelopment and improvement as the needs of passengers and service partners continue to evolve and new opportunities arise. At the same time, we will manage and contain our environmental impact – ensuring that we retain the strong landscape setting that helps mitigate impacts on local communities and protects the wider landscape.

Our runway and airfield are modern and fully capable of handling all types of aircraft. Minor additions to the taxiway system may be needed in order to achieve maximum runway capacity. Space has been reserved to add additional aircraft stands – both for passenger aircraft (adjacent to the terminal and served by new piers) and for cargo aircraft (around an extended freight terminal).

During 2015 we will complete our £80 million programme to transform the passenger terminal. This includes a new, much larger security area and a redesigned airside departure lounge, with expanded retail and catering areas. This will provide additional capacity and a much improved passenger experience. The terminal is designed in a modular form; with space reserved to add one or two bays to the east and west.

The terminal area is the most intensively used part of the site, containing our major transport facilities (bus, coach and rail station) and short stay car parking. Additional office and hotel accommodation is planned for this area, within easy reach of the terminal and public transport. As an example of this kind of development, we expect a new hotel to open in 2016 following the start of construction later in 2015.

## SUSTAINABLE DEVELOPMENT PLAN SUMMARY

#### LAND USE



Away from the terminal area, there is room to expand the existing maintenance, cargo and support activities (e.g. car hire and roadside facilities). On the north side of the runway is where the airport originally developed. This is an area ripe for change and in need of investment and redevelopment; with an inefficient layout and some old and out-dated buildings and facilities. It will remain home to our modern general aviation facilities and some essential operational uses. However, there is around 18 hectares of land that can be used to meet economic and employment need for the local district. We are preparing a more detailed master plan for this area.

We expect our long stay car parking areas to remain in their current location – around Southgate and off Bury Lodge Lane. We will need to increase the capacity on site; in line with our transport strategy of providing enough space on site to meet demand and reducing the amount of 'kiss and fly' and taxi use. These generate a higher number of road trips than either public transport use or parking on site.



#### **ENVIRONMENT**

We recognise that the operation and development of our airport has environmental impacts ranging from a global level to those experienced more locally in relation to aircraft noise, local air quality and landscape. We are committed to reducing our impact on the environment and balancing the impact on local communities with our operations as a commercial airport operator.



Successful environmental management incorporates every area, so as well as reducing carbon emissions and noise impacts, we also work hard to manage and control our impacts relating to water, waste, ecology and land use.

In order to achieve this, we will:

- develop and grow our business in a managed and sustainable manner optimising the economic and social benefits of the airport, whilst limiting the impact on the environment:
- work across all business areas to engage the combined skills and energy of all our employees;
- facilitate a constructive and open dialogue with all stakeholders, including local communities;
- maintain an environmental management system that targets key areas and audits and monitors performance in a challenging and critical way; and
- comply with the requirements of environmental legislation and other requirements at all times and to prevent pollution and reduce our contribution to climate change.

To manage the impact of climate change we will aim to make our airport operations carbon neutral. To achieve this we are working together with our on-airport business partners to reduce the airport's energy consumption. We will prioritise and increase our take-up of renewable fuels as part of our drive to reduce the airport's carbon emissions.

Air quality continues to be an important issue for communities around airports. Our analysis shows that air quality standards will be met in the areas around the airport as we grow to the full use of the runway. We will continue to take measures to minimise emissions that impact on local air quality and also ensure that concentrations of pollutants continue to be below the relevant national thresholds. To help reduce emissions we are improving air quality assessment and monitoring, influencing airlines to cut emissions from aircraft, and reducing emissions generated by ground vehicles.

For those living closest to the airport and its flight paths, aircraft noise can be intrusive and disruptive. Night noise is a particular concern and we will continue to mitigate and manage this to limit the harm to local communities. Our analysis shows that future noise impacts will remain well below the limits previously established as part of the planning permission for Stansted to grow to 35 mppa. We will work with partners including community groups, airlines, air traffic control and Government to seek to understand and minimise the impact of all aspects of noise and drive forward change where possible. Our aim and commitment is to provide transparent reporting of air noise impact as well as to manage, mitigate, and reduce where possible, the number of people affected by noise as a result of our operations.

#### **ENVIRONMENT**



We manage waste in accordance with the principles of the waste hierarchy, which is to reduce waste generation, re-use, recycle, recover, and then as a last resort to dispose of waste to landfill. We have set ambitious targets of sending zero waste to landfill and recycling 70% of waste by 2020.

We are committed to improving our water efficiency and preventing pollution and will continue to look for opportunities to reduce our water use and to encourage other on-site companies to do the same.

The airport is surrounded by a number of ecologically diverse habitats including the medieval Hatfield Forest. Within the constraints imposed by the normal operation of the airport, we promote the development of rich and varied habitats, seeking to integrate the airport within its rural setting and promoting access to the airport site.



#### **COMMUNITY**

By building enduring relationships with our local communities, we will seek to understand the issues that are important to them, to understand how our operations affect them and to use our combined skills and resources to work together for our mutual benefit.



Airport operations have both positive and negative impacts on the communities around the airport. The Community Plan sets out where we propose to focus our engagement with local communities so that we contribute to the social and economic well-being of those living around Stansted. As part of the plan we will continue our proactive approach to working with our neighbours so that we can better understand their needs and their concerns. Following discussions with key stakeholders, we have highlighted five priority areas for our community plan:

- Education and employment;
- Investing in the community;
- Community and local business engagement;
- Employee engagement; and
- Managing local impacts.

Engaging with young people, particularly those living in areas close to the airport, is a vital part of our work. We want to encourage and inspire young people to think about what the airport does, why it does it, and the career opportunities that are available to them now and in the future.

With this in mind we are creating a new education centre which will open in spring 2015, designed to provide a flexible and inspirational learning environment for children and young adults. We also plan to develop further our work experience programme and improve the on-site Employment and Skills Academy to be an even more valuable resource to help raise standards, improve skills and help young jobseekers into employment.

Community and business engagement is also vital to our success. As Stansted grows, we commit to broadening and deepening our outreach in the local community through regular information events, community support and employee volunteering, while at the same time ensuring we play an active role in supporting the local businesses community to grow and flourish.

Finally, we recognise the critical importance of managing our impacts on the community. Stansted is the third biggest airport in London and aircraft noise is the key concern for our neighbours. To help mitigate some of those concerns we propose a wide ranging review of our sound insulation schemes while at the same time ensuring we have a robust complaints procedure in place.

#### CONCLUSION

Our SDP sets out our sustainable framework for how Stansted will develop to the capacity of its single runway, which we believe is in the range of 40-45mppa. This information will help inform the Government and Airports Commission in their development of a new airport policy.

SUSTAINABLE DEVELOPMENT PLAN
2015

Based on the content of this SDP, we will be seeking policy support for the growth of Stansted to the capacity of the single runway. This plan will also inform local councils and other stakeholders of our plans to assist them in their own strategy formulation and plan making.

Stansted has planning permission to grow to a passenger throughput of 35mppa. As part of this permission, there is a package of commitments relating to the airport's impacts, including aircraft noise, air quality and surface access. M.A.G remains committed to honouring these conditions.

We recognise that growing to the capacity of the runway represents a significant increase in throughput compared with the current level of 20mppa. We see the value in providing local communities and other stakeholders with a clear view of what this level of growth will entail, in terms of airport infrastructure, environmental and economic impacts, surface access requirements and community engagement.

The analysis contained in this Plan shows how growth to the capacity of the single runway can be contained within the current, well defined airport boundaries by making better use of our existing core infrastructure.

Importantly, our analysis shows that growth up to the full capacity of the runway can also be contained within the existing environmental limits agreed as part of the 35mppa planning permission. For example, modelling of future noise impacts shows that growth up to the full use of the runway can be accommodated within the existing contour cap.

Our Plan also shows how the road infrastructure and rail services serving the airport would need to develop to support the airport's growth to the capacity of its runway. The SDP sets out how the value of Stansted's economic contribution will rise, and its increasingly important role in the successful delivery of local and regional economy growth objectives. We have also set out how we propose to develop our engagement with the local community to ensure the benefits of growth are felt by those living around the airport.

The existing planning permission continues to provide the appropriate framework for Stansted's growth to 35mppa, and there is no immediate need for us to seek a lifting of the current planning cap to enable growth beyond that level. At the appropriate time, we will seek an increase in the level of the cap so that we can make maximum use of the capacity provided by the existing runway.

The key issue for the airport is to seek an increase in the level of the cap in good time so that we can provide clarity and confidence to passengers, airlines and other stakeholders about the airport's ability to grow beyond 35mppa.

The headroom in the current planning conditions provides some flexibility over when we need to initiate this process, and we will maintain an active dialogue with key stakeholders over the timing and form of any such planning application.

#### HOW TO CONTACT US

The Sustainable Development Plan is an important document for us as it sets out what our aspirations are for development to the full capacity of the single runway at Stansted. There are many stakeholders who have an interest in the airport and the views and comments from Government, local authorities, neighbours, the business community and customers are an important part of the planning process.

We are committed to being open in sharing our vision for Stansted and the local area. Our plan reflects local views and ideas that were expressed during consultation on the draft version. We will continue to engage; to report our performance and review our plans in the light of changing circumstances. We expect to review and update this SDP at least every five years in line with current Government advice on airport master plans.

To obtain copies of the Sustainable Development Plan or contact us about its content:

Visit: www.stanstedairport.com/developmentplan

Write: London Stansted Airport Ltd

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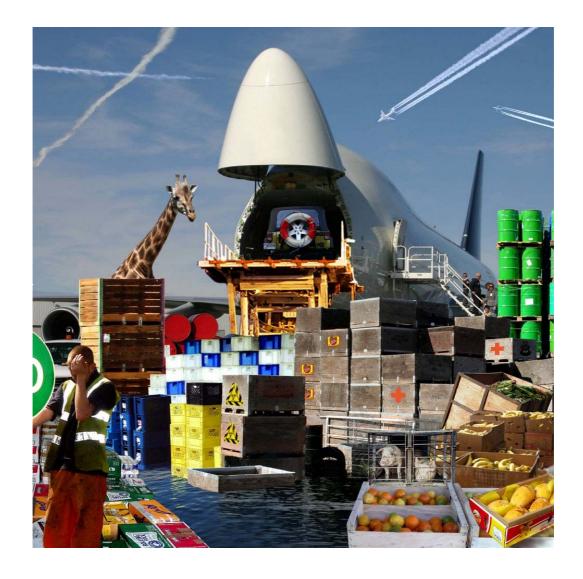
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# AIR FREIGHT: THE FACTS



A report which assesses the facts behind the UK air freight industry: its contribution to the economy; its impact on the environment and local communities

Researched and written by Rose Bridger

Published by AirportWatch

October 2009

#### Introduction

Air freight has been overlooked during the last decade. Governments, campaign groups, the industry and much of the media have tended to focus on the growth in passenger traffic. This report tries to rectify that situation. It looks at the way air freight has developed in recent years and assesses future growth projections. It outlines the environmental impact of air freight and questions whether its value to the economy is nearly as great as the aviation industry claims.

Air freight in the UK doubled in the 1990s but has stabilised over the past 10 years, leaving questions to be asked about the Department for Transport's predictions that it will continue to grow rapidly.

But there are also questions about the value of air freight to the UK economy. The UK is running £20 billion annual trade deficit in air freighted goods with non-EU countries – the countries which account for 85% of our trade in air freight. Air freight is also hugely subsidised by the public purse: tax-free fuel; an exemption from VAT; no subject to Air Passenger Duty or an equivalent tax; and in receipt of regional assistance. A new Government would do well to examine the economic value of these tax-breaks.

Air freight contributes to CO2 emissions. It is difficult to pinpoint its exact contribution because some of it comes in the belly-hold of passenger aircraft but Cranfield University estimated that air cargo accounts for approximately 25 per cent of global use of aviation fuel. The overall environmental impacts of air freight, including greenhouse gas emissions, are disproportionately high, estimated by DEFRA at 10 times the emissions of road and 43 times those of rail.

Air freight is also causes major noise problems. It can use older, noisier planes. It often comes in at night. Yet less than 20% of express freight is time-critical. This would suggest that, given the political will, the amount of freight delivered at night could be significantly reduced, bringing blessed relief to many communities.

John Stewart
Chair AirportWatch

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An Airport by Airport Outline is available online - www.airportwatch.org.uk

#### **Abbreviations**

ACI Airports Council International
AEF Aviation Environment Federation

APD Air Passenger Duty
AWP Aviation White Paper
BA British Airways

BAA British Airports Authority
BAWC British Airways World Cargo
BIP Border Inspection Post
CAA Civil Aviation Authority

Defra Department for Environment, Food and Rural Affairs

DfT Department for Transport

ERDF European Regional Development Fund

EU European Union
FoE Friends of the Earth
GHGs greenhouse gases
GDP Gross Domestic Product
HMRC HM Revenue & Customs

HMT HM Treasury

IATA International Air Transport Association
ICAO International Civil Aviation Organization
MRO Maintenance, Repair and Overhaul
OEF Oxford Economic Forecasting
RDA Regional Development Agency

SIPRI Stockholm International Peace Research Institute

UN United Nations

#### **Executive Summary**

Debate on aviation expansion is generally confined to 'air travel' referring to passenger flights, ignoring belly freight and cargo in dedicated freighters. The main categories of air cargo include mail, heavyweight and outsize, HazMat (hazardous materials), live animals, perishable (temperature sensitive) goods such as chemicals, food and ornamental plants, aid and humanitarian and military. Air freight accounts for approximately 40 per cent of the value of UK trade outside the EU, which is on a par with global modal share of international trade. In addition to goods that are inherently high-value such as gems and electronic goods, air freighted goods are time or process critical such as capital equipment, components and machinery. Along with a wide range of consumer goods, a considerable proportion of air cargo is business-to-business, pre-consumer in the supply chain.

Globally, until the economic downturn began in Autumn 2008, air freight was a fast growing sector, and it was anticipated that growth would exceed that for passenger flights. In contrast to industries such as construction and vehicle manufacturing, air freight maintained growth throughout the oil price spike of 2008 and was late to be affected by the recession, only reported declining volumes towards the end of 2008. From early 2009 airports and carriers worldwide have reported plummeting volumes, with some marked exceptions, most notably a shift of traffic to the Middle East. In contrast with the long term trend of global growth in air freight, UK air freight has been stable for over a decade, diverging ever further from Department for Transport (DfT) growth forecasts. Most UK airports have recently reported declining freight volumes. In the face of this, air freight capacity expansion is still underway and planned all around the UK. Air freight growth plans shift the emphasis from Heathrow to East Midlands, Manchester and smaller regional airports. Some regional airports plan to expand freight by many multitudes, for example Robin Hood (Doncaster Sheffield), Kent and Liverpool.

Cargo expansion plans stated in UK airport Masterplans between 2007 and 2015 would entail volumes more than doubling in this period, then almost tripling by 2030, but contain little information on what this projected air freight increase would consist of or how it would be achieved. Actual air freight growth plans exceed this figure as several airport Masterplans do not state a target tonnage and there is also freight development at airports which are not obliged to produce a Masterplan. Development of airport business parks on and adjoining airport sites aim to generate multimodal logistics growth including air freight. In many instances freight and business park development encroaches on green space and agricultural land. The planned air freight growth will either undermine the UK's greenhouse gas emission reduction targets if it becomes fully operational, or leave the UK with white elephants if it is under utilised, further widening the disparity between DfT forecasts and actual freight volumes.

Until the recession, logistics was a fast growing sector worldwide across all modes of transport. Globally, the rate of shipping growth has been comparable to that of air freight. Global supply chains are frequently multimodal incorporating air, land and shipping legs and the different modes are interdependent. Multimodal supply chains and transhipment (goods loaded from one plane to another) means that the distance freight travels often far exceeds that between the starting point and destination. Whilst air freight volumes are small in comparison with goods transported by road, rail and shipping, the negative environmental impacts including greenhouse gas emissions are disproportionately high, estimated by Defra at 10 times the emissions of road and 43 times those of rail. Air freight necessitates more attention in environmental debate, as it is estimated that, globally, freight accounts for 25 per cent of aviation fuel

use. Support for aviation growth plans is based on the assumption of a step change in aircraft fuel efficiency, whereas in reality gains in efficiency are minimal and this is expected to continue. Globally, air freight trade imbalances bring further inefficiencies in fuel use, as low load factors, with under filled freighters and bellyhold capacity, are widespread.

In addition to contributing to human induced climate change, freight inflicts the worst of aviation's short term and localised impacts on nearby communities. As the newer, more efficient passenger planes come into service, older, noisier and more polluting planes are frequently converted to freighters. Freight expansion plans also bring relentless pressure for increased night flights. The worst safety impacts are in poor countries where the local population are especially unlikely to ever travel by plane. Ageing freighters carrying humanitarian aid to Africa have an appalling safety record of crashes with fatalities of crew and people on the ground. Several firms contracted for aid missions are simultaneously involved in destabilising and illicit commodity flows, of weapons and cargo for resource extraction.

The negative environmental impacts of air freight are supposedly compensated for by economic benefits, but air freight's reputation as a driver for economic growth merits scrutiny. Proponents of expansion of air freight argue that it is a crucial driver of economic growth but there is a lack of in depth analysis of the economic impacts. As UK air freight has flatlined for a decade, the case for a causal relationship, or even a correlation, between air freight growth and GDP growth appears to be even weaker than for passenger flight growth. Air freight's economic benefits also need to be balanced against tax breaks and subsidies. Air freight, as with aviation as a whole, benefits from tax breaks and is even more heavily subsidised than passenger travel, and this will continue as the proposed Aviation Duty, which would have taxed air freight for the first time, was shelved. Government agencies' support for freight related expansion includes subsidies for freight hangars, business parks, research and lobbying. There is a lack of accountability regarding air freight expansion subsidy as considerable funding is channelled via unaccountable Regional Development Agencies (RDAs). Lax planning regulations on airport sites and the Masterplan framework means that expansion frequently takes place outside the process of democratic debate.

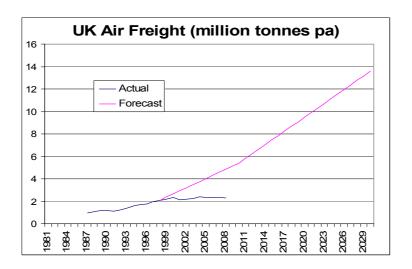
The UK is affected by air freight trade imbalances, with a significant air freight export deficit in trade with all world regions. This is particularly marked in air freight between the UK and non-EU countries, which accounts for 85 per cent of UK air freight. UK imports from outside the EU at 1,663,000 tonnes are over four times the weight of exports. There is also a gaping air freight trade gap in UK air freight outside the EU in terms of value, at £20 billion. This highlights inefficient resource use, and casts doubt on the economic benefit to the UK in terms of export earnings and the purported job creation benefits of expansion. Air freight expansion could be enabling relocation of employment to lower cost locations, raising the question of whether air freight expansion is more effective at exporting jobs from the UK than goods. Furthermore, there are indications that recently opened logistics facilities at airports are highly mechanised creating few jobs in relation to the scale of the developments, and are not being utilised as anticipated. The evidence base that businesses consider air freight to be of crucial importance to growth and investment is inadequate, and there are indications that the security and reliability of air freight, rather than speed, are deciding factors for this choice of mode of transport. The fallibility of the forecasts for, and purported benefits of, air freight to the UK economy brings the opportunity for modal shift to less environmentally damaging road, rail and shipping.

# **Key Facts**

# UK Freight - growth has stabilised

- UK air freight grew rapidly from 1970 through the 1980's and doubled in the 1990's. It grew from 580,000 tonnes in 1970 to 2.2 million tonnes in 2002.
- In 2003, the Department for Transport forecast that freight growth would 'grow even more rapidly over the next decade. In reality, UK air freight has stabilised in the last ten years.

The divergence between forecast and actual air freight volumes is widening. It throws into doubt the Department for Transport's growth projections.



Graph by Paul Grimley Global Freight is still growing

- While UK freight volumes have been stable for a decade, global air freight has maintained steady growth. Globally, air freight climbed to a high of 88.5 million tonnes in 2007.
- By value, this amounts to 35-40% of world trade.
- International express freight has grown at more than twice the rate of total air cargo traffic over the past decade, averaging 12.9 per cent annually.

# The origins and destinations of UK freight

- Only 5% of air freight is domestic flights within the UK:
- EU flights accounts for 10% of freight
- The primary routes for UK air freight are the US and Asia
- Whilst the *volume* of air freight to non-EU countries is very small in comparison to road, rail and shipping, it amounts to 40 per cent by *value* of UK trade with these countries.

# What freight is flying?

- Air freight falls into two distinct categories. There is the freight which uses the bellyhold capacity of scheduled passenger flights and there is freight which comes in dedicated freighters on routes with high volumes.
- In the UK, the 2003 Air Transport White Paper suggested that specialist express carriers could account for over 50% of the air freight market by 2030.
- The amount of food air freighted into the UK more than trebled between 1992 and 2006

### **Impact on Climate Change**

While it is the case that the proportion of goods that are air freighted is small compared to other modes, the environmental impacts are disproportionate.

DEFRA has calculated the impact of dedicated freighters emissions per tonne kilometre as up to ten times those of road transport, and up to 43 times those of rail transport.

Aviation is an especially important issue for the UK's greenhouse gas reduction strategy as the DfT estimated it accounts for 6.8 per cent of emissions. In order to meet the UK's carbon emission reduction targets by 2050, to offset aviation's rising emissions, all other sectors would have to reduce their emissions by 90 per cent instead of the already challenging target of 80 per cent.

Aviation industry bodies acknowledge that it is difficult to disaggregate cargo from passenger flights to assess the GHG emissions separately, especially when considering freight carried as bellyhold. But Professor Peter Morrell of Cranfield University estimated that air cargo accounts for approximately 25 per cent of global use of aviation fuel.

# **Impact on Noise**

Air freight leads to particular noise problems as older, less efficient noisier passenger planes are often converted to freighters. There is relentless pressure for more night flights, particular at airports such as East Midlands.

### **Impact on the Economy**

### There is a big trade deficit in air freight.

The UK imports more air freight by weight, 57%, than it exports, at 43%. The trade gap is particularly marked in international freight outside the EU. Advocates of air freight expansion highlight the economic benefits of high-value exports, but the trade imbalance in terms of value is still marked. The value of the imports outside the EU was £31.3 billion, whilst the value of the imports was £51.1 billion producing a trade deficit of £20 billion.

