

APPLICATION BY RIVEROAK STRATEGIC PARTNERS LTD ("THE APPLICANT")

FOR AN ORDER GRANTING DEVELOPMENT CONSENT FOR THE UPGRADE AND REOPENING ON MANSTON AIRPORT

PINS Reference Number: TR020002

WRITTEN SUMMARY OF STONE HILL PARK LTD'S ORAL SUBMISSIONS PUT AT THE COMPULSORY ACQUISITION HEARING HELD ON 20 MARCH 2019

1. BACKGROUND

- 1.1 The Compulsory Acquisition Hearing ("CA Hearing") was held at 10:00am on 20 March 2019 at Discovery Park, Sandwich, CT13 9FF.
- 1.2 The CA Hearing took the form of running through items listed in the agenda published by the Examining Authority (the "ExA") on 11 March 2019 (the "Agenda").
- 1.3 The format of this summary follows that of the Agenda and only refers to parts of the Agenda where Stone Hill Park Limited ("SHP") made substantive comments.
- 1.4 Present from SHP were James Strachan QC (Counsel for SHP), John Rhodes (Quod Planning), Richard Griffiths (partner at Pinsent Masons LLP), Louise Congdon (York Aviation), Seamus Kealey (Altitude Aviation), Iain Mackintosh (for SHP) and Jamie Macnamara (for SHP).

2. MANAGEMENT OF HEARING

- 2.1 Following correspondence from Quod on behalf of SHP in the form of letters dated 15 January and 4 February, emails were received from the Case Management team on 8 February and 13 February confirming that the Examining Authority had considered Quod's request that SHP would be allowed to cross examine RSP at both the Compulsory Acquisition and the Need and Operations Hearings and consented to that request.
- 2.2 SHP instructed Queens Counsel and prepared for the hearings on that basis.
- 2.3 SHP was particularly concerned, therefore, when the Examining Authority ruled on each day that cross examination would be limited to 15 minutes.
- 2.4 Requests for oral questioning, of course, are considered against the tests in Section 94 of the Planning Act 2008 which provides that, whilst it is the normal practice for questioning to be undertaken by the Examining Authority oral questioning by another person may be allowed where the Examining Authority thinks that it is necessary in order to ensure:
 - a. adequate testing of any representations; or
 - b. so that a person has a fair chance to put the person's case

- 2.5 It is difficult to understand how these specific tests can be met when cross examination is limited to only 15 minutes in each case. It is not consistent for the Examining Authority to grant the right to questioning on the basis that the important statutory tests are met but then rule that questioning must be so restricted. On neither occasion was there a sufficient allowance for SHP to either test the representations of the Applicant or to have a fair chance to put its case to the Examination.
- 2.6 A more detailed note is attached at Appendix 2.1 setting out SHP's concerns in detail. Those concerns are heightened, of course, by the particular significance to SHP of the DCO application and by the fact that even the very limited questioning allowed elicited significant information of particular importance and relevance to the examination.
- 2.7 The restricted time for oral questioning was not necessary. The questioning had been prepared by leading counsel and was demonstrably efficient. On each day the Examining Authority announced its intention to finish the day by 5pm or 5.30pm at the latest and, indeed, the Hearing on 21 March in relation to Need and Operations concluded before 5pm.
- 2.8 SHP does not consider that it was given a fair chance to test the Applicant's representations or to fairly put its case.

3. **AGENDA ITEM 4 - DOCUMENTATION**

- 3.1 SHP has made very clear its view that RSP's application should not have been accepted and is not fit for purpose. These concerns were particularly relevant to the hearings in relation to Compulsory Acquisition and Need (which, as the Examining Authority stated, was also directly relevant to Compulsory Acquisition). In particular:

- 3.1.1 the Applicant is under an obligation to produce a Statement explaining how its proposals will be funded¹. The Statement is required to provide as much information as possible about the resource implications of both acquiring the land and implementing the project for which the land is required.

For all the reasons explored at the CA Hearing, RSP's Funding Statement [APP-013] fundamentally fails this requirement. Indeed, the Examining Authority made it clear that it attached no weight to the Funding Statement and has requested that a full and proper Funding Statement is provided to the examination by Deadline 5. Serious concerns for the adequacy of the Funding Statement have been apparent throughout the pre-application and application process and were set out starkly in the Planning Inspectorate's Section 51 advice.

- 3.1.2 RSP provided an Updated NSIP Justification [REP1-006] for Deadline 1 in the light of the criticisms made of the submitted NSIP justification. The updated submission commits RSP (at Appendix 4, paragraph 18) that it will provide to the Examining Authority further justification for the type of airport – related development proposed as part of the application. That

¹ Guidance related to procedures for the compulsory acquisition of land, September 2013, paragraph 17

information was promised for Deadline 3 but not provided. Neither did the Applicant meet its commitment to the Examining Authority made at the DDCO ISH on 10 January 2019 to provide a full explanation and justification of the works that comprise NSIP development and associated development (see SHP's written summary of oral submissions to the dDCO ISH on 10 January [REP1-023]).

3.1.3 At the Examination Hearing, witnesses on behalf of RSP attempted to provide some oral justification for the extent of facilities proposed on the Northern Grass but:

- that justification was subject to a series of inconsistencies and lack of any clarity; and
- an unstructured, oral justification of this nature fails completely the standard expected of an application which seeks to justify the compulsory acquisition of land on such a substantial scale.

3.1.4 SHP's concerns about the applicability and extent of facilities of the allegedly Associated Development proposed in the application are set out in detail in Appendix 1 of its Written Representations [REP3-025] and further set out in Appendix CA.15.1 to this summary note.

3.1.5 The Applicant undertook to respond positively to the request from SHP and from the Examining Authority to provide comprehensive details of its proposed Associated Development, its justification for each component of the floorspace, the floorspace of each element and its compliance or otherwise with Guidance relating to Associated Development. Clarity was also promised as to whether the uses proposed were landside or airside and an explanation is apparently to be provided as to why those facilities cannot be located elsewhere and why there is said to be a compelling need in the public interest for their development as proposed in the application.

3.2 SHP's concerns for these issues are well known to the Examining Authority. The purpose of listing them again here, however, is to draw attention to the procedural unfairness of the Examination. Under Section 92, SHP (as a fundamentally "affected person") has particular rights and those rights have not been satisfied. SHP has not been given the opportunity to make representations on documents which actually meet the requirements of the Planning Act 2008 and the CLG guidance to demonstrate that funding is available for the project and that there is a compelling need in the public interest to acquire all of the land proposed in order to accommodate development which is necessary to support the construction or operation of the principle development or help address its impacts. These concerns, of course, also extend to the scale of the principal development – a scale with the physical capability of 83,220 cargo ATMs per annum is alleged to be necessary to meet a forecast, capped throughput of 17,170 cargo ATMs.

3.3 The Examining Authority does not have before it documentation which is fit for purpose and SHP has not, by definition, had the opportunity to properly understand, test or make representations in relation to a case being made against it for the compulsory acquisition of its land.

4. **AGENDA ITEM 5 – FUNDING**

4.1 The concerns expressed above relate particularly to the funding and viability of the project. In particular:

- 4.1.1 the Funding Statement is not fit for purpose – see above.
- 4.1.2 there is no evidence before the examination as to the identity or nature of those said to be providing funds for the project and no evidence at all of their actual commitment to the project;
- 4.1.3 there is no viability assessment or business case;
- 4.1.4 it is not apparent that a viability assessment has been undertaken. If it has been undertaken, RSP's advisors Azimuth are not aware of its consequences for their forecasts. In order to re-coup an alleged investment of over £300 million, the Applicant's high level business plan provided as Appendix F.1.5 [REP3-187] shows the Applicant would charge a 3x market premium compared to leading airports in the sector (see Appendix NOPS.10.1 appended to summary of oral submissions to the CA Hearing). Yet pricing, costs and other critical financial factors have not been factored into the Applicant's forecasts – undermining the forecasts completely.
- 4.1.5 the Applicant has given directly inconsistent oral and written answers to the Examining Authority about the existence or not of a Joint Venture agreement with persons unknown. The Applicant also confirmed under cross-examination that there was no documented commitment to fund the amounts set out in the Funding Statement [APP-013];
- 4.1.6 the Applicant has confirmed that it still does not know what the likely construction costs of the project are going to be - it could not even give a potential range of deviation to its estimate when requested by the Examining Authority;
- 4.1.7 the Applicant has not explained why there has been a jump of £80 million in the Phase 1 construction costs estimated to *"bring the airport back into use"* or explained how such a substantial increase in costs can be absorbed whilst maintaining the alleged viability of the project;
- 4.1.8 the availability of funds to satisfy the requirements of the compulsory acquisition within the statutory period is unproven; and
- 4.1.9 the estimate within the Funding Statement of the cost of compulsory acquisition is significantly below that which is necessary.

4.2 Under this agenda item, the Examining Authority also sought answers from the Applicant regarding its offer to acquire the site for a total consideration of £20m and how it related to the valuation that had been placed on the site of £7.5m. [Note: the £7.5m relates to both the total amount assessed for land acquisition and blight costs in the Funding Statement and the amount set out in paragraph 2.9.20 of the Applicant's comments on Written Representations [REP4-067], whereas the CBRE "valuation" of the SHP land of £2m is set out in the letter of 10 October 2018 from

Colin Smith, as appended to SHP's answers to written questions [REP3-reference still to be issued].

- 4.3 The Applicant claimed that its reason for not disclosing information (which SHP considers is of material importance to the examination) in response to both written question CA.1.16 and the Examining Authority's question at the hearing, was that the matters were subject to a confidentiality agreement preventing the Applicant from disclosing the requested information.
- 4.4 SHP advised the Examining Authority that this explanation is not supported by the facts. SHP noted that there had been confidentiality agreements between SHP and the Applicant, but that any restrictions that could have justified the Applicant's failure to disclose material information had expired in mid-January 2019 (16 January). SHP further advised the Examining Authority that both the Applicant and its legal advisers were aware that the confidentiality provisions had expired, and that SHP had details of correspondence it could provide to the Examining Authority to evidence this. SHP agreed to provide this evidence at Deadline 5. This note is attached as Appendix CA.5.1.
- 4.5 No DCO should be consented on this basis and no powers of compulsory acquisition could be granted lawfully on this basis.

5. **AGENDA ITEM 9 – THE POSITION IN RESPECT OF NEGOTIATIONS WITH ANY AFFECTED PERSONS NOT COVERED**

- 5.1 SHP had anticipated that the Applicant may try to negate any attempts by the Examining Authority to probe the Applicant's stalled offer of £20m for SHP's land and the contradictions that exists between the offer, the "CBRE advice" and the level of funding requirement set out in the Applicant's original Funding Statement. Whilst it is assumed that Counsel for the Applicant was not provided with accurate information for the CA Hearing, it is the clear view of SHP from the evidence set out in Appendix CA.5.1, that the Applicant and/or its legal adviser should have intervened immediately to correct the position.
- 5.2 In relation to the Examining Authority's question regarding whether the Secretary of State for Transport has any interest in the land, SHP advised that in view of recent changes, it would need to take advice on this point and agreed to provide this information by Deadline 5.
- 5.3 Following variation of the agreement with the Secretary of State for Transport (which post-dated SHP's response to the Examining Authority's written questions), a restriction on title has recently been recorded against title numbers K873634 and K803975. This covers substantially all of SHP land to the south of Manston Road). The restriction was recorded on 28.02.2019 and states that "no transfer or lease of the registered estate by the proprietor of the registered estate is to be registered without a written consent signed by Secretary of State For Transport of Great Minster House, 33 Horseferry Road, London SW1P 4DR or their conveyancer."
- 5.4 Copies of the Land Registry documents, which are appended as Appendix CA.9.1, were made available to the Applicant's legal adviser.

6. **AGENDA ITEM 10 – ORAL REPRESENTATIONS**

- 6.1 SHP had prepared oral submissions covering a range of the topic areas set out in the agenda for the Hearing. At the request of the Examining Authority, SHP restricted the time for its oral representations and where possible, incorporated its comments into the relevant remaining agenda items to aid the efficiency of the Hearing.
- 6.2 Accordingly, the only part of SHP's oral representations included under this agenda item was the representation from Seamus Kealey, Director of Altitude Aviation. This focused on the minimum information requirement of equity investors/debt providers in airport funding and an analysis of the summary business plan information submitted by the Applicant at Deadline 3.
- 6.3 In view of the oral submissions being restricted at the request of the Examining Authority, Mr Kealey's prepared submissions were truncated. The key conclusions from the oral evidence are noted below, with the more detailed note that Mr Kealey intended to present on, attached as Appendix CA.10.1. Also appended are Mr Kealey's CV as requested by the Examining Authority (Appendix CA.10.2) and the 2017 Financial Analysis paper produced by RSP submitted to the Change of Use Appeal Inquiry held in March 2017 (Appendix CA.10.3).
- 6.4 Altitude Aviation's experience over 100 transactions involving over 200 airports is that equity or debt providers would require considerable and detailed forecasts, and supporting information to allow proper due diligence to be undertaken.
- 6.5 This level of due diligence would be required before the investment could be approved by the respective investment committees.
- 6.6 The lack of detailed and substantiated financial forecasts would raise significant questions around the financial viability and fundability of the Applicant's proposal, and what information has been provided is not credible in an established market context.
- 6.7 RSP's application documents do not provide even the most basic information that would allow any funder to assess the financial viability of a re-opened airport.
- 6.8 While Altitude Aviation consider the volume projections for Manston to be completely unrealistic (as explained in detail in its report included as Appendix 5 to SHP's Written Representations [REP3-025]), its analysis of the summary business plan focused only on the credibility of the financial aspects of the Applicant's projections as set out in Appendix F.1.5 of the Applicant's responses to Written Questions [REP3-187], (i.e. the Applicant's volume projections prepared by Azimuth were assumed to be achieved).
- 6.9 Altitude Aviation's analysis demonstrates that even if the unrealistic volume projections are achieved, the financial projections are not credible.
- 6.10 The summary business model forecasts would position Manston as one of the most profitable airports in the UK, and extremely profitable compared to the similar freight business model airports of Liege and Leipzig.

- 6.11 This is simply not credible when assessing Manston against the traffic and financial characteristics of the best performing UK airports, and the comparator European freight airports.
- 6.12 Based on Altitude Aviation's extensive experience of equity and debt financing of airports, they are of the opinion that there is no prospect that investors would commit to fund the airport based on the lack of information provided, implausible forecasts, and the performance deviation from long run historic actual performance of the other UK and European airports analysed.

7. **AGENDA ITEM 13 – THE DRAFT DEVELOPMENT CONSENT ORDER**

- 7.1 Without prejudice to SHP's position that the Applicant's case is not credible, no need has been demonstrated, no compelling case in the public interest has been demonstrated, no justification has been provided as to why the Works, as listed in Schedule 1 of the Revised Draft Development Consent Order, satisfy the legal tests of "NSIP development" or "Associated Development", no justification for the extent of land acquisition has been provided and no reasonable attempts have been made to acquire the land voluntarily or alternatives explored by the Applicant, Counsel for SHP set out the nature of the changes that would be required to the compulsory acquisition articles of the Revised Draft Development Consent Order [REP3-193]. The Examining Authority requested that SHP put the required changes in writing, which it has done below.
- 7.2 Article 9 (Guarantees in respect of payment of compensation, etc.: the current drafting of Article 9 is inappropriate. This is abundantly clear from the nature of the Applicant's written and oral submissions to the examination. For example, the Applicant has refused to provide the requested evidence of funding or its funders, has misled the examination in its responses to written questions and has grossly understated the costs of acquiring the land. The following key changes are therefore required;
- 7.2.1 Article 9(1): provision of security should be in the form of unencumbered funds placed into an escrow account prior to any decision being taken by the Secretary of State to make, or otherwise, the DCO;
- 7.2.2 Article 9(1)(a): the amount set out in the Article grossly understates the level that would be required. Compensation is not for the Examination, but what is for the Examination is to ensure that the Promoter has sufficient funds for the costs of compulsory acquisition, noise mitigation and blight. The Examining Authority must be satisfied that the amount in the Article (escrow account) is sufficient - otherwise the Examining Authority would be unable to satisfy themselves under the Guidance and any Article or escrow account would be defective. This would be prejudicial and have human rights implications given land is being forcibly taken. The precise level of compensation is not for the Examining Authority, and if the Compensation figure from the Upper Tribunal is lower than the escrow account, then the remaining amount can be returned to the Promoter. But it should not be the other way around, that there are insufficient funds to pay third parties for their land. Therefore, the Examining Authority must take a

precautionary approach and look at the higher figure for security purposes. The precise amount of compensation is for a later day. In this regard, the Examining Authority should refer to the detail set out in Appendix 6: Compensation Assessment to SHP's Written Representations [REP3-025]. In paragraph 8.2, Avison Young (formerly GVA) states;

"The compensation provision made in RSP's funding statement is insufficient to meet the compensation obligations resulting from a made DCO. It is important to note that RSP's most recent offer of £20m excludes any value associated with residential development potential, demonstrating the need for RSP's funding provision and business case to be reassessed to reflect significantly higher compensation liabilities."

