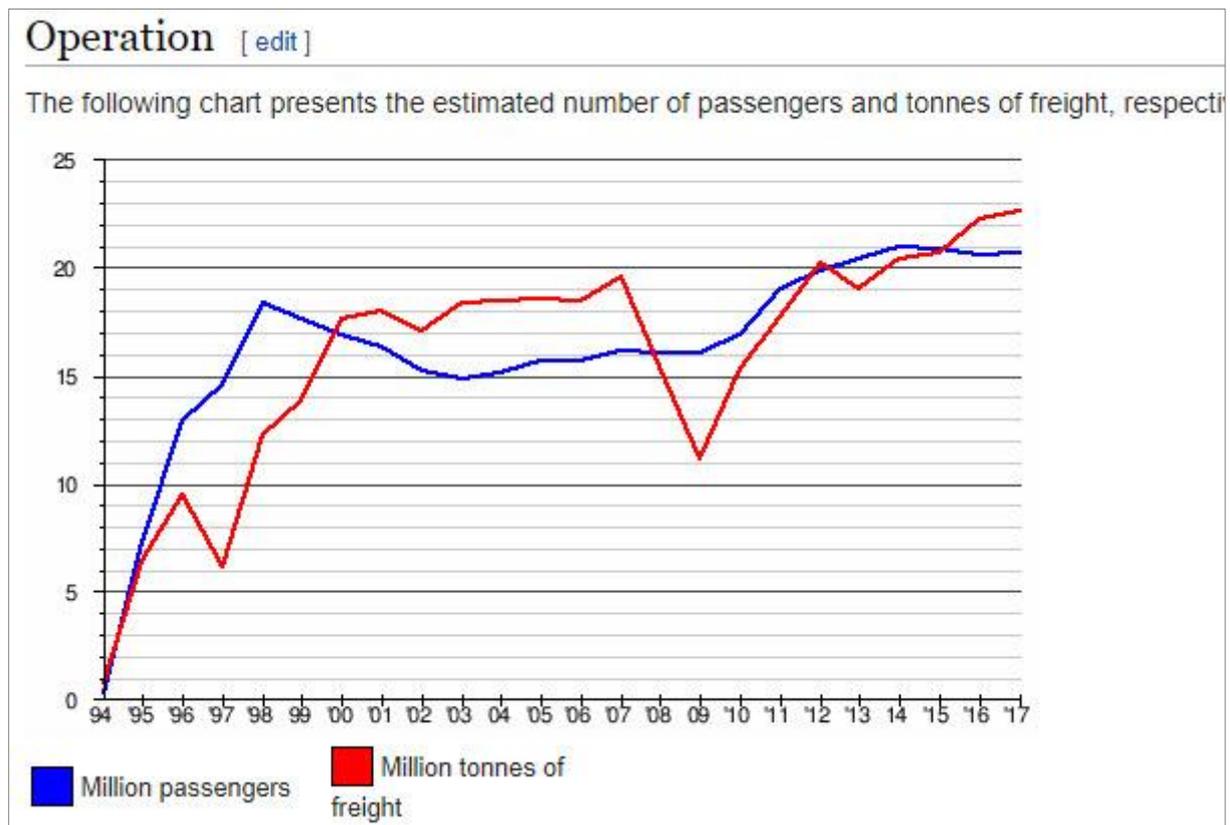


Northpoint's report is written by Mr Cain.

In his Introduction, Mr Cain promises (at his paragraph 3, or **§3**) to “challenge the misconceptions and misleading assertions [...] notably that: (i) It is acceptable to rely on extrapolation of historical trends as the basis for projecting future outcomes [...]”. Apparently contradicting himself, Mr Cain then devotes a whole section (§4-§9) to examining historic trends in “long run data”, and discovers that by examining historic trends, significant patterns “quickly become apparent”, and can even be quantified as Compound Annual Growth Rates. (It would appear, then, that there **is** value in extrapolating from historic trends.) Mr Cain focusses on a “crucial” recent uptick in freight tonnage as “reverting to something close to its long-term historic trend line”. All of which smacks of extrapolating from historical trends.

Fatally, of course, the historic trend that Mr Cain is examining is **tonnage** – not ATMs – and has no bearing on the NSIP criterion. Mr Cain's “long run data” for UK air freight tonnage shows a steep rise to the millennium, then a plateau. As an aside, we see the same growth pattern for freight through the Channel Tunnel – a steep rise to the millennium, then slow growth, as shown below: https://en.wikipedia.org/wiki/Channel_Tunnel



Mr Cain tells us (§52) that his model depends on three things:

1. the extent of airport capacity constraints affecting the air freight sector in the South East,
2. the potential scale of the current cross-channel leakage of UK bound or originating air freight,
3. some realistic assumptions about future growth in the sector in the UK.