# 1 Background to air freight

# 1.1 Types of air cargo

#### MAIL

'Cargo' is the generic term for freight and mail, with 'freight' referring to cargo excluding mail. Until the Second World War, the majority, about 68 per cent of global air freight was mail, a considerable proportion of this was communication to maintain the command and control of the British, French, Belgian and Netherlands colonial empires. By 1951 the proportions had switched and mail constituted 20 per cent of total air cargo.<sup>2</sup> The CAA publishes mail statistics separately from freight. In 2008 234,015 tonnes of mail were carried by air freight through UK airports. The total amount of mail handled by UK airports rose about 15 per cent between 1998 and 2008, maintaining growth at 14 per cent in 2008. Over the past decade, mail volumes at airports including Manchester and Gatwick declined as Royal Mail centralised its operations. The Royal Mail operates its main hubs at Belfast, Bristol, East Midlands, Edinburgh and Stansted with feeder hubs at airports including Bournemouth, Exeter, Newcastle and Inverness. In 2007 there were 50 Royal Mail flights each night, transporting 5.2 million items of mail on average.<sup>3</sup>

# **CONSUMER GOODS**

One driver for the air freight of a wide range of consumer goods, including electronics like computer games and mobile phones, books and toys is faster market cycles. Most of the profits are reaped in the first few weeks of sales. Fast fashion also has a limited shelf-life and a report on ethical fashion by Mike Flanagan in Just-Style.com in August 2007 looked at a range of studies which showed that British fashion buyers rely twice as much on air freight for imports from China and India in comparison to French, German or Spanish buyers.<sup>4</sup> AllPort's 20,000sq metre freight centre at Heathrow Airport provides services for a range of sectors including pharmaceuticals, publishing and defence. The facility also handles deliveries by truck and which have been shipped to the UK, but fashion was part of the 70,000 tonnes of goods which were air-freighted by AllPort in 2005 and the freight centre has space for 250,000 hanging garments and processes 10 million garments per year.<sup>5</sup> Use of air freight extends to firms that are regarded as exemplary in environmental practice in their operations, although many are attempting to reduce it, for example, in 2008, the Body Shop made a commitment to set a target for reducing its use of air freight, in its operations.<sup>6</sup>

# **HEAVYWEIGHT & OUTSIZE**

Heavyweight, outsize and awkwardly shaped industrial equipment for resource extraction such as mining, infrastructure development from transportation to power plants and for manufacturing has been a prominent sector from the early years of air freight to the present day. All kinds of vehicles from cars to train carriages carried in the giant An-124s, and trucks from Robin Hood Airport to Africa. Exploration, drilling and production equipment for the oil and gas industry is a considerable cargo sector for many airlines including UK based Coyne Airways and MK Airlines with a hub at Kent Airport.

The oil price rise, spiking at a record high in July 2008, boosted air freight of exploration, drilling and production equipment, showing a willingness to burn up aviation fuel in order to secure remaining fossil

fuel supplies as quickly as possible. There were some record breaking oil related flights, including 200 oil pipes from Kent Airport to Saudi Arabia, flown by MK Airlines. Outsize specialist Volga-Dnepr flew their longest ever shipment on an II-76 freighter, a telescopic slip joint and other equipment including a 'pup joint cross-over' from Glasgow Prestwick to Congo. In August 2008, Robin Hood Airport reported handling an An-124 filled with 85 tonnes of oil well equipment to Russia. Oil industry equipment also features in new scheduled flights, expected to be the main cargo in bellyhold in BA's new flights from Heathrow to Saudi Arabia. In June 2008, West Air began a new freighter service twice weekly out of Aberdeen to Stavanger in Norway for the oil and gas industry.

Heavyweight freight is often awkwardly shaped and/or delicate and require specialist handling. This includes many of the tourist attractions that holidaymakers fly off to see. Art collections including paintings and heavyweight items like sculptures and statues tour the world in dedicated freighters. Air freight of concert and stage equipment is widespread, such as singer Beyonce's London 02 performance in June 2009, with two freighters carrying 200 tonnes of stage, sound and lighting equipment from Stansted to New York. Rock-It at Kent Airport specialises in band and stage equipment, Kent Airport also receives freighters of racing cars such as two B747s loaded with over 200 tonnes of 29 racing cars and motor equipment in April 2008 flown from China for the A1GP World Cup. It is anticipated that UK air freight will be boosted by hosting the Olympics in London in 2012.

#### THE AIRLINKED ASSEMBLY LINE

A high proportion of air freight is business-to-business, pre-consumer in the supply chain. The Department for Transport (DfT) published *The air freight end-to-end journey, An analysis of the end-to-end journey of air freight through UK international gateways*, in May 2009, which showed that 98 per cent of express freight volume is business-to-business traffic. <sup>14</sup> Components, machinery and spare parts for products like electronics, vehicles and textiles may not be intrinsically high value, but process critical and the cost of air freight can be lower the production line coming to a standstill. Globalisation of manufacturing has extended supply chains with a combination of more complex products, a shift from factories making finished goods to assembly plants making components, larger scale and more specialised operational sites and just-in-time supply chain management to cut storage and inventory costs. Air freight in the supply chain ranges from ad hoc to routine.

The airlinked assembly line is exemplified by aircraft development, manufacturing, repairs and maintenance. Both Boeing and Airbus have constructed special freighters for flying components around the world to the final assembly plants. Glasgow Prestwick was the first UK airport to handle a GP7200 engine for the new Airbus A380 which was flown in from Chicago then transported onwards to Cardiff. Components are also transported by road and sea, and Airbus were keen to promote A380 wings leaving their Broughton plant by barge along the River Dee on the way to the final assembly plant in Toulouse. Freighters carry smaller aircraft around, such as private jets and helicopters such as an An-124 carrying three Army helicopters from Greece to Durham Tees Airport in December 2008.

#### ANIMAL AIR MILES

Animals have been flown around since the early days of aviation in the 1920s. Along with the pets and wildlife in the television reality series, there is movement of considerable numbers of animals for zoos, wildlife parks, ornamental fish, racehorses and livestock. Many airports including Heathrow, East

Midlands, Luton, Glasgow Prestwick have a Border Inspection Post (BIP) for plants and animals and one is planned at Kent. Luton Airport has reported notable shipments including 1,000 sheep from New Zealand.<sup>17</sup>

# **HAZMAT**

HazMat refers to hazardous materials dangerous chemicals such as explosive, corrosive, toxic and radioactive materials. HazMat also includes many goods relating to biotechnology, tissue culture, and agricultural inputs such as pesticides and fertilisers. Just two clicks away for the passenger flight information on Glasgow Prestwick Airport's website, the cargo pages state that the airport has the highest capacity in the UK, 11,000 kg, for explosives outside military airfields. Some of the less dangerous HazMat categories are permitted to be carried on passenger flights in specially sealed containers.

#### PERISHABLES - THE CHILL-CHAIN IN THE SKY

The term 'perishables' refers to temperature sensitive cargo and is carried in temperature controlled containers or temperature controlled freighters sometimes referred to as 'flying fridges'. These goods require a 'chill-chain' from point of origin to final destination, including perishables handling facilities at airports. This encompasses chemicals, pharmaceuticals including drugs, vaccines and veterinary products. About 80 per cent of the perishables sector consists of food and ornamental plants. The perishable food products include fruit, vegetables, fish, meat, processed foods like fruit salads and prepared vegetables. Perishables is widely stated by the industry as the biggest (by volume) and fastest growing air freight sector, for example in 2006 BA estimated that it constituted 11 per cent of world air cargo. The perishables sector appears to be recession resistant, and still growing for many airlines, for example BAWC reporting a continued focus on perishables, along with livestock and currency as performing well in July 2009. The perishables are continued focus on perishables, along with livestock and currency as performing well in July 2009.

The amount of food air freighted into the UK more than trebled between 1992 and 2006. Between 2005 and 2006, the amount of food air freighted into the UK increased by 11 per cent, an additional 24,000 tonnes of food, accounting for 13 per cent of CO2 emissions from food transport. There are reports of shift of perishable produce from air to sea freight, as the cost is lower and due to technological advances in refrigeration and other preservation extending the shelf-life of produce like asparagus and grapes to enable transport by ship. The bigger picture regarding modal shift for perishables appears to be mixed. Fruit salads and pre-chopped vegetables is a growth sector, the cutting of the produce reduces its shelf-life and the products include ingredients like pineapples which have traditionally been shipped as the whole fruit.

#### NON-PERISHABLE FOOD & DRINK

Air freight of ambient food and drink tends to be relatively small quantities of niche luxury products such as shipments of whisky from Glasgow Prestwick. The annual 'Bojo run' entails multiple interconnecting flights criss-crossing the globe. A 1954 European ruling stipulates that shipments of Beaujolais Nouveau must leave the European Union on the second Thursday in November. This leaves one week for bottles to reach destinations all over the world in time for celebrations of Beaujolais Nouveau Day on the third Thursday in November. BAWC has participated in the 'Bojo run' for over 20 years. In 2006 BAWC air freighted 540 tonnes, consisting of 447,000 bottles, with the convoluted supply chain including freighters

from Lyon to East Midlands Airport then trucked to Heathrow to connect with passenger flights predominantly to the US and Japan, with a freighter flying back empty from East Midlands to Lyon to pick up another 100 tonnes of the wine. <sup>22</sup> Other UK airports involved in the 'Bojo run' have included Robin Hood which handled half a million bottles in 2005 for distribution within the UK and distributed to other UK airports for distribution around the world. <sup>23</sup>

# AID, HUMANITARIAN & MILITARY

At the other end of the scale from luxury foods, food aid is flown to many countries in Africa, Asia and the Americas. Food aid flights are often curtailed by lack of funds, a problem which intensified with the increasing food and fuel prices of 2008 impacting on operational costs, and continues in 2009 with a reduced donor funds due to the recession. Food aid is part of a wider humanitarian air freight category including medical supplies, water purification equipment and heavyweight equipment for establishing infrastructure such as vehicles, generators and building materials.

Military is a major air cargo category, for example US Defense Department contracts for companies flying cargo and passengers to Iraq and Afghanistan in 2006 and 2007 totalled \$5.6 billion with about 500 firms as beneficiaries. <sup>24</sup> The May 2009 Stockholm International Peace Research Institute (SIPRI) report *Air Transport and Destabilizing Commodity Flows*, reveals that many cargo carriers which are 'fuelling war economies' in Africa with the transfer of weapons, are simultaneously involved in resource extraction such as oil and minerals which drives conflict, and 'enmeshed in humanitarian aid' for the EU and UN. <sup>25</sup>

# 1.2 Bellyhold and freighter capacity

# **BELLY FREIGHT**

Bellyhold cargo capacity can vary according to the passenger seating configuration. A Boeing 747 can carry between 10 and 20 tonnes. The A330 carries a comparable tonnage, for example Emirates Airlines at Newcastle has a 14 tonne capacity. Air cargo at Heathrow is almost entirely bellyhold with airlines only permitted to operate a freighter service with special permission. Narrow bodied aircraft used for short haul flights or low cost carriers are unlikely to carry belly freight because of the fast turnaround times. At other UK airports including Kent, Stansted, Gatwick and East Midlands all cargo is freighters. The environmental impact and economic significance of bellyhold freight are frequently dismissed with the argument that the plane would have flown anyway, but the freight can be a revenue generating component of passenger flights helping to keep the cost of passenger seats down. Approximately 67 per cent of the weight of all UK air freight is carried in the bellyhold of passenger flights, with 33 per cent in cargo planes.<sup>26</sup> This is a high proportion of belly freight compared to the global average of between 50 – 60 per cent.<sup>27</sup>

### **DEDICATED FREIGHTERS**

Boeing's market outlook in 2007 anticipated a global shift towards larger freighters with a capacity of over 100 tonnes, and the global freighter fleet is expected to more than double from 1,980 in 2007 to 3,980 by 2026. The freighter fleet increase is projected to include 870 new freighters and conversion of 2,480 passenger planes.<sup>28</sup> There are efficiency gains in the new models of freighters, but the old, noisier, more polluting planes are frequently converted to freighters. Passenger aircraft converted to freighters include

the very noisy McDonnel Douglas MD-11. These have a capacity of up to about 90 tonnes and are used by DHL at East Midlands with at least one arriving and departing late every night.<sup>29</sup>

The Boeing 747 is the air cargo workhorse with a freight capacity of over 100 tonnes, providing half the world's dedicated freighter capacity. In 2008 it was estimated that the average age in service of a B747 freighter was 35 years. <sup>30</sup> Smaller freighters include Boeing 757s, with Icelandair carrying as little as 10-20 tonnes of fish from Iceland in these planes into Humberside. Boeing 737s have a capacity of about 16 tonnes, and are often used by integrators such as TNT Express.

The Antonov An-124 has a maximum payload of 150 tonnes and carries heavyweight freight such as workhorse, vehicles, generators, heavy industrial equipment like power stations and oil and gas equipment. For example An-124 carried a 65 tonne oil well cap known as a 'Christmas tree', flown out from Robin Hood Airport bound for Houston, US in December 2006.<sup>31</sup> In October 2007, Air Charter Service reported flying 15 'Christmas trees', out of East Midlands Airport to Egypt on two An-124 freighters. The An-225 is the world's biggest plane, a freighter with 250 tonne payload capacity, which occasionally makes an appearance at East Midlands Airport, such as 130 tonnes of music equipment from a festival in Nigeria in 2007.<sup>32</sup>

# 1.3 Types of carriers

# FREIGHT FORWARDERS & INTEGRATORS

There are three distinct types of carriers. Passenger airlines like British Midland which only operate passenger airlines but carry bellyhold freight. Combination airlines like BAWC operate both passenger and cargo services with bellyhold cargo and dedicated freighters. All cargo airlines operate only dedicated freighters and include Cargolux, UK based MK Airlines at Kent, and UK based Coyne Airways and Russian outsize cargo carrier Volga-Dnepr operating at Stansted.

Air freight worldwide falls into two distinct categories. The freight forwarding model uses bellyhold capacity on scheduled passenger flights, and also dedicated freighters on routes with high volumes. The integrator model provide an express, often next-day delivery, service from the origin to destination of the shipment integrated with land transportation. Integrators predominantly use dedicated freighters with some capacity bought on scheduled passenger flights. The biggest global integrators are Fedex, DHL and UPS with all three in UK including at East Midlands. From 1985 to 2005 the integrators have grown to represent almost half all air freight.<sup>33</sup>

Integrators offer an express or next-day delivery service with the entire range of logistics services encompassing customs, ground handling at airports, overland transportation as well as air freight, warehousing and web-based technology systems to enable customers to track products along the supply chain from origin to destination. East Midlands is a key hub for integrators. Writing in *Climate Change and Aviation*, Cordula Neiberger 'international express has grown at more than twice the rate of total worldwide air cargo traffic, averaging 12.9 per cent annually over the past decade', 'as a proportion of total international cargo traffic, international express cargo expanded from 4.1 per cent in 1992 to nearly 11.4 per cent in 2005'. <sup>34</sup> In the UK, the AWP reported that air transport sector work carried out in connection

with the consultation exercises suggests that specialist express carriers could account for over 50 per cent of the air freight market by 2030.<sup>35</sup>

#### **FLAG CARRIERS**

The monopoly of flag carriers, which means that the airline is designated by the government, has decreased with privatisation in many instances and liberalisation opening up routes to other carriers. Yet even though many flag carriers' preferential treatment by governments, such as subsidies and infrastructure provision including terminals, is now largely historical, they are often still major players worldwide. This includes cargo business, and in 2006, statistical analysis from Lufthansa showed that thirteen of the twenty largest airlines in terms of freight volume were flag carriers.<sup>36</sup>

# **BAWC**

BAWC (British Airways World Cargo) is the UK's flag carrier with a global network of over 200 destinations in 80 countries. Textiles from Pakistan were a growth area for BAWC in 2007 with a new weekly services from Karachi and Lahore in Pakistan anticipated to increase imports of manufactured goods, especially clothing, to Europe and the US. The Islamabad service was doubled to six times per week with cargo to Heathrow anticipated to consist of garments, carpets and leather goods along with surgical and sporting goods. Notable payloads in the airline's history include three freighters each filled with 120 tonnes of condoms from Chennai in India to Brazil, bringing a new meaning to the term 'emergency contraception'.<sup>37</sup>

BAWC opened a Perishables Handling Centre (PHC) at Heathrow in 1995, for customs clearance, quality control, temperature checks, processing such as packaging and labelling, then road distribution to supermarkets' regional distribution centres. Perishable produce freight landing at Stansted and Gatwick is trucked to the Heathrow PHC. Expansion at BAWC's Heathrow PHC for temperature controlled goods including food and flowers continued in 2007 with a further 216sq metres added to the 6,410 sq metre facility, which handled over 115,000 tonnes of goods in 2006.<sup>38</sup> The expansion included a new Border Inspection Post for 'non-human consumption products of animal origin'. Growth areas for BAWC at Heathrow include supermarket-ready products such as fruit salads for supermarkets. In June 2008 *Cargo Village News* reported that 60 per cent of BAWC's cargo capacity consists of fresh fruit and vegetables.<sup>39</sup>

In contrast to parent company BA, BAWC reported stable and rising cargo revenues through 2008. In December 2008 BAWC opened a perishables handling centre in Barbados for transhipment (goods loaded off one plane and onto another) for produce including flowers from Colombia. <sup>40</sup> BAWC added new services early in 2009 including an additional weekly service to Chicago, although recently it has reported reducing volumes and revenue. In March 2009 BAWC was considering moving its freighter operations to Kent, but decided to remain at Stansted. <sup>41</sup>

# 2 Forecasts and growth plans

# 2.1 Fallible freight forecasts

#### **UK AIR FREIGHT FLATLINES**

Passenger numbers at UK airports have risen consistently since 1991, reaching 235 million in 2008. In spite of recession towards the end of 2008, this was only a 1.9 per cent reduction compared to 2007. UK freight tonnages in this report are from the Civil Aviation Authority (CAA), the UK's independent aviation regulator, unless otherwise stated. UK air freight grew rapidly from 1970 through the 1980's and doubling in 1990's. In 2003, the DfT forecast that freight growth would 'grow even more rapidly over the next decade. In reality, UK air freight has stabilised in the last ten years. UK air freight totalled 2,282,153 tonnes in 2008, a decline of 2 per cent from 2007. In addition, 234,015 tonnes of mail was air freighted in the UK in 2008.

The Future of Air Transport Aviation White Paper (AWP) published by the DfT in December 2003 tracked air UK air freight growth from 580,000 tonnes in 1970, rising to 2.2 million tonnes in 2002. The AWP is a 'strategic framework for the development of airport capacity in the United Kingdom over the next 30 years' The AWP recommended that airport operators produce or update Masterplans detailing development proposals, to 2015 in some detail, and indicative land uses from 2016 to 2030. Writing in their chapter entitled 'Aviation Coalitions' in the book *Aviation and Climate Change*, Sarah Mander and Sally Randles put the case that 'the AWP sets out a clear mandate for expansion based on an economic argument. Airports are required to develop master plans that meet a specified level of passenger demand'.

The DfT 2003 consultation *The Future Development of Air Transport in the United Kingdom: South East* contained major freight forecast growth forecasts, that following a doubling of UK air freight in the decade to 1999 growth in the subsequent decade to 2009 would be even more rapid. (No specifics are given for UK wide freight forecasts in this or subsequent DfT publications.) Air freight demand forecasts were for 8.5 per cent annual growth to a total of 5.4 million tonnes by 2010, 5.8 per cent annual growth to 2020 reaching 9.5 million tonnes in that year, then 3.7 per cent annual growth to a total of 13.6 million tonnes in 2030. The divergence between forecast and actual air freight volumes is widening.

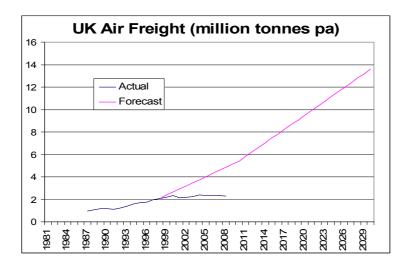
# **UK CARGO REPORTING**

The DfT *The air freight end-to-end journey* report contains HM Revenue & Customs (HMRC) overseas trade statistics for air freight. For UK air freight outside the EU, 'Machinery and transport equipment' is the largest export category by weight and volume at 41 per cent and 53 per cent respectively. 'Miscellaneous manufactured articles' and 'Manufactured goods classified by material' make up 45 per cent of UK air freight exports by value, with a mere 1 per cent consisting 'food and live animals' and 0.5 per cent categorised as 'other'. Chemicals and related products', crude materials and fuel, which have a low value:weight ratio than manufactured goods, comprise a total of 15 per cent of UK air freight imports by weight. The UK imports more crude materials, chemicals, fuel and food and live animals than it exports, and exports more machinery and transport equipment than it imports.<sup>47</sup> UK air freight exports outside the EU have a higher value:weight ratio than imports. Less information is recorded by HMRC on air freight

within the EU, as the goods are not subject to EU controls, although the nature, value and weight of the goods are recorded.<sup>48</sup>

Globally, load factors are reported by the ICAO on a regional basis, so statistics for the UK are aggregated with those for Europe as a whole. UK airports report monthly and annual freight and mail tonnage to the CAA. Each airport reports the number of aircraft of both passenger and cargo configuration, and the number of scheduled and chartered aircraft. The number of passenger and cargo aircraft domestic, EU and other international is also reported. Regarding operators (airlines), the tonnage for UK, other EU countries and overseas outside the EU is reported along with the tonnage of cargo that is set down and picked up. UK groups opposing air freight expansion have had their requests for more detailed information on what freight actually consists of met with claims of commercial confidentiality and difficulty in reporting consolidated loads of many shipments that can originate from more than one firm. Whilst there may be a case for a degree of commercial confidentiality, this need not be compromised by reporting throughput of basic cargo categories and load factors in the case of airlines.

# **UK AIR FREIGHT - ACTUAL VERSUS FORECAST**



The AWP suggests freight forecasts for individual airports, but does not include a UK wide freight forecast. At individual airport level, the AWP confirms that these forecasts were not revised. Air freight Actual statistics are from the CAA. UK air freight Forecast statistics are taken from the DfT consultation *The Future of Air Transport, South and South East, Main Consultation.*<sup>49</sup> (Research and graph by **Paul Grimley)** 

# **GLOBAL AIR FREIGHT GROWTH**

Heathrow Airport currently handles the most UK cargo, in 2008 a throughput of 1,397,054 tonnes represented over 60 per cent of the UK total. Whilst Heathrow clings to its rank as the world's busiest in terms of international passenger traffic, it is less of a giant in terms of being a freight hub, ranking only 16<sup>th</sup> globally with Memphis in the US and Hong Kong vying for first place each with throughputs approaching 3,700,00 tonnes. Within Europe, Heathrow's volumes are also lower than Charles de Gaulle in France and

Frankfurt in Germany which each handled over 2 million tonnes, and Schiphol (Amsterdam) which handled over 1,600,000 tonnes, in 2007.<sup>50</sup>

While UK freight volumes have been stable for a decade, global air freight has maintained steady growth. Globally, air freight climbed to a high of 88.5 million tones in 2007, the 3.2 per cent growth rate down slightly on 2006 freight growth rate of 3.6 per cent.<sup>51</sup> Until the recession, air freight was predicted to grow more than passenger flights. Predictions by Boeing and Airbus, the two major aircraft manufacturers, that passenger numbers would increase by about five per cent per year, and freight volumes by six per cent formed the basis of aviation expansion plans around the world. These small percentages may not sound significant to the non-mathematically minded, but would add up to passengers doubling over the next twenty years, with freight tonnage tripling.<sup>52</sup>

UK airport expansion plans are dwarfed by ambitious freight expansion overseas including Frankfurt, Schiphol and Charles de Gaulle in continental Europe. The new airport in Dubai, Al Maktoum, plans for a freight throughput of 12 million tonnes. The UK is indeed falling 'behind' in air freight capacity compared to construction overseas, but this could offer the opportunity to turn this to advantage and shift the emphasis to road, rail and shipping using less fossil fuels, with lower greenhouse gas emissions.