7.2.3 Article 9(2): in view of the lack of transparency around the funding arrangements of the Applicant and the information that came to light during the examination (e.g. the Applicant admitted under cross-examination that the Joint Venture agreement (if it exists) contains no hard commitment to fund a certain level of costs) the only way in which the obligations could be adequately secured is through an escrow account, that is funded prior to any decision on the DCO being taken. Any deviation from that could result in gross unfairness and an important strategic site being sterilised for a number of years.

7.3 Article 18 (Authority to survey and investigate the land): the wide powers sought by the Applicant to survey and investigate land are inappropriate and are likely to have a blighting impact on land held by SHP. In its revised Explanatory Memorandum (paragraph 3.44), the Applicant argues that it is required in order to *"remove the necessity to compulsorily acquire that land and thus reduce the land brought within the Order limits."* Without SHP's freehold land there is no project. Article 18 is appropriate, for example, where the acquiring authority needs to undertake micro siting surveys, so that it can minimise compulsory acquisition (e.g. micro siting or a pipeline within a corridor). The primary intent of the drafting in this case would appear to be to delay the point at which the Applicant is required to acquire land, effectively giving itself an Option. The effect of this Article is one of blighting, as it has the potential to restrict the ability of SHP to undertake commercial operations on its land for many years. As a minimum, SHP's freehold land must be carved out from this Article. We would refer the Examining Authority to paragraphs 3.4 - 3.7 of SHP's covering letter submitted at Deadline 4 [REP4-064], which provides background to the Applicant's consistent history of breaching the terms of previous authorisations and agreements that provided for access to the land and demonstrate the valid concerns that wide ranging powers of the type sought by the Applicant would be highly prejudicial to SHP. We would also advise that the Applicant has not yet acknowledged or responded to our correspondence of 20 February 2019 offering to discuss a voluntary licence arrangement, which would allow the Applicant to resume its ecology and biodiversity surveys (following its breach of the s53 authorisation issued in September 2018).

7.4 Article 21 (Time limit for exercise of authority to acquire land compulsorily): The Applicant's entire case is dependent on it quickly constructing the airport in what it has referred to as *"the window of opportunity"* before Heathrow runway 3 is operational. Whilst, we have set out in Appendix NOPS.11.1 to our written summary

of the Need and Operations hearing, the unrealistic nature of the Applicant's anticipated construction timetable, any delay in it acquiring the land would only lead to delay and further increase the probability that an airport would never become operational. Accordingly, the time period set out in Article 21(1) should be amended from "5 years" to "1 year" in respect of SHP's land. In addition, for the reasons set out in response to Article 26, no declaration should apply to SHP's land.

7.5 Article 25 (Application of Compulsory Purchase Act 1965): As a result of a reduction in time in which to exercise the compulsory acquisition powers from 5 years to 1 year in respect of SHP's land, consequential amendments are required to Article 25(1)(a)(ii) and Article 25(2).

7.6 Article 26 (Application of the Compulsory Purchase Vesting Declarations Act 1981: the Applicant should not be able to rely on the powers in the Compulsory Purchase (Vesting Declarations) Act 1981, as amended by Article 26, in respect of SHP's land. These powers, where they would relate to any of SHP's freehold land, are wholly inappropriate for a number of reasons;

7.6.1 SHP's land comprises substantially all of the land interests required for the project - there is no project without SHP's land. The landowner is known, and the Applicant has already satisfied itself that SHP has title to the land as a result of the extensive work that has gone in to the preparation of the Book of Reference. Therefore, there is no reason why the Applicant would need to use a general vesting declaration as an alternative to the notice to treat procedure in respect of SHP's freehold land.

7.6.2 Under the Vesting Act, the acquiring authority is only required to pay 90% of its estimate of the compensation due. Whilst a "normal" acquiring authority could be expected to act fairly, it is clear from the Applicant's submissions to the examination (and equally, the information it has withheld from the examination), that there could be no confidence that the Applicant would not seek to abuse or take advantage of these powers. To highlight this risk, CBRE's letter of 10 October 2018 (appended to the Avison Young report) included an opinion of value of "circa £2m", which suggest that with Vesting powers, the Applicant could attempt to pay only £1.8m (90% of £2m) pending compensation being determined at a later point.

7.6.3 Accordingly, Article 26 should be amended to carve out the main airport site (the freehold interests held by SHP). Only a Notice to Treat should be exercisable over SHP's freehold interests. This is fair because the Applicant would still be able to gain entry and implement the DCO and SHP would retain title to the site (at which it is operating commercial activities) until compensation is paid to it.

7.7 Article 29 (Temporary use of land for carrying out the authorised development): Pursuant to Article 29(1)(a)(ii), all of SHP's land is subject to temporary possession before any notice of treat is served. This is not acceptable. Without SHP's land, there is no project. Therefore, the Applicant should not be allowed to take temporary possession and delay taking the freehold. This would be unequitable. Accordingly, and for the same reasons as set out in Article 18 above, there is no justification for the SHP's land to be subject to temporary possession. Article 28 should not apply to all of SHP's land in the Book of Reference.

- 7.8 It is SHP's view that a cargo focussed airport of the sort proposed by the Applicant would never become operational, and that the Applicant would then seek to utilise SHP land for purposes that are different to that set out in its Application. Appropriate Crichton Down type provisions must therefore be incorporated into the Articles, such that all SHP's land could be returned to SHP (at the consideration paid by the Applicant) in the event the Applicant does not implement the DCO and operate an airport on the Site pursuant to the DCO. A new article would be required and SHP can provide suggested drafting in due course.

8. **AGENDA ITEM 14 – COMPELLING CASE IN THE PUBLIC INTEREST**

- 8.1 RSP's case is set out in its Statement of Reasons [APP-012] and SHP's response is contained in Section 8 of its Written Representations [REP3-025] submitted at Deadline 3.

- 8.2 SHP made 3 further specific points in oral evidence:

- 8.3 **The relevant test:** paragraph 13 of the CLG Guidance (2013) explains that the Secretary of State will need to be persuaded that there is "compelling evidence that the public benefits that would be derived from the compulsory acquisition will outweigh the private loss". This requires confidence that the benefits will actually come forward. This makes perfect sense. There could not be a compelling case in the public interest for a development which is unlikely to happen.

Similarly, paragraph 19 of the Guidance requires that any risks or impediments to implementation of the scheme have been properly managed. In this context, the lack of viability and credibility of the proposals represents a serious impediment.

Interestingly, RSP responded to the effect that there was case law where schemes of "marginal viability" could still form the basis for Compulsory Acquisition. SHP is aware of case law where schemes of doubtful viability have been rejected. SHP looks forward to receiving details of RSP's submissions.

- 8.4 **Viability:** RSP's third (of 4) headings for its claimed "compelling need" is the assertion that its proposals for the airport are the only viable proposals. In this context, it is important to reference the available evidence:

- 8.4.1 The Applicant's proposals are not supported by any assessment of viability. SHP's oral evidence explained the lack of credibility of RSP's Appendix F.1.5 [REP3-187], including the comprehensive lack of detail and the lack of credibility in the forecast jumps in profitability from the Financial Analysis paper submitted by Riveroak in 2017 to the Change of Use Appeal Inquiry. That paper is appended to this document as Appendix CA.10.3. The evidence at the Hearing also established:

- the lack of any actual evidence that funding is available for the project.
- the absence of a business plan.
- the significant uncertainty over construction costs.

- the jump of £80 million in the initial phase of the project necessary to “*bring the airport back into use*”, without any reference or explanation as to the impact of that jump in costs on the viability of the project; and
 - the evidence that RSP’s forecasts took no account of/were ignorant of the landing charges which it would be necessary to charge at Manston to re-coup the very considerable capital investment and whether these were remotely competitive with the costs of airports from which it will be necessary for RSP to attract customers.
- 8.4.2 By contrast, SHP has a proven track record in delivery (see section 7 of the Kent County Council document Manston Airport and a private ownership, March 2015). In addition, SHP provided a full viability appraisal to Thanet District Council to demonstrate the viability and deliverability of its proposals for major residential led, mixed use development of the land.
- 8.4.3 Requests were made at the Hearing on 21 March for SHP to release details of its viability appraisal to RSP. That request is declined because:
- this is not an examination into SHPs proposals;
 - in accordance with the requirements of the district council, viability appraisals used to support planning applications are not made public – and SHP has satisfied the requirements of its decision maker;
 - by contrast, RSP’s application is being examined and the requirements of its decision maker have not been satisfied.

8.5 **Safe-guarded or sterilised?:** the fourth limb of RSP’s “compelling need” case is the assertion that its project would safeguard Manston Airport, which would otherwise be lost as an aviation asset.

In practice, the grant of DCO would do nothing to safeguard Manston Airport, any more than the refusal of the DCO application. The grant of DCO and powers of compulsory acquisition, however, could sterilise the airport for a significant period of time.

SHP consider that the airport has already been “lost” to cargo operation on account of its proven and demonstrable lack of viability. Whether or not the physical asset of the airport is allowed to be developed for an alternative use is a matter to be considered by Thanet District Council in its determination of SHP’s planning application.

That application is described in SHP’s Written Representations at Appendix 3 [REP3-025]. The description explains that the proposals for vintage and heritage flying would be preserved through a Section 106 commitment to maintain over 1,000m of the existing runway and to provide modern, relocated facilities for the Hurricane and Spitfire museums. Safeguarding and enabling the use of flying at Manston would be more realistically secured through SHP’s proposals.

- 8.6 There are a number of other relevant considerations to be weighed in the balance when considering the “compelling need”, including the need for the land to be developed to meet a very substantial local housing need in a sustainable location, rather than leaving that need un-met or forced to less sustainable, greenfield locations on the best and most versatile agricultural land.
- 8.7 A compelling need for the DCO proposals also cannot be demonstrated when spare capacity exists elsewhere to meet that need in accordance with Government policy.

9. **AGENDA ITEM 15 – LAND REQUIRED**

- 9.1 SHP’s case in relation to the necessary scale of facilities for the principal development is set out in its Written Representations, Appendix 4, Section 6 [REP3-025]. That analysis shows that the facilities proposed (and the consequent land take) are grossly over-scaled and that the same applies to the “associated development” proposed for the Northern Grass.
- 9.2 As set out above, RSP’s witnesses made oral attempts to justify the scale of facilities at the hearing. SHP’s response to that evidence is set out in paragraphs 57-74 of Appendix CA.15.1, for which time was not available during Agenda Item 10 (Oral Representations).
- 9.3 It is not, however, for SHP to undertake the analysis or to prove anything. The onus lies firmly on the applicant to prove its compelling case. The Applicant gave a (another) commitment to do so for Deadline 5.
- 9.4 SHP reserves the right to evaluate and comment upon that justification if and when it is received.

10. **AGENDA ITEM 16 - REASONABLE ALTERNATIVES**

- 10.1 There is no need for powers of compulsory acquisition to enable the use of the airport as an airport. It has an established lawful use and is in single ownership. The land does not need to be assembled – the missing ingredient is not compulsory acquisition, it is viability. If it was determined that it was necessary to bring the airport back into aviation use, DCO consent including compulsory acquisition is not necessary – there are alternatives.
- 10.2 The Applicant argues that DCO consent is necessary for physical regeneration of the airfield. RSP claim that the airfield currently has zero capability (which SHP strongly dispute). Even if that were the case, however, powers of compulsory acquisition are not necessary. All that would be required would be the exercise of permitted development rights or the submission of a local Town and Country planning application with the inclusion of an appropriate planning cap. For reasons which SHP has explained at length in its Relevant Representation and Written Representations, it is not credible or necessary to use the DCO process for such small-scale incremental improvements or the replacement of existing facilities.
- 10.3 One alternative to the grant of compulsory acquisition powers to RSP was and remains the process pursued by Thanet District Council. SHP’s Written

Representations from paragraph 7.8 [REP3-025] summarise the process briefly, although substantially more material is available if that would be helpful to the Examining Authority. Throughout the period 2014-2016, Thanet District Council sought to find ways of bringing the airport back into aviation use. It is not necessary here to set out the detail but relevant to note:

- 10.3.1 Thanet sought expert advice from Avia Solutions which confirmed that the airport was not viable;
 - 10.3.2 the Council soft-marketed the airport and received no expressions of interest except from RiverOak;
 - 10.3.3 the Council undertook extensive investigations into RiverOak and engaged specialist solicitors and barristers for the purpose but concluded that RiverOak were not a suitable indemnity partner. During the Hearing the Applicant explained that it would submit a report by the Transport Select Committee, which it asserted was critical of the local authorities. It is important for the Examining Authority to be aware that this report predated the second CPO process undertaken by the Thanet District Council.
- 10.4 Were circumstances to change (i.e. evidence was to emerge that the airport development was viable or that a credible partner was available to support the district council's CPO), that process could be revived. One of its advantages compared with the grant of DCO would be that the district council was able to vet and select a suitable airport operator, if such an operator exists.
- 10.5 Reasonable alternatives have also not been explored in the sense that alternative locations have plainly not been considered. Mr Freudmann has persistently sought control of Manston airport (and no other UK airport) to realise his dream of a new airfreight operation. The evidence is clear, however, that capacity already exists at other better located airports. Were RSP's proposals credible, for instance, SHP would expect the operators of Doncaster or East Midlands airport to be interested in discussing how they could be hosted there.
- 10.6 Similarly, there is no evidence that RSP has considered other locations such as redundant MOD airfields elsewhere including the airfields at Wethersfield (20 km from Stansted), Woodbridge, Mildenhall or Scampton.
- 10.7 Alternatives to compulsory acquisition also exist in the sense that RSP could have made reasonable attempts to secure the land by negotiation. SHP's answer to question CA 1.17 sets out the detail including the offers of a long leasehold interest made by SHP to RSP in writing on 15 March 2018 and 9 April 2018. Those offers were made in good faith in order once and for all to give RSP no excuse for its failure to bring forward viable airfreight operations at Manston and to enable its inevitable failure to clear the way for a more sustainable use for the land.
- 10.8 As explained at the Hearing, SHP's letters (which are appended to our Deadline 3 submission) make clear the offer of a 125-year lease. RSP never replied to SHP's letter of 9 April 2018 – a fact in itself which demonstrably means that it has failed the test to pursue all other means before resorting to compulsory acquisition.

- 10.9 RSP's explanation at the hearing that a 25-year lease was "absurd" demonstrates the lack of good faith which has characterised any "negotiations" and a contempt for the DCO process.
- 10.10 Similarly, as explained in Appendix CA.5.1 (Note on the Status of the Confidentiality Agreement between SHP and the Applicant), SHP remained sceptical about the Applicant's intentions behind the offer of £20m and its ability to deliver on it. This scepticism has been substantiated by the facts that emerged at the Hearing regarding the Applicant's funding position
- 10.11 In the Hearing, the Examining Authority advised the Applicant of the Guidance that states compulsory acquisition should only be sought if attempts to acquire by agreement fail, and queried whether sending first letters to landowners on 8 February 2018 was sufficient. The Applicant claimed that it was, however it is worth considering the following facts when assessing the regard the Applicant had to the relevant Guidance.
- 10.12 As explained in the Note of Meeting between the Planning Inspectorate and the Applicant on 2 November 2017 (see s51 advice), the Applicant gave the following project update; *"[T]he Applicant confirmed that it was still in the process of finalising its application documents, and that it aimed to formally submit its application to the Inspectorate in early December 2017."*
- 10.13 Whilst the application was subsequently delayed due to the need to undertake a further statutory consultation under the 2017 EIA regulations as a result of concerns raised by SHP, it had clearly been the Applicant's intention to submit its application before contacting affected parties who had land interests the Applicant was seeking powers of compulsory acquisition. Furthermore, as the Examining Authority will be aware, the Applicant's first formal application was made on 9 April 2018, barely two months after these first letters were sent.