Airport Capacity Constraints – §13 to §32

Seeking to support his conclusion that there is a gap in the market for a dedicated freight airport, Mr Cain turns to European cities (§10) for better comparators. Once again, he makes the basic mistake of looking at air freight **tonnage**. Mr Cain finds the growth in air freight in South East England has been slower than at European comparators (§11) and claims the explanation must be local to London and the South East, pointing to “*constraint*” as the culprit. However, Mr Cain overlooks the effects of the most obvious factor affecting air freight demand in London and the South East – the physical proximity to the Channel Tunnel, and the resulting competition from international trucking.

In §14, Mr Cain accepts that a number of UK airports have capacity for freight. He then sets this finding aside, stating in §15 that Manston has the advantage of being closer to London and the SE than EMA, while ignoring the fact that this also applies to the other “*London*” airports.

Mr Cain focusses on slot scarcity as an indicator of constraint at Heathrow, but accepts (§16) that better use of existing capacity has the same effect as more capacity, i.e. more freight actually carried.

Mr Cain also accepts that Heathrow will be able to handle significantly more freight once Runway 3 is operational. He sees the delay in opening Heathrow’s third runway as an advantage for Manston (§18) but doesn’t mention any downside resulting from the actual operation of the runway. He also ignores the fact that freight operators told the Airports Commission that, if they were unable to use Heathrow, they would move to Stansted or Luton (not Gatwick, as it’s “*too far south*”).

Mr Cain claims that Stansted will be focusing on passenger traffic (§24) and that night time freighter movements will be restricted and capped (§25, §26). Gatwick and Luton are dismissed (§23, §29).

Cross-Channel “claw-back” – §33 to §48

Mr Cain evidently views air transport as the proper default mode for freight transport – customers’ use of commercially preferable alternatives such as trucking is regarded as “*leakage*”, an apparently “*well known and widely acknowledged*” phenomenon that Mr Cain would have us believe justifies Government intervention (§33). Mr Cain is ignoring the realities of freight transport. Road transport will always be a part of an air freight solution – for the last few miles, if nothing else – and can be a cost-effective alternative to air freight over significant distances.

Mr Cain states that there is little relevant analysis available (§36), but is happy to extrapolate from 20 years ago (§35) and before (§37). Mr Cain’s para §37 is comically **speculative** and **conditional**:

*Using these techniques and comparing volumes in **1996** with CAA data, it **appears** that: “... there is approximately 90,000 -120,000 tonnes of freight coming into UK airports from non EC countries, not consumed in the UK, and 130,000-150,000 tonnes moving in the other direction”. **Extrapolating** based on the change in volumes of UK freight since then and now **would suggest***

these **estimates may** have risen **c40%**, but since it is during that period where the UK freight industry has experienced the greatest constraints, it would **not seem unreasonable** – even on a conservative basis - to **double** that increase. This would **imply** current outbound tonnages travelling to EU airports of **up to 225,000**, and in-bound trucking from EU airports of **c275,000 tonnes** (i.e. **nearly 500,000 tonnes in total**) **Extrapolating** to 2050 these figures would **double again if** they remained proportionate to total volumes.

Mr Cain continues to build castles of freight in the air until he reaches a total of 2½ million tonnes of cross-Channel freight annually (§39), telling us that Manston is “ideally located to intercept it – in part at least” (§34).

In paragraphs §40 to §43 Mr Cain seeks support from the Steer report – “The purpose of this study is to assess and quantify the value of the air freight industry to the UK economy, and in particular, its importance to UK regions, international trade and industrial sectors.” [Steer Report, Exec Summary]. Steer views the “scale of and importance cross-channel leakage” with alarm, unsurprisingly. In paragraphs §44 to §48 Mr Cain quotes from a magazine article in which the owner of regional airports promotes regional airports.

Demand Capacity Modelling – §49 to §64

Mr Cain fully supports Dr Dixon’s “qualitative” approach (§50), and is critical of extrapolating from historic trends (§51). Mr Cain seeks to “establish some realistic assumptions about future growth in the sector in the UK” (§52), using forecasts from Boeing and Airbus, and tells us “they need to get them right and consequently are regarded by the industry as a whole as credible” (§53). Boeing forecast 3.7% to 4.8% RTK growth while Airbus forecast 3.4% to 5.1% FTK growth. Mr Cain uses a range of lower numbers (§55), preferring 2.35% for no stated reason.

We are seeing Dr Dixon’s mistakes all over again. Firstly, the units are mixed up. Boeing’s graphs (§54) show RTKs and the Airbus graph (§56) shows FTKs – neither shows ATMs. Regardless, the forecast growth in one unit is taken to be applicable to another unit – we’re told the Azimuth reports use Boeing’s 3.7% forecast growth for RTKs as the baseline for the forecast growth in ATMs. Secondly, Mr Cain – like Dr Dixon before him – arbitrarily picks a number unrelated to the “credible” numbers he previously cited. Mr Cain’s figure of 2.35 has no (explained) relation to the 3.4, 3.7, 4.8, or 5.1 in the models, nor to the 2.0 to 3.0 range he used in sensitivity testing.