# 2.2 Air freight and the recession

# **OIL PRICE SPIKE**

Throughout the oil price spike in 2008 air passenger numbers and freight kept rising, even as the oil price peaked at its highest ever in July. Globally air freight was rising faster than passenger flights until the recession, and was slow to get caught up in the economic downturn. Air freight sustained its growth for first nine months of 2008. Volumes began to decline in the final quarter of 2008, but not the dramatic downturn affecting many other industries like construction and car manufacturing. For 2008 as a whole, global air cargo volumes were just 3.6 per cent lower than the previous year.<sup>53</sup>

The practice of hedging, buying fuel up to a year or more in advance, helped many airlines keep their fuel bills down. Air freight can be more affected by fuel price as this forms a higher proportion of operating costs than passenger flights. For example, Professor Peter Morrell of Cranfield University compares fuel costs of 38 per cent of operating costs for all-cargo airline Cargolux compared to 25 per cent for passenger airline Virgin Atlantic.<sup>54</sup>

Cancelled routes and carriers going bankrupt hit the headlines, but only two major carriers went out of business in 2008.<sup>55</sup> Several smaller airlines reported to be facing closure were soon flying again with new investors and a wave of mergers and acquisitions. For example in June 2008 MK Airlines, based at Kent, briefly grounded its fleet and administrators were called in, but the airline resumed operations within days following a deal with a new investor.<sup>56</sup> Aviation growth is not historically as sensitive to the oil price as might be expected, seen in the context that globally aviation, including freight, had maintained growth for five consecutive years since 2003, after recovering from the post 9/11 slump, the growth concurrent with a rising oil price.

#### FREIGHT VOLUMES PLUMMET

Air freight volumes began to plummet in the depths of the recession in early 2009. The decline has been dramatic at many UK airports such as Gatwick's 2008 volumes down 37 per cent compared to 2007. Manchester reported a 43 per cent year-on-year reduction in February 2009. Press reports of declining air freight volumes at UK airports sound enormous with reductions of over 20 per cent, but the monthly figures are year-on-year comparisons, the monthly tonnage compared to the same month the previous year, so the reports represent a continuing dip in air freight, not oanongoing plummeting month after month.

Air freight maintained a growth rate for the first half of 2008, but there was a year-on-year decline of 1.5 per cent in the third quarter and 9.7 per cent in the fourth quarter. For the year 2008 as a whole cargo tonnage at UK airports fell by 0.7 per cent. <sup>57</sup> A number of UK airports maintained cargo tonnage growth for 2008, including Heathrow where volumes grew by 7 per cent, and Luton with 6 per cent growth.

In March 2009 it was reported that 2,300 planes, a record number, are parked in the desert, 11 per cent of the global fleet. In February 2009 Ian Tutzger reported in Cargo News Asia that airlines are undertaking capacity reduction in the face of reducing cargo yields.<sup>58</sup> Load factors, the percentage of passenger seats or freight space that is filled, were reported to be falling faster than capacity reduction with planes being taken out of service results in more wasted cargo space and fuel. BAWC reported a load factor reduction of 5.5 per cent for March 2009.<sup>59</sup>

Aviation industry bodies predict that growth will quickly resume its upward trajectory as the global economy begins to show signs of recovery from the recession. Whilst the future for all sectors of the economy is uncertain, aviation has a history of recovering quickly from dramatically plummeting volumes to resume its growth path, for example after the terrorist attacks of 9/11, SARS and previous recessions. Without the passengers to deal with, air freight can be less severely affected than passenger services by heightened security and concerns over the spread of infectious disease. In June 2009, Boeing was still predicting long term freight growth of 5.3 per cent per year, so tripling over the next 20 years, with the freighter fleet to increase by two-thirds from 1,940 to 3,250.

One reason for aviation's track record of quickly resuming its growth path after a recession is government bailouts and loans to airports and airlines. This is evident in 2009 with financial support packages agreed or under consideration in many countries including flag carriers in India, Japan and Canada and for several Chinese airlines. Injections of public funding for airport cargo facilities include a relief package with a Cargo Incentive Scheme for Changi Airfreight Centre in Singapore. <sup>61</sup> In the UK, Business Secretary Lord Mandelson announced a £340m loan to support the manufacturing of Airbus A350 wings in Bristol in August 2009. <sup>62</sup>

# SHIFTING FREIGHT FLOWS

Throughout the oil price spike and the subsequent recession there has been a shift of traffic to the Middle East airports where there massive investment in airport infrastructure expansion is ongoing. Several Middle East carriers including Emirates Airlines and Etihad Airways reported high cargo growth for 2008 and continuing into 2009. Emirates Airlines' recent growth includes bellyhold cargo at Newcastle Airport.

# 2.3 Freight growth plans continue

#### **AVIATION GROWTH COALITIONS**

Writing in *Aviation and Climate Change*, Sarah Mander and Sally Randles describe the AWP as 'policy support for decades of air traffic growth' with 'coalitions of actors' encompassing many commercial and government bodies working to achieve the expansion agenda set out in the AWP. The participants are airlines, airports, manufacturers and government actors on a variety of scales.'<sup>63</sup>

In addition to Regional Development Authorities (RDAs) and government at all levels from national to local authorities, airport expansion is explicitly supported by the City Regions which work across local authority boundaries for strategic planning, and have been most fully developed in the north of England. For example, in the Manchester City region, Manchester Airport is highlighted at the top of the list of the economic assets and its expansion top of the list for priorities and objectives.<sup>64</sup>

The DfT's *Future of Air Transport Progress Report*, published in December 2006, updating the progress of the Aviation White Paper (AWP) of 2003, highlights 'increasing trade and air freight transport' as one of four key drivers of aviation expansion. The other factors identified are 'international competitiveness', 'aviation's direct contribution to economic development' and 'people's aspiration to travel'.<sup>65</sup> Yet there is very little information in DfT reports or Masterplans about freight growth beyond tonnage targets, such as what cargo categories this freight growth is anticipated to consist of. More broadly, policy makers and the media frame the aviation expansion debate as 'air travel' as if it only consists of passenger flights, sidelining the freight issue.

The language used in Masterplans infers that growth is based on meeting demand projections, and that capacity is being expanded to accommodate inevitable growth. For example, Glasgow Prestwick's Masterplan states that it is to 'accommodate the likely increase in passenger and freight traffic'. Yet later in the Masterplan the language indicates that the facilities aim to generate growth and Chapter 5 is entitled 'Our plans to achieve growth' which includes a section on 'Achieving Freight and MRO Growth'.

As with passenger flights, advocates of expanding freight capacity in the UK argue that demand constraint is futile because restricting capacity or increasing costs through measures such as a freight tax would result in flights and hub operations moving to continental Europe, thus losing out on capturing high value air freight trade flows. This is followed with the argument that as the freight growth will occur elsewhere, net GHG emissions will not be reduced. Some airports put the case that air freight expansion would reduce the emissions from connecting flights or road journeys to airports further away from the point of origin. For example, Carlisle Airport developers Stobart claim that growth of the airport could result in reduced carbon emissions because of flying directly from Carlisle instead of road transport to nearby airports like Newcastle. 66

# PLANS TO DOUBLE CARGO BY 2015, TRIPLE BY 2030

In the face of the economic downturn, with freight volumes plummeting, airports throughout the UK have not reconsidered or scaled down freight expansion plans. The 'paradox of aviation' noted by Airport Watch and Aviation Environment Federation, with expansion plans in the face of declining passenger numbers,

also applies to freight with growth plans published and infrastructure development underway as volumes contract.

The table in the supplement to this report, *An Airport-by-Airport outline of the freight picture at each of the UK's airports*, lists air freight expansion planned and underway that is known to the author of this report. This consists of freight growth plans as stated in Masterplans and statements. The air freight growth plans add up to an additional 2,231,197 tonnes between 2007 and 2015, almost double to 4,556,436 tonnes. By 2030 an additional 4,470,362 tonnes would bring the total to 6,795,601 tonnes. <sup>67</sup> Air freight would almost triple from 2007 levels if this capacity is built and becomes fully operational. This calculation is based on the 2007 freight throughput as a baseline, as the 2008 slight tonnage decline is regarded by the industry as a short term blip. This is an underestimate of actual freight growth plans as it does not include airports where the intention to increase freight is stated, but no target tonnage is given, including airports with a business or logistics park in development on or adjoining the airport site. If long term trends of stabilisation and recent decline continue, these air freight growth plans will widen the disparity between growth predictions and actual freight volumes.

# **REGIONAL AIRPORTS**

The AWP states that 'we want to encourage growth at regional airports', and the planned expansion of air freight infrastructure is predominantly at regional airports, shifting the emphasis away from Heathrow. <sup>68</sup> Throughout the UK there has been a consolidation of freight growth at specific regional airports, in particular East Midlands and Manchester, with several other regional airports reporting a substantial decrease in freight over the last decade, including Birmingham, Liverpool and Glasgow. Reports of freight growth at regional airports are often not as significant as it might first appear, as press releases from stating dramatic monthly percentage growth in freight is frequently due to a few ad hoc charters and does not reflect a consistent growth trend. A few regional airports with low freight volumes plan to multiply freight volumes by several multitudes; Kent plans an almost 20 fold increase to 500,000 tonnes by 2033, Robin Hood an eighty fold increase to 120,000 tonnes by 2030 and Liverpool a nearly 60 fold increase to 220,000 tonnes by 2030. Smaller regional airports converted from a military airport to civilian purposes already have lengthy runways which can accommodate enormous freighter planes like the An-124, such as Robin Hood and Durham Tees.

Freight growth is not known to be planned at several small, regional UK airports with cargo under 1,000 tonnes per year including Bristol, Southampton and Blackpool.

#### PLANNING LOOPHOLES

In *Aviation and Climate Change*, Sarah Mander and Sally Randles write that 'For a specific airport, master plans set out the strategic framework to meet a given level of capacity, and these become normalized through inclusion in statutory plans at other scales'. <sup>69</sup> Concerns are raised that the airport master plans bypass democratic processes by default 'As master plans diffuse into statutory development plans at the local and regional scale, these demand-led assumptions will become normalized and will achieve legitimacy without being subject to broader democratic debate'. <sup>70</sup>

AEF highlighted that many airports in England and Wales benefit from permitted development rights under Part 18 of the General Permitted Development Order. This allows operators to undertake significant

development without planning permission. This encompasses development that can be directly freight related including operational buildings and aprons on land within the airport perimeter. Originally envisaged as enabling safety improvements, the planning loophole is being used for commercial gain. AEF recommends that development on airport sites should be subject to the normal planning process, raising the threshold for qualification so that it applies only to large international airports.<sup>71</sup>

#### **AIRPORT BUSINESS PARKS**

Lax planning regulation could be relevant to the business parks which are planned or in development at Robin Hood, Newcastle, Inverness, Carlisle, Southend, Durham Tees, Belfast and Bournemouth airports. In many instances, land is already available on the airport site, for example Newcastle's Southside Development, or development is taking place on land outside the airport perimeter in the case of Inverness Airport Business Park. The airport business parks are airport centric rather than airport specific. Provision of generic business space supports other industries in addition to air freight and aviation related industries, with access to road networks supporting growth of road freight as well as potentially increasing air freight. A number of new or expanding freight facilities and business parks are being built or planned on agricultural land, for example Robin Hood, Glasgow, Inverness, Edinburgh, Newcastle, possibly expanding onto agricultural tenancies at Carlisle, and on 800 hectares of countryside surrounding Stansted. This is asphalting over more green space and further reducing UK's dependence on food imports.

# LACK OF INFORMATION ON FREIGHT PLANS

Several Masterplans include freight growth plans but very little information is given. In some instances, such as Humberside, a target tonnage is not stated. Some Masterplans do not make a distinction between freight and mail. Anticipated growth in bellyhold cargo is substantial but not quantified in Masterplans in some instances. For example, a DfT 2003 projection for Heathrow stated that if bellyhold capacity was to be fully utilised throughput would rise to 'around 2 million tonnes'. This level of growth would entail an approximately 50 per cent increase over Heathrow's freight volumes in recent years. Birmingham and Exeter Masterplans also specify, but do not quantify, belly freight growth. Development of MRO facilities, such as at Glasgow Prestwick, Kent and Inverness, is likely to increase air freight as aircraft manufacture and maintenance is highly dependent on air freight.

Some Masterplans including Edinburgh and Leeds Bradford claim that freight growth will be determined by whether an operator makes the decision to locate there. There is vagueness around Stobart's freight plans at Southend airport, announcing development of unspecified 'niche' services and contradictory reports both stating and denying that plans will increase air freight and develop as an air freight hub.

Aside from the smaller regional airports where the cargo growth is anticipated to be predominantly mail, Masterplans rarely specify what this cargo increase is projected to consist of even to the extent of identifying specific industry sectors, or how it is to be achieve,. The few instances of Masterplans giving details of anticipated freight growth sectors include Humberside highlighting the perishable food sector and Aberdeen specifying continued support for the oil and gas sector.

In some instances regional airports plan to increase freight capacity but are not obliged to produce a Masterplan, as passenger numbers fall below the threshold, including Carlisle and Durham Tees.

# 2.4 Routes, modes

# LONG HAUL, SHORT HAUL & TRANSHIPMENT

Only a small proportion of air freight is domestic flights within the UK, at 107,227 tonnes just 5 per cent in 2008. Air freight within the EU accounted for 248,722 tonnes in 2007, just over ten per cent of the 2,325,772 tonne total. <sup>73</sup> Short haul air freight would be easier to shift to land transportation than long haul, but there are recent reports of increased short-haul air freight, for example in January 2007 BAWC increased its European short-haul freighter service by 40 per cent. The new schedule increased services from 32 to 45 weekly services across 11 European destinations, and subsequently made further additions of Leipzig and Gothenburg to the network. <sup>74</sup>

The primary routes for UK air freight are imports from exports to the US, and trade with Asia which is dominated by imports. Imports from Africa in 2008 at 109,954 tonnes are almost double the exports of 60,485 tonnes. The extinated 15 per cent of all UK air cargo is transhipment, arriving in one aircraft and being unloaded and loaded onto another aircraft. Whilst transhipment might be viewed as similar to passengers with little economic benefit, there is the case that transhipment is important to keep the business of carriers such as BAWC and Virgin. BAWC transhipment levels at Heathrow are about 70 per cent, compared to the flag carriers of other countries at Heathrow with transhipment levels of between 20 and 30 per cent.

# **MULTIMODAL SUPPLY CHAINS**

The supply chain is often convoluted; the distance freight travels far exceeding the distance between the starting point and destination. Supply chains are multimodal with legs of shipping, trucking, so that even if consumer goods, components, heavyweight machinery or other types of cargo do not take off from or land at a UK airport, there could be air freight at some point in the supply chain. Goods for export are trucked from the UK to continental European airport hubs, consumer goods land in continental Europe and are then trucked to the UK. For example flowers from Africa landing at Schiphol in the Netherlands are trucked all over Europe including to the UK.

The logistics sector as a whole is growing and the modes of transport are not just in competition but growing simultaneously and are to a certain extent interdependent. Even the most comprehensive air network involves land legs to reach the final destination. Many airports are multimodal and also the key nodes for road and sometimes rail networks. For example, Leeds-Bradford handed just 88 tonnes of air freight in 2004, with 3,623 tonnes moved by road mostly to and from other UK airports including Heathrow and Manchester. Approximately half the goods transported between Heathrow and continental Europe are trucked by road, with airlines typically sending between 3 and 15 trucks per day. Carriers including Emirates Airlines and Coyne Airways operate trucking networks. There are enormous port developments in the UK for example Liverpool Airport is part of Ocean Gateway. Dubai ports operator DP World is scheduled to open what it claims will be Europe's biggest logistics park in Thurrock on the River Thames in time for the London Olympics in 2012.

Goods trucked to and from continental Europe covered by the EU Customs Code can be carried under a single Air Waybill provided that they are securely transported by truck. This precludes transport of air freight by rail as, under current law, rail freight carriages cannot carry Air Waybills. A network of road

distribution centres has been built and there is a lack of rail interchanges at airports.<sup>81</sup> This hinders the development of an integrated freight transport systems facilitating a shift from road to rail, which is less polluting than road.

# **AIR FREIGHT DRIVERS - HIGH VALUE & SPEED**

The two key reasons for air freighting goods rather than using other modes are that the goods are high value and the advantage of speed. Investigation of the complexities of both these drivers could help enable modal shift to reduce environmental damage. There are distinctions within the generalisation that air freight consists of high-value goods. The DfT *The air freight end-to-end journey* report divides air freighted goods into three categories: 'time-sensitive' including perishable foods, 'process critical' including medicines and machine parts and 'very high-value' including high-tech goods and gems. <sup>82</sup> This is a useful typology, but the air freight, albeit frequently on an ad hoc basis, of such a wide range of consumer goods, and industrial equipment for manufacturing, infrastructure development and resource extraction, indicates that these definitions are highly subjective and that business processes and pressures are major drivers of air freight growth, rather than any inherent time critical nature of the goods.

The possibility that speed is not necessarily the key driver for air freight growth, and that other factors of reliability and security discourage shippers from using other modes, is worth exploring. In their response to the Midlands Aviation Masterplan, West Midlands FoE countered the argument that speed is of the utmost importance to business with the findings of a 2004 survey by the International Logistics Quality Institute that just ten per cent of express air freight is time critical, with the 'vast majority' of customers choosing express air freight delivery for dependability and security rather than speed.<sup>83</sup>

### **MULTIMODAL GROWTH**

In December 2008 the DfT published *Delivering a Sustainable Transport System: The Logistics Perspective*, which announced an increased emphasis on support for UK logistics sector. <sup>84</sup> This report noted that the distance that goods are travelling is increasing more quickly than the volume of goods transported. Road dominates transportation of goods within the UK accounting for two thirds of the goods moved. Rail freight has increased by almost 50 per cent in the last decade, bringing it to a level not seen since the 1970's. The report states that government seeks to enable 'behavioural change, including the transfer from road to rail and water'. <sup>85</sup> This statement is not extended to a commitment to encourage a transfer from air to other modes, although the potential for consumer awareness and greenhouse gas emissions from air freight to lead to a decrease in the use of air freight for transporting food is mentioned.

Whilst the volume of air freight is very small in comparison to that which is transported by the other modes of road, rail and shipping, it amounts to 40 per cent by value of UK trade with non-EU countries. <sup>86</sup> This percentage of the value of trade is in line with the global estimates for the value of air freight, ranging between 35 and 40 per cent of world trade.

UK ports are growing rapidly including new facilities at Port of Immingham and Port of Tyne to accommodate coal imports. New developments at Felixtowe, Barkside Bay (Harwich), London Gateway, Mersey (Seaforth) and Teesport have all received planning permission and in total these developments have the potential for capacity to double container traffic.<sup>87</sup> Air freight capacity expansion is not even

mentioned in the DfT *Delivering a Sustainable Transport System* report, even though it is supported and subsidised by several government agencies as outlined in Section 3.3 of this report.

In 2007, air freight constituted less than 1 per cent of the weight of the 459 million tonnes UK international freight, with 4 per cent by the Channel and 95 per cent by sea. Even the largest freighter planes are dwarfed by the enormous 'post-Panamax' vessels shipping bulk raw materials including metals, minerals, timber and fuel. Globally, shipping growth could be marginally higher than air freight growth. Although there are reports of a shift to sea freight for cost reasons, with the anticipated upward trajectory of the oil price and slowdown in global trade, the overall picture is more mixed. A report by Seabury in *Air Cargo World* in December 2008 showed that growth of ocean freight volumes has exceeded that of air freight over the last few years, but not a large proportion, giving the example of only 4 per cent of weight in 2001. This was largely replaced by 'successive waves of new products' in particular consumer electronics. 89

# 3 Environmental, social and economic impacts

# 3.1 Environmental and social impacts of air freight

#### **GHG EMISSIONS OF AIR FREIGHT**

While it is the case that the proportion of goods that are air freighted is small compared to other modes, the environmental impacts are disproportionate. There is a widespread consensus that air freight emits more GHGs than other modes. Defra has calculated the impact of dedicated freighters emissions per tonne kilometre as up to ten times those of road transport, and up to 43 times those of rail transport.

The IPCC calculated the global contribution of aviation to greenhouse gas emission which cause human induced climate change as 4.9 per cent of human made climate impacts. This is significantly higher than the 2 per cent repeatedly stated by the aviation industry. This includes the impact of radiative forcing, with aviation's emissions at high altitude having more impact on the climate. The IPCC report covers aviation growth to 2005, but not the significant growth in 2006 and 2007 before the recession. Aviation is an especially important issue for the UK's GHG reduction strategy as the DfT estimated it accounts for 6.8 per cent of emissions. <sup>91</sup> In order to meet the UK's carbon emission reduction targets of 80 per cent by 2050. <sup>92</sup> The Committee on Climate Change estimates that, in order to offset aviation's rising emissions, all other sectors would have to reduce their emissions by 90 per cent. <sup>93</sup>

Aviation industry bodies acknowledge that it is difficult to disaggregate cargo from passenger flights to assess the GHG emissions separately, especially when considering freight carried as bellyhold. Considering air cargo in both bellyhold and dedicated freighters, Professor Peter Morrell of Cranfield University estimated that air cargo accounts for approximately 25 per cent of global use of aviation fuel.<sup>94</sup>

#### FLYING FOOD & FLOWERS - A HOT TOPIC

The only air cargo category which has attracted substantial media attention is food and flowers, and attempts have been made to calculate the greenhouse gas emissions of different modes of transportation and their importance in the wider context of the other emissions of the supply chain such as farming and processing. The Validity of Food Miles as an Indicator of Sustainable Development. Disproportionate impacts, for Defra in 2005 estimated that although air freight only accounted for one per cent of food tonne kilometres of food imports, this small proportion was estimated to account for 11 per cent of food transport CO2 equivalent emissions.

This study's methodology, subsequently used for Defra's food transport indicators statistics, did not capture the food that arrives in the UK by a multimodal supply chains landing in continental Europe then trucked or shipped here. The methodology also assumed that there was one direct flight from the capital of the country of origin of the produce. <sup>97</sup> In fact there can be multiple connecting flights for UK terminating perishable produce, with transhipment occurring at airports all over the world including Dubai, Colombo in Sri Lanka, Nairobi, Barbados and Cairo. There can also be internal flights in the country of origin to an export hub, such as to Mumbai in India. Produce is often transported, by road feeder network or a connecting flight, into a neighbouring country such as perishable food and flowers from Arusha and Mwanza in Tanzania into neighbouring Kenya for flying out of Nairobi.