APPENDICES

- 2.1 Summary note on procedural issues
- CA.5.1 Summary note on status of confidentiality agreements between SHP and the Applicant
- CA.9.1 Copies of Land Registry documents
- CA.10.1 Prepared oral submission of Seamus Kealey, Altitude Aviation Advisory
- CA.10.2 CV of Seamus Kealey, Altitude Aviation Advisory
- CA.10.3 Summary Financial Analysis submitted by George Yerrall, RSP Director, to the Change of Use Planning Appeal held in March 2017 as an Appendix to Proof of Evidence
- CA.15.1 York Aviation Note on Hearings on Compulsory Acquisition and Need and Operations

APPENDIX 2.1

SHP would like to place on record again its fundamental concerns regarding the inadequacy of the hearing concerning compulsory acquisition of its property and the lack of sufficient time afforded to it to question the Applicant's case generally, and more specifically to carry out direct questioning of the Applicant and its witnesses in order to allow the Applicant's assertions regarding any compelling case in the public interest for compulsory acquisition (and indeed the need for a DCO generally) to be properly and fairly tested, whilst giving SHP a fair chance to put its case in response to the proposed compulsory acquisition and the DCO generally.

There can be no dispute that the proposed compulsory acquisition of SHP's land directly engages Article 1 of the First Protocol of the European Convention on Human Rights and Fundamental Freedoms ('the ECHR'), as now enshrined in the Schedule to the Human Rights Act 1998. It does so at the most extreme level, as the proposed compulsory acquisition would be of the entirety of SHP's landholding of Manston Airport in the most extraordinary circumstances. Any authorisation of such a radical expropriation of private property therefore requires the most careful scrutiny in principle. Those rights must then be seen in conjunction with the right to a fair hearing under Article 6 of the ECHR in the determination of SHP's property rights. In addition, the common law safeguards the basic property rights that SHP currently enjoys and requires an Applicant to demonstrate a compelling case in the public interest for such acquisition. Both of these principles are unaffected by the Planning Act 2008 and the procedures that the Examining Authority must also follow. It is relevant to note that here and in any other context, proposed compulsory acquisition of land gives rise to a right for an affected person to enjoy a hearing to test the case at which cross-examination and legal representation would occur.

SHP has a statutory right to a hearing in the case of a DCO proposing compulsory acquisition (as here). This is not a right at the discretion of the Applicant, the Examining Authority or the Secretary of State. As a matter of basic interpretation of that statutory right on the face of the statute alone, but in any event in light of the interpretative obligations that apply under section 3 of the Human Rights Act 1998, it cannot be seriously disputed that a right to a hearing must mean a right to a fair hearing. This right would be stripped of substance if, for example, the affected party did not know properly the case that was being advanced for compulsory acquisition in advance, or by the same token, had not been provided with the necessary evidence said to support the Applicant's case. The statutory right to a hearing is not fulfilled by providing a hearing at which the affected party does not have access to basic material said to underpin the Applicant's case, and consequently to exercise rights at the oral hearing to make representations about that case and, as necessary, to question the Applicant about that case whether directly, or even indirectly through submissions and questions to the Examining Authority.

In this case, the Examining Authority held a hearing to deal with compulsory acquisition at which SHP was able to attend. But as the Examining Authority knows from SHP's representations (and has long been known), the Applicant has failed to set out some of the most basic material and evidence in support of its case and this was exposed in more detail at the hearing. SHP does not set out an exhaustive list of the failures on the part of the Applicant in this respect, but by way of one basic example only - the Funding Statement.

The need for a Funding Statement as well as a Statement of Reasons to support a request for compulsory acquisition is a statutory requirement. It would, in any event, be a basic requirement of setting out a claimed case for compulsory acquisition. At the time of the hearing that the Examining Authority held for compulsory acquisition purposes, the Applicant had already declared in writing that the Funding Statement it had provided was to be superseded. Yet even by the time of the hearing itself, no replacement Funding Statement had been provided. As to the Funding Statement that was previously submitted, whilst this purports to be such a Statement, it cannot sensibly be described as

such both in terms of its content and because of the Applicant's own statements as to its contents. Furthermore, the Examining Authority itself has already identified basic deficiencies in the document and the need for more information (for example the claimed Joint Venture Agreement that is said to underpin it and basic information about funds themselves). This information was not available at the Hearing. The Applicant has said it is going to provide such information subsequently. But this example exposes a basic procedural problem that goes to the root of fairness and the right to a hearing. SHP has simply not had a fair hearing in relation to compulsory acquisition of its property in the absence of such basic information about the Applicant's case and the ability to test that information and the extent to which there is claimed to be any evidence to support it. Put simply, the hearing that occurred was incapable of constituting a fair hearing of the type that SHP is entitled to under the legislation. SHP made this point at the hearing itself, but wishes to place the point on record again. If the Applicant subsequently produces additional or different material relevant to its case on compulsory acquisition, then SHP will remain entitled to a hearing to test that case and evidence. It is now highly questionable whether there will in fact be sufficient time for such a hearing to take place within the examination period. SHP is entitled to a proper opportunity to test the case being made by the Applicant. That involves sufficient time to consider material that may subsequently be produced.

Quite apart from this basic principle about the hearing that has occurred not being capable of fulfilling the statutory entitlement, SHP turns to the question of the fairness of the hearing itself.

The Planning Act 2008 legislation does not provide for any express right of cross-examination. Section 94(7) starts with the presumption that any oral questioning at a hearing should be undertaken by the examining authority. However, that statutory provision relates to hearings generally through the examination. In the context of a compulsory acquisition hearing, it is necessary to approach it in light of the interpretative obligations under the Human Rights Act 1998 and the principles of the common law summarised above. Section 94(7) allows the Examining Authority to permit direct questioning where it thinks it is necessary in order to ensure adequate testing of any representations or that a person has a fair chance to put the person's case. Both limbs are highly relevant here where the Applicant's entire case depends upon a claimed assertion of need on which SHP has produced detailed technical expert evidence in response, and where compulsory acquisition is proposed of all SHP's landholding and where fairness requires it proper opportunity to question the Applicant and its witnesses.

In this case, the Examining Authority had already recognised this in advance of the hearing on compulsory acquisition and need (the two overlapping in any event).

This discretion was exercised in principle recognising the uniqueness of this DCO application.

In this respect, SHP was advised that it would be provided with the right to cross examine at the Compulsory Acquisition and Need and Operations hearings in emails dated 8th and 13th February respectively.

In light of this, SHP had invested significant sums in preparing for and attending the hearings with its full team, recognising it as an opportunity to properly test the Applicant's evidence and in doing so demonstrate a number of fatal flaws to what it considers to be an ill thought out, speculative DCO that relies on a wholly flawed need case.

In the result, however, SHP was restricted to only 15 minutes cross-examination at each hearing, and when combined with delays caused by the repeated reluctance of the Applicant's advisers to answer questions posed to them, SHP's Leading Counsel was only able to put a very limited number of questions to the Applicant's advisers before being stopped by the Examining Authority by the expiry

of the time limit (regardless of where the questions had got and the evasiveness of the answers received).

In these circumstances, SHP recorded at the time and places it on record again that this procedure did not give SHP a fair chance to put its case or test the Applicant's representations SHP has not had a fair chance to put its case. Whilst SHP was grateful in principle for the Examining Authority's exercise of discretion under section 94(7) of the Planning Act 2008 (although not surprised that the Examining Authority would recognise the need for the exercise of such discretion), the practical implementation of that decision by allowing only 15 mins of direct questioning, regardless of the practicalities of putting questions in that time period, made the exercise of discretion more theoretical than real. It was simply not possible to cover the necessary ground, particularly given the extent of the evidence and the complexity of the material and the inadequacies in the Applicant's written material, in anything like the time permitted.

In this respect, SHP notes that in a normal compulsory acquisition scenario, the landowner's would ordinarily enjoy the ability to cross-examine on key evidence and would not be constrained to 15 minutes. As there is no NPS that covers this application, the requirement to assess need is much more pronounced than in other DCOs where powers of compulsory acquisition are sought. This also then combines with the basic problems SHP has had in understanding the Applicant's case, the huge number of shifts and changes that have occurred through the written questioning process and the basic problems in understanding what is the Applicant's stated case. Indeed, at the compulsory acquisition hearing, the bulk of the 15 minutes expired in clarifying that what had been stated in respect of the Funding Statement was simply not correct (e.g. the claim that there was now no longer a Joint Venture Agreement); and at the need hearing, the same thing occurred in establishing that the Azimuth Report does not contain any purported business case / plan or assessment of viability, despite what is expressly stated in the Planning Statement and the Statement of Reasons. It is simply not fair that SHP has had to expose such basic deficiencies and contradictions in the Applicant's written statements on the record and, in doing so, then loses the opportunity to put further questions to the Applicant. SHP readily accepts that the Examining Authority (like any authority or tribunal) would wish to ensure that direct questioning remains relevant and progresses matters relevant to the basic issues and it is proportionate. It accepts that there may well be reasonable time limits imposed for questioning. However, in both cases the records of the hearing demonstrate that SHP used the limited time available to ask directly relevant questions, extracted directly relevant answers which had not been previously elicited and went to the heart of the written materials that had been provided, and therefore there was not any obvious basis for preventing SHP from continuing to ask direct questions on this basis.

As the first airport DCO, with a unique set of circumstances and only a very limited time for the Examining Authority to build an understanding of the complexities of the air freight market, SHP had suggested that a technical assessor be appointed to assist the examination. SHP consider that such an appointment would also have mitigated some of the significant costs SHP (supported by its vastly experienced aviation consultants, York Altitude and Altitude Aviation and legal and planning advisers) has been forced to incur to rebut the flawed evidence and submissions related to the Applicant's need case and forecasts.

In the two periods of 15 minutes permitted for cross examination, SHP was able to cover only a very small area of the necessary ground that it had diligently prepared for with its advisory team. Nevertheless, even in this short time, it was able to demonstrate a clear lack of veracity and competence of significant parts of the Applicant's evidence, as noted below;

1. The Examining Authority had been misled by the Applicant regarding the applicability of a Joint Venture agreement that purported to show how the funding set out in paragraph 19 of the Funding Statement was secured. The Examining Authority had requested a copy of this agreement in its first written question F.1.3. As SHP stated, if *“there is no longer a Joint Venture agreement”* that would allow the Applicant to draw down funding, as the Applicant claimed in its response to F.1.3, the Funding Statement could not be relied upon. The Applicant then changed its position and advised that the JV agreement was still in place. This was a material piece of information that the examination was not aware of and would not have been elicited without the opportunity for cross-examination.
2. In using the excuse of the *“restructuring”* for its refusal to provide the information requested in the Examining Authority’s written question F.1.10 (iv) (which requested full details of the investors cited in paragraph 20 of the Funding Statement), the Applicant stated *“the identity of the investors mentioned in the Funding Statement is no longer relevant”*. By establishing through cross-examination that the JV agreement was still in place and that the *“investors”* were still providing funding, it was clear that the Applicant had misled the examination for a second time, for reasons that cannot easily be explained away.
3. In rendering the excuse for the Applicant’s failure to provide the Examining Authority with the information it had requested in written question F.1.10, the Applicant was then asked to identify its funders. Nick Rothwell (RSP director), claimed the PwC letter (which SHP considers does not even meet the standard of a letter of comfort) identified the funders, which it did not. A review of the letter provides no indication of who the funders are other than they are represented by Helix Fiduciary.
4. In further questioning, SHP was also able to establish that there is no document that contains any commitment to fund the amount set out in the Funding statement. This was confirmed by Nick Rothwell.
5. Azimuth Associate’s report provides the air traffic movements forecast for the project and *“[A] detailed explanation of the need for and the benefits of the Proposed Development”* (paragraph 4.11 of the Statement of Reasons) and is the foundation stone of the whole DCO Application, yet Azimuth admitted under cross-examination that it has no relevant experience of air cargo forecasting.
6. In addition to the many repeated references of reliance on the Azimuth Associate’s Report in the Statement of Reasons, paragraph 9.35 of the Applicant’s Planning Statement claims in terms that the Azimuth Associates Report *“considers whether reopening Manston Airport in the way intended by River Oak would be viable”* and states this is *“an important consideration.”* The Applicant has therefore put the viability of its proposal at the heart of its case and directed the public to the Azimuth Associates for where that viability is allegedly demonstrated. However, Dr Dixon also admitted, after a number of attempts to avoid doing so, that Azimuth Associates did not consider the issue of viability at all in preparing the forecasts contained in Volume III of its report. When challenged on this, Dr Dixon stated that she was not asked to consider viability by RSP, did not know where viability was considered in the Application documents and had not been involved at all in the preparation of any business plan. The Applicant is unaware of any document showing viability and therefore not only is the Planning Statement misleading, but there is no material to support what the Applicant itself identifies as an *“important consideration”* in respect of its whole case.
7. Dr Dixon did not consider costs in preparing her forecasts. When asked to explain how the numerous categories of *“costs of switching airports have been taken into account”* (as stated in paragraph 2.2.10 of Volume III), Dr Dixon asserted that it was cost neutral, but could give no explanation of what the costs were and how she determined it was cost neutral. In the Azimuth Report, there are a number of references regarding viability (e.g. paragraph 6.0.2 of Volume II, *“Manston is the only viable option in the South East”*). However, as a result of the cross-examination we now know that Dr Dixon’s forecasts had no regard for viability and were not even

based on the most basic assessment of costs / charges for the airlines, freight forwarders and airport operators or benchmarked against other airports or modes of transport to even attempt to understand whether Manston could attract any business. In responding to one of Dr Dixon's questions asking it to rank issues that are important to its business, one interviewee responded, "Cost is always the most important" (paragraph 4.1.9 of Volume II), yet Dr Dixon's forecasts were prepared without consideration to the costs. In absence of the requisite detailed economic modelling, the Azimuth Report's forecasts are no more than theoretical guesswork and should carry no weight in this examination.

SHP's questioning only began to touch the surface of the areas it thought necessary, and had prepared, to cover. In view of the progress achieved during cross-examination, SHP consider that further time would have materially assisted the examination in further demonstrating the weakness, misrepresentations and contradictions in the Applicant's submissions. It would also have helped ensure adequate testing of RSP's evidence in a manner that written questions are not able to – this has been evidenced by the incomplete and muddled answers the Applicant provided to the Examining Authorities written questions on Need (as highlighted in SHP's detailed comments on these responses [REP4-067]). It would also have given SHP a fairer chance to present its case, and thereby mitigate the risk of challenge based upon Article 6 of the ECHR and Article 1 of the First Protocol of the ECHR.

To assist the examination, some examples of the areas of RSP's evidence that SHP had prepared to, and would have, probed further in cross-examination are given below;

Compulsory Acquisition Hearing:

- SHP would have explored whether the funding provided to date has all been provided by MIO Investments Limited or was from another source? In the course of the hearing the Applicant has mentioned different figures for the amount invested to date, with Mr Rothwell referring to £4.75m at one point and at other times Mr Freudmann referring to a number in excess of £14m. The Applicant would have been asked to clarify the amounts invested to date and whether any amounts are inclusive of any capital fees, interest or redemption premia on amounts invested.
- Freudmann Tipple undertakes banking services for the RSP group companies. This would appear irregular, therefore, the Applicant would have been asked to confirm which companies within the RSP group of companies have a UK bank account, thus demonstrating these companies have satisfied the Know Your Customer money laundering checks required to open a UK bank account.
- Mr Freudmann would have been asked to explain the offer RSP made for £20m to acquire SHP's land, when the offer was made, when it provided signed heads of terms to SHP, the target date for completion and confirm whether that offer still stands. The Examining Authority was unable to probe this in the hearing, as a result of the Applicant's claim that it could not do so due to a Confidentiality agreement. As explained in Appendix CA.5.1 to the Summary of Oral Submissions to the CA Hearing, this was not accurate, and SHP considers that the Applicant should be required to explain why it adopted this approach at the hearing.
- Mr Freudmann would have been asked to explain the nature of his role in relation to Manston Airport whilst at Wiggins and advise whether he, or any of his colleagues made any statements (in the period 2001 -2004) regarding the level of capacity being increased to c.200,000 + tonnes per year. (Note – SHP has submitted evidence as part of its other submissions that contradict the claims made by Mr Freudmann that he was only a "foot soldier" and that it would be "*simply ludicrous*" to suggest Manston had capacity of 200,000 tonnes).
- Mr Freudmann would have been asked to explain the level of annual losses experienced by Manston airport during the years of operation by Wiggins.
- The Applicant would have been asked to explain why it had missed Deadlines set by the Examining Authority to provide an explanation and justification of the works it claims is NSIP development and the works it claims to be associated development. The Applicant would then be asked to

explain and justify its claim that the airport related business space at East Midlands is c.8x the size of the comparable business space the Applicant is seeking on the Northern Grass (works 15-17).