It is interesting to note the graph at para §55 which shows decade on decade global air freight growth steadily falling from 7.1% per year to 4.4% and then 2.6% – this long-term persistent deceleration in growth is not explained, nor apparently factored in to the model. Also note that Airbus forecast a modal shift from freighters to bellyhold such that growth in bellyhold will be at the expense of growth in freighter (§57), although this forecast growth is (of course) measured in FTKs.

Mr Cain presents more numbers (§58 and §59, on trade route forecasts) from the same reports, from the same companies, and finds the match reassuring. Mr Cain seeks to verify his results through regression analysis and declares a UK freight market of 6 million tonnes at 2050 (6.85m in the table at §61, i.e. about triple the

current total market) to be “*within the bounds of our modelling parameters*” (§61). Of course, tonnage isn’t ATMs. He goes on to graph possible futures by extrapolating from historic data (§62).

The Romboll report Mr Cain cites in (§63) draws attention to the “*two states of the world*”, i.e. the stark difference between the times before, and since, the year 2000. The reality is that since 2000, the growth in air freight tonnage has flattened markedly (as has the growth in freight trucked through the Channel tunnel). This is the reality the Mr Cain and RSP ignore.

The stagnation of the air freight market can’t be blamed solely and entirely on slot constraints – freight through the Channel tunnel shows the same pattern of growth and stagnation. Dedicated short-haul freighters and cross-Channel trucking are interchangeable alternatives, the optimal trade-off being driven by each customer’s location and appetite for speed and cost. Air freight is fast but it’s expensive, a luxury solution that is used sparingly.

It’s quite possible that we are at or near the limits of demand – most if not all the demand that requires dedicated freighters and/or trucking over “*short-haul*” distances is being met with existing freighters and trucks. As a simpler explanation of the historic data patterns, this explanation is preferred to RSP’s conjectured constraints within a distorted market. This explanation also fatally undermines RSP’s business case – with little or no market growth, RSP growth must be at the expense of existing operators.

Demand Capacity Modelling Results – §65 to §70

Mr Cain finds that his model concurs with the Azimuth projections, if it is assumed that the annual growth rate is Mr Cain’s arbitrary 2.35%, and that clawback increases over time (§65).

In para §14 Mr Cain tells us “*we are setting to one side the issue of capacity in the rest of the UK*”, thus viewing the SE in splendid (and misleading) isolation. This is plainly unrealistic, and as Mr Cain reports, the model “*underperforms*” when “*greater capacity at other large airports*” is included, i.e. the airport fails under plausible real world conditions. This model is a long way from reality, credibility or reliability. Mr Cain spells out some further short-comings of his model (§67), and they are significant.

- The model doesn’t examine ATMs, even though they are the **key** consideration for this DCO.
- Even though the DCO is for a freighter hub, the model doesn’t examine freighters in isolation, lumping together bellyhold, express and dedicated freight.
- The model doesn’t examine price, even though it is supposed to be supporting the business plan.
- The model doesn’t allow for customers moving their business from bellyhold to freighter or *vice versa*.

Conclusion

Mr Cain's "Demand Capacity Modelling"

- is unhelpful to this DCO application as it explicitly ignores:
 - **ATMs** (the NSIP criterion)
 - the UK outside London/SE (the "**N**" in NSIP)
- is "un-commercial" as it explicitly ignores:
 - **price** (in a model that underpins the business case)
 - the possibility of freight **swapping** between bellyhold and freighter routes
- is insufficiently focussed on **freighter** traffic, as it ignores:
 - the possibility of different **growth rates** in bellyhold, freighter and "express"

The only explanation for the flattening of growth in air freight that Mr Cain entertains is "*constraint*", and the only solution is more capacity, at Manston of course. Mr Cain envisages a world of ever-increasing air freight tonnage and runway capacity.

Mr Cain's claim that "*constraint*" explains (and is evidenced by) low growth in London/SE airports, and that it results in displaced and "*capturable*" cross-Channel traffic, is based on a misunderstanding. Long-haul trucking and short-haul aviation compete directly on price and on the extent to which consolidation is needed for a particular assignment. The Channel Tunnel exposes the London Airports to direct competition from international trucking – **this** is what explains the lower growth here. The cross-Channel traffic RSP hopes to "*claw back*" has already decided against aviation solutions.

Mr Cain repeats Dr Dixon's mistake of relying on **global** forecasts which are couched in terms of Revenue Tonne Kilometres and Freight Tonne Kilometres (**RTKs** and **FTKs**), and Mr Cain uses **tonnage** in his own "*long run*" analyses. Mr Cain's report looks at global numbers in the wrong units and wishfully misreads them as local growth in a different unit. Wrong scope, wrong metrics, wrong conclusions.