#### LIMITED EFFICIENCY GAINS

There are comprehensive, ongoing efforts to reduce fuel use and GHG emissions throughout the supply chain for air freight as with other transport modes, including more energy efficient refrigerated containers and reducing the weight of packaging. One example is Kuehne + Nagel working with AIRDEX to create a 3 kg re-usable plastic pallet. Earther improvements in aviation fuel efficiency are proving difficult to achieve. Whilst UK policy supports aviation expansion on the basis that step changes in aircraft fuel efficiency will be made, the reality is that improvements are close to diminishing returns. Writing in *Aviation and Climate Change* Staefan Gosling and Paul Upham a more accurate estimate of efficiency gains might be annual savings of around 1 - 1.5 per cent. Aviation and Climate Change, Cordula Neiberger estimates that improvements in technical efficiency of aviation will be outpaced by growth. Efficiency gains are estimated at between one and two per cent per year, while volume growth is approximately six per cent per year. Therefore, annual growth in GHG emissions from air freight can be estimated at four per cent per year, so 'growth in this sector is thus in contrast to global emission reduction goals, and in terms of growth, possibly even more relevant than passenger transport'.

Whilst carriers are highly motivated to maximise revenues with full payloads, other factors including the pressure for speed and global trade imbalances mean that air freight capacity is frequently underutilised. The International Air Transport Association (IATA) reported an international cargo load factor of 75.9 per cent for 2008. Lower load factors are far from unusual. A report by Seabury in *Air Cargo World* in December 2008 anticipates that trade lane imbalances which are the 'result of underlying imbalances of consumption and production' will widen in most cases. This includes between China and Europe and the US, where, for every three to five kilogrammes air freighted from China, just one kilogramme is flown in the returning direction. December 2008 and Europe and the US, where, for every three to five kilogrammes air freighted from China, just one kilogramme is flown in the returning direction.

# LOCALISED ENVIRONMENTAL IMPACTS

Along with aviation's contribution to the long term, global environmental problem of climate change, there are localised, short-term environmental impacts which are worst for communities living near airports. Localised ground level pollution from airports along with the land transportation from road and rail networks converging at multimodal hubs brings a is a cocktail pollutants including nitrogen oxide, sulphur dioxide which irritates the lungs and is associated with bronchitis, carbon monoxide, ground level ozone which impairs lung function and aggravates chronic lung diseases and VOCs (Volatile Organic Compounds) unburned hydrocarbons, benzene and formaldehyde.

Air freight leads to particular noise problems as older, less efficient noisier passenger planes are often converted to freighters. There is relentless pressure for more night flights, already unrestricted at East Midlands, with plans to increase at airports including Robin Hood. Airports sometimes manage to present an argument that expansion for air cargo will reduce noise impacts. For example East Midlands, Neil Robinson, the site's environmental manager, claimed that the lengthening of the runway will actually reduce noise as the planes will be able to approach the runway at higher altitudes over the nearby village of Kegworth. The improvement in noise impacts is likely to be dwarfed by the increase in noise that the overall expansion of the airport, aiming to increase cargo volumes almost tenfold by 2030, would enable. Glasgow Airport's Masterplan counters concerns that development of cargo facilities would increase the noise problems already suffered by the Kirklandneuk and Renfrew communities with the claim that the new cargo and maintenance facility 'will have the potential to act as a noise barrier'. The interval of the content of the claim that the new cargo and maintenance facility will have the potential to act as a noise barrier'.

#### **CARGO CRASHES**

Old cargo planes have a poor safety record in Africa, with frequent accidents killing crew and people on the ground which are rarely reported in the mainstream UK media. Reporting in *The Telegraph* on yet another crash of a cargo plane near the runway of Kinshasa in the Democratic Republic of Congo in October 2007, this time into a market, Matthew Moore writes that 'Air travel in Africa, and in the Congo in particular, is a notoriously dangerous business. Many African airlines are shambolic outfits... Their ageing Antonovs and Boeing 707s crash with alarming regularity.' This appalling safety record extends to humanitarian aid as outlined in the May 2009 SIPRI report *Air Transport and Destabilizing Commodity Flows*, documenting that many cargo carriers involved in EU and UN humanitarian aid missions are banned from EU airspace on safety grounds, and highlight recent crashes with fatalities in Darfur, Somalia and Uganda. 106

# 3.2 Economic impacts

# **ECONOMIC GROWTH & JOB CREATION**

The environmental damage of air freight is supposedly compensated for by economic benefits, as aviation expansion is seen as a driver for economic growth. The evidence base for this is thin, questionable and out of date. While UK air passenger growth has continued its upward trajectory, air freight has flatlined over the past decade, whilst Gross Domestic Product (GDP) has risen consistently until the third quarter of 2008. The case for a causal relationship, or even a correlation, between air freight growth and GDP growth appear to be even weaker than for passenger flight growth.

Government analysis of the economic impacts of air freight appears to be out of date and overdue for revision, with the DfT *The air freight end-to-end journey* report stating that the most recent comprehensive study on behalf of the department was conducted in 1996. This estimated a GDP contribution of about £5 billion over the next 20 years. Job creation is the second key economic benefit attributed to aviation expansion including freight, and the same study estimated employment of between 40,000 and 55,000 people. A more recent study by OEF quoted in the DfT report calculated a GDP contribution of £900 million to the economy in 2004, from the express service alone, claiming a 'catalytic impact' on the rest of the economy totally £1.3 billion per year. The study found 32,000 people employed by the express industry in 2006 supporting at least 72,000 jobs nationally. 108

New airport freight facilities do not appear to be encouraging for employment creation. The proposed development of two new cargo sheds at Manchester Airport would cover an area of over 9 hectares and claims it would create 60 jobs, which is markedly low employment density. The Pangaean perishables centre at Manchester Airport had a team of just three people before it ceased trading in March 2009, which raises the issue of the security of any jobs created, particularly in the volatile economic climate. There is also the issue of whether freight facilities are utilised as envisaged. The perishables hub at Humberside at 930 sq metres was predicted to employ just six people. The facility opened in November 2008, but just two months later it was reported that flights of fish had decreased to just one per week. It is often stated that along with the actual airport facilities, employment is created in the supply chain, such as for the aerospace industry at Glasgow Prestwick and the recently announced loan to Airbus. Ironically,

so called 'handling' at airports is becoming increasingly mechanised and this extends along the supply chain into logistics so the employment creation claims merit further investigation.

The DfT *Future of Air Transport Progress Report* cites research by OEF (Oxford Economic Forecasting) which concluded that access to air services is an important factor for 25 per cent of companies across the whole economy in influencing where they locate their operations within the UK. Access to air services is also claimed to affect the decisions of 10 per cent of companies regarding whether they invest in the UK, and that a similar number of firms also feel that access to overnight air freight services is a vital consideration in operating from the UK. <sup>111</sup> In *Airport Jobs: false hopes, cruel hopes* Brendon Sewill dissects the methodology and research findings of the OEF in this survey which was carried out for the DfT, Confederating of British Industry (CBI), VisitBritain and a consortium of airlines and airports. The research does not inform the DfT of the views of a meaningful sample of the business community as the survey received a response rate of just 2.75 per cent. <sup>112</sup>

# AIR FREIGHT REMAINS UN-TAXED

Globally, aviation including cargo, has an advantage over other forms of transport with the Chicago Convention agreement not to tax fuel for international aviation. In *The Hidden Cost of Flying*, in 2003, Brendon Sewill calculated that if aviation paid its full share of public costs including environmental damage, and fair share of the costs of public services, the value of the tax subsidy for the aviation industry totalled £9.2 billion per year.

Air Passenger Duty (APD) brings in less than one tenth of this amount at just £0.9 billion. 113 APD is a duty of excise levied on outgoing passengers with some exemptions including small and private aircraft. The Government announced a proposal to replace APD with an Aviation Duty in its 2007 Pre-Budget Report, with a consultation period beginning in January 2008. The proposed new Aviation Duty would have been levied per aircraft, per flight and would have applied to freighters, transfer passengers who were exempt for APD and empty aircraft. This would have taxed air freight for the first time, as freight aircraft fall outside the APD scheme. APD was expected to come into force in November 2009 as it had cross-party support and several NGO's welcomed the proposal, including Friends of the Earth (FoE) stating that 'this most polluting form of freight transport currently contributes virtually nothing towards its environmental costs or general taxation' and strong evidence that 'applying fair taxation' to air freight would result in a shift to other modes. 114

APD is levied per passenger so does not incentivise airlines to increase their passenger load factor and reduce the number of empty seats. In contrast, Aviation Duty was to be based on maximum take-off weight of the plane, encouraging maximisation of passenger and freight load factors. Aviation Duty was anticipated to raise an additional £520 million per year. The proposed scheme was criticised for not distinguishing between aircraft with different levels of engine efficiency. Opponents argued that the UK risked losing air freight business as the sector can move operations easily and is highly price sensitive. NGO's supporting the introduction of Aviation Duty argued that the time sensitive nature of cargo would balance out increased costs. 115

Aviation Duty was shelved in November 2008, with Chancellor Alexander Darling explaining the decision as due to global economic uncertainty, and the belated inclusion of aviation in the EU Emissions Trading Scheme (ETS) from 2012 as a step towards equal treatment compared with other sectors. Instead, APD

was reformed with the addition of two distance bands bringing the total to four, set at intervals equidistant at 2,000 miles from London, so the levy is now based on the measure of the aircraft combined with a distance measure. The APD rate will rise on an annual basis, anticipated to raise revenues of £1.97bn in 2008-09, rising about 50 per cent to £3.06bn in 2011-12. At various stages of the debate on increasing UK aviation taxes, US organisations such as the Air Transport Association lobbied against the proposals, claiming it would not comply with international treaties.

#### AIR FREIGHT EXPORT DEFICIT

The UK imports more air freight by weight, 57 per cent, than it exports, at 43 per cent in 2007. This volume discrepancy in Government statistics shows a gaping export deficit in terms of value as well as weight of non-EU trade. The trade gap is particularly marked in international freight outside the EU. In 2007 the UK exported 414,000 tonnes of air freight to non-EU countries, whilst importing more than four times this amount at 1,663,000 tonnes. Advocates of air freight expansion highlight the economic benefits of high-value exports, but the trade imbalance in terms of value is also marked. The value of the imports was £31.3 billion, whilst the value of the imports was £51.1 billion. The air freight deficit outside the EU totals almost £20 billion and the UK value of imports is about 66 per cent more than the value of imports. The category of 'machinery and transport equipment' makes up the majority of trade by value for both imports and exports at 51 per cent and 53 per cent respectively. UK air freight within the EU is more balanced, in 2008 there were 183,179 tonnes of imports and 202,853 tonnes of imports.

According to the DfT *Future of Air Transport Progress Report 2006* aviation plays a crucial role in the UK's strengths in import and export trade and service industries and is vital to international competitiveness 'the hi-tech knowledge based sectors of the economy are heavily dependent on aviation to develop and maintain an international client base. There are indications that the UK's import / export imbalance could be widening with further collapse of the UK's manufacturing base, with trade press reports for example in an article in Air Cargo World, British Airports Authority (BAA), operators of Heathrow, Stansted, Gatwick, Glasgow, Aberdeen, Edinburgh and Southampton airports, said that it was experiencing 'difficulty countering a strong differential between high imports and low export volumes'. 120

The import / export imbalance mirrors the tourism deficit highlighted by Brendon Sewill in *The Hidden Cost of Flying*, with almost double the number of UK residents travelling abroad than the number inbound tourists. <sup>121</sup> In *False Hopes, Cruel Hoax*, published in March 2009, Sewill estimated that the UK airport expansion programme could result in a loss of a further 860,000 UK jobs in leisure and recreation. <sup>122</sup> He also raised the issue of a 'two-way road', with jobs, investment and other benefits able to flow in both directions of newly opened and expanded routes, 'when a local airport is developed it may become possible to supply the area more cheaply by air from somewhere where they can be mass produced'. <sup>123</sup> Opening up markets for UK products and for UK based firms to source more cheaply, works both ways. Instead of attracting investment from firms, air freight expansion could facilitate the moving of the UK's remaining manufacturing base abroad to countries with lower labour and operational costs.

# 3.3 Policy support and subsidies for air freight

#### **NETWORK INFRASTRUCTURE**

The DfT *Delivering a Sustainable Transport System: The Logistics Perspective* report claims that freight services and interchanges, the same way as ports, airports and warehouses are 'in the main, provided by the commercial sector' with the public sector stepping merely stepping to provide planning, funding, and provision of the network infrastructure which means the roads, power supply linking and enabling the nodes in the logistics infrastructure are the responsibility of the department. Firstly, the provision of space and designation of land function constitute significant government support enabling and driving expansion. Airports require major infrastructure for passengers and freight operations, including a road network radiating outwards fuel and water supply.

The DfT report *The air freight end-to-end journey* outlines the Highways Agency's programme of improvements to the strategic road network, stating that 'many schemes will help the movement of air freight to and from airports in the UK'. The reports includes a list of planned improvements 'which will particularly benefit air freight traffic to and from Heathrow and East Midlands on the strategic road network'. The support extends to research with a 'surface access study for freight to Heathrow' which will identify improvements on behalf of SEEDA (South East England Development Agency), Transport for London, BAA and West London Alliance. Several airport business parks have benefitted from construction of link roads. For example, Inverness Airport Business Park is adjacent to the airport site, and the European Regional Development Fund (ERDF) and the Highland Council funded a link road which opened in 2006 to provide access. 125

# **FUNDING FROM GOVERNMENT AGENCIES**

The DfT claim that governmental support is mostly confined to 'network infrastructure' leaving the freight hubs including airports does not stand up to scrutiny. A report by George Monbiot in *The Guardian* newspaper detailed subsidies of over £80 million over ten years, via government agencies including bodies controlled by the national assemblies and EU funding via unelected RDAs in England, and the Scottish and Welsh national assemblies. While the emphasis of the subsidy highlighted in this report is passenger related such as route development and promotion, a considerable proportion is related to freight. At Robin Hood Airport, Directions Finningley for Aviation Academy, an aviation employment and training academy, qualifications including aircraft engineering has received over £10 million from RDA Yorkshire Forward. The aviation overhaul and refurbishment element of this project is likely to increase air freight as aviation MRO is highly dependent on air freight.

Scottish Enterprise funding for Glasgow Prestwick included a £2m grant for a maintenance hangar in 2002 and £267,916 for activities which included international and freight development. RDA One North East provided Newcastle Airport with a total of £2,338,742 towards the development of a business park on the airport grounds, including warehousing, offices a road network and provision of utilities. Carlisle Airport received £45,318 towards an Economic Appraisal of passenger and freight development plans by new airport owners Stobart Air. Southend Airport has also been purchased by Stobart Air and the East of England Development Agency (EEDA) paid £52,520 for a study into the socio-economic impacts of expansion. Monbiot's findings on government funding include instances where agencies subsequently attempt to retrieve funding for programmes that were not completed, sometimes because recipients

ceased trading. In relation to freight, the second half of an award of £300,000 to Kent Airport to establish a BIP, truck park and warehousing was not paid as the then owner of the airport went into administration. 126

# **ADDITIONAL AIR FREIGHT SUBSIDIES & SUPPORT**

There are many instances of public funding, including for freight related facilities, which were not captured by Monbiot's information requests. The director of the Pangaean perishables handling centre at Manchester Airport stated that the funding for the establishment of the facility included a government loan. There was EU funding, and support from North Lincolnshire Council, towards the £1.6 million expanded perishables centre at Humberside Airport which opened in November 2008. Previous to this most recent expansion, the Humberside perishable centre received ongoing support from the Humber Trade Zone initiative led by RDA Yorkshire Forward dating back at least to 2004.

Support for Glasgow Prestwick freight related expansion has been central to the Scotland development agency activity in the area, Scottish Enterprise Ayrshire, including under the Smart, Successful Ayrshire progamme. Between 2003 and 2006 funding encompassed development of supply chains for the aerospace and related industries, transport links, research on markets for air freighted shellfish, over £300,000 for BAE Systems' facility at the airport, over £75,000 for development of the airport's Masterplan, £4.7 million of predominantly ERDF funds for the Prestwick International Aerospace Park (PIAP) on an 85 hectare greenfield site and over £300,000 on workforce skills development and employability training with the airport as the primary client. Substantial government agency funding appears to be ongoing as at the time of writing Glasgow Prestwick Airport's website states that 'This cluster of world-class companies and Scottish Enterprise Ayrshire's plan to spend several million pounds to help expand the airport as part of the Glasgow Prestwick Airport Development Zone initiative'. As with airport business parks in general, the development has the potential to increase air freight, although the development is airport centric rather than airport specific.

Government agency support for aviation expansion extends to staff and administrative time, lobbying and research with a view to accessing further EU funds. These activities are difficult to quantify in monetary terms but are of strategic significance. Ironically, this activity is often, nominally at least, part of GHG emission reduction programmes, which is contradictory with the increased emissions that air freight expansion will entail. For example, in March 2009, the Association of Greater Manchester Authorities (AGMA) commissioned a £30,000 study to identify carbon emission reductions for Manchester Airport, with a view to identifying interventions in anticipation of further ERDF funding. Cumbria Vision and West Lakes Renaissance, two regeneration organisations supported by the North West RDA, lobbied Carlisle City Council to grant planning permission for Stobart Air to develop at Carlisle Airport. The airport development is described as a 'key component of the Britain's Energy Coast™ Masterplan', which aims to 'transform West Cumbria into a major low carbon energy production hub'. 132

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#### **DOCUMENT 5: LLOYDS LOADING LIST REPORT 2019**

IATA likely to downgrade 2019 air freight forecast Will Waters | Friday, 01 February 2019 Figures from WorldACD indicate that tonnages carried fell, year on year, over the last four months of 2018, with full-year cargo traffic growing just 2.2% in 2018

The International Air Transport Association (IATA) seems set to downgrade its 2019 air freight forecast after world trade figures and air freight traffic figures for the final quarter (Q4) of 2018 have indicated little or no growth, and that its 3.7% growth forecast for 2019 now looks "optimistic".

A source at IATA told *Lloyd's Loading List* that the organisation would be releasing a revised freight forecast at the World Cargo Symposium in March. He explained that towards the end of last year, when the organisation had released its most-recent forecast for 2019, it had thought the weakening in air freight last year was a temporary impact from the ending of the business restocking cycle.

However, in the fourth quarter, the new factor was that overall world trade stopped growing – a sign of the wider pressures from protectionism, he said. That also had a similar effect on air freight traffic, with new analysis by IATA noting: "In the final quarter of 2018, air freight tonne kilometers flown abruptly stopped growing."

This matches the latest analysis, published today, by WorldACD, which indicates that air freight tonnages carried fell, year on year (YoY), during the last four months of 2018, with full-year cargo growing just 2.2%.

WorldACD said: "Air cargo showed two distinct faces in the year 2018 as a whole. Each month in the period Jan-Aug showed YoY volume growth, albeit in ever-smaller percentages as the year progressed. Still, the 3.7% YoY overall growth in that period looked good, given the fact that 2017 had been a bumper year.

"In the period September to December, however, things started to look much less positive. Three out of the four months showed a YoY volume decrease, resulting in an overall decrease for this period of 0.6%. Volume for the whole year was 2.2% up on 2017."

In a wider update analysis seen by *Lloyd's Loading List*, IATA made similar observations, noting: "Air cargo grew strongly from late 2016 and during 2017, as shippers turned to air freight to rapidly restock their inventories, having been caught out by the strength of the economic upturn. Air cargo volumes then slowed sharply last year, when the inventory restocking cycle reached its end as businesses once more had comfortable levels of inventory and switched to slower but cheaper modes of transport.

"As a result, having gained share of world trade in 2017, air cargo started to lose share in 2018. So far, that was a typical restocking cycle; nothing to worry about. We had expected underlying growth trends to then resume. However, that changed in the fourth quarter of 2018 when not only was air cargo depressed by the end of the restocking cycle, but overall world trade stopped growing."

IATA noted that industrial production and GDP continued to expand in the fourth quarter, highlighting that "the stalling of world trade reflects not weaker demand, but border frictions".

It described Brexit as "one manifestation of wider populist political pressures that have damaged cross-border trade and supply chains. Another is the tariff war between the US and China."

With the US threatening to more than double tariffs to 25% on another \$200 billion of Chinese imports on 2 March, IATA said that "unless these wider world trade problems are resolved, our forecast for 3.7% FTK growth this year is now looking rather optimistic".

In its observations in December on air freight pricing, IATA had forecast that average yields would increase by around in 2019, following on from rises of around 10% in 2018, although these predictions may also now be subject to revision, with capacity growth having now outstripped demand growth for the last 10 months.

Indeed, WorldACD noted that, alongside a 3.5% YoY fall in chargeable weight in December, and by 5.8% month-overmonth (MoM), average worldwide air cargo yields, moved slightly downwards to US\$2.00 in December 2018, 2.2% lower than in December 2017 and 3.7% lower than in November 2018 – although measured in euros, December's yields increased by 1.7%, YoY.

WorldACD commented: "Viewed against the market developments we witness since September, December can be justly characterised as weak: the 'double whammy' of negative volume growth with negative yield growth made for a YoY airline revenue drop of 5.6% in US dollars (-1.9% in euros). The last week of 2018 was particularly worrisome with volume a serious 10% below the same week in 2017. December volumes from the larger regions (Asia Pacific, Europe and North America) dropped by larger percentages than those from the smaller areas.

#### **DOCUMENT 6: BBC ARTICLE ON FALCON CONSULTANCY REPORT 2014**

# Manston Airport would need 'hundreds of millions' to succeed

29 July 2014

Manston Airport in Kent would need hundreds of millions of pounds of investment and political support at national level to stand a chance of operating successfully, a report says.

The Thanet Council document was put together by consultants hired to look at the viability of reopening it.

The report suggests a 20-year business plan would be needed to rebuild confidence in the airport.

It adds there are "never any guarantees of success".

<u>The report</u>, published on Monday night, was commissioned by the district council and produced by aviation industry experts Falcon Consultancy Limited.

# 'Many people'

It said a parkway train station and an improved high-speed rail link were of "critical" importance to the airport's future.

Roger Gale, Conservative MP for Thanet North, is among those who have been campaigning to save the airport.

He said: "I'm concerned that this [report] may be used by those at local and county level who want to see the airfield developed as something else to say 'oh, of course we can't possibly achieve this'.

"We can achieve it, there are very many people who want to achieve it."

The authority said that work to establish whether there were grounds for making a compulsory purchase order for the airport was continuing.

The airport was bought for £1 by Ann Gloag, co-founder of the Stagecoach Group, last October but was closed in May with the loss of 150 jobs, despite three offers to buy it from US investment firm RiverOak.

The council's cabinet is to decide whether to accept the recommendations in the report at a meeting on Thursday.

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IN THE MATTER OF ANTHONY FREUDMANN, solicitor

was substituted.

- AND -

22nd October 1993

IN THE MATTER OF THE SOLICITORS ACT 1974

Clerk to the Ericita

Mr. A.J.C. Paines (in the Chair)

Mr. D.J. Leverton

Mr. R.P.L. McMurtrie

Date of hearing: 29th October 1992

# FINDINGS AND ORDER

of the Solicitors' Disciplinary Tribunal constituted under the Solicitors Act 1974

An application was duly made on behalf of the Solicitors Complaints Bureau by Geoffrey Williams, solicitor, of 36 West Bute Street, Cardiff on 17th July 1992 that Anthony Freudmann of ..., Shrewsbury, Shropshire might be required to answer the allegations contained in the affidavit which accompanied the application and that such Order might be made as the Tribunal should think right.