- The Applicant's ES (paragraph 5.2.1) effectively assumes that construction work can commence immediately upon any decision by the Secretary of State to grant of a DCO. As this is completely unrealistic for a number of reasons, with 2024/2025 being a more appropriate, yet still optimistic, estimate, the Applicant would have been asked to provide a realistic timetable of the construction programme taking into account the following;
 - Time allowance for judicial review (and any subsequent appeal) of any decision by the SoS to grant the DCO;
 - period required to secure ownership of the land following end of any legal challenges to a decision to grant the DCO;
 - time required to undertake the ground surveys (e.g. archaeological surveys etc) and detailed design, consultation and planning and other requirements (e.g. mitigation) that would be set out in the DCO requirements;
 - Time required to finalise funding, noting George Yerrall's evidence that construction costs are uncertain and that the Applicant is not even able to advise the Examining Authority by how much these costs could vary until it has completed its ground surveys;
 - Completion of contractor appointments (post tendering process), and other licensing, permits etc.
 - Construction timetable of works recognising that the initial estimate of phase 1 costs is £186m (and is highly uncertain) and has increased by £86m for no apparent reason – how credible is it that the Applicant could raise funding when it is unable to quantify costs and how credible is it that there would be any effective plan to spend so much capital in such a short period of time;
 - Post practical completion testing, finalising CAA certification processes to ensure the airport would be safe for operations;
 - This would represent a base case timetable as it ignores any delays that would result from;
 - the Operation Stack arrangements being extended beyond the end of 2020;
 - the requirement to retain the existing HRDF beacon for 2 years after any new beacon is installed for technical/safety reasons;
 - delays in the estimated Airspace Change such that Manston's airspace change is aligned with the other changes in FASI south;
 - delays in CAA certification and / or delays to programme as a result of required changes to design to secure EASA certificate.
 - The Applicant would be asked how it intended to secure funding for its projects given the numerous impediments, including the risks associated with the Airspace Change Process and CAA certification that could result in the airport not being capable of operating until just prior to Heathrow Runway 3.

Need & Operations

- Dr Dixon would have been asked to list the clients worked for in air cargo forecasting in the last 15 years, the nature of the project and role in the project?
- Dr Dixon would have been probed on the forecasts submitted to the Change of Use Inquiry held in March 2017 – these included exactly the same air traffic projections as in the current report. In the course of Dr Dixon's questioning by counsel for RSP at this inquiry in March 2017, Dr Dixon was asked to explain the growth rates applied. In justifying the 4% per annum growth rate applied for years 11-20 of your forecast, Dr Dixon explained that the forecast did not include any intra Europe flights (where forecast growth rates were lower). This is consistent with the analysis contained in paragraphs 3.2.1 and 3.2.3 of Volume II of the Azimuth report, which suggests there are no flights to/or from EU countries. Dr Dixon would have been asked to confirm for the benefit

of the Examining Authority, whether the statement made at the planning inquiry is accurate and that the cargo ATMs forecast does not include any flights to / from European countries (other than Russia)?

- In view of the fundamentally inaccurate response provided by the Applicant to written question ND.1.41, Dr Dixon would have been asked to explain to the examination how many cargo ATMs there were to and from Non-EU international airports in 2018 based on the published CAA statistics. Dr Dixon would have been walked through SHP's response to the Applicant's comments on written question ND.1.41. The SHP response, as the Examining Authority will be aware, included a note (with supporting appendix ND.1.41) that included a detailed analysis of the cargo ATMs in the UK based on the published CAA statistics. Dr Dixon would have been asked whether she agreed with the analysis showing there were only c.34,000 non-domestic cargo ATMs in 2018 (and not "*almost all*" of the 53,628 cargo ATMs the Applicant referenced in its answer). Dr Dixon would be asked to confirm whether she agreed that the CAA statistics show the total number of cargo ATMs between UK and non-EU international airports in 2018 were less than 8,000 (including night flights)? As this is effectively RSP's target market, does this not demonstrate that its forecast of 9,700 cargo ATMs in the 3rd year of operation is literally incredible?
- Dr Dixon would have been probed on the extent to which traditional integrator and the new e-commerce integrator ATMs are included in the forecasts. In the hearing we heard that the forecast did not include traditional integrator ATMs, but did include a significant number of cargo ATMs (c.45%-50% of total based on Appendix 3.3. to the Environment Statement) from an, as yet, non-existent e-commerce market.
- Dr Dixon would have been asked to explain whether these new e-commerce integrators have been in the forecast from the start (rather than conventional integrators) or are they are a recent change. Dr Dixon would have been referred to the reference in para. 3.2.3 of Vol III of the Azimuth Report, and Appendix 3.3 of the ES which specifically identifies DHL/Fedex as the operators, alongside a smaller Amazon operation.
- Dr Dixon would have been asked to explain the model for these new e-commerce air freight business, the routes these aircraft would fly, and the type of aircraft that would fly the routes. The Applicant had previously stated that the forecasts assume either Amazon or a Chinese company would base aircraft at Manston to serve delivery of consumer goods to the south east of England market. Dr Dixon would have been asked if it was correct to assume that the freight carried on these flights would be predominantly imports? If this is the case, then why does paragraph 3.2.3 of Volume III of the report show that the dedicated integrator movements being 100% outbound with small backloads of c20%. This is wholly contradictory position and would suggest serious a material error in the split of import and exports assessed. Dr Dixon and the Applicant would have been asked to comment on this and explain the discrepancies and the impact on the validity of the assessments in the ES. Similarly, based on comments made by Chris Cain regarding the type of aircraft that would be flown by a new e-commerce integrator is the fleet mix to the now expected to be different from that which is assessed in the ES (see appendix 3.3), and what are the implications for the validity of the "worst case" environmental assessments, including noise, air quality etc.
- Dr Dixon would have asked if any of the indicative airlines listed in Appendix 3.3 of the ES are expected to come to a reopened Manston. If so, which ones? Whilst the airlines named in appendix 3.3 were presented as being indicative only, there is a close resemblance to the markets listed in Volume III of the forecast. Dr Dixon would be asked to explain how the interviews informed the assumptions made in the forecasts and would be presented with a number of apparent discrepancies between the comments from interviewees and the narrative relating to the "forecasts".
- Dr Dixon would have been asked to explain how, without any proper consideration of switching costs, the charges to be levied at Manston and the relative price of dedicated freighter operations

versus bellyhold and other market realities, can Azimuth's so-called 'forecasts' be considered anything other than a "guesstimate".

As can be demonstrated from the hearings held on 20 and 21 March 2019, the Applicant's case falls apart under direct questioning, contradictions become apparent and confidence is lost in the veracity of the Applicant's submissions. Almost every answer the Applicant gave to a probing question had the effect of highlighting a new, and material, discrepancy elsewhere in its application, such that the Applicant's only way to protect itself from proper scrutiny of its application was to resort to the safety of its "*commercial confidentiality*" defence.

Whilst written questions are invaluable, as were the well prepared direct questions from the Examining Authority, robust testing of this particular Applicant's submissions through direct questioning on the part of SHP (whom is able to call on the extensive specialist technical expertise from its highly experienced aviation consultants) is required to cut through the assertion and to establish if there is any actual evidence that supports the Applicant's proposals.

SHP was not in any way surprised at what emerged through the hearing processes, where the answers to each question generated greater uncertainty rather than less. Nor were SHP surprised by the Applicant's reluctance to let Azimuth explain their aviation case.

However, SHP were repeatedly surprised that the Applicant did not appear to understand the multiple inherent flaws and contradictions within their proposals.

APPENDIX CA.5.1

Summary Note of Status of Confidentiality Agreements between SHP and the Applicant

1. At the Compulsory Acquisition hearing on 20 March 2019 (“CA Hearing”), during discussions on Agenda Item 5, the Examining Authority sought answers from the Applicant regarding its offer to acquire the site for a total consideration of £20m (which included SHP retaining the benefit of a restriction on title against residential development) and how it related to the valuation that had been placed on the site of £7.5m. Note: the £7.5m relates to the total amount assessed for land acquisition and blight costs in the Funding Statement, whereas the CBRE “valuation” of the SHP land of £2m is set out in the letter of 10 October 2018 from Colin Smith, as appended to SHP’s answers to written questions [REP3-reference still to be issued].
2. The Applicant claimed that its reason for not disclosing information (which SHP considers is of material importance) in response to both written question CA.1.16 and the Examining Authority’s question at the hearing, was that the matters were subject to a confidentiality agreement preventing the Applicant from disclosing the requested information.
3. SHP advised the Examining Authority that this explanation is not supported by the facts. SHP noted that there had been confidentiality agreements between SHP and the Applicant, but that any restrictions that could have justified the Applicant’s failure to disclose material information had expired on 16 January 2019. SHP further advised the Examining Authority that both the Applicant and its legal advisers were aware that the confidentiality provisions had expired, and that SHP had details of correspondence it could provide to the Examining Authority to evidence this. SHP agreed to provide this evidence at Deadline 5.
4. Counsel for the Applicant had subsequently acknowledged that the confidentiality agreements had expired, but stated that *“the non-disclosure agreement covered a certain period and all that took place within that period... when it expired the things that took place that didn’t fall under that umbrella were not covered but things that had taken place pursuant to that agreement were still covered by the confidentiality clause.”*
5. As SHP explained in its answer to written question CA.1.17 and CA.1.18, SHP had long treated the approaches from RSP with scepticism. SHP is concerned that RSP’s primary objective may have been to seek to influence the approach SHP took to objecting to the DCO examination through limiting the information that could be shared under the examination process.
6. Therefore, the confidentiality agreements were purposefully drafted in a manner that ensured the confidentiality obligations in respect of RSP’s offer would terminate, should RSP fail to execute the transaction within a specified timetable.
7. This would ensure that SHP and RSP would be free to disclose the material factual information to the Examining Authority, as SHP did in its response to the ExA’s first Written Questions. As shown in paragraphs 13.2 and 13.3 of the most recent confidentiality agreement between SHP and the Applicant, following the expiry of the Restricted Period, which for the avoidance of doubt was 16 January 2019, the confidentiality provisions of the agreement terminated at that point.

13.2 *“notwithstanding any discontinuing or ending of discussions regarding the proposed transaction, the provisions of this agreement shall apply indefinitely to the buyer in relation to any confidential information disclosed regarding the Secretary of State’s involvement with the site, including but not limited to the content and terms of the Parking Services Agreement.*

13.3 *except as set out in clause 13.2, or otherwise in this agreement, the provisions of this agreement shall terminate upon the expiry of the Restricted Period."*

8. This first Confidentiality Agreement was dated 3 December 2018 (well after the offer of £20m had been made) and expired on 12 December 2018. This date matched the "Completion Date" included in the signed Heads of Terms signed by RSP on 3 December 2018. As a result of the failure to meet the target completion date, the Confidentiality agreement was extended three times, and ultimately to 16 January 2019. In view of the apparent lack of serious engagement from RSP and the strengthening view on the part of SHP that the engagement from RSP had been an attempt to negate SHP's submissions to the examination, a decision was taken not to extend any confidentiality agreement beyond that date.
9. Allied to this belief, there was also a concern on the part of SHP that the confidentiality provisions had not been fully adhered to, with suspicions heightened by the fact Tony Freudmann's signature (on behalf of RSP) on the most recent agreement was witnessed by a prominent local Councillor at Thanet District Council, who has made representations to this examination in support of the Applicant. We considered this to be highly irregular.
10. There then followed repeated attempts to encourage SHP to extend the Confidentiality provisions, even resorting to the Applicant's legal advisor unilaterally emailing through revised Confidentiality Agreements executed on each of (i) 5 February 2019 (10 days before the parties were to submit responses to the Examining Authority's Written Questions) and (ii) 19 March 2019 - immediately prior to the CA Hearing.
11. We provide below extracts from emails between the parties that demonstrate beyond any doubt that (i) the last confidentiality agreement between SHP and the Applicant had expired on 16 January 2019; (ii) that the Applicant and its legal adviser were fully aware of this; and (iii) that SHP had, on multiple occasions, advised the Applicant and its legal advisor that SHP would not be progressing a new Confidentiality Agreement, also referred to as a Non-Disclosure Agreement ("NDA").
 - i. Extract of email dated 5 February 2019 (6.06pm) from the Applicant's legal adviser, BDB Pitmans, to Cripps LLP (property lawyers for SHP). This demonstrates the Applicant's legal adviser was fully aware the agreement had expired well before the Deadline 3 (the date on which the Applicant responded to first written question CA.1.16);

"In the meantime, given that the NDA between our clients has also expired and on the assumption your client would like a new document in place, we have arranged for our client to sign the attached."
 - ii. Extract of email response dated 7 February 2019 from Cripps LLP (for SHP) to BDB Pitmans;

"Until our clients are satisfied that your clients have a genuine and deliverable intent to acquire the site, our client has no wish to progress the issue of a new NDA."
 - iii. Extract of email response dated 19 March 2019 from Cripps LLP (for SHP) to BDB Pitmans;

"I refer to your email and telephone call which I've discussed with our client."

In your email, although not mentioned in the call, you have attached a copy of a confidentiality agreement signed by your client and sought confirmation that my client has now signed the agreement.

We are very surprised to have received this given the clear guidance provided in the email to you from Clare dated 7 February 2019 (12:08) and a further email exchange between Pauline Bradley and Niall Lawlor on 14/15 March 2019 (which was copied to you). In both emails it was made clear that our client had no wish to progress the issue of a new NDA. I've attached further copies of these emails for completeness."

12. In conclusion, SHP had anticipated that the Applicant may try to negate any attempts by the Examining Authority to probe its offer of £20m and the contradictions between the offer, the "CBRE advice" and the level of funding requirement set out in the Applicant's Funding Statement. Whilst it is assumed that the barrister for the Applicant was not provided with accurate information for the CA Hearing, it is the clear view of SHP from the evidence above, that the Applicant and its legal adviser should have intervened immediately to correct the position.
 13. The evidence presented above speaks for itself, however should the Examining Authority require any further information, SHP is willing to assist as required.
-

APPENDIX CA.10.1

Review of Riveroak Strategic Partners Business Plan: submission of Seamus Kealey, Director of Altitude Aviation Advisory Limited to be presented at the Compulsory Acquisition Hearing on 20th March 2019

Introduction

Riveroak Strategic Partners (RSP) has provided high level financial forecasts for a re-opened Manston Airport as follows:

- A short Financial Analysis paper (Appendix 3) from 2017 in response to the Avia Solutions report for Thanet District Council.
- Single page 2019 Summary Business Model forecast table in Appendix F.1.5. Altitude Aviation Advisory Limited (Altitude) has been asked by Stone Hill Park Limited (SHP) to analyse the financial forecasts provided by RSP in the context of the UK airport market and two leading European freight focused airports (Liege and Leipzig) referenced by RSP as comparable airports.

The Altitude team has deep experience of the airport investment and debt funding market with Directors having 20 years' experience of airport equity and debt funding transactions involving over 200 airports in the UK, Europe and globally.

As well as extensive equity investment experience, Altitude has particular experience in the airport debt financing market with recent transactions including Leeds Bradford (£83m), London Luton (£390m), AGS Airports comprising Glasgow, Aberdeen and Southampton (£500m), Bristol (£346m), Edinburgh (£500m), and Budapest (€1.3bn).

Background

When assessing an airport investment opportunity, our experience is that equity investors or debt providers will normally expect similar levels of detailed information and forecasts to be available to enable them to make an informed investment decision. The minimum requirements would be:

- Detailed traffic and business plan forecasts setting out the competitive landscape.
- Why the particular forecasts should be achievable?
- Airline use agreements in place with carriers to support aeronautical revenue forecasts.
- Detailed non-aeronautical projections for car parking, retail, food and beverage, advertising, property rentals, etc.
- Detailed staff and non-staff cost projections including proposed operating model (insourcing vs. outsourcing activities), organisational structure, resource plan, main outsourced contract details, utilities, insurance, property rates, etc.
- Infrastructure process capacity and detailed capital investment projections.
- Detailed financial model, including sources and uses of funding.
- Detailed benchmark performance to justify the model inputs for each aspect of the business plan.

Much of the expected detail would typically focus on historic business performance as a basis for supporting the forecast projections. Unfortunately for Manston, the historic business performance has been negative over many years, with operating losses between 2006 and 2014. Lenders would be particularly interested to see the detailed justification of why the future performance would not mirror historic (loss making) performance.

In our opinion, RSP's supporting documents for their Development Consent Order application for the re-opening and development of Manston Airport do not provide even the most basic information that would allow any funder to assess the financial viability of a re-opened airport.

To date we have only seen a short Financial Analysis paper from 2017 in response to the Avia Solutions report for Thanet District Council, and more recent 2019 Summary Business Model forecast in Appendix F.1.5.

We note that the passenger and cargo volumes in the 2017 Financial Analysis paper align with the 2019 Appendix F.1.5 Summary Business Model output.

However, the 2019 forecast revenues are now consistently higher than those in the 2017 Financial Analysis paper. In particular, the revenue and profitability (EBITDA) projections in 2019 are materially higher than both the 2017 forecasts and benchmark airport actual performance which we do not view as being credible.

We set out a comparison of the 2017 and 2019 RSP forecasts later in this section.

RSP Forecast Benchmarking Approach

We have analysed the high level 2019 Appendix F.1.5 - Summary business model forecast outputs provided by RSP.

To provide context for the RSP forecasts, we have compared the revenue and profitability forecasts to actual performance of long established UK airports with similar throughput to the forecast for a re-opened Manston Airport. We have also considered airports with up to 20 million Work Load Units (WLUs) per year, where 1 Work Load Unit is equivalent to 1 passenger or 100kg of cargo.

This dataset includes East Midlands, the UK's leading freighter aircraft airport.

As outlined, we have also compared the forecast performance with two leading European freighter aircraft airports. Liege and Leipzig have a similar profile to the RSP forecasts for Manston Airport (i.e. mainly freight throughput with some passenger volume) and as such should be very close comparators to the forecast Manston financial performance.

We have assumed the 2017 and 2019 forecasts are in constant prices (i.e. excluding inflation), based on the profile of revenues and costs and the following statement in the 2017 Financial Analysis paper (p.2):

"However, general inflation has not been applied as the business itself has a natural correlation to growth and inflation which pass through."

In total, we have analysed actual financial performance across 23 UK airports and the two European Airports. The comparative data is set out in the table below with East Midlands, Liege and Leipzig airports highlighted along with RSP's 2019 Appendix F.1.5 forecast for Manston in Year 3, Year 10, and Year 20 respectively.

Airport	Airport Code	Financial Year	WLU	Aeronautical Revenue	Total Revenue	EBITDA	EBITDA Margin
London Luton	LTN	31-Dec-17	16.0m	£82.8m	£180.2m	£49.1m	27%
Edinburgh	EDI	31-Dec-17	13.8m	£97.6m	£184.9m	£105.2m	57%
Leipzig	LEJ	31-Dec-17	13.7m	£64.3m	£94.3m	£15.6m	16%
Birmingham	BHX	31-Mar-18	13.3m	£64.2m	£155.5m	£78.1m	50%
Glasgow	GLA	31-Dec-17	10.1m	-	£131.4m	£41.9m	32%
East Midlands	EMA	31-Mar-18	8.4m	£23.2m	£61.0m	£18.5m	30%
Bristol	BRS	31-Dec-17	8.1m	£38.9m	£100.1m	£52.1m	52%
Liege	LGG	31-Dec-17	7.4m	-	£49.9m	£6.9m	14%
Newcastle	NCL	31-Dec-17	5.4m	-	£58.0m	£32.5m	56%
Liverpool	LPL	31-Mar-18	4.9m	-	£35.4m	£7.6m	21%
London City	LCY	31-Dec-17	4.5m	-	£112.0m	£43.0m	38%
Leeds Bradford	LBA	31-Mar-18	4.1m	-	£31.5m	£10.5m	33%
Aberdeen	ABZ	31-Dec-17	3.2m	-	£56.2m	£21.4m	38%
Belfast City	BHD	31-Dec-17	2.6m	-	£21.3m	£6.0m	28%
Southampton	SOU	31-Dec-17	2.1m	-	£31.3m	£10.9m	35%
Cardiff	CWL	31-Mar-18	1.5m	£9.6m	£18.6m	£0.0m	0%
Doncaster Sheffield	DSA*	31-Mar-17	1.3m	-	£10.6m	(£14.5m)	(136%)
Southend	SEN	28-Feb-18	1.1m	-	£21.2m	£0.2m	1%
Exeter	EXE	31-Mar-18	0.9m	-	£21.4m	£2.6m	12%
Prestwick	PIK	31-Mar-18	0.8m	£7.0m	£18.2m	(£1.8m)	(10%)
Bournemouth	BOH*	31-Mar-17	0.7m	£3.5m	£8.8m	(£0.5m)	(5%)
Norwich	NWI	31-Mar-18	0.5m	-	£14.0m	£3.7m	27%
Newquay	NQY	31-Mar-18	0.5m	-	£11.6m	£0.0m	0%
Humberside	HUY	31-Mar-18	0.2m	-	£8.1m	£0.8m	10%
Durham Tees Valley	MME*	31-Mar-17	0.1m	-	£5.4m	(£2.3m)	(43%)
Manston Year 3	MSE Y3	Y3	1.7m	£20.1m	£32.5m	£7.9m	24%
Manston Year 10	MSE Y10	Y10	3.1m	£36.4m	£62.8m	£30.8m	49%
Manston Year 20	MSE Y20	Y20	4.8m	£54.4m	£90.6m	£50.3m	56%

RSP Manston Airport Forecasts vs. UK and European Airport Financial Performance (source: RSP, company accounts, Altitude analysis)

In the rest of this document, we assess the credibility of the RSP financial forecasts. While we consider the volume projections for Manston to be completely unrealistic (see earlier reports), in this analysis we focus only on the financial aspects of the projections **i.e. we assume the volume projections are achieved.**

Our analysis demonstrates that even if the unrealistic volume projections are achieved, the financial projections are not credible. The RSP business plan effectively assumes that unprecedented rates of volume growth can be combined with class leading financial performance. This is in complete contrast to the experience at Manston before it was closed, when the airport was chronically loss making (see Section 3.3 of the Altitude January 2018 report).

RSP 2017 and 2019 Forecast Comparison

We have analysed the financial forecast information in the 2017 and 2019 forecasts provided by RSP. The forecast data is set out in the table below, along with the variances between the 2019 and 2017 forecasts.

2017 Forecast	Units	Yr 5	Yr10	Yr15	Yr20	Yr25
Passengers	000s	687	976	1171	1408	1443
Freight Tonnes	000s	174	212	271	341	376
Total ATMs	000s	9,936	11,600	14,113	17,170	18,958
Total WLUs	000s	2,424	3,099	3,876	4,815	5,206
Revenues						
Passenger	£000s	3,000	4,000	5,000	6,000	6,000
Freight	£000s	28,000	35,000	44,000	55,000	60,000
Fuel	£000s	8,700	10,900	12,700	15,100	14,900
Total Revenue	£000s	39,700	49,900	61,700	76,100	80,900
Expenses						
Operating	£000s	20,400	24,800	28,900	33,500	35,600
Overheads	£000s	6,500	6,700	6,900	7,200	7,200
Total Expenses	£000s	26,900	31,500	35,800	40,700	42,800
EBITDA						
EBITDA	£000s	12,800	18,300	25,800	35,500	38,100
2019 Forecast						
Freight Movements	ATMs	9,936	11,600	14,113	17,170	
Passenger Movements	ATMs	5,064	6,754	7,602	9,298	
Total WLUs	000s	2,424	3,099	3,876	4,815	
Revenues						
Aeronautical	000s	28,532	36,384	44,596	54,373	
Commercial Net Income	000s	2,060	2,927	3,512	4,223	
Other Income	000s	19,398	23,477	27,317	32,024	
Total Revenue	000s	49,990	62,788	75,425	90,620	
Expenses						
Direct (Operating)	£000s	21,543	23,319	26,928	31,066	
Indirect (Overheads)	£000s	7,824	8,680	8,967	9,257	
Total Expenses	£000s	29,367	31,999	35,895	40,323	
EBITDA						
EBITDA	£000s	20,623	30,789	39,530	50,297	
2019 vs. 2017 Variance						
Total WLUs	000s	-	-	-	-	
Total Revenue	£000s	10,290	12,888	13,725	14,520	
% Revenue Variance	%	25.9%	25.8%	22.2%	19.1%	
Total Expenses	£000s	2,467	499	95	-377	
% Expenses Variance	%	9.2%	1.6%	0.3%	-0.9%	
EBITDA	£000s	7,823	12,489	13,730	14,797	
% EBITDA Variance	%	61.1%	68.2%	53.2%	41.7%	

Comparison of RSP 2017 and 2019 Summary Business Model Forecasts (source: RSP, Altitude analysis)

Whilst very limited financial details have been provided by RSP, we note the following:

- 2017 and 2019 passenger and freight volumes are aligned, so any differences in the model outputs are driven by changes in revenue and operating cost (expenses) input assumptions.

- Revenues are consistently higher in the 2019 forecast vs. 2017, ranging from 19% to 26% higher depending on the year. As illustrated in the revenue / WLU benchmarking analysis later in the report, this would require Manston to command a 3x market premium compared to leading airports in the sector which we view as not being credible.
- Operating expenses are broadly aligned in the two forecasts, with the exception Year 5 when costs are forecast to be ca. 9% higher in the 2019 forecast.
- The higher 2019 forecast revenues and broadly flat operating cost expenses leads to materially higher EBITDA vs. 2017, ranging from ca. 42% to 68% higher depending on the year which we view as unrealistic.
- No justification is provided for the higher revenue or EBITDA projections in 2019, which are materially higher than benchmark airport performance.
- Even if the unrealistic volume projections are achieved, the revenue profile in the 2019 forecast would quickly position Manston's total revenue / WLU and EBITDA / WLU significantly above long established and better located freight airports at East Midlands, Liege and Leipzig which any funder would view as not being remotely credible.
- EBITDA forecasts are completely unrealistic, being above Liege in Year 3, significantly above East Midlands and Leipzig by Year 10, and 20% above the current combined EBITDA for Liege, East Midlands and Leipzig by Year 20 (see below for details).

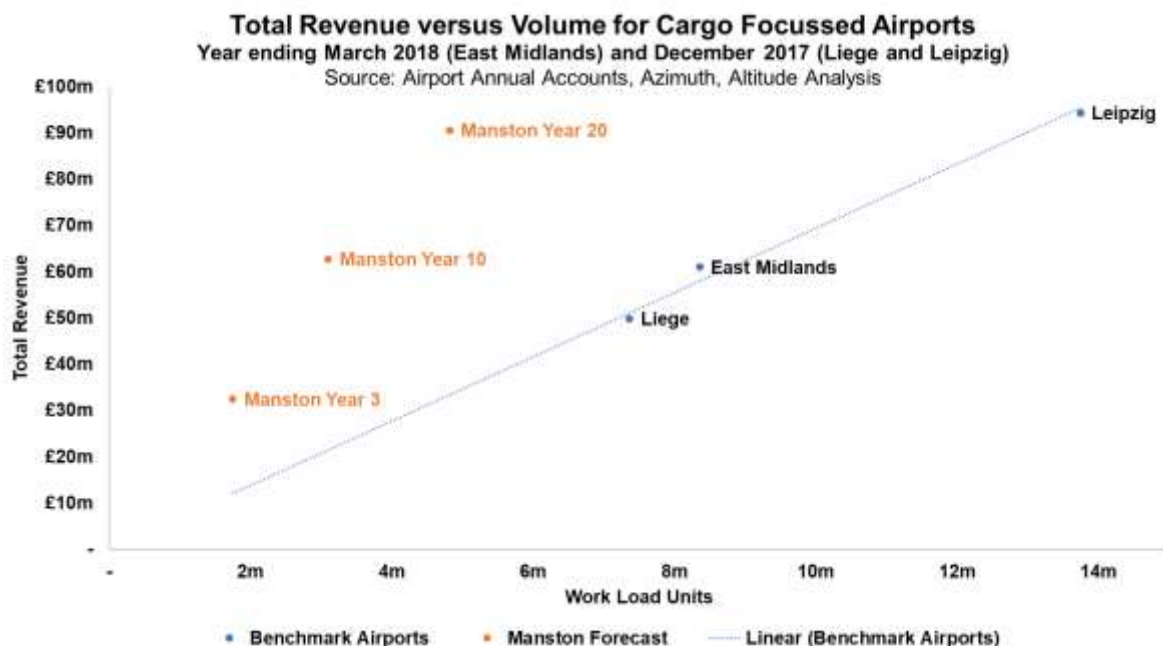
Comparison to Other Freight Focused Airports

We initially focus on three leading freighter aircraft airports in the benchmark data sample. These airports are amongst the leading all-cargo airports in Europe. In 2016, Leipzig was the largest European Union (EU) airport in terms of freighter ATMs, with East Midlands and Liege ranked 5th and 6th respectively (see Figure 26 of the Altitude January 2018 report).

The chart illustrates a good correlation of actual total revenue to total WLU volumes for Liege, East Midlands, and Leipzig airports. It is noticeable that the forecast Manston performance in each year would be materially above the trend line, which any investor or debt provider would view as being extremely optimistic.

By year 10 of the RSP forecast, Manston revenue is projected to exceed current revenue levels for both Liege and East Midlands. This is despite the projected volume for Manston in Year 10 being less than half the volume at Liege and East Midlands. In fact, the implied revenue / WLU at Manston in Year 10 is almost 3x the currently achieved levels at Liege and East Midlands which we view as not being remotely achievable in a competitive market.

By Year 20, total revenue for Manston is projected to almost reach current Leipzig levels – despite projected volume only just over one-third of current Leipzig levels.

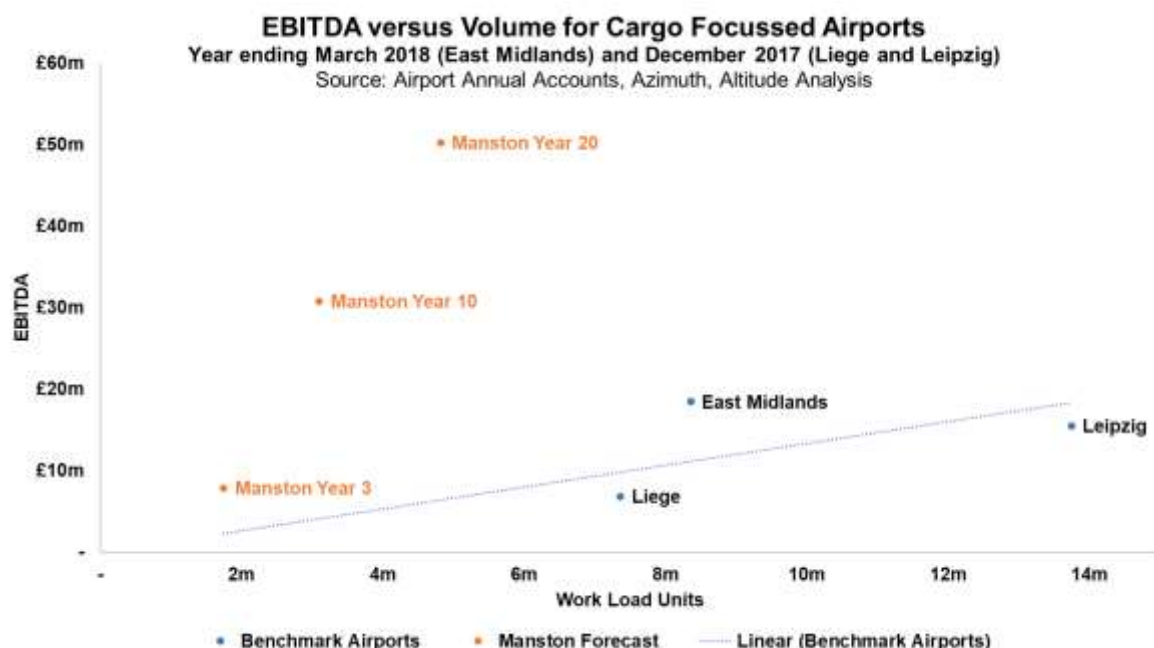


The projected EBITDA performance deviates even further from actual benchmark performance.

- Year 3 (2nd year of operations) EBITDA performance at Manston is forecast to exceed the current Liege outturn.

- Year 10 EBITDA is forecast to be substantially above the level achieved by East Midlands and Leipzig.
- Year 20 EBITDA is forecast to be more than 20% higher than the **combined** current EBITDA of Leipzig, East Midlands and Liege (the #1, #5 and #6 EU airports for freighter movements in 2016).

The EBITDA forecasts are not plausible in a competitive market, even if the volume projections could be achieved.



Early Year Projections

The RSP forecast for Manston Airport in the first year of operations (Year 2 in the Summary Business Model) generates more revenue (£26.5m) and a materially higher EBITDA than long established UK airports, with no obvious financial incentives included to stimulate operators to use the airport.