The allegation was that the respondent had been guilty of conduct unbefitting a solicitor in that he had used clients' funds for his own purposes.

The application was heard at the Court Room, No. 60 Carey Street, London WC2 on 29th October 1992 when Geoffrey Williams, solicitor and partner with the firm of Cartwrights Adams & Black of 36 West Bute Street, Cardiff, appeared for the applicant and Robin W. Onions of Messrs. Lanyon Bowdler of 23 Swan Hill, Shrewsbury appeared for the respondent.

The evidence before the Tribunal included the admissions of the respondent and exhibits "AF1" to "AF3" inclusive. The respondent gave evidence.

The facts are set out in paragraphs 1 to 15 hereunder.

- The respondent, born in 1946, was admitted a solicitor in 1972. At all
  material times he practised as a solicitor in partnership under the
  style of Wace Morgan at 2 Bellmont, Shrewsbury.
- Messrs. Wace Morgan acted for Mr. & Mrs. K in conveyancing transactions. Mr. & Mrs. K were due to complete a sale and a purchase of property on or about 24th April 1981. The purchaser from Mr. & Mrs. K failed to complete. To enable Mr. & Mrs. K to complete their purchase an advance was made by Mr. H.C. Wace to Messrs. Wace Morgan and thence to Mr. & Mrs. K. At the material time Mr. Wace was a partner in Wace Morgan and subsequently became a consultant.
- The purchase having been completed the principle amount of the loan was subsequently repaid to Mr. Wace in or about June 1982. Interest however remained outstanding.
- 4. High Court proceedings were issued by Messrs. Wace Morgan on behalf of Mr. & Mrs. K against the defaulting purchaser. The proceedings sought to recover various losses sustained by reason of the purchaser's default including the sum of £3,061.06 representing interest due on the loan provided by Mr. Wace. Judgment was entered on or about 7th June 1985 for the total sum of £5,576.90. It was agreed that the defaulting purchaser should discharge the judgment by instalments of £100.00 per month.
- 5. The defaulting purchaser duly made instalment payments. Between 8th April 1986 and 27th October 1987 Mr. Wace received nine payments totalling £3,662.69 both from instalments received from the purchaser and from the partnership funds of Messrs. Wace Morgan. The final such payment of £2,087.79 made on 27th October 1987 was in full and final settlement of all sums due to Mr. Wace.
- 6. On 22nd January 1991 the sum of £1,223.94 was held in client account by Messrs. Wace Morgan on behalf of Mr. & Mrs. K in relation to their matters. The respondent paid the sum of £1,200.00 into an account he opened at the Shrewsbury branch of Cheltenham & Gloucester Building Society. It was not a client account but rather a trustee account with the respondent named as the trustee of E.C.K. Payments were made from that account by the respondent of a personal nature unbeknown to his partners or Mr. K. The payments had nothing whatsoever to do with Mr. K.
- 7. The partners of Messrs. Wace Morgan having discovered those matters gave the respondent notice of termination of partnership with immediate effect on 14th June 1991. On the same day the respondent repaid the sum of £1,200.00 to the trustee account at Cheltenham & Gloucester Building Society.
- 8. Messrs. Wace Morgan submitted a fee note to Mr. & Mrs. K in the sum of £417.75 on 16th September 1991. The firm claimed a further sum of £230.00 for costs incurred. All other amounts recovered from the defaulting purchaser, save for the sums paid to Mr. Wace, were due to Mr. & Mrs. K. At the date upon which the respondent opened the Building Society account, no bills of costs had been delivered to Mr. & Mrs. K. Subsequent to the repayment made by the respondent Messrs. Wace Morgan paid the sum of £809.73 to Mr. & Mrs. K, the payment being made on 19th June 1991. At the date of the application Messrs. Wace Morgan held the sum of £224.31 which was due to Mr. & Mrs. K.

- 9. Messrs. Wace Morgan acted for Mrs. P in matrimonial proceedings. A lump sum settlement of £5,646.66 was recovered for Mrs. P who was legally aided. A payment was made to Mrs. P and the balance of £1,732.19 was retained pending a Legal Aid taxation.
- 10. The sum so retained was utilised to open account number R817435/8 with Cheltenham & Gloucester Building Society, High Street, Shrewsbury. The account was opened on 19th September 1986 in the names of the respondent and his then partner, Mr. Trevor Wheatley as trustees for Mrs. P.
- 11. In the five year period following 6th October 1986 the respondent made various withdrawals from the Building Society account in an approximate total sum of £1,295.00. Those withdrawals were for the personal use and benefit of the respondent and were made without the knowledge of his partners. The payments had nothing to do with Mrs. P. They included a payment of £260.00 to Diners Club Limited and a cash withdrawal of £120.00.
- 12. Those matters were discovered in or about July 1991. At the date of the applicant's application the respondent had not repaid the sums he withdrew from that account.
- 13. The respondent acted for Mrs. H in a claim for damages. The sum of £30,000.00 was recovered from the defendants. The sum of £27,000.00 was invested pursuant to instructions received from Mrs. H who was legally aided. The balance of £3,000.00 was invested in an account with Cheltenham & Gloucester Building Society in the names of the respondent and his then partner Miss Madeleine Butcher. Under cover of a letter dated 15th September 1987 the respondent forwarded a Building Society cheque for £1,000.00 to Mrs. H. The respondent advised Mrs. H that he was retaining the balance of £2,000.00 until he resolved the question of the recovery of Legal Aid costs and certain costs not covered by Mrs. H's Legal Aid certificate. He indicated that he hoped "shortly to be able to put a figure on those costs." The costs of the said proceedings were paid in full by the defendants on or about 12th September 1988. The Legal Aid certificate was duly discharged.
- 14. In or about January 1992 the respondent met Mr. Fraser, the senior partner of Messrs. Wace Morgan and admitted that in the three year period after June 1987 he had made withdrawals from the Building Society account for his own use and benefit. Such withdrawals were made unbeknown to the respondent's partners and the payments had nothing whatsoever to do with Mrs. H. Upon discovery of the matters the partners of Wace Morgan paid Mrs. H the sum of £2,207.00 out of their own resources.
- 15. Messrs. Wace Morgan submitted separate complaints to the Solicitors Complaints Bureau in relation to the three individual matters referred to.

#### The submissions of the applicant

16. In the matter of the monies held which belonged to Mr. & Mrs. K the respondent made some fifteen payments out of the Building Society account which included cash withdrawals. All payments were made for the respondent's personal benefit. It was accepted that the respondent had repaid the principle sum back into the account of £1,200.00. The respondent would argue that at the time he had serious personal problems and there was no argument before the Tribunal that those monies were not clients' monies.

- 4 -

- 17. All monies taken by the respondent were monies which began as credits in client account. If the monies represented costs then no bill or written intimation had been delivered to the client.
- 18. With regard to Mrs. P, a lump sum had been recovered. It was believed that the statutory charge for costs, as it was a Legal Aid matter, applied. The respondent's explanation was that he had taken an unauthorised loan of office money born out of his frustration. The Building Society account had been opened on 9th September 1986 in the names of the respondent and Mr. Wheatley. The respondent's argument was that it would "all come out in the wash" when arrangements on dissolution of his partnership were concluded. That money had not therefore been repaid.
- 19. In the matter of Mrs. H, damages had been recovered on her behalf in the sum of £30,000.00 of which £28,000.00 had been paid out to her. The respondent had taken £2,200.00 for his own purposes over the years commencing in June 1987. On 15th September 1987 the respondent wrote to the client in the following terms "I hope shortly to put figure on costs" and sent a further £1,000.00. The proceedings had been settled and costs had been paid in full by the defendants. The respondent had used clients funds for his own purposes. The respondent had made eight withdrawals over a period of two years. The respondent had not sought to make a repayment of those monies and expected as in the case of Mrs. P that it would "all come out in the wash."
- 20. In respect of the three clients matters, the sums which the respondent had utilised were in the case of Mrs. K £1,160.00, in the case of Mrs. P £1,295.00 and in the case of Mrs. H £2,207, making a total of £4,662.87. There had been some twenty-seven separate misappropriations.
- 21. The applicant accepted that he was unable to establish that the respondent had formed an intention permanently to deprive anybody of the monies taken. The applicant did however take issue with the respondent's argument that he was borrowing the money. In the submission of the applicant for there to be a "borrowing" there must be a willing lender. If there were lenders in this matter, they did not know what was going on.
- 22. Even if the respondent had not formulated an intention permanently to deprive any person of the monies, in two of the cases referred to he had not repaid any money.
- 23. There appeared to have been a suggestion that some of the monies represented costs, in which case the sums would have been divisable between the respondent and his partners and should not have been paid to the respondent alone.
- 24. In the submission of the applicant the respondent had undertaken a misappropriation of clients funds over a long period of time. The number of payments had been on a large scale and had been taken clandestinely. It was accepted that the transactions had been recorded but had occurred without the knowledge of the clients or the respondent's partners.
- 25. It was submitted that the respondent had indulged in a deliberate and deceitful course of conduct over a long period of time.
- 26. The behaviour of the respondent had a disastrous effect not only on the respondent himself but also on the solicitors' profession. The Tribunal was invited to consider the matter as one of very great seriousness.

#### The submissions of the respondent

- 27. The respondent obtained a degree from London University and served his articles with a small firm of solicitors in West London, qualifying as a solicitor in 1972. He moved in July 1973 to the firm which became Wace Morgan. As an assistant solicitor with the firm, the respondent was responsible for managing and developing the firm's litigation practice. He became a partner in 1975. As a partner his responsibilities remained the same although gradually he assumed responsibility for part of the management of the firm. He was responsible for the introduction of a number of modern systems such as a computerised accounting system and the introduction of the concept of fees and work-load assessment and analysis.
- During the 1980's the respondent's work changed and he ceased to deal 28. with criminal work. He also reduced the divorce and family work undertaken by him. He developed a specialisation in personal injury litigation, medical negligence and employment law. The success of the firm's litigation department provided an impetus for the growth of the By 1987 the firm had grown considerably. And by 1987 the respondent was responsible for personnel matters, the number of staff employed in the firm being about fifty at that time, as well as financial control. Following the introduction by others of unsuccessful management arrangements the respondent became managing partner. Although it was felt that that position was a full time job, the respondent was still expected to devote one-third of his time to fee earning. He also had Council duties and had been appointed a Deputy District Judge (formerly a Deputy County Court Registrar), the respondent considered both appointments to be not only a personal honour but an honour to the firm. He had come to accept that he was working far too hard and believed that his judgment had become clouded as a result of what he and his partners demanded of him.
- In particular the respondent took on one case which with hindsight he 29. realised had provided considerable additional pressure. He had been instructed by a lady who had been engaged in bitter divorce proceedings which involved allegations of child abuse, physical cruelty, sexual malpractices and major fraud. The respondent had been the thirteenth solicitor to represent the client, she proved to be an extraordinarily demanding client. When the papers were delivered to the respondent they proved to be of great number. The client would telephone most evenings and at week-ends to speak to the respondent at his home and there followed innumerable hearings in London. The respondent said he worked himself into an absolute standstill by the end of the case in the Autumn of 1988, the respondent was, however, able to reflect with some satisfaction that the financial settlement finally achieved was some three times as much as the amount for which the client's former solicitors had advised her to settle. The respondent confirmed that his firm had been handsomely paid for all the work but the respondent had dealt with the case entirely on his own and upon reflection had come to realise that it had dominated his life to the point when he totally neglected his own affairs.
- 30. The firm of Wace Morgan was long established and in 1978 had taken over a small firm. Despite the efforts of the partners Messrs. Wace Morgan never showed great profit. The respondent had given a great deal of thought to the profitability of the firm which had not really improved despite the introduction of new business systems to include time recording and costs targets. One of the main reasons why the firm

consistently failed to achieve reasonable profits was the failure by three of the senior partners to achieve their costs targets or indeed to get anywhere close to them.

- 31. The respondent had built up a sense of grievance and resentment against the three partners who continually failed to meet their targets and to accept their responsibilities as partners. The respondent believed he should have taken a decision and left the partnership but did not do so because he felt great loyalty to his partners and the firm's staff.
- 32. In addition to the failure to meet costs targets there were persistent problems in credit control in that there were substantial sums outstanding for bills that had not been paid. The respondent's sense of disillusionment was increased when he learnt that one of the partners had delivered bills which had been entered as "bills delivered" but had not been sent to the clients. The firm had become responsible for the payment of V.A.T thereon and the credit control showed the bills as outstanding whereas in fact they had never been delivered.
- 33. The respondent told the Tribunal that it was against that general background that he behaved in a way which he found difficult to understand and which he did not in any way seek to excuse.
- 34. In the matter of Mr. & Mrs. K the respondent had not had any personal dealings in the clients' transactions and the file first appeared on his desk in his capacity as managing partner in late December 1990. There appeared to be a substantial sum on client account and having ascertained that no money was due to Mr. Wace, decided to pay the money to the client. He requisitioned a cheque but when it arrived at his desk he again looked at the file and realised that his firm was probably owed fees of several hundred pounds in connection with the collection of the debt. Instead in accordance with his firm's accepted practice he arranged to put the money into a building society account. At the time he opened the account he had absolutely no intention of borrowing or using any of the money.
- 35. At that time the respondent's own personal finances were strained and on 11th February 1991 he planned to see the firm's Bank Manager with a view either to extending his own overdraft or extending the firm's overdraft. His idea had been to go to the partners to ask for permission to make a special drawing on the firm's overdrawn account. The Bank Manager made it clear that the firm's overdraft could not be extended. The respondent did not following that decision ask for an extension of his own overdraft because to have done so would have meant disclosing the state of his own finances and that of the partnership. The respondent had a number of pressing bills to pay for medical expenses for his son who was an epileptic. The respondent accepted that faced with pressing demands and apparent inability to meet those demands over the period between February and April 1991 he withdrew sums of money from the Building Society account opened in the name of Mr. K. He had not intended to use that money for his own purpose and invited the Tribunal to consider the fact that he had not withdrawn the money in one lump sum. He used the money to pay a number of small bills and said that it was his intention always to borrow the money on the basis that he would repay it as soon as possible.

- 36. The respondent believed he had made it clear in correspondence that at least part of the money in the Building Society account was money to which the respondent and his partners were entitled as profit costs. He had however accepted advice that until the bill was delivered and the money was transferred from the Building Society account in settlement of that bill then the money remained technically client account money. In the submission of the respondent both Mr. Wace and the client accepted that they had received all monies due to them.
- 37. As soon as the allegation had been put to the respondent in June 1991, the respondent made arrangements through his wife for the sum to be repaid with immediate effect.
- 38. In connection with the matter of Mrs. P the respondent said that the sum retained on account of costs pending a Legal Aid taxation was, in accordance with the normal practice referred to before, deposited in an account with Cheltenham & Gloucester Building Society. The respondent accepted that subsequently he withdrew a total of £1,295.00 and that the various withdrawals made had been so made without the knowledge or approval of the respondent's former partners.
- 39. The respondent was of the view that of the sum retained some if not all of the money was due to Messrs. Wace Morgan as profit costs, again he had to accept that until any bill was delivered the sum in that account technically remained client money. When the respondent took the money it was always his intention to repay and again the money was taken against the background of monies due to the firm and the respondent's own particular difficult financial circumstances.
- 40. With regard to Mrs. H, the respondent confirmed that he had acted for her and had negotiated an agreed settlement. The respondent said that the sum of £27,000.00 was invested in accordance with Mrs. H's instructions and the balance of £3,000.00 was invested in an account with Cheltenham and Gloucester Building Society. The respondent accepted that he had written to Mrs. H on 15th September 1987 which letter made it clear that the sum of £3,000.00 had been invested with a building society. The respondent believed that he fairly explained the position to Mrs. H and in fact sent her a cheque for £1,000.00 meaning that the sum retained by his firm was £2,000.00 on account of costs.
- 41. The respondent accepted that he subsequently made withdrawals from that account for his own use without the knowledge or permission of the client, he accepted that he owed the sum of £2,207.00.
- 42. The respondent was asked to leave the partnership on 14th June 1991. He attended at his office without warning of what was to happen and whilst he was engaged in conversation with one of his partners, another partner let down the tyres on his leased car. His car keys were taken and he was "frog-marched" out of the office in full view of the partners, staff and clients. The car had been parked on a public street and the action of letting down the car tyres had been undertaken in full view of members of the public. The respondent knew that what had happened had quickly become public knowledge in Shrewsbury and the respondent still suffered nightmares about the events of that morning. He accepted responsibility for what he had done, but the actions of his former partners that morning had stripped him of any dignity.

- 43. The respondent said he could only describe his leaving the partnership as a form of bereavement. He had been involved in the firm since 1973 and never imagined that he would leave the partnership in the manner in which he did. He accepted the need of his former partners to protect their own interests but still found some of their actions difficult to accept. The respondent said that after he left the partnership he decided to try to maintain himself by continuing to work as a Deputy District Judge and also to undertake agency work for the Crown Prosecution Service. He was professionally advised that while the matter was before the Solicitors Complaints Bureau, it was private and as a holder of a Practising Certificate he could undertake work. One of the respondent's former partners wrote and informed the Lord Chancellor's Department of the circumstances of his leaving the partnership, as a result of which the respondent was suspended from his duties as a Deputy District Judge.
- 44. The respondent began to work as an agent for the Crown Prosecution Service following an approach made to him in October 1991 by the Branch Area Prosecutor. He worked for about one month until the Branch Prosecutor informed him that he had been contacted by one of the respondent's former partners who had made known the circumstances of the respondent leaving the firm. As a result he was no longer able to work as a Crown Prosecution Service Agent.
- 45. At the beginning of January 1992 the respondent had been approached by a reporter from a local newspaper who told the respondent that he had been informed by a member of his firm that the respondent faced serious charges involving clients money and he wanted to give the respondent an opportunity to comment before he ran the story. The respondent had been devastated. The respondent told the reporter the exact position and the story was not run.
- 46. The allegations against the respondent had also been reported on two separate occasions to the County Council. The Chief Executive had been informed that the respondent had been dismissed and also the Chairman of the County Council.
- 47. In July 1992 the County solicitor had been telephoned by one of the respondent's former partners who was informed that the respondent's case had been referred to the Disciplinary Tribunal.
- 48. All of these actions on the part of the respondent's former partners caused him considerable embarrassment, alarm and distress.
- 49. Whilst the respondent accepted that he had borrowed what was technically clients' money which he was not entitled to do, he had suffered serious financial loss as the result of his actions. He had lost the share of fees which he would have received in the period June 1991 to October He was still engaged in a dispute with his former partners over the firm's accounts. He believed that a substantial sum stood to his credit in the capital account but draft accounts had been delivered to him which had been prepared in such a way to show his capital as being in deficit to the sum of £23,000.00. That was not because of any irregularities. It was because of disputes concerning such matters as the value of work in progress, the value of the firm's library and the fact that having repossessed his firm's car, the former partners kept it for a year and then purported to charge the respondent £7,000.00 for that year's leasing costs. The respondent had also to suffer petty losses such as, for example, when the firm without warning stopped his

petrol account at a local garage, after he left them: he went in to pay a petrol bill and was asked by a member of the garage staff why he had left the firm.

- 50. The respondent's wife's car insurance was cancelled without warning or reference to the respondent, as was his private health insurance. That in itself caused considerable distress as the health cover extended to the respondent's son who was receiving treatment for epilepsy. For some time the insurance company stated that the policy had lapsed and the respondent would have to commence a fresh policy and his son would not be covered. After considerable pressure the respondent had happily been able to negotiate a continuation of the policy.
- 51. The respondent had been appointed trustee for a Barrister who had practised in Chester and had died in 1982. He gladly accepted her request to act as trustee and did so until 14th June 1992. On 15th June 1992 he had been telephoned by the Barrister's brother and co-trustee who said he had been contacted by one of the respondent's former partners and had been informed that the respondent had left the firm because of a serious breach of trust. The respondent explained the position to his co-trustee who subsequently rang back to state that whilst he wanted the respondent to continue as a trustee he felt that he had no alternative but to change solicitors completely and felt that it would be best if the respondent were to retire as trustee. The respondent agreed to do so but felt very depressed at having let down his Barrister friend.
- 52. The respondent was forty-six years of age, married, but separated from his wife. There were three children of the marriage. The respondent was still supporting the youngest of the children financially.
- 53. The respondent had obtained employment on a temporary basis as a company secretary with a small limited company for which he worked one and one-half days per week for a very modest salary. He also had obtained a consultancy with Central Law Training and specialised in legal training relating to Local Government Law. As part of his employment with that firm he was provided with a car and was paid a modest salary. That was also a temporary position.
- 54. The respondent was a Councillor for Shropshire County Council and had represented a Shrewsbury ward since 1981. Prior to that he had been Parish Councillor for a Parish on the outskirts of Shrewsbury.
- 55. The respondent had been leader of Shropshire County Council since April 1988. In addition to the leadership of the Council he also held the Chairmanship of the Policy and Resources Committee. Before that he was Chairman of the Leisure Services Committee for three years. The Policy and Resources Committee was the major Council Committee and established the Council's broad policy. It was also required to set and oversee the Council's budget and the budget for the then current financial year was set at £250 million.
- 56. The respondent was also a trustee of the Shropshire County Council Employees Pension Fund with the value of the Fund standing at approximately £200 million.
- 57. From 1983 to 1989, when he resigned through pressure of work, the respondent was a founder Director of the Shropshire Hospice. That was an unpaid position which involved many hours of voluntary work culminating in 1989 with the successful opening of the hospice.

- 58. For many years, the respondent had been the Honorary Solicitor to the Shrewsbury Citizens Advice Bureau. That had involved him in many hours of unpaid work on behalf of the community.
- 59. Initially when the respondent became leader of Shropshire County Council, there was no salary for that position but subsequently the Government introduced legislation that permitted the payment of salaries to Council leaders. The respondent received a salary of £5,000.00 per annum from May 1991 and in addition received attendance allowances for attending various Committee meetings. His duties increased when he became leader.
- 60. The respondent had informed the Council's Chief Officer and the Secretary of his Political Party of the proceedings pending against him. He had already decided to stand down from Council duties at the election in May 1993 as the possible outcome of the disciplinary proceedings, the respondent had decided to resign his Council duties and his seat as a Councillor with immediate effect. He was also of the opinion that he would be unable to continue to work for Capital Office Systems Limited and Central Law Training if his ability to practice were removed.
- 61. Although the respondent remained separated from his wife she had supported him. Their former home had been sold at a reduced sum and his former wife claimed the net equity in the property. The respondent was able to understand her claim as the fact that the house had to be sold on disadvantageous terms was the respondent's fault and not hers.
- 62. Since the allegations had come to light in June 1991 the respondent had had to live with the probability that the proceedings would culminate in an appearance before the Disciplinary Tribunal and that his entire practising life would be at stake.
- 63. The respondent fully accepted that he had let himself down, he had let his partners down and that he had let down the solicitors' profession. The respondent maintained that he only borrowed the money, which he always intended to repay. He had striven as best he could since 14th June 1991 to rebuild his life.
- 64. The respondent bitterly regretted what he had done and offered to his clients, his former partners and the Tribunal his deepest apologies.