Airport	Year	Work Load Units (m)	Revenue (£m)	EBITDA (£m)
Manston	Year 2	1.0	26.5	6.5
Prestwick	2017	0.8	18.2	(1.8)
Exeter	2017	0.9	21.4	2.6
Southend	2017	1.1	21.2	0.2
Doncaster Sheffield	2017	1.3	10.6	(14.5)
Cardiff	2017	1.5	18.6	0.0

Early Year Performance vs. Similar Throughput UK Airports (source: company reports, Altitude analysis)

- The Year 2 forecast is extremely optimistic in the context of the UK airport market with similar levels of throughput – it suggests, without any justification, that the airport can immediately command a premium over established airports.
- It is surprising that the initial revenue forecast is so high as RSP acknowledges the need to incentivise operators to use Manston in the early years – but there is no obvious allowance for financial incentives to stimulate traffic.
- We note from the FY17 financial accounts that East Midlands Airport, a long-established freight airport, offered £4.254m in rebates and incentives to airlines to support growth. It is inconceivable that Manston Airport would not have to offer significant incentives to attract airlines and traffic, particularly in the early years of the forecast.
- The forecast would be a dramatic improvement on Manston Airport's actual historic business performance which was loss making every year between 2006 (first year of available data) and its closure in 2014 – this further stretches the credibility of the RSP forecast.

Aeronautical Revenue Benchmarking

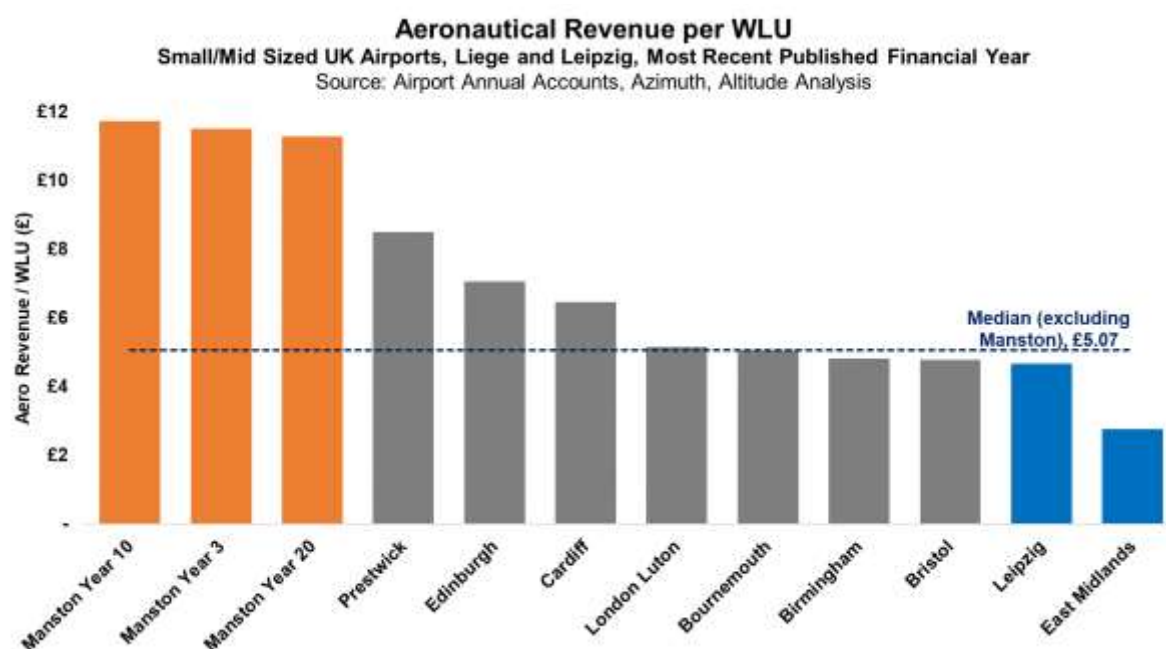
Aeronautical revenue is only reported by a sub-set of the airports in the sample (the other airports report total revenue).

RSP forecasts aeronautical revenue to be significantly higher than East Midlands. This is implausible:

- East Midlands is a leading UK freight airport with a based hub carrier (DHL), other leading cargo operators, and a long-developed operation with spare capacity – there is simply no reason why Manston could command a 4x aeronautical revenue premium over East Midlands, or 2x premium over Leipzig, the leading EU freighter airport.
- Year 3 aero revenue is only 13% lower than East Midlands despite 79% lower throughput.
- Year 10 aero revenue is 57% higher than East Midlands despite 63% lower throughput.
- Year 20 aero revenue is 134% higher than East Midlands despite 42% lower throughput.

More generally, the forecasts for Manston envisage much higher aeronautical yield (aeronautical revenue per WLU) than any of the airports which separately report aeronautical revenue in their annual accounts. This is not credible, especially when compared to those aeronautical yield performance of airports focussing on freight (Leipzig and East Midlands).

RSP make the point that Manston should be compared to freight focused airports. The benchmarking clearly illustrates that the RSP aeronautical revenue projections are heroic and would be significantly above market levels for those airports with a material level of throughput.



Total Revenue Benchmarking

As previously noted, the RSP forecast for Manston total revenue implies much higher yield (total revenue / WLU) than achieved by leading cargo airports (East Midlands, Leipzig and Liege).

When broadening the analysis to the full sample of airports, it can be seen that the projected Manston yield is significantly higher than the overall median performance. By Year 10, the Manston revenue / WLU is forecast at over £20, compared to a median level of below £13.

Most of the airports with higher revenue/WLU are very small airports with WLU levels typically a fraction of the Manston forecast values.

- Durham Tees Valley (4% of Manston Year 10 WLUs), Humberside (6%), Newquay (15%), Norwich (17%), Prestwick (26%), Exeter (30%), and Southend (36%).

Each of the airports above has significant ancillary revenues (e.g. property rentals), which are not directly related to volume throughput. With only small volumes of traffic, these ancillary revenues typically inflate the revenue / WLU metric.

There are 9 airports in the sample with volume broadly similar to the range of Manston projections (Year 3 to Year 20). Seven of these airports have much lower revenue / WLU (Newcastle, Liverpool, Leeds Bradford, Belfast City, Southampton, Cardiff and Doncaster Sheffield). The two exceptions are:

- London City – higher revenue / WLU than Manston projections, due to its status as a premium business airport serving London's financial services sector. The airport also has a large corporate jet centre.
- Aberdeen – slightly lower revenue / WLU, due to its status as "the world's busiest commercial heliport, transporting more than 3.1 million passengers a year in support of the North Sea oil and gas industry." (source: www.ferrovial.com).



The Manston revenue projections are at a level only achieved by premium passenger airports (serving the financial services sector in London or the North Sea oil and gas sector). For an airport focussed on cargo, the revenue forecasts are clearly not credible.

EBITDA Benchmarking

RSP's forecast EBITDA is immediately positive from the first year of operations. This is extremely optimistic, particularly as no material incentives appear to be included in the forecast to attract carriers and / or stimulate traffic growth which is highly unusual. As previously outlined, even established airports like East Midlands have to continue to offer incentives to retain carriers and grow traffic (£4.3m of airline incentives in FY17, source: annual accounts).

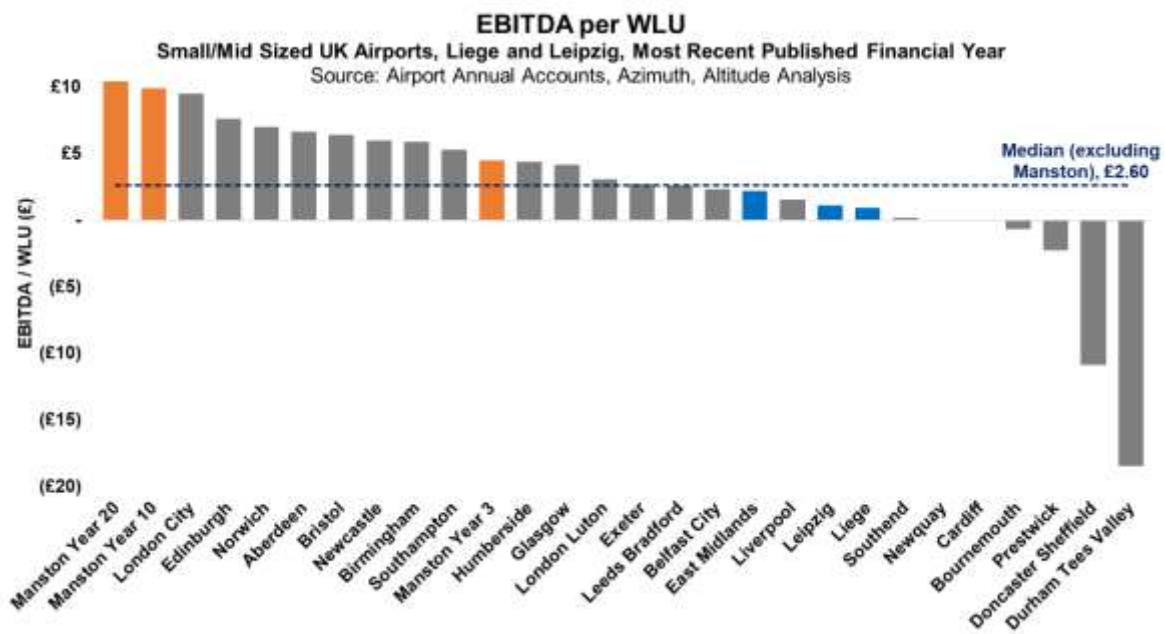
Year 10 EBITDA would be significantly above East Midlands, Leipzig and Liege airports.

RSP does not provide information on why a re-opened Manston Airport would achieve class leading EBITDA compared to long established airports with similar traffic profile.

Year 20 EBITDA would be in line with London Luton Airport, London City Airport and Bristol Airport – some of the most successful mid-sized passenger airports in the UK - which is implausible.



In fact, the EBITDA / WLU is forecast to be best in class from Year 10 onwards i.e. higher than achieved by any other airport in the sample (and higher than all UK airports except Heathrow). This is not remotely realistic.



Conclusion

- RSP's application documents do not provide even the most basic information that would allow any funder to assess the financial viability of a re-opened airport.
- Our experience over 100 transactions involving over 200 airports is that equity or debt providers would require considerable and detailed forecasts, and supporting information to allow proper due diligence to be undertaken.
- This level of due diligence would be required to get the investment approved by the respective investment committees.
- The lack of detailed and substantiated financial forecasts would raise significant questions around the financial viability and fundability of the proposal, and what information has been provided is not credible in an established market context.
- Our analysis demonstrates that even if RSP's unrealistic volume projections are achieved, the financial projections are not credible.
- The summary business model forecasts would position Manston as one of the most profitable airports in the UK, and extremely profitable compared to the similar freight business model airports of Liege and Leipzig.
- This is simply not credible when assessing the traffic and financial characteristics of the best performing UK airports, and the comparator European freight airports.
- Based on our extensive support for equity and debt financing of airports, we are of the opinion that there is little or no prospect that investors would commit to fund the airport based on the lack of information provided, implausible forecasts, and the performance deviation from long run historic actual performance of the other UK and European airports analysed.

Seamus Kealey, Director – Curriculum Vitae



Seamus Kealey has 30 years of experience in the aviation sector. Prior to co-founding Altitude Aviation Advisory in May 2013, he was a founding director of AviaSolutions (2001-2013) leading the airport transaction and infrastructure teams. Seamus has advised on over 200 buy and sell side and refinancing transactions across the world involving a range of transaction and ownership structures.

Previous advisory experience includes 3 years of transport consulting experience at Ernst & Young where he led the Aviation Infrastructure Team on a range of Public Private Partnership transactions and process improvement assignments for airport and

transport sector clients.

Prior to entering management consultancy, Seamus had over 10 years of direct airport operations experience working for BAA plc in a number of roles including Senior Project Manager responsible for development and delivery of large infrastructure projects at Heathrow Airport and Stansted Airport.

Seamus specialises in the following areas:

- Airport strategy development and performance optimisation.
- Major airport transactions and refinancing processes.
- Development and review of airport capacity and capital investment plans.
- Development of airport tariff and incentive schemes to reflect market demand and negotiation of airline deal structures.

Transaction and Infrastructure Advisory Experience

Director responsible for airport transactions and infrastructure advisory teams.

Seamus has widespread experience leading airport business plan development and assessment assignments. Recent experience includes:

- Leading buy side vendor due diligence for Vinci Airport £2.9bn acquisition of 50.01% of Gatwick Airport (2019).
- Leading due diligence for Leeds Bradford Airport £83m re-financing process (2019).
- Leading buy side vendor due diligence for Vinci Airport acquisition of Airports Worldwide Group of five airports (Belfast International, Stockholm Skavsta, Orlando Sanford, San Jose (Costa Rica), and Liberia (Costa Rica airports) (2018).
- Leading sell side vendor due diligence for Ardian Infrastructure disposal of 49% equity stakes in London Luton Airport (2018).
- Leading sell side vendor due diligence for Ontario Teachers Pension Plan disposal of equity stakes in Bristol and Birmingham airports (2017).
- Leading buy side acquisition due diligence for AMP Capital's £220m acquisition of Leeds Bradford Airport (2017).
- Leading due diligence for Macquarie Infrastructure Real Asset disposal of 27.2% equity stake in Copenhagen Airport (2017).
- Leading due diligence to support £390m refinancing of London Luton Airport (2017).
- Leading due diligence to support €1.4bn refinancing of Budapest Airport (2017).
- Leading sell side vendor due diligence on behalf of Global Infrastructure Partners and Oaktree Capital for the ca. £2.0bn disposal of London City Airport (2016).
- Leading buy side acquisition due diligence on behalf of China Everbright and Friedmann Pacific in the acquisition of Tirana International Airport, transaction price undisclosed (2016).
- Leading due diligence and business planning support for the £395m refinancing of Bristol Airport (2015).

- Leading sell side vendor commercial support for disposal of Toronto City Airport Terminal by Porter Airlines, transaction price estimated in excess of \$1.0bn (Canadian) (2015).
- Leading buy side acquisition due diligence and business planning support for Macquarie / Ferrovial £1.05bn acquisition of Glasgow, Aberdeen and Southampton airports from Heathrow Holdings (2014).
- Leading sell side vendor due diligence and business planning support for Macquarie £330m disposal of 50% Bristol Airport (2014).
- Leading due diligence and business planning support for the £500m refinancing of Edinburgh Airport (2014).

Avia Solutions Limited experience

- Leading due diligence and business planning support for PSP's €1.1bn acquisition of Hochtief AirPort including equity stakes in Hamburg, Dusseldorf, Athens, Budapest, Tirana and Sydney airports (2013).
- Leading due diligence and business planning support for Brussels Airport €1.1bn refinancing (2012 and 2013).
- Leading advisory for bond rating support for Copenhagen Airports Denmark Holdings (2012).
- Leading due diligence and business planning support for Manchester Airports Group / IFM £1.5bn acquisition of London Stansted Airport (2012).
- Leading business plan support for £279m refinancing of Bristol Airport (2012).
- Leading due diligence and business plan support for Global Infrastructure Partners on their £807m acquisition of Edinburgh Airport (2012).
- Leading business planning support for Copenhagen Airport Denmark Holdings €0.7bn refinancing (2011).
- Leading due diligence and business planning support for Ferrovial's disposal of over £1.0bn equity in BAA plc (2011 and 2012).
- Leading due diligence and business planning support for Ferrovial's £1.5bn sale of London Gatwick Airport to Global Infrastructure Partners (2009).
- Providing technical support and production of papers for the Irish Government's Panel assessing the viability of an independent terminal operation at Dublin Airport (2002 and 2003).

Business Optimisation Experience

- Supporting development of long term business plan for European airport handling over 10mppa (2016).
- Review of long term business plan for European hub airport >30mppa. (2015).
- Review of long term business plan for an Asia Pacific airport >20mppa (2013).
- Strategic traffic growth and key airline targets for large European airport (2013).
- Assessment of capacity constraints at Copenhagen Airport and alignment of airport management and shareholders on alternate development strategy (2011 and 2012).
- Financial contribution and consumption analysis by traffic segment for a European Airport handling over 40m passengers per annum (2012).
- Negotiations with airlines on aeronautical charges tariff and long term agreements.
- Support for a number of airports in developing air route development strategies.

Ernst & Young Experience (1998-2001)

Managing consultant leading the Aviation Infrastructure team based in London. Assignments covered the airport, air traffic services, rail and transport regulation sectors. Selected projects included:

- Supporting the Airline Group's PPP acquisition of an equity stake in the UK's National Air Traffic Services.
- Supporting AirTanker consortium's successful bid for the UK Ministry of Defence's Future Strategic Tanker Aircraft (FSTA) programme to provide the RAF with troop air transport, and air to air refuelling capability over a 27-year period (from 2008).
- Review of major (£6bn) rail investment project (West Coast Mainline) for Railtrack / Network Rail (UK rail infrastructure provider).

BAA plc Experience (1988-1998)

Senior Project Manager responsible for development and delivery of large infrastructure projects at Heathrow Airport and Stansted Airport. Selected projects included:

- Led project team in £60m redevelopment of London Heathrow Airport's Terminal 2 (completed 1998) including replacement of HBS baggage system, check-in expansion, increasing concession areas, passenger security screening, and office space.
- Led project teams delivering a range of airfield, terminal, car parking, and commercial developments in operational environments at London's Heathrow Airport.
- Part of the Stansted Airport Development Team delivering £450m new terminal and airfield capacity (completed 1991).

Education and Professional Qualifications

- BSc. Quantity Surveying – University of Ulster (1988)
- Chartered Surveyor – Royal Institution of Chartered Surveyors (1990)
- Masters in Business Administration – London Business School (1998)

Financial Analysis

Introduction

1. In response to the report done by Avia Solutions for the Thanet District Council, RiverOak has undertaken a financial model that uses its own proprietary model to produce outputs (i.e. charts and graphs and other financial measurements) of the type produced by Avia. This report will demonstrate both the flaws in the reasoning used by Avia as well as demonstrate the long term financial viability of RiverOak's plan for Manston
2. RiverOak's plan for Manston Airport is primarily a **Cargo Airport**. Whilst it has projected passenger traffic as a result of specific structural demand its core business model is built on Cargo. Cargo revenue (ex Fuel) is projected to be in excess of 70% of Manston's business with Passenger (ex Fuel) at lower than 8%.
3. Traffic forecasts were established using the forecasting method as detailed in the paper prepared by Dr. Sally Dixon and it is established therein that extrapolation from historic performance and comparison to Passenger-focused Airports is entirely inappropriate for the Cargo activities planned for Manston.
4. A Cargo operation at Manston is accessing demand that is either diverted elsewhere or not functioning due to sub-economics. This exists at a general non-specific level and an idiosyncratic level pertinent to Manston itself. Therefore, Manston as a Cargo operation is, within reason, a **price-setter** rather than a **taker**. The opposite is true in the world of Passenger operations and certainly where Manston would be concerned, at any sizeable operation. It is not surprising to see that profit margins across the board, whether at EBITDA or Net Income, are substantially higher in Manston's Cargo business than in Passenger.
5. Similarly profit margins mean nothing in isolation. The *quid pro quo* for profit margin in the Airport business is Capital Expenditure ("CapEx"). Whilst the market "Wisdom" around an airport EBITDA margin refer to an excess of 40%, this must be qualified by understanding the CapEx requirements, costs and most importantly the CapEx cycle. Passenger Airports require less CapEx at the outset, but thereafter require similar amounts deployed at more frequent intervals than their Cargo relatives.
6. We have used the upper forecast of **GBP 287 Million** for CapEx over the 30 Year period covered in the financial model. This is a major infrastructure investment into the business of Cargo Aviation and significantly higher than external projections based around a Passenger model. Two thirds of that CapEx is required within the first 5 years of operations to ramp up the capacity in line with demand forecasts. A significant element of that initial capacity ramp up CapEx will last for at least 50 years. This can be demonstrated at other Cargo airports that operate on facilities built in the 1960's and are still fit for purpose.
7. This is a long-tail "J-Curve" business, with a proportionately large CapEx investment at a very early stage which can only be rationalised by understanding the demand-led business model, the CapEx replacement cycle and the demand-led business model of Manston as a Cargo Airport.

Assumptions

General

8. The model encompasses 30 years of operations with the ramp up period for the first 20 years and thereafter a flattened growth profile with some margin compression factors as you would expect in any profitable business over time.
9. The analysis has been prepared using a methodology that demonstrates the inherent profitability of the business. For example, CapEx is the significant component of the investment and therefore depreciation should be applied as “True depreciation”; that is the real-world replacement cycle, rather than general accountancy guidelines for assets. This may affect taxation numbers but leaves Net Income as a more realistic and stable measure of profitability and value. An effective tax rate of 20% on Net Income has been used throughout to generate post tax cash flow analysis.
10. All items, where appropriate are scaled over time, to allow for idiosyncratic and relative adjustments. However, general inflation has not been applied as the business itself has a natural correlation to growth and inflation which pass through.
11. The “Base Case” scenario is presented in this document but a range of scenarios have been modelled to provide an expected return profile and distribution of risks.
12. Where appropriate we have utilised the aeronautical term Work Load Unit (“WLU”) which is defined as one passenger or 100 Kg of cargo. This enables us to draw comparisons across both business lines.

Revenue

13. The assumptions used in the model are derived from a combination of historical data, market comparisons and discussions with prospective Carrier clients. The revenue model is built “Bottom up” from known inputs around Carriers and demand and checked top-down for outlying outputs.
14. On **Cargo**, Revenue is generated from fees on
 - i. Movements based on the Aircrafts IATA category and a surcharge for noise and night flights
 - ii. Freight Handling based on a handling charge per tonne negotiated with Carriers
 - iii. Margins on the Carrier purchase of Fuel
 - iv. There is a combination of the above where an Integrator becomes based at the Airport. The Airport swaps a higher margin and more volatile business for a lower margin higher volume and more stable income.

15. On **Passenger** business, Revenue is generated from fees on:
- i. A fixed charge per passenger (Arriving and Departing)
 - ii. A passenger Handling charge based on the service requirements (Low cost carrier vs. Full Service)
 - iii. Margins on the Carrier purchase of fuel
 - iv. Commercial Income based around a Passenger's spending at the Airport following through a turnover based rental contract with retailers.

Revenue Outputs

Table 1.

Revenue GBP per Passenger	Y5	Y10	Y15	Y20	Y25
Aeronautical Revenue	2.5	2.5	2.5	2.4	2.4
Commercial Revenue	3.0	3.0	3.0	3.0	3.0
Fuel Revenue	1.2	1.2	1.2	1.2	1.2
Total Revenue	6.7	6.7	6.7	6.6	6.6

Table 2.

Revenue GBP per Tonne	Y5	Y10	Y15	Y20	Y25
Movement	45.7	49.8	47.3	45.7	44.6
Handling	63.1	71.9	70.9	69.1	67.3
Fuel	48.2	42.8	40.4	39.0	34.9
Total	157.0	164.5	158.6	153.8	146.8

16. Normalising to WLU demonstrates the revenue differential between Passenger and Cargo

Table 3.

Revenue GBP WLU Basis	Y5	Y10	Y15	Y20	Y25
Passenger Ex Fuel	5.5	5.5	5.5	5.4	5.5
Passenger Fuel	1.2	1.2	1.2	1.2	1.2
Passenger Total	6.7	6.7	6.7	6.6	6.7
Cargo Ex Fuel	10.9	12.2	11.8	11.5	11.2
Cargo Fuel	4.8	4.3	4.0	3.9	3.5
Cargo Total	15.7	16.5	15.9	15.4	14.7

17. Fuel is represented in the model as a Net Margin; that is the differential between cost of purchase and sale to Carriers.

Table 4.

Fuel Margin %	Y5	Y10	Y15	Y20	Y25
Margin	5.61%	5.84%	5.82%	5.82%	5.83%

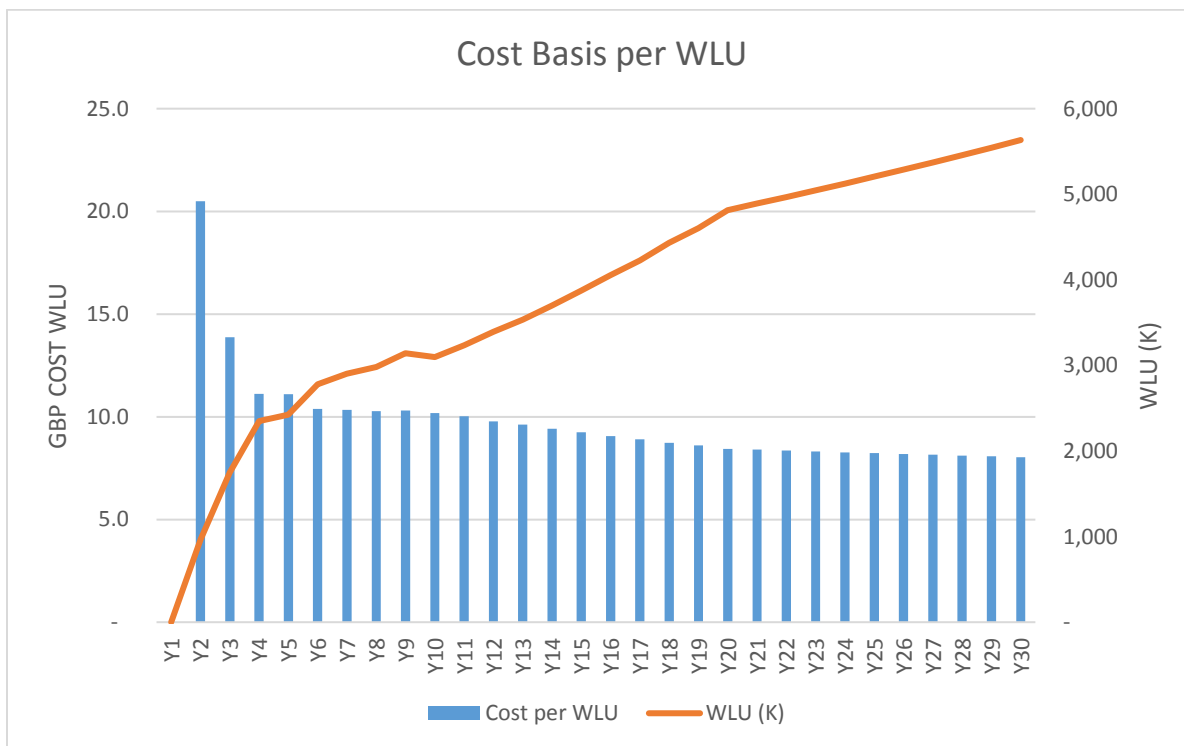
Operating Costs

18. Where appropriate, scalars have been attached to match the growth of the business to reach capacity. The negative correlation of costs to volume match the economies of scale expected in a Cargo business of this capacity.

Table 5.

Costs	Y5	Y10	Y15	Y20	Y25
Operating GBP Millions	20.4	24.8	28.9	33.5	35.6
Overheads GBP Millions	6.5	6.7	6.9	7.2	7.2
Total Costs GBP Millions	26.9	31.6	35.9	40.6	42.8
Cost per WLU GBP	11.10	10.18	9.25	8.44	8.23

Figure 1.



Capital Expenditure (“CapEx”)

19. Our CapEx modelling ranges between GBP 215 Million and GBP 287 Million depending on the extent of work and equipment required, which is yet to be finalised. For the purposes of the model we use the upper boundary. The GBP 287 Million CapEx is distributed across the 30 years as in Figure 2. Various depreciation curves have been used to match the specific CapEx items’ replacement cycles on a “True fit for purpose” basis. These range from 10 - 50 years and depreciated book value vs. cumulative CapEx can be seen in Figure 3.

Figure 2.

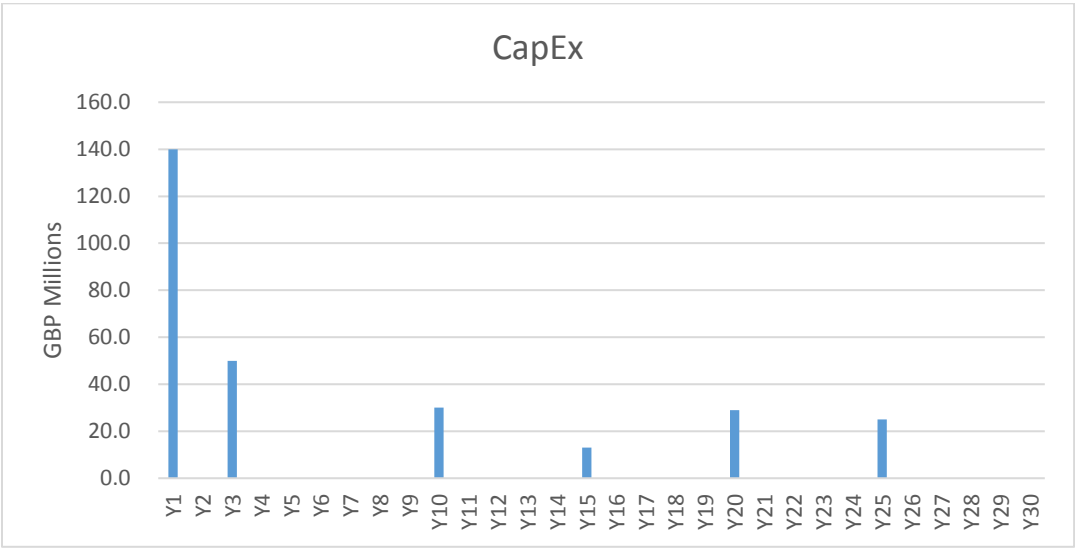
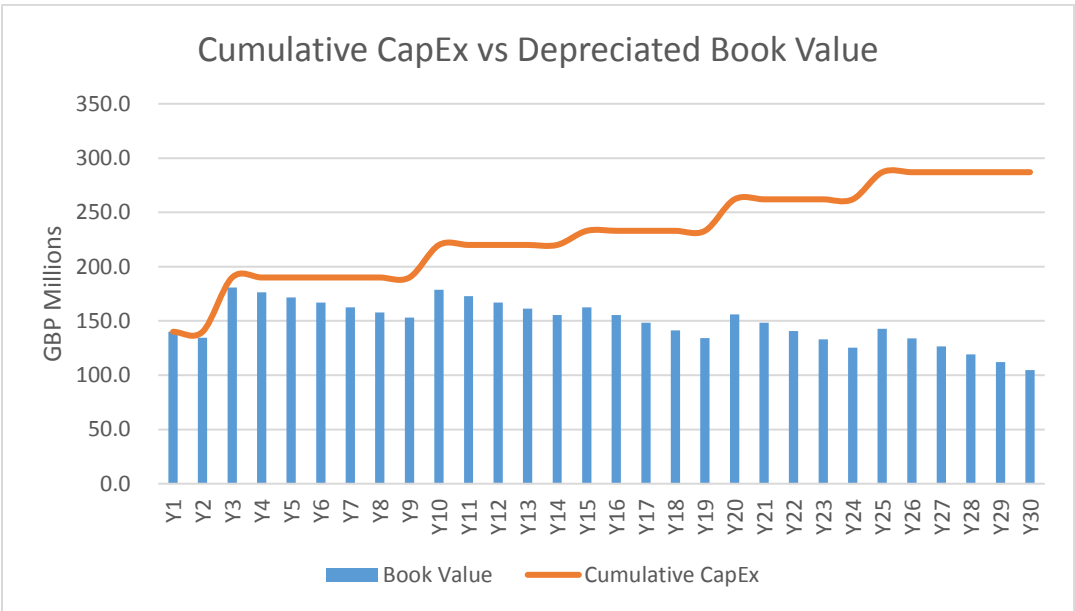


Figure 3.



20. By using true values, we can see that a residual book value of circa GBP 105 Million exists at Year 30 implying future utility benefits beyond the modelled period and demonstrating the long-life element of the CapEx investments in the Cargo business.

Site Acquisition Costs

21. The site acquisition is not considered in the modelling for two reasons
- The cost of purchase will be reflected in the balance sheet assets. Its depreciation if any will be minimal and therefore is simply a pass-through.
 - The cost of the purchase is minimal relative to the scale of the investment into the project. Market valuations range from GBP 3 Million based on the form of appraisals that will feature in the DCO through to GBP 10 Million based on a premium purchase view to avoid legal process costs for parties.