The Tribunal FIND the allegation to have been substantiated, indeed it was not contested. The respondent had taken for his own use small sums of money. It was fortunate, and the Tribunal accepted, that no clients had suffered loss. The Tribunal has paid heed to the argument of the respondent that there were outstanding billable costs and accept that to some extent this mitigates the fact that the respondent had taken for his own purposes clients' money. There was no doubt that in the technical sense such money was clients' money and the Tribunal are able to give weight to the respondent's explanation. It is, however, not acceptable for a partner to take for his own use monies which were properly destined to be included in the fees earned by the partnership. The Tribunal perceive that there was within the partnership a considerable clash of personalities. The respondent was doubtless ambitious, dominating and aggressive. There was no doubt that he had done much good work. He entered partnership with partners who perhaps did not appreciate his drive, dynamism and business acumen. Of course, as the respondent himself indicated, the proper solution would have been to withdraw from the partnership and seek an association with other partners or firm which matched his own views in such matters. It had to be said that the behaviour of the respondent's former partners following his ejection from the partnership did little to serve the good reputation of the solicitors' profession and could not do otherwise than evoke a degree of sympathy for the respondent.

The respondent's professional and public life was in shreds. Before appearing before the Tribunal, the respondent had already been made to suffer to a very considerable degree. The respondent's behaviour had been, of course, unacceptable. It was clear that he had been under pressure which, although to a certain extent he had placed upon himself, had been considerable. The Tribunal was impressed by the testimonial letters offered in support of the respondent.

It is because this respondent has already suffered to a very great degree that the Tribunal has in these exceptional circumstances decided to treat him with an unusual degree of leniency. Although the Tribunal gave grave and deep consideration to making an Order which would deprive the respondent of his ability to practise, they have decided in this case to impose a financial penalty. The Tribunal ORDER that the respondent, Anthony Freudmann of Shrewsbury, Shropshire, solicitor, do pay a fine of £5,000.00 such penalty to be forfeit to Her Majesty the Queen and they further Order that he do pay the costs of and incidental to this application and enquiry, such costs to be taxed by one of the Taxing Masters of the Supreme Court in the absence of agreement between the parties.

DATED AND FILED WITH THE LAW SOCIETY this 21st day of January 1993

on behalf of the Tribunal

A.J.C. Paines Chairman

# Manston Airport under private ownership:

The story to date and the future prospects

Position statement



### Introduction

For decades Kent County Council has made great efforts to develop aviation at Manston Airport.

Manston, with its proud history as a front-line Battle of Britain aerodrome, has long been a symbol of Kent's determination in the face of adversity.

But our desire to stimulate and grow Manston was not the result merely of nostalgia or sentimentality.

For decades we have been aware of the commercial potential of Manston's long, 2,700 metre runway. For decades we have championed Manston's proximity to London. For decades we have argued that Manston was a sleeping giant: a regional and national asset.

Our 2012 policy document 'Bold Steps for Aviation' made all this clear and promoted the development of Manston to the Government as an alternative to building a controversial new runway in the Thames Estuary.

Our support for Manston has not merely consisted of kind words and encouragement. We have invested substantial sums of public money.

We have made substantial investments in both road and rail infrastructure to improve access to Manston and East Kent.

Our record in supporting Manston is plain to see and we are proud of it.

It was disappointing and regrettable to learn that all our hard work and investment, and the hard work of the various companies that had tried to make flying profitable at Manston, had failed.

Manston's story began in 1915 when it was a small grass airfield operated by the Admiralty. Now a new chapter is about to begin that will bring new jobs and new prosperity to East Kent. It will be our duty to encourage, guide and nurture to help ensure this happens.

This document sets out the story of Manston Airport over the last 16 years, from its sale by the Ministry of Defence to the present day. We also consider the future, which we are confident will be bright.

### Hansard 28th April 2014

Robert Goodwill, Parliamentary Undersecretary of State at the Department of Transport

'Whatever the result of efforts to secure such a resolution (on Manston), the government are unable to intervene directly, as we believe that UK airports and airlines operate best in a competitive and commercial environment. It is therefore for individual airports to take decisions on matters of future economic viability'.

### Chapter one

# The last 16 years of private ownership

Since the Ministry of Defence sold RAF Manston in 1998, the airport has never made a profit and has never delivered on its promise of jobs for the area. When the airport closed on 15th May 2014 144 people were employed there.

Since 1998 three companies have tried and failed to run Manston as a viable business. The Wiggins Group, with its start-up low cost carrier EUJet, launched scheduled flights to twenty one destinations in Europe in 2004 but collapsed into administration in the summer of 2005 leaving 5,400 passengers stranded. Its fleet of five 108-seat Fokker 100 jets were repossessed by Debis Air Finance.

Infratil Limited, which bought Manston from the administrators in 2005, lost between £40 - £50 million over the next nine years attempting to achieve passenger numbers of over a million per annum. The highest number of passengers was 50,000. Similarly its ambitious plan to grow freight traffic failed.

Lothian Shelf (417) Limited, a company owned by Mrs Ann Gloag, bought Manston for £1 in November 2014. In the next 4 months the airport made revenue losses of £100,000 per week plus significant capital losses.

Mrs Gloag's decision to sell the airport was based on an assessment that these losses could not be sustained. Mr Trevor Cartner and Mr Chris Musgrave acquired 80 per cent of the company in order to provide space for a wide range of businesses, with a focus on attracting companies in the manufacturing sector, as well as the provision of housing, shops, schools and community facilities.

### Chapter two

# The Wiggins era 1998-2005

In 1998 Wiggins Group acquired Manston Airport for £4.75 million. Its company accounts show that between 1999 and 2002 the company reported losses of £8.6 million, with a further loss of around £2 million reported over the next two years.

In January 2004 Wiggins Group renamed itself Planestation and later that year Planestation bought 30 per cent of airline company EUJet.

In September 2004 EUJet operated flights to destinations across Europe. That year Planestation's losses were £73 million and the company had to borrow £46 million at an interest rate of 28%. In December Planestation bought the remaining 78 per cent of EUJet.

In its busiest month in early 2005 the airport carried 62,709 passengers. EUJet's aim had been to handle over 750,000 passengers per annum but the company became insolvent and went into administration.

In July 2005 all EUJet operations were suspended along with all non-freight operations.

Mr Tony Freudmann had overseen Manston's transfer from an RAF base to a commercial operation. He was Senior Vice President of Wiggins Group between 1994 and 2005. He was 'let go' by Wiggins in February 2005. He is now the spokesman for the RiverOak consortium.

The Wiggins Group and Planestation failed in their ambition for Manston to become a successful international airport; but even then, more than 10 years ago, they also had ambitions for property development on the airport site, in collaboration with property developers MEPC plc.

# Chapter three

#### **INFRATIL 2005-2013**

Infratil Limited is a successful company listed on the New Zealand stock exchange with the primary purpose of investing in electricity distribution, public transport and ports. The company was established in 1994 with NZ\$50m of capital. At the time it acquired Manston and Prestwick airports it controlled assets worldwide in excess of NZ\$ 4.4 billion.

Following Wiggins' demise, Infratil Limited bought Manston Airport from the Administrator for £17 million in August 2005.

In addition to Manston, Infratil also owned Prestwick, Flughafen Lubeck, Wellington and Auckland Airports. Its master plan for Manston (published in November 2009) envisaged building a new passenger terminal to accommodate up to 3 million passengers per annum. It also envisaged building a parallel taxi way to the runway and an increase in the freight and passenger aprons. At the time of publishing its plan the airport was handling 32,000 tonnes of freight per annum. The master plan envisaged freight growth of between 4% and 6% per annum to equate to approximately 167,000 tonnes of freight per annum by 2018. It also planned on developing corporate jet facilities with an executive terminal.

In 2009 the airport was handling fewer than 50,000 passengers per annum. Infratil forecast that by 2014 this figure would rise to 527,000, by 2015 to 1,268,000 and by 2033 to more than 4.7 million passengers per annum. In 2009 the airport employed approximately 100 people, some full time and some part time. Infratil forecast that they would be employing more than 500 staff by 2014, 2,800 by 2018 and 6,150 by 2033.

When the airport closed in May 2014 there were 144 people employed at Manston Airport.

In 2012 Infratil announced that Manston and Prestwick airports were for sale.

In each year that Infratil Limited owned Manston it incurred losses of more than £3 million per annum and wrote off the purchase price of £17 million.

As at 31 March 2013 Infratil's investment in the UK's airports had a book value of \$20m and over the year a further \$12m was contributed to meet costs. Their sale price crystallised a net economic cost of \$32m."

(Infratil financial results 2013-14)

In 2013 KLM started passenger flights to Schiphol Amsterdam. However, over its 12 months of operation its seventy eight seat Fokker planes were less than half full (42 per cent of capacity). KLM operations at Manston made no significant financial contribution to the cost of running the airport.

In November 2013 Infratil Limited sold Manston Airport and the associated liabilities to a company controlled by Mrs Ann Gloag for £1.

## Chapter four

### Manston Skyport Limited 2013-2014

Mrs Ann Gloag originally approached Infratil with a view to buying both Manston and Prestwick airports, which were being sold as a package. However, Infratil set a deadline for their sale in order to stem their losses. When the Scottish Government bought Prestwick for £1 Mrs Gloag agreed to buy Manston also for £1.

From the discussions that Kent County Council had had with her and her team we believed that she had every intention to maintain and grow the aviation business at Manston Airport.

She gave a press interview with the Isle of Thanet Gazette on 8 August 2014 to dispel the myths and uncertainty that had been widely propagated by campaign groups opposed to the subsequent closure of the airport.

"Can you please outline the reasons behind your decision to close the airport?"

"The prospect of new passenger and freight opportunities failed to materialise and the scale of the losses meant that there was no credible prospect of the airport becoming profitable."

"Would you have bought it if you'd known you would have to close it just months later?"

"I wanted to make it a success and I didn't buy it to close it. Our whole team worked tirelessly to secure new business for the airport but no new operators considered it a viable option. It was only when our aviation team arrived at Manston that we started to discover the scale of the problems."

"Why did you reject RiverOak's offers to buy it?"

"They were introduced to us as a potential buyer and in good faith we entered into discussions with them. However, we had serious concerns from the outset about the way RiverOak conducted their business with us. We are aware of the £7 million figure that has been made public by RiverOak. For clarification, the structure of their offer meant the final amount would have been considerably less. They also failed to provide any business plan to back up their claims of future employment or to reassure us that their bid offered commitment to maintain it as an operational airport."

Prestwick airport made a pre tax loss of £10 million in its final year of ownership under Infratil.

After buying the airport for £1 the Scottish government said it could take a number of years for taxpayers to see a return on public investment in Prestwick.

It announced a £10 million commitment towards 'operating costs, repairs backlog and improvements to the terminal building.'

Prestwick is continuing to lose £1 million a month.

# Chapter five

# Support given to Manston by Kent County Council over the past 16 years

Kent County Council's support of Manston as an airport over the last 16 years has been unwavering.

#### Transport infrastructure

Kent County Council has made or enabled substantial transport and infrastructure investment for the benefit of Manston and the surrounding area.

In 1997 Columbus Avenue was constructed on the north side of the airport at a cost of £1.52 million. These infrastructure works were funded through the European Regional Development Fund and the Single Regeneration Budget.

In 1998 Kent County Council completed the A299 Thanet Way extension of the M2 through to Ramsgate.

In 2000 Kent County Council completed the Ramsgate Harbour Approach Road and in 2009 the Euro Kent link road.

The A256 dualling was completed in 2012 and £87 million was invested in the East Kent Access Road in 2013.

Kent County Council is in the planning stage of the £6.7 million Westwood relief scheme to help growing businesses at Westwood and Manston.

Network Rail has just announced the commencement of its £11 million scheme to reduce journey time between Ramsgate and Canterbury; Kent County Council is contributing £4.5 million to the cost of this upgrade. Kent County Council has also committed £12 million to a new Thanet Parkway Station near Manston.

### Business premises;

In Spring 2006 Kent County Council acquired the undeveloped area of Manston Business Park, amounting to some 40 acres of developable land, from the Administrator of Planestation plc for £5.35 million.

Manston Business Park and the EuroKent sites subsequently became the key holdings of a joint venture between Kent County Council and Thanet District Council.

By 2015 Manston Business Park has seen the development of industrial units which will be occupied by start-up and small developing businesses.

### Support for aviation

In its discussion document Bold Steps for Aviation (May 2012) Kent County Council supported the increased use of Manston Airport and stressed its potential to make a significant contribution to aviation in the UK.

"In Kent, Manston has the potential to make a significant contribution [to the UK's aviation capacity], providing excellent communications to European destinations and reduced flight times.

#### In addition:

- Over the years Manston has received more than £1million in financial assistance from Kent County Council. When EUJet commenced its flights in 2004 Kent County Council bought a 1.5% shareholding in EUJet Ops Limited.
- In 2007 Kent County Council provided financial assistance to enable the start of charter flights from Manston to Virginia USA, although these flights were discontinued shortly thereafter.
- Between May 2004 and May 2005 when EUJet Ops Limited was acquired by Planestation Limited, Kent County Council acquired options to buy further shares. Planestation Limited was however put into liquidation and the council's investment had no further value.
- When KLM expressed an interest in starting scheduled flights to Amsterdam, Kent County Council provided £100,000 to Visit Kent, the tourist agency which provided marketing and tourism support.

### Support offered to investors at the airport

In March 2013, when Infratil were seeking aviation buyers for the airport, Kent County Council distributed a note offering to help new investment at Manston Airport through:

- · Financial assistance from the Regional Growth Fund
- Use of land owned by Kent County Council adjacent to the airport
- Expediting the new Thanet Parkway station
- A Route Development Fund to increase the number of passengers
- Working with airlines and train operating companies to achieve integrated ticketing
- Discussing with Ministers to seek assistance from Government. Kent County Council's offer to any investor with a viable business plan remains open, although to date we have received no take up.

### Helping to find a new airport operator

Kent County Council met PWC, the agents selling the airport, with a view to helping find a viable new owner/operator. Over 18 months discussions were held with thirty interested parties including low cost airline operators and private investors, many were introduced to PWC by Kent County Council.

In the event, two of the shareholders of Discovery Park Limited made an approach to Mrs Ann Gloag which subsequently led to their purchase of the airport.

### Chapter six

# What do we know about RiverOak and its proposal for a compulsory purchase order?

RiverOak was introduced to Kent County Council by Mr Tony Freudmann. Subsequently the Leader of Kent County Council invited representatives of RiverOak to meet to discuss their plans for the airport. RiverOak declined, saying that their plans were confidential. The invitation to present their business plan to the council has been repeated on several occasions: RiverOak has always declined to do so.

RiverOak Investment Corp LLC was established in January 2001 in Delaware USA to manage 'niche focussed real estate investments for institutional entities that are strategically driven, including private and public pension funds.'

Its CEO is Mr Stephen DeNardo.

The RiverOak website states 'within a time frame that spans nearly 4 decades of business experience, Steve DeNardo has successfully been involved in all phases of real estate investment, development and management. His focus and interest has been on the management and turnaround of troubled assets.'

RiverOak's Chief Investment Officer is Mr George Yerrall. The website says: 'He is in charge of sourcing and analysis of investment opportunities and the execution of investment and asset management strategies.'

In its statement to the UK Airports Commission (The Davies Commission) RiverOak described its strategy for Manston as handling 250,000 tonnes of cargo per annum by 2030, 500,000 tonnes of cargo per annum by 2040 and 750,000 tonnes by 2050. It also described its long term strategy to include 'aircraft maintenance, repair and teardown operations.'

RiverOak also stated that by summer 2017 at the earliest they would plan to re-open passenger services 'if appropriate contracts can be agreed with suitable carriers.' They would also re-establish Manston as a key diversion airport, capable of providing emergency resilience to the wider South East airport system.

In an interview on 12 May 2014 with Paul Francis of the KM Group Mr DeNardo was asked 'How did RiverOak become involved in the bid to buy the site from Mrs Gloag?'

Mr De Nardo replied; 'We have been active in searching for opportunistic transactions in both the UK and Ireland, We have an extensive network of contacts in both and one of our contacts made us aware of the Manston situation.'

He was also asked 'How did you team up with Annax Aviation whose Chief Executive Tony Freudmann has become spokesman for your bid?'

Mr DeNardo replied: 'Our contacts put us in direct discussion with Tony Freudmann who we knew had both operational experience at the airport and had made an attempt to purchase the airport.'

Following Mrs Gloag's refusal to accept an offer from RiverOak to buy Manston Airport, RiverOak then approached Thanet District Council with a view to the council making a Compulsory Purchase Order of the airport in favour of RiverOak. Thanet District Council concluded that a decision on a CPO could not be made until:

- Thanet District Council had commissioned an independent feasibility study on the future viability of a going concern operational airport.
- Any prospective airport owner/operator submit a viable business plan and also enter into an indemnity agreement that would cover any exposure to all costs placed upon Thanet District Council.

Thanet District Council commissioned Falcon Aviation whose report was considered by the Council's cabinet on 31st July 2014. The report identified 'no business plan with a credible investment plan of less than 20 years is likely to provide the commitment necessary to rebuild confidence. From an investor's standpoint, the payback period might be as long as 50 years. The level of investment would have to be significant (£100m's) and there are never any guarantees of success.'

Throughout Thanet District Council's consideration of a CPO it has been advised by its Section 151 Officer that it appears evident that the airport will not be successful if it reopens and attempts to operate in the same configuration as it has done previously up to its closure.

The advice to Thanet District Council's cabinet was that invitations should be issued to parties willing to enter into an indemnity agreement capable of delivering the twenty year business plan.

During the course of Thanet District Council's processes, on 17 July 2014, Kent County Council unanimously adopted the following motion;

"Kent County Council supports the actions taken so far by Thanet District Council to retain Manston as a regional airport. We recognise the value that a regional airport brings to East Kent and are disappointed at its closure. Kent County Council will explore with Thanet District Council ways in which it can support proposals to retain Manston as an airport." The original Motion proposed by Mr Cowan (Dover Town, LAB) and Mr Truelove (Swale Central, LAB) was replaced by the above, proposed by Mark Dance (Whitstable, CON).

In supporting the amended motion the Leader of Kent County Council said "Thanet District Council's approach is now such that they are going to carry out and have already commissioned, an independent study as to the viability of running the airport as a going concern or not. Nobody knows the conclusion to that, as I said on the radio this morning, after 16, 17, 18 years of Manston, everybody has just lost money. So what is the market telling you? And it will be interesting to see what the independent viability report concludes. And Thanet District Council are absolutely right in doing that. If it does suggest there is viability they will then ask for expressions of interest from people to come forward who have the ambition to do exciting things at Manston in running it as an airport, or not. And if there are some exciting propositions, or if we had an owner that is reluctant to do anything exciting, which again we don't know, we will then make the decision as to whether or not to support the CPO process. And it is premature to have that decision now, which is why we can't support your original motion which was asking for an open ended commitment to support Thanet and their CPO, no matter what. I want to see, and hope, that there are exciting propositions that come forward, with good people, that have got the money to do exciting things. And we will have to wait and see as to whether that's the case, and then we will review our position."

In an endeavour to support Thanet District Council, on 1st September Kent County Council's Director of Governance and Law wrote to Thanet District Council's' Monitoring Officer to remind them of our offer to assist the council. The Monitoring Officer replied: 'We need to do the evaluation of any Expressions of Interest first before we can begin to assess what legal support might be needed moving forward and whether any of that support would need to be commissioned from Kent County Council. We are not in a position to make any decisions until we have the result of this, but I will be more than happy to consider making such an approach at the appropriate time.'

Kent County Council has never been approached by Thanet District Council for the help offered.

Unsuprisingly, **as a result of this**, on 11 December 2014 Thanet District Council recieved a cabinet report detailing the outcome of its excercise to seek an indemnity partner for the compulsory purchase of the airport and a comprehensive and viable business plan. The following was decided:

'That no further action be taken at the present time on a CPO of Manston Airport on the basis that the council has not identified any suitable expressions of interest that fulfil the requirements of the council for a CPO indemnity partner and that it does not have the financial resources to pursue a CPO in its own right.'

The conclusions made by the council's Section151 Officer were that 'The information provided does not provide assurances which would satisfy him that a valid expression has been put forward and he is therefore unable to recommend moving ahead with this proposal. Although the issues here are emotive Members should excercise extreme caution before seeking to move forward with any proposal which is at odds with advice from its officers, particularly where there are likely to be **significant risks** which would affect the council at a fundamental level.'

As the Falcon report, Thanet District Council's feasibility study and the advice from the council's 151 Officer show, the financial risks of a compulsory purchase of the airport were unacceptable.

# Chapter seven

# What do we know about Discovery Park Limited and its directors?

The new owners of Manston, Chris Musgrave and Trevor Cartner, have a strong track record in taking over large difficult sites following the demise of earlier uses and regenerating them to create jobs and bring economic benefits to the wider area.

Ten years ago they acquired Wynyard Park in Billingham after Samsung had announced that it was closing its operations there. They have now created 2000 jobs and have attracted £200million of private investment at Wynyard Park.

Seven years ago they invested in the advanced manufacturing manufacturing park (a joint venture between the University of Sheffield, Boeing, British Aerospace and Rolls Royce) to build seventeen units for local small and medium size enterprises associated with aerospace research and other advanced manufacturing on the site of the former Orgreave colliery. In 2013, when the site was fully occupied, they sold their investment.

In 2012 they acquired Discovery Park from Pfizer after Pfizer had announced that they were closing down all their operations there and were planning to demolish the buildings at the site. When Pfizer made this announcement they employed 2,200 staff all of whom were subject to redundancy notice. By March 2015 700 of the Pfizer jobs have been retained and a further 1,700 jobs have been created by more than 100 new tenants on the site. Currently total job numbers are in excess of 2,400 and Discovery Park is on track to deliver more than 3,000 new jobs.

Trevor Carter and Chris Musgrave plan to transform the 800-acre site at Manston with a £1 billion redevelopment, over a 20-year period, into a mixed-use scheme helping to create more than 4,000 jobs. They will be announcing more details over the next few weeks.

### **Conclusions**

The truth is that Manston has failed over a prolonged period of time to run as a commercially successful airport.

Kent County Council gave strong support to various investors but the reality of commercial aviation at Manston Airport led to very significant losses. In fact, in the 16 years since it was taken into privately ownership it has incurred losses by those who have tried to operate it in excess of £100 million.

The objective now must therefore be to make sure that we have owners who want to do exciting things on the site and that the land is not left abandoned.

Bristow Group had chosen Manston as its location for the regional search and rescue base; when the airport closed the company decided to locate that base at Lydd. Kent County Council is pleased that this vital service will still be located in Kent. Lydd Airport is also starting a substantial investment programme to extend its runway and construct new aviation facilities.

Surely it is now time to look at a B Plan for Manston.

The driver must be to seize the best opportunity to create a significant number of new jobs and bring prosperity into East Kent.

RiverOak has not managed to convince Thanet District Council that there is a viable business plan. We believe the new owners have got a credible plan and the financial ability to create substantial numbers of new jobs which will bring prosperity and economic growth to East Kent.



Paul Carter, Leader of Kent County Council:

"I would like to make it abundantly clear that in my 10 years as Leader of Kent County Council I have done everything in my power to help and support the economy of East Kent. I believe that this document demonstrates and evidences exactly that."

# Myth busting questions and answers

1. What is Kent County Council's stance on Manston Airport? At first you supported a CPO process but now you are supporting a business park – is this not inconsistent?

Promoting job creation, supporting business growth and generating economic prosperity for the residents of East Kent is - and always has been - Kent County Council's primary objective. Kent County Council (KCC) has never deviated from this.

The closure of Manston Airport was met with deep disappointment at County Hall. Any viable proposal from an aviation company with sufficient financial backing to run Manston as an airport would have been strongly supported by Kent County Council as our debate at the July council meeting made clear. No viable proposal was presented to Kent County Council or TDC.

The sale of Manston to the Discovery Park Team Musgrave and Cartner in September offers substantial private sector investment to support job creation and economic growth for Thanet. Cartner and Musgrave have a strong track-record at Discovery Park with 1,700 new jobs since 2012.

2. How can you say no viable proposal came forward? Didn't RiverOak say they would pay the full asking price?

Kent County Council asked RiverOak if we could see their business plan. RiverOak has consistently refused to let us see any details on the grounds they are commercially confidential. TDC took a decision that the information supplied by RiverOak to it was insufficient to support a Compulsory Purchase Order. We have therefore concluded that RiverOak's plan is not viable. Representatives of Mrs Ann Gloag explained to the Transport Select Committee why Mrs Gloag refused to accept the offer from RiverOak.<sup>2</sup>

http://democracy.thanet.gov.uk/documents/b10075/
 Supplementary%20Agenda%202%2031st-Jul-2014%20
 19.00%20Cabinet.pdf?T=9

<sup>2</sup> http://parliamentlive.tv/Event/Index/d4330491-c83e-4204-a339-28a011b42071

3. Did you promote Manston to the best of your abilities to attract a new investor when the closure was announced? Is it not true that Manston has unique infrastructure with the longest runway in England and superb transport links?

Kent County Council has taken every opportunity to support and promote the use of regional airports such as Manston. The authority's discussion document Bold Steps for Aviation, written in 2012, makes our position abundantly clear, showing Kent County Council has lobbied central Government to prioritise Manston above other proposals, such as the establishment of a Thames Estuary Airport.

Our support for Manston is evidenced by our substantial investment in transport infrastructure making Manston more accessible to a greater potential customer base, including investing in the East Kent Access Road, a new railway station, and improving the rail infrastructure. The Regional Growth Fund has been made available to companies with plans to increase employment.

Since the Minister of Defence privatised the airport there have been three private owners of Manston Airport: Wiggins, Infratil, and Ann Gloag. Despite ambitious plans to increase passenger numbers and freight operations, each of these has sustained significant financial losses totalling over £100 million.

When Manston Airport was put up for sale, Kent County Council introduced PWC (the marketing agents for Infratil) to 30 potential buyers from around the world (including RyanAir) none of whom in the event decided that they could make the airport profitable.

# Myth busting questions and answers

# 4. What offers of support were made by Kent County Council to Thanet District Council to assist them with their CPO process?

We very much supported Thanet District Council in the potential for a CPO subject to the outcome of their independent feasibility study and submissions by indemnity partners.

At the Leader's request, Kent County Council's Director of Governance and Law offered to help Thanet District Council in the CPO process. TDC responded in writing saying "We need to do the evaluation of any Expressions of Interest first before we can begin to assess what legal support might be needed moving forward and whether any of that support would need to be commissioned from KCC. We are not in a position to make any decisions until we have the result of this, but I will be more than happy to consider making such an approach at the appropriate time."

The offer of support was repeated several times by the Leader at different meetings with Iris Johnston.

# 5. Who now owns Manston? Is it Mr Cartner, Mr Musgrave, Ann Gloag?

The company that owns Manston Airport has three shareholders; Mr Cartner (40%), Mr Musgrave (40%), and Mrs Gloag (20%). This information has been provided to the Select Committee by solicitors acting for Mr Cartner and Mr Musgrave.

6. How could the Leader of Kent County Council support Mr Cartner and Mr Musgraves' purchase of the site? I have heard Wynyard Park is in debt and promised to supply thousands of jobs and only a proportion have been realised.

Information provided to Kent County Council shows that Wynyard Park is currently debt free. Under Mr Cartner and Mr Musgraves' ownership, Wynyard Park has created more than 2000 jobs and attracted £200million of private investment. Publications which have asserted that

this is incorrect have been served with a letter from a firm of solicitors specialising in libel.

(NOTE: It is quite normal for development companies to carry debt/bank borrowings on their balance sheet. The key is sensible debt to value ratios).

# 7. How can you be excited by the new proposition by Cartner and Musgrave if you have seen no plans? What are the plans?

The new owners issued a press release when they acquired Manston Airport outlining their intention to create more than 4,000 jobs and a £1 billion redevelopment. They will be announcing more details in the next few weeks.

At the time when Mr Cartner and Mr Musgrave outlined these plans to the Leader of Kent County Council, the planning consultants had not yet completed the master plan so no document was handed over. However, a fairly detailed description of what was envisaged was discussed. The plans include a new sports centre and the financial backing of the Spitfire museum, as well as plans to bring advanced manufacturing to the site.

# 8. How can Kent County Council ignore its democratic mandate? Haven't you seen the petitions showing that the people of Thanet want an airport?

The Save Manston Campaign was invited to County Hall to present its petition. However when representatives of the group arrived they had not brought it with them. All letters and emails from objectors have received replies. We have also received letters of support re the closure.

#### 9. When have you met Ann Gloag or her colleagues and what was the purpose of each meeting? Are the minutes available? Was a change of use discussed?

Elected members and officers of the council met Ann Gloag and her company representatives on a number of occasions before and after she bought the airport. The purpose of the meetings was to establish what were her intentions for bringing jobs and new investment to Kent and to sustain a viable airport.

# Myth busting questions and answers

At a meeting on 14 March 2014 when we were expecting an update on progress, much to our suprise we were told confidentially that given the scale of losses it had been decided to notify staff the following week that a redundancy process was necessary.

Subsequently a meeting was held on 3 July 2014 to discuss with Ann Gloag what she intended, and she explained she was discussing a possible sale but that the details were commercially confidential.

10. Why have you appeared to support Ann Gloag when she obviously bought the site to turn it into a housing development and never intended to operate an airport? Have you a vested interest? Did you not say you wanted a housing development last year?

Mrs Gloag told us that it was her intention to run Manston Airport as a commercial venture and that was why she hired aviation specialists to put in place a strong business plan for aviation and support the implementation. She also retained the previous Managing Director of Manston, Mr Charles Buchanan. She told us subsequently that it was only when she was advised that the airport could not be made viable, and that the losses of £100 thousand per week could not be sustained, that she decided that the airport must be closed.

During our discussions, a change of use of the airport was not discussed although we did touch on alternative uses for parts of the airport site such as aviation hangar space, servicing and maintenance. The Leader of the Council has no private business interests in the Manston site and will not benefit personally from any proposal relating to the development.

11. Thanet does not need more business parks.
Existing local business parks are struggling to attract businesses and are over 50% empty.

When Pfizer announced closure of its R&D facility at Sandwich it was a common view that all the buildings would need to be demolished and the site could not be redeveloped.

Mr Cartner and Mr Musgrave have successfully applied for planning approval for a multi-use development to include commercial, retail and housing: the site is currently over 50% reoccupied by commercial users and there are now 2,400 jobs. It was their success with Discovery Park that persuaded them of the potential at Manston, and they already have a number of substantial potential tenants.

This course of action would ensure full and effective coverage of housing provision to give clarity to communities and developers about where homes should be built.

Having considered all of the above, in my judgement, there is a compelling case for the Local Plan intervention actions I have decided upon in Thanet, pursuant to powers in sections 15(4) and 27(2)(b) of the 2004 Act. Given your recent actions and progress in meeting the requirements in the Town and Country Planning (Local Planning) (England) Regulations 2012, I have decided not to prepare the Thanet Local Plan. However I will continue to closely monitor your Local Plan progress. Should a significant delay occur against the milestones set out in your July 2018 Local Development Scheme, should you fail to comply with the directions in this letter or should your draft Local Plan fail at examination, I will consider whether to take further action to ensure that a Local Plan is put in place.

I am also, for the avoidance of doubt, now putting on public record my concerns about the low level of housing supply and delivery in Thanet. I expect planning decision-takers to have regard to these concerns as a material consideration when deciding local planning applications.

I appreciate the constructive way Thanet District Council have engaged in this process so far and I trust that you and your officers will continue to engage positively. My officials will be in touch over the next few days to discuss next steps.

RT HON JAMES BROKENSHIRE



#### Press release

Wednesday 9<sup>th</sup> January

# Kent's tourism economy flourishes as visitor numbers rise to 65 million

Kent's visitor economy has increased 7% and topped £3.8 billion for the first time ever, after welcoming a record 65 million visitors in 2017.

Independent research commissioned by Visit Kent has revealed that 64,970,000 visitors came to The Garden of England in 2017, and the county remains the third most visited destination outside of London for foreign visitors.

Overseas overnight visits to the county increased by 4% with an 8% increase in the number of nights stayed, and a 10% increase in the resulting value.

Across the county, visitor spending figures in Kent continue to rise compared to 2015, with the highest ever numbers reported for spending in the county from both day and overnight visits.

Tourism jobs have also increased by 6.8% to 76,828, and now account for 11% of total employment across the county.

Chief executive of Visit Kent, Deirdre Wells OBE said: "Tourism is the UK's fastest growing service sector and these figures demonstrate the contribution which our vital industry makes to the economy of Kent. With our stunning countryside, world-class heritage, and delicious locally sourced food and drink, it is no surprise that visitors' numbers are increasing. The collective efforts of tourism businesses across the county have paid dividends and this partnership will be critical in ensuring that this growth continues during a challenging year ahead."

Using the industry-respected Cambridge Economic Impact Model, this new research measured the volume and value of tourism in the county in 2017, and the impact of visits and visitor expenditure on the local economy.

Canterbury had the highest number of trips (7.8 million) and the highest visitor spend (£392 million) in the county. Canterbury's tourism employment now accounts for 16% of the district's total employment.

Thanet saw the highest increase in day visitor numbers in the county, rising by 9.9% to 3.7 million. Over £319 million was spent in the area as a result of tourism, an increase of 9.2% on 2015. Thanet's tourism employment now accounts for an impressive 19% of the district's total employment.

Other district highlights included a 10.1% increase in the value of day trips in Tonbridge and Malling, a 9% rise in the number of day trips to Sevenoaks, and a 4.2% rise in tourism employment in Dover meaning that tourism jobs now account for 17% of the district's overall employment.

There was a leap in the value of day trips for Ashford (5.6%), Medway (6.7%) and Maidstone (11.2%), while Folkestone & Hythe and Tunbridge Wells saw increases in the average length of stay for overnight trips (2.4% and 3.1% respectively). The total value of tourism for Swale enjoyed a 3.9% increase, rising to £237 million.

Since 2006, the value of Kent's tourism industry has risen by 33%.

Leader of Kent County Council, Paul Carter, said "The results from the 2017 survey commissioned by Visit Kent clearly show that the visitor economy is increasingly important to the county's future prosperity".

Deirdre added: "These figures demonstrate that, wherever you are based in Kent, tourism can bring growth, prosperity and jobs to your community. Our challenge going forward will be to turn more of our day visits into overnight stays and short breaks, bringing even further growth to the county."

For more information about Kent, please visit www.visitkent.co.uk

#### **ENDS**

For further media information on Visit Kent, please contact In-house PR Consultant Katy Towse on <u>katy.towse@visitkent.co.uk</u> or Brand Manager Lana Crouch on <u>lana.crouch@visitkent.co.uk</u> or call 01227 812914.

For images of Kent, go to <a href="http://www.flickr.com/photos/visitkent/">http://www.flickr.com/photos/visitkent/</a>

#### **Notes to Editors**

About Visit Kent

Visit Kent Ltd is the Destination Management Organisation for Kent (the Garden of England), welcoming 65million visitors a year, championing the county's £3.8 billion tourism industry and supporting more than 77,000 jobs.

It is recognised as one of the country's leading DMOs, targeting UK and overseas markets to raise Kent's profile as a premier destination, improving quality and skills within the industry, and growing investment in tourism. Visit Kent is a public/private sector partnership supported by Kent County Council, Medway Council, district and borough councils, and the leading sector tourism businesses in Kent.

For further information visit <a href="https://www.visitkent.co.uk">www.visitkent.co.uk</a> (consumer) or <a href="https://www.visitkentbusiness.co.uk">www.visitkentbusiness.co.uk</a> (business), or tweet @visitkent.

#### **About The Cambridge Economic Impact Model**

The figures were derived using the Cambridge Economic Impact Model undertaken by Sergi Jarques at Destination Research on behalf of Visit Kent. The Cambridge Economic Impact Model is an industry respected tool for measuring the economic impact of tourism in a given area. It utilises information from national tourism surveys and regional/local data (e.g. accommodation stock, inbound trips) of the level of tourism activity within a given local area.

Please note that all figures in the research reports have been rounded, therefore there might be marginal discrepancies in subtotals and totals.

Is it estimated that 6,023 actual jobs are supported by Bluewater, raising the total employment in that area to 9,765, or 16% of all employment in Dartford. Whilst it contributes to Kent's visitor economy, the shopping and retail nature of the destination must be taken into consideration.

# Consultation response to the proposed night time flying policy submitted by Manston Airport

To: Council Report 24 May 2012

Main Portfolio Area: Community Services

By: Madeline Homer, Community Services Manager

Classification: Unrestricted

Ward: All Wards

Summary: Infratil submitted a proposed night time flying policy for consultation

in October 2011. Following this submission specialist aviation consultants were employed to assess the submission and a public consultation was undertaken to establish the public's views on the

proposals.

#### For Approval

#### 1.0 Introduction and Background

1.1 In October 2011 the owners of Manston Airport, Infratil, consulted Thanet District Council on their proposed night time flying policy. The documents submitted consisted of the proposed night time flying policy, an economic impact of the night time flying policy, aircraft night noise assessment and a sound insulation scheme.

These documents were submitted to the Council by way of consultation pursuant to paragraph 1.1 of the second schedule to the section 106 agreement relating to the airport. The consultation obligations under the section 106 agreement do not give the Council a right or power to approve/disapprove or give consent for/refuse authorisation of the proposed night time flying policy that the Airport has submitted. It is however expected that the airport operators will take account of the Council's comments and observations as presented in the attached consultation response document.

Since receiving the Proposed Night-time Flying Policy document from the Airport, the Council has commissioned an independent review of the submitted information undertaken by aviation specialists, Parsons Brinkerhoff.

Thanet District Council carried out a public consultation between 3<sup>rd</sup> February and 2<sup>nd</sup> March 2012 on the documents submitted by Infratil in order to gain the views of local people on the proposals. The independent report was publicly available during the public consultation.

2,275 responses were received to the public consultation – they are therefore available for members to inspect on request. An update will also be provided to members prior to or at the meeting as officers' review of the consultation responses received is ongoing.

#### 2.0 The Current Situation

2.1 The independent report carried out by Parsons Brinkerhoff was completed at the end of January 2012. The report recommended that legal advice be sought on the issues raised

by the night time flying policy and its planning implications. Pinsent Masons were commissioned to undertake this particular piece of work.

Both Parsons Brinckerhoff and Pinsent Masons attended a members' briefing on 13<sup>th</sup> March 2012 to present the work undertaken and answer questions on the proposals.

Using the information provided by the consultants and the responses received from our public consultation and amendments requested from the Airport Working Party at its meeting on the 4<sup>th</sup> April 2012 and accepted by Overview & Scrutiny at its meeting of 24<sup>th</sup> April the attached response has been drafted for consideration by Cabinet. For clarity the amendments are as follows:

- The Airport Working Party also requested the inclusion of Section 8 of the Human Rights Act into the response and that where the Section 106 Agreement was referenced then the whole section should be included. These amendments have been included in the attached draft response at 1.6.
- Contributions from the paper which had been circulated to the Working Party covering the World Health Organisations assessment of impacts of disturbed sleep, deficiencies in the Quota Count System and impact of night flights on Thanet's tourism industry has been included in the Council's response to the Night Time Flying proposals at 3.10, 3.11 and 3.12.
- Information provided by Manston's consultants York Aviation (at the AWP) in relation to section 4.7 of the draft response has been considered and commented on by TDC's consultant Parsons Brinckerhoff and included in the draft response at 4.7.

Members of Cabinet agreed that the draft Council response to Manston Airport's proposed Night Time Flying Policy, as set out in Annex 1 of the report be forwarded to Council. Cabinet confirmed Thanet District Council's support for the day-time operation of Manston Airport but further recommended that as a Consultee, Thanet District Council should not support the introduction of scheduled night-time flying operations between 23:00 and 07:00 for the following reasons:-

- The Council's consultation shows 73% of respondents are opposed to nighttime flying.
- Noise and environmental impacts are underestimated.
- The number of jobs generated and the economic benefits maybe overestimated.
- The probable detrimental impact of night-time flying on Thanet's recovering Tourism Industry.
- Concerns raised in the World Health Organisation's assessment of the impacts of disturbed sleep.
- There is concern that the Night Time Flying proposals have not considered Article 8 of the Human Rights Act.
- The Airport would need to address whether the proposed Night-time Flying Policy constitutes a 'plan or project' for the purposes of the Habitats Regulations and then follow the further requirements of those Regulations, as relevant.

#### 3.0 Options

- 3.1 The Council is not required to approve/disprove or give a consent for/refuse authorisation to the proposed Night time Flying Policy, however there is a need to agree the comments set out in the Council's response to the proposed night time flying policy. The following options reflect that requirement.
  - 1. Agree the comments set out in the Response;

2. Make amendments to or incorporate additional comments into the Response.

#### 4.0 Corporate Implications

#### 4.1 Financial and VAT

4.1.1 The main cost in preparing the response has been the appointment of aviation experts Parsons Brinkerhoff and Pinsent Masons. The costs to date are £25025.60 for Parsons Brinckerhoff and £13.880.20 for Pinsent Masons.

#### 4.2 Legal

4.2.1 The Section 106 Agreement made between Thanet District Council and Manston Airport do not require Thanet District Council to approve/disprove or give consent for / refuse authorisation to the proposed Night time Flying Policy.

#### 4.3 Corporate

4.3.1 The Council will continue to review the Airport's operations as appropriate and reserves its rights and the operation of its statutory functions in respect of any changes in existing activity that may occur at the Airport under the proposed Policy or otherwise which may have additional resource and risk management implications which will be assessed should the need arise.

#### 4.4 Equity and Equalities

4.4.1 The decision in this report does not require any direct equality assessment however every effort has been made to ensure the public consultation was made available through a range of access methods to reach as many residents as possible.

#### 5.0 Recommendation(s)

#### 5.1 Cabinet recommend that:

- 1. As a Consultee in response to Manston's Night Time Flying Policy, Thanet District Council should not support the introduction of scheduled night-time flying operations between 23:00 and 07:00 for the following reasons:-
  - The Council's consultation shows 73% of respondents are opposed to nighttime flying.
  - Noise and environmental impacts are underestimated.
  - The number of jobs generated and the economic benefits maybe overestimated.
  - The probable detrimental impact of night-time flying on Thanet's recovering Tourism Industry.
  - Concerns raised in the World Health Organisation's assessment of the impacts of disturbed sleep.
  - There is concern that the Night Time Flying proposals have not considered Article 8 of the Human Rights Act.
  - The Airport would need to address whether the proposed Night-time Flying Policy constitutes a 'plan or project' for the purposes of the Habitats Regulations and then follow the further requirements of those Regulations, as relevant.
- Subject to any comments that Council may wish to make, agree the consultation response to Manston Airport's Night Time Flying Policy as set out at Annex 1 of the report;

3. Authorise the Director of Community Services to provide final written comments to Manston Airport incorporating any amendments that the Council wishes to make and to make any further minor amendments considered necessary.

#### 6.0 Decision Making Process

6.1 This report went to the Airport Working Party on 4 April 2012, Overview and Scrutiny Panel on the 24 April 2012 and Cabinet, on 10 May 2012. Council is now required to approve the consultation response to Manston Airport's proposed Night Time Flying Policy.

| Contact Officer: | Madeline Homer, Director of Community Services, Ext 7123   |
|------------------|--|
| Reporting to:    | Sue McGonigal, Chief Executive and S.151 Officer, Ext 7002 |

#### Annex List

| Annex 1 | Copy of TDC's draft consultation response |
|---------|---|
| ,       | Toopy or 1200 aran concanation responds   |

#### **Background Papers**

| Title | Details of where to access copy |
|-------|---------------------------------|
| None  |                                 |

#### Corporate Consultation Undertaken

| Finance        | Sarah Martin, Financial Services Manager & Deputy S.151 Officer, Ext 7617                  |  |
|----------------|--|--|
| Legal          | Harvey Patterson, Corporate & Regulatory Services Manager and Monitoring Officer, Ext 7005 |  |
| Communications | Justine Wingate, Corporate Information Manager, Ext 7908                                   |  |



# TR020002 MANSTON AIRPORT DCO APPLICATION, RSP LTD: SUBMISSION FROM RAMSGATE TOWN TEAM, FEBRUARY 2019

Ramsgate Town Team is a constituted voluntary group established in 2013 to improve the quality of life in and around Ramsgate for residents, visitors and businesses alike.

In previous submissions we pointed out that RSP Ltd's proposals would represent a major step backwards for Ramsgate and the surrounding area and, if accepted, would make it extremely difficult for the town to thrive in future.

We also expressed serious doubts about the overwhelming national need for a cargo hub required for a Development Consent Order and the likelihood of such a venture succeeding in this location, and our grave concerns about RSP's capacity to deliver their proposals, leading to the possibility of a damaging period of further uncertainty for the area.

Since our previous submissions, further information has come to light that has exacerbated our concerns. We revisit these in turn below.

#### 1. NATIONAL NEED:

We understand that under the Planning Act 2008, RSP Ltd's application for a DCO must show the expectation of an increase of at least 10,000 air transport movements of cargo aircraft per year. In their June 2016 Manston Airport DCO Scoping Report, RSP Ltd assert:

"2.5.3 Based on the initial assessments undertaken of the current UK air cargo market it is estimated that a reopened and developed Manston Airport, with a focus on air freight and cargo, could capture in the region of 500,000 to 600,000 tonnes of air freight by 2035. This would be from a combination of business returning to Manston Airport, the capturing of market share from other airports (either because of better facilities at Manston Airport, shorter trucking distances from airports outside the UK or pressure for slots at these other airports) and from general market growth."

It appears unlikely, however, that these sources of business would in fact generate anywhere near the volumes required for a DCO.

• Business returning to Manston Airport: Avia Solutions' October 2016 'Commercial Viability of Manston Airport' report for Thanet District Council (Document 1) points out that in its last year of operation (2013), Manston handled just 511 air freighter movements and moved just under 30,000 tonnes of cargo - around 1% of the UK's total air cargo market (p.29). Civil Aviation Authority data shows Manston averaged under 27,500 tonnes per year throughout its patchy commercial existence, with a best performance of 43,000 tonnes (under 2% of the UK market) in 2003 and reductions thereafter. Even if all previous business returned to Manston, this would represent well under 1,000 aircraft movements per year - at best around 5% of RSP's 5-600,000-tonne estimate.

<u>Capturing market share from other airports</u>: Reports commissioned by Thanet District Council in 2014 (Falcon Consultancy – see Document 2) and 2016 (Avia Solutions, as above) all make it clear that the air freight market is highly competitive, with Stansted, Heathrow and East Midlands the main players in the UK. In stark contrast to the figures above, Stansted, for example, handled over 223,000 tonnes of freight in 2016 and has capacity for 400,000 tonnes. (Stansted Airport Sustainable Development Plan, 2015 – for Summary, see Document 3).

Falcon Consultancy pointed out the advantages of mainland European Airports in comparison to Manston: "Manston airport also faces competition from five airports in Europe with excellent motorway links to the south east of England. Frankfurt (699km), Amsterdam (483km), Brussels (319km), Paris (377km) and Liege (403km) all have excellent cargo hub capability with fast motorway connections across Europe and to the UK." (2014 p. 20), while Avia Solutions concluded that "Infrastructure, and the associated knowledge, skill and supporting industry at airports such as Heathrow and Stansted, as well as the major European hubs such as Frankfurt, and Paris, would be almost impossible for Manston to replicate. The geographic location of the airport, tucked into the corner of the UK, cannot compete with airports such as East Midlands for Integrator services that are sold as fast delivery, due to the increases in surface transportation times." (2016 p. 46)

As these reports point out, existing freight specialist airports have spare capacity, are well situated, surrounded by land rather than bounded by water on three sides, close to motorway networks, and have developed depots and business parks specifically tailored to the needs of their clients. They are much larger than Manston and take an aggressive approach to competition. This makes it highly unlikely that Manston will gain much market share from other airports.

Perhaps most significantly, however, the inclusion of this aim in RSP's plans actively militates against their case for overwhelming national need, as it recognises that the cargo capacity needed is already in existence, but simply in other locations.

General market growth: RSP's forecasts of market growth in air freight sadly run counter to economic and industry predictions, with all the evidence showing that air cargo is a reducing market. As early as 2009, reports showed air freight growth already levelling off - see, for example, Bridger's 2009 air freight report (see Document 4), which comments: "While UK air passenger growth has continued its upward trajectory, air freight has flatlined over the past decade...." (p.26)

IBIS World's air freight market research report in 2018 (unavailable for download but accessible at https://bit.ly/2GLlttM) summarises the situation thus: "The total freight passing through British airports has fallen consistently over the past decade, falling to 33.5% in 2016. This has weighed on industry performance. Revenue is expected to decline at a compound annual rate of 1.4% over the five years through 2018-19..."

This month, Lloyds Loading List reported that the IATA is likely to downgrade its modest cargo growth forecast for 2019, explaining: "Air cargo grew strongly from late 2016 and during 2017, as shippers turned to air freight to rapidly restock their inventories, having been caught out by the strength of the economic upturn. Air cargo volumes then slowed sharply last year…" (See Document 5)

Furthermore, specialist freight planes are substantially outnumbered in the cargo market by passenger planes carrying cargo in bellyhold, which are much cheaper to run as ticket sales already cover running costs. Both East Midlands and Stansted Airports' Annual Reports make it clear they have substantial spare capacity for cargo. Falcon Consultancy concludes: "Capacity is growing at a far faster pace than demand for airfreight and as sea freight yields are falling there is also a shift from airfreight to sea freight. The climate for cargo-only aircraft operations could not be much worse." All of this suggests that RSP's 'general market growth' forecast is unrealistic.

This evidence calls into question RSP's predictions and highlights that their predicted volumes are unlikely to be achieved. Moreover, such volumes as might be achieved would rely largely on transfer of business from other airports, not expansion of the overall market. Thus there appears to be no case for a DCO based on overwhelming national need.

#### 2. CAPACITY TO DELIVER:

Manston Airport has failed repeatedly as a commercial enterprise primarily because of its location. Its excellent setting as an RAF airfield, with immediate access to the Channel and mainland Europe, is a liability for a commercial airport as it is surrounded on three sides by sea, reducing access and transport links for both passenger or cargo transport.

This is exacerbated by the poor road links highlighted in the well-publicised comments of Richard Burnett, CEO of the Road Haulage Association, that "Manston Airport is... a completely unsuitable location (for Operation Stack) as the road network in that part of Kent is not geared up to accommodating hundreds of HGVs". Yet thousands of HGVs would be needed to transport goods from RSP's proposed cargo hub. From Manston to the M25 is an hour's journey by road, as compared to the immediate access to motorway networks enjoyed by East Midlands, Stansted and Heathrow Airports. The Davies Commission did not consider Manston as an overspill airport for London for precisely this reason.

This would make establishing a successful cargo hub at Manston a major challenge for any company, even if large, experienced and well-funded – but we have found no evidence that RSP Ltd is any of these things. Indeed, a concerning item of new evidence that has come to our attention since our previous submissions is the apparent flimsiness of RSP's operation.

Since our previous submissions, Ramsgate has featured in national and international news bulletins for all the wrong reasons, as a result of the Department of Transport's decision to award a post-Brexit ferry contract to a company with no track record, no backers and no ships. The DoT spent £800,000 on external due diligence assessments on Seaborne Freight, yet proceeded to issue a £14m contract on the basis of 'supporting a British start-up

company' – a contract that has since been withdrawn, to the embarrassment of all concerned.

Unfortunately, RSP Ltd would appear to pose very similar risks for the DoT. We understand that DCO applications are relatively rare, and when they do happen, applicants are usually Local Authorities, multinationals or large-scale service providers such as energy and rail companies. RSP Ltd, on the other hand, is a small start-up company much like Seaborne, about whose financial backers little is clear from Companies House documentation, other than that they were previously based in Belize but are now based in Panama.

As the reports commissioned by TDC have made clear, very substantial investment will be required if the airport is to succeed: in 2014, Falcon Consultancy's recommendations were reported by the BBC under the heading "Manston Airport would need 'hundreds of millions' to succeed." The BBC summarises: "Manston Airport in Kent would need hundreds of millions of pounds of investment and political support at national level to stand a chance of operating successfully, a report says. The Thanet Council document was put together by consultants hired to look at the viability of reopening it. The report suggests a 20-year business plan would be needed to rebuild confidence in the airport. It adds there are 'never any guarantees of success'." (see Document 6) From the evidence available, it is unclear that RSP Ltd have access to the levels of funding or political backing required to achieve this.

In 2015, Thanet District Council rejected RSP's application for a Compulsory Purchase Order on the basis that its parent company had failed due diligence as a suitable indemnity partner. As Pinsent Masons' October 2018 submission to PINS on behalf of the legal owners of the site points out: "RSP still cannot show it has the funds to deliver the proposed development and does not control the funding to meet even the most modest estimate of the land acquisition. Furthermore, it has elected, in the face of previous concerns raised, not to provide evidence that would enable the examining authority even to assess whether funding could be secured for the proposed development." This is deeply worrying and we anticipate that it should ring alarm bells at the DoT.

A further concern, again with disturbing echoes of the Seaborne case, is the background of RSP's Directors. Five of the six Directors listed on RSP's website are corporate investment and private equity managers with no listed aviation experience. The sixth, Tony Freudmann, has extensive aviation experience, but in point of fact all the aviation companies he has led have failed, including at Manston in the past. Mr Freudmann's current proposals are for a massively expanded operation in comparison to any he has run previously, which appears extremely risky when his previous smaller ventures failed to achieve the planned takeup.

A further concern is Mr Freudmann's history. His biography on the RSP website includes mention of his experience as an elected council leader; what is not stated is that he was stripped of that role and struck off as a solicitor after being found guilty of 27 counts of misappropriation of client funds (see Document 7). Although this was some years ago, it would perhaps be risky for the DoT to find itself reliant on Mr Freudmann's bona fides.

Throughout this process there have been considerable inconsistencies between the limited information given to residents - at RSP's few consultation events, for example - and the

content of their written proposals – significantly regarding night flights, but also with regard to noise volumes, flight paths and numbers of jobs created, giving an impression of RSP as being less than honest and straightforward. This is exacerbated by the ongoing gaps in the formal information they have provided both to the public and to PINS – on health impacts and on their financial backing, to name but two. These impressions understandably to worries amongst residents as to their probity, and highlight potential risks for the DoT.

In 2014, then owner Ann Gloag gave an interview to the local Thanet Gazette newspaper regarding an approach she received in from RiverOak, in which she states that she rejected their offer for the airport because "... we had serious concerns from the outset about the way RiverOak conducted their business with us. We are aware of the £7 million figure that has been made public by RiverOak. For clarification, the structure of their offer meant the final amount would have been considerably less. They also failed to provide any business plan to back up their claims of future employment or to reassure us that their bid offered commitment to maintain it as an operational airport." (See Kent County Council Manston Airport Position Statement, 2015 – Document 8) RSP's current application appears to be a second attempt to achieve the same cut-price deal.

All the available evidence indicates that, if RSP's DCO application is accepted, they will find themselves unable to deliver their proposals. Indeed, some cynics have suggested that the balance of experience and skills amongst RSP Ltd's Directors suggests that they have no serious intention of running Manston as an airport at all, but simply wish to obtain the land at a cut-price rate in order eventually to build housing. This notion is given some credence by their linked company RiverOak Investment Corp LLC's stated purpose: "to manage niche focussed real estate investments for institutional entities that are strategically driven, including private and public pension funds."

It appears likely, then, that a successful DCO application by RSP might well lead to a further period of uncertainty about Manston, with continuing negative impact on the local area.

#### 3. IMPACT OF UNCERTAINTY ON THE AREA:

Thanet has already suffered from many years of uncertainty over the future of Manston. This has been a political football kicked around between successive local administrations, resulting in gridlocked decision-making and the diversion of both Officers' and Members' attention from other pressing concerns for the area. One such concern featured in recent national news reports has been the huge losses made over some years by Ramsgate Port, which now threaten to push Thanet District Council into a deficit budget for 2019-20.

The failure of TDC to agree a Local Plan as a result of uncertainty and disagreement over the future of Manston has led to censure from the Secretary of State for Communities and Local Government. In his most recent letter to the Council (28<sup>th</sup> January 2019), James Brokenshire states that he does not now propose to send experts to Thanet to put together a Local Plan as the Council has produced a draft Plan at the eleventh hour. However, he warns that he will be monitoring the Council's progress closely and expresses his particular worries about housing supply in Thanet: "I am also, for the avoidance of doubt, now putting on public record my concerns about the low level of housing supply and delivery in Thanet. I expect

planning decision-makers to have regard to these concerns as a material consideration when deciding local planning applications." (see Document 9) In practice this means that there is likely to be a presumption in favour of all planning applications in Thanet, even if unsuitable, ill-thought-out or inappropriate for Thanet's historic towns and villages. This is unhelpful – particularly in Ramsgate, recently designated a Heritage Action Zone by Historic England.

Meanwhile, because no decision could be made about the future of Manston, the current owners' proposals to build housing, a business park generating good-quality jobs and leisure facilities for the local population, along with improved infrastructure, have been put on hold. The draft Local Plan has thus now earmarked several new alternative greenfield and village sites for substantial housing developments which might have been saved as green space if housing at Manston had been approved.

Uncertainty about Manston's future, then, is already reducing Thanet's green space, exacerbating its existing housing problems, creating risks that the quality of its housing stock and the historical character of its towns and villages may be lost, and distracting its local authority leaders from addressing other urgent concerns, including crucially the preparation of a balanced budget. Continued uncertainty if RSP were awarded a DCO and proved unable to deliver would extend and multiply these problems.

We are concerned, too, that a situation of continuing uncertainty would be likely to reduce inward investment in Ramsgate and the surrounding area. Businesses planning to relocate or start new ventures will not opt to invest in an area with a contentious Local Plan still in draft and a Council whose budget may be in deficit, and which has featured in recent news reports as a 'lame duck', unable to maintain its own port facilities or run a ferry service. Another failed airport would be another nail in this particular coffin - but if by some miracle RSP's plans were to succeed, the prospects for this area would sadly be even worse.

#### 4. IMPACT OF CARGO HUB ON THE AREA:

RSP are quite clear about the impact of their proposals on Ramsgate: their PEIR states:

12.9.68 Considering that the impact is permanent and that a large number of dwellings within the communities are subject to moderate to major adverse impacts, **significant adverse effects have been identified at the communities of Ramsgate**, Pegwell Bay and Manston as a result of the Proposed Development. The effect would be characterised as a perceived change in quality of life for occupants of buildings in these communities or a perceived change in the acoustic character of shared open spaces within these communities during the daytime.

12.9.70 Considering that the impact is permanent and that a large number of dwellings within the communities are subject to moderate to major adverse impacts, **significant adverse effects have been identified at the communities of Ramsgate**, Manston, Wade and West Stourmouth as a result of the proposed development. The effect would be characterised as a perceived change in quality of life for occupants of buildings in these communities or a perceived change in the acoustic character of shared open spaces within these communities during the night time.

Given this explicit expectation of permanent negative impact on people's lives, the fact that RSP chose to consult so little with people who would be directly affected is worrying. As a result, many residents still remain completely unaware of the proposals and their potential impact on their lives, while others continue to believe that a revived airport means cheap

passenger flights to the continent. Still others support a revival of airport operations solely in the mistaken belief that this will mean Thanet, alone amongst English Authorities, will be exempt from providing the extra housing the Government requires. RSP has done nothing to counter these mistaken views, but has relied heavily on the support for their proposals that they generate amongst a small group of Thanet residents.

Impact on health and education: RSP's PEIR recognises that daytime and night-time noise from a cargo hub would have a significant negative effect on residents' quality of life, in Ramsgate in particular. There is still considerable lack of clarity regarding RSP's night flight proposals, but it is obvious that they have no chance of reaching the required volume of air transport movements without a considerable burden of night flights. In fact, their submission appears to include more flights and at higher decibel volumes than permitted at Heathrow – a distressing prospect.

The adverse effects of noise pollution on physical and mental health are well documented and we will not repeat them here. The World Health Organisation's 2011 report, "Burden of Disease from Environmental Noise: Quantification of Healthy Life Years Lost in Europe" (see Document 10), for example, highlights general environmental noise, particularly traffic noise, as a public health concern, responsible for the loss of up to a million healthy life years across Western Europe each year as a result of its links with ischaemic heart disease, sleep disturbance, tinnitus and cognitive impairments in children.

This last is a particular concern in Thanet, as 4 schools sit immediately under RSP's proposed flight path. Three are primary/infant schools whose pupils are likely to live very near the school, so they will suffer from the effects of noise at home as well as at school. Over 2,000 children attending these schools will thus be directly affected.

As well as the noise pollution recognised for its adverse effects in RSP's documentation, further negative impact on residents' health is likely from:

- o airborne particulate pollution from planes, as well as from the many more HGVs on the area's roads transporting goods to and from the airport
- o light pollution from the airport
- knock-on negative health effects from disrupted sleep

Other respondents will cover the physical and mental health effects of these in full detail, so we will not attempt to do so here; however, we note that airborne and noise pollution have been linked to a range of physical health conditions including high blood pressure, strokes and cardiovascular disease, and mental health conditions including anxiety, stress and depression. As Bridger (see above) comments: "Along with aviation's contribution to the long term, global environmental problem of climate change, there are localised, short-term environmental impacts which are worst for communities living near airports. Localised ground level pollution from airports along with the land transportation from road and rail networks converging at multimodal hubs brings a is a cocktail pollutants including nitrogen oxide, sulphur dioxide which irritates the lungs and is associated with bronchitis, carbon monoxide, ground level ozone which

impairs lung function and aggravates chronic lung diseases and VOCs (Volatile Organic Compounds) unburned hydrocarbons, benzene and formaldehyde. Air freight leads to particular noise problems as older, less efficient noisier passenger planes are often converted to freighters. There is relentless pressure for more night flights..." (2009, p.25)

This overall picture is extremely concerning. Thanet is a poor area – the most socio-economically deprived in Kent - where health and education outcomes are already well below the national average. It has a higher level of life-limiting diseases than the national average and the highest rates of serious mental illness in Kent. The two electoral wards in Ramsgate that sit directly under the flight path (Central Harbour and East Cliff) sit within the most deprived 10% of Super Output Areas in the country. This area cannot afford further damage to residents' health and education.

It has been suggested, however, that it is precisely Thanet's deprivation that makes it an attractive prospect for a cargo hub DCO, because its disadvantaged and poorly educated residents may not have the skills and capacity to raise objections to the negative impact the proposals will have on their lives as effectively as, say, West London residents. But surely such cynical manipulation and utter contempt for residents cannot really be the motivating factors behind this application?

Impact on historical environment: Thanet is an area steeped in history. Julius Caesar is now thought to have landed on our shores at Pegwell Bay, and successive waves of later Saxon and Viking raiders and settlers first landed in Thanet. Before them, recent aerial survey work by Historic England shows a wealth of ancient archaeological sites across what was once the Isle of Thanet.

More recently, the popularity of Thanet's seaside towns as resorts led to the construction of large numbers of dwellings and guesthouses in the Georgian, Victorian and Edwardian periods, many of them still occupied and cared for today. Ramsgate is reputed to have more listed buildings than Bath, and as mentioned above has recently won Heritage Action Zone status from Historic England.

In more recent history, Ramsgate was the base from which the Dunkirk Little Ships set off and to which survivors returned. A popular local café specifically celebrates this aspect of our history and plans are developing for a formal Dunkirk memorial.

All of these are threatened if RSP's proposals are accepted. Our buildings and historical artefacts are at risk of being damaged by vibration from planes and extra HGV movements, and by the insidious effects of polluted air. Our roads and bridges are similarly at risk. There is no mention of this in RSP's documentation, however.

Owners of historic buildings – and indeed other residents - may also suffer reductions in the value of their property from the negative impact on quality of life in the area as well as the potential damage to their buildings. RSP's only response is to offer residents in one small, particularly adversely-affected area some £4,000 in compensation to install double-glazing to help with the effects of noise. Many of these homes are in conservation areas where double-glazing is not permitted, and local estate agents estimate that the value of homes under the flight path could drop

by 20%, making £4,000 a derisory amount to offer to those worst affected. For other residents under the flight path, no compensation at all is offered.

Impact on the natural environment: One of the many features that make Thanet an attractive place to live and to visit is its natural environment – its coastline, sandy beaches and glorious views, its parks and gardens, its wildlife - from the kingfishers in Ramsgate Harbour through the seals off our coast to the wildfowl reserve and Site of Special Scientific Interest at Pegwell, part of the NE Kent Marine Protected Area.

Just as people would suffer 'significant adverse effects' from the operation of a cargo hub at Manston, so the natural environment would be at risk from the effects of noise, air pollution, low-flying aircraft and vastly increased HGV traffic. This would further adversely affect the quality of life of residents and reduce the area's appeal for visitors, but it would also risk damaging our delicately balanced local coastal ecosystem permanently. This in turn would affect the livelihood of those who work along the coast, including fishermen, wind farm operatives and tourist guides.

• Impact on employment: One of the arguments used by RSP to advocate for their proposals has been the many jobs they plan to create – though again their figures in personal communication to residents differ from those in their documentation. At its peak in its previous incarnations, the airport provided just over 100 jobs, but under RSP's planned expansion at least 400 local jobs are now expected.

This is surprising, as evidence suggests that cargo handling is now largely automated and thus job creation is likely to be extremely limited. Even ten years ago, Bridger provided these examples of this trend: "New airport freight facilities do not appear to be encouraging for employment creation. The proposed development of two new cargo sheds at Manchester Airport would cover an area of over 9 hectares and claims it would create 60 jobs, which is markedly low employment density... The perishables hub at Humberside at 930 sq metres was predicted to employ just six people. The facility opened in November 2008, but just two months later it was reported that flights of fish had decreased to just one per week." (2009, p.26) She adds: "It is often stated that along with the actual airport facilities, employment is created in the supply chain.. Ironically, so called 'handling' at airports is becoming increasingly mechanised and this extends along the supply chain into logistics so the employment creation claims merit further investigation." (p.27)

RSP appears to be relying for local support on a poor area's desperation to create more employment at whatever cost – including taking jobs from other areas. But if approved, RSP's plans would not improve the local employment situation because:

- RSP's DCO application has stalled Stone Hill Park's plans for a business park with quality jobs and training, thus delaying job creation that could have been beginning already.
- The noise, pollution and disruption of a cargo hub would severely damage the area's reviving tourist economy and thus in fact reduce jobs (see below).
- RSP's plans would be likely to reduce inward investment in Ramsgate and the surrounding area. New business ventures would not choose area blighted by

aircraft noise, constant HGV traffic and pollution, and would instead go for more attractive, unpolluted areas in which to base themselves.

Thanet's visitor economy is thriving. Independent research on 2017 visitor figures commissioned by Visit Kent (see press release, Document 11) showed increases in visitor numbers and tourism-related jobs across Kent, but particularly dramatic increases in Thanet: "Thanet saw the highest increase in day visitor numbers in the county, rising by 9.9% to 3.7 million. Over £319 million was spent in the area as a result of tourism, an increase of 9.2% on 2015. Thanet's tourism employment now accounts for an impressive 19% of the district's total employment." (2019, p.2)

Many people and organisations have worked hard to achieve this – but sadly their achievement will be short-lived if RSP's plans are enacted, as holidaymakers will not flock to a polluted, noisy area where their days and nights are disturbed by low-flying cargo aircraft, however beautiful the beaches and however lovely the architecture.

Back in 2012, Thanet District Council commissioned aviation specialists Parsons Brinckerhoff to assess whether night flights should be introduced at Manston by the then owner, Infratil. As a result of their work and a public consultation, Cabinet decided not to support the introduction of night flights, citing the following reasons:

- "The ... consultation shows 73% of respondents are opposed to night-time flying.
- Noise and environmental impacts are underestimated.
- The number of jobs generated and the economic benefits maybe overestimated.
- The probable detrimental impact of night-time flying on Thanet's recovering Tourism Industry.
- Concerns raised in the World Health Organisation's assessment of the impacts of disturbed sleep.
- There is concern that the Night Time Flying proposals have not considered Article 8 of the Human Rights Act.
- The Airport would need to address whether the proposed Night-time Flying Policy constitutes a 'plan or project' for the purposes of the Habitats Regulations and then follow the further requirements of those Regulations, as relevant." (Document 12)

All of these reasons are as relevant and valid now as they were then, and we would suggest may also be applied to apply to daytime flights by larger, older, more polluting cargo planes.

In summary, we do not believe that RSP have made the case for a Development Consent Order, nor do we believe they have the capacity to deliver their proposals. As we have outlined, if the DCO were to be approved, our town and the wider District would suffer long-term damage, whether or not RSP in practice do turn out to be able to deliver. This would be particularly galling in light of the fact that sufficient air cargo capacity clearly already exists in the South East of England to meet the country's needs. We therefore urge the Examining Authority to reject RSP's application, put an end to the long uncertainty over Manston, and allow Ramsgate and Thanet to move forward.