Outputs

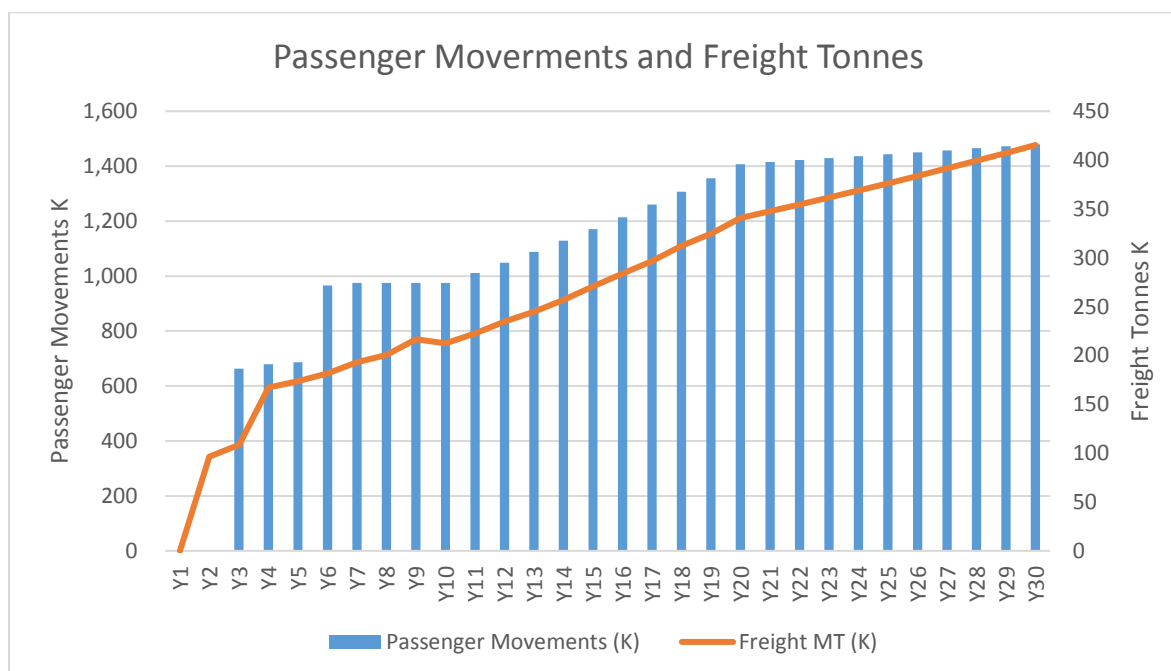
Volume Profile

22. Total movements are projected to exceed 10,000 per annum by Years 5 - 6.

Table 6.

	Y5	Y10	Y15	Y20	Y25
Passenger Movements (K)	687	976	1,171	1,408	1,443
Freight Tonnes (K)	174	212	271	341	376
Total ATM (K)	9,936	11,600	14,113	17,170	18,958
Total WLU (K)	2,424	3,099	3,876	4,815	5,206

Figure 4.



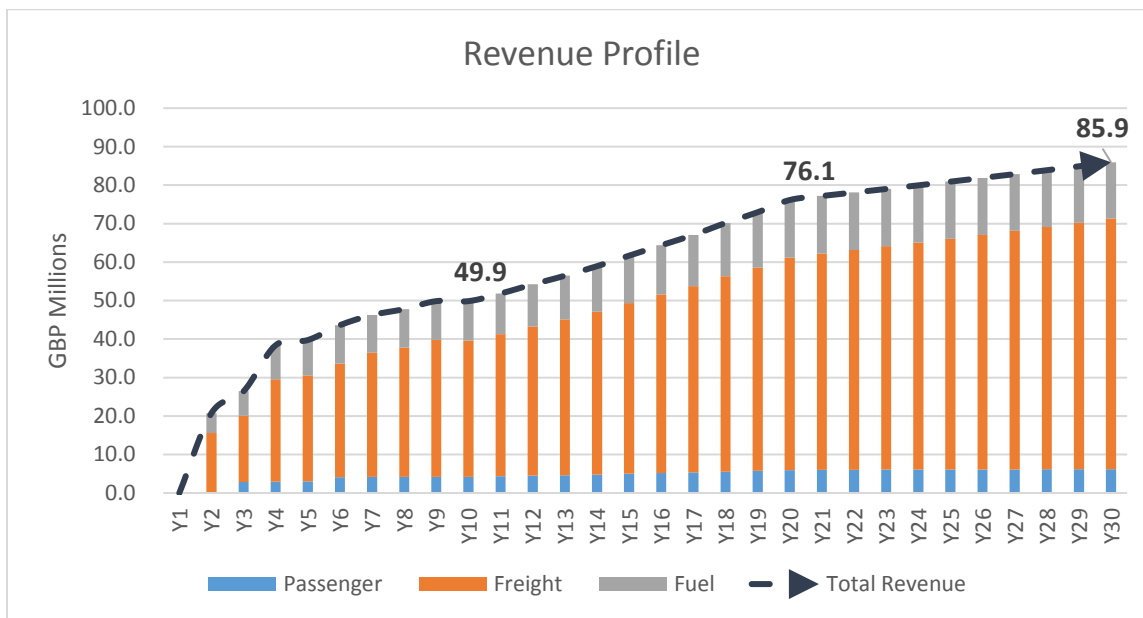
Revenue Profile

23. Revenue is forecast to grow at a compound annual growth rate, “CAGR” of 7.08% up to Year 20 (thereafter we assume minimal growth) reaching revenues of GBP 76 Million at Year 20 and GBP 86 Million by Year 30.

Table 7.

Total Revenue GBP Millions	Y5	Y10	Y15	Y20	Y25
Passenger	3	4	5	6	6
Freight	28	35	44	55	60
Fuel	9	10	12	15	15
Total	39.7	49.9	61.7	76.1	80.9

Figure 5.



Costs Profile

24. The work force exceeds 800 people by Year 9 and reaches 1000 by Year 18 (Figure 7.)

Table 8.

Costs GBP Millions	Y5	Y10	Y15	Y20	Y25
Operating	23.3	28.7	33.8	39.4	42.0
Overheads	6.5	6.7	6.9	7.2	7.2
Total	29.8	35.5	40.7	46.5	49.2

Figure 6.

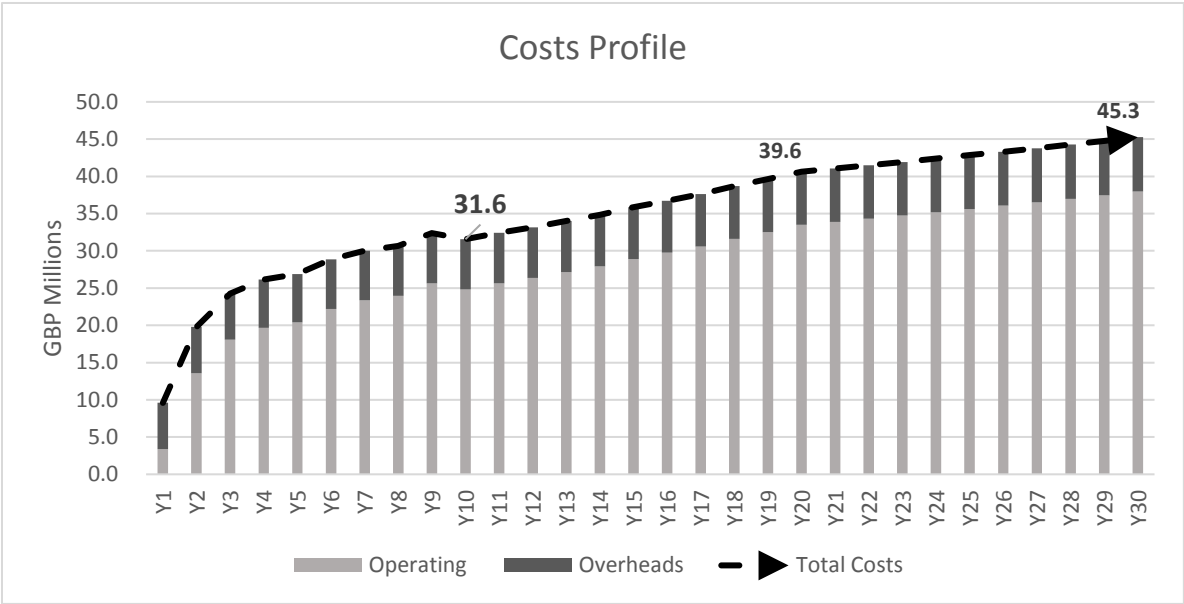
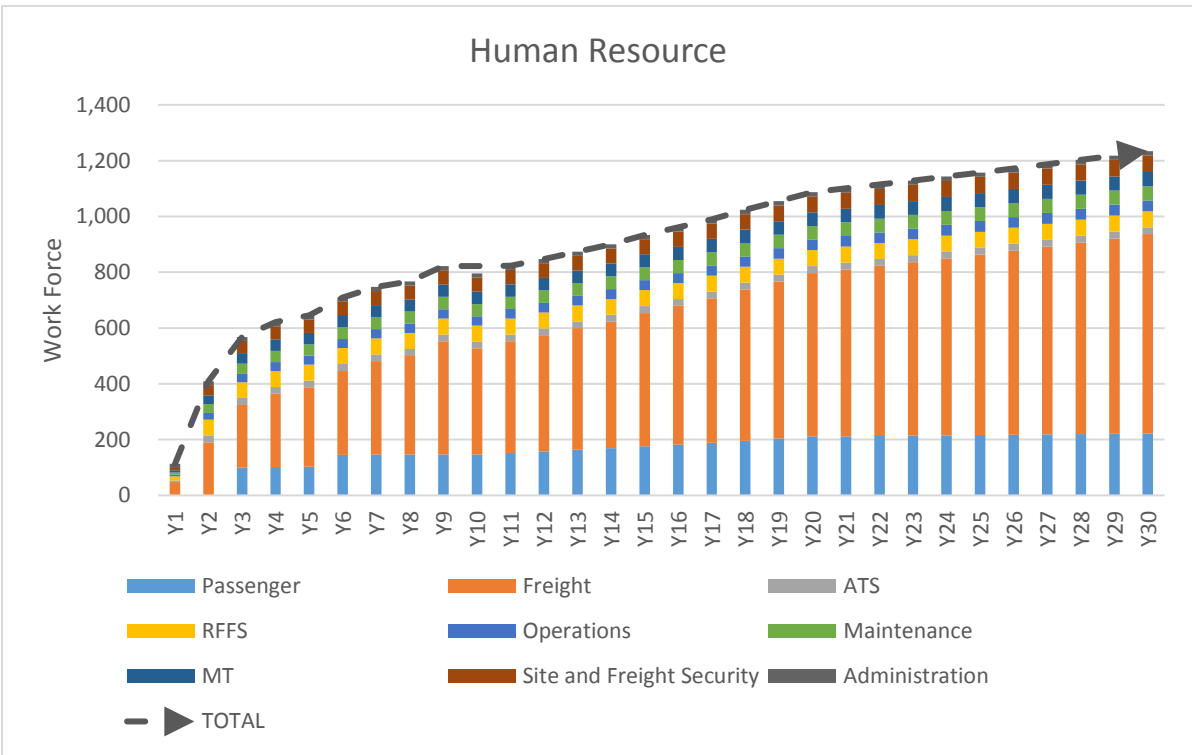


Figure 7.



EBITDA Profile

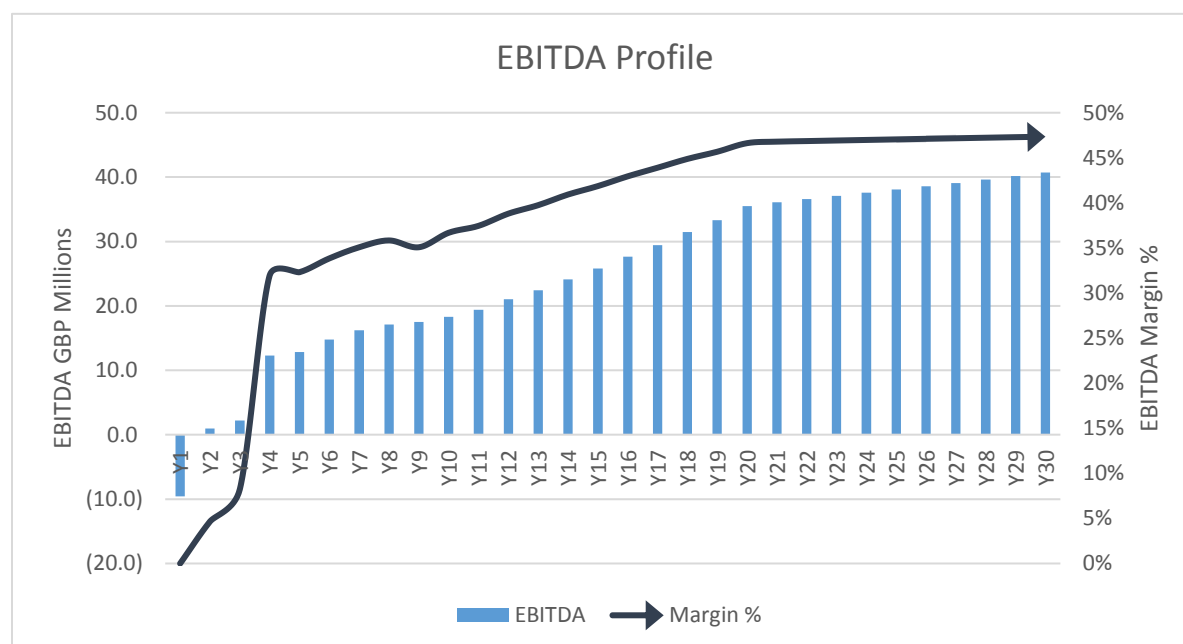
25. Whilst EBITDA demonstrates the profitability of the Cargo business at the operating level, it cannot be viewed as a metric to demonstrate viability for the business of Manston as a Cargo airport. As a result of the intensive CapEx requirements, Depreciation and Tax are numbers that need to be rationalised in order to assess the overall viability of Manston.

26. EBITDA Margins stabilise at between 46% and 47% once capacity has been reached by Year 20.

Table 9.

EBITDA	Y5	Y10	Y15	Y20	Y25
EBITDA	12.8	18.3	25.8	35.5	38.1
Margin %	32.3%	36.7%	41.9%	46.6%	47.0%

Figure 8.



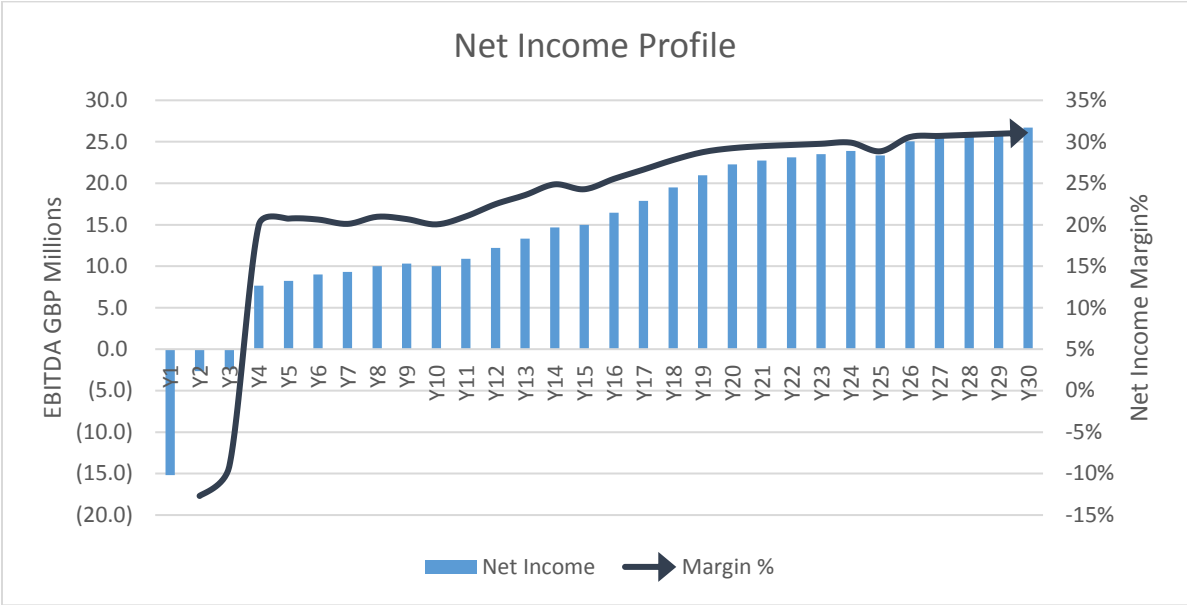
Net Income Profile

27. Net Income is expected to be negative until Year 4 growing to GBP 22 Million by Year 20 when we assume growth to flatten. Net Income is a better guide than EBITDA to the profitability and inherent value of the Cargo business as it includes the normalisation of CapEx through our true depreciation curves. Additionally, any debt capital structure in place must consider the tax considerations before repayment of debt and therefore EBITDA is similarly not appropriate.

Table 10.

Net Income	Y5	Y10	Y15	Y20	Y25
Net Income	8.2	10.0	15.0	22.3	23.3
Margin %	20.7%	20.0%	24.3%	29.2%	28.9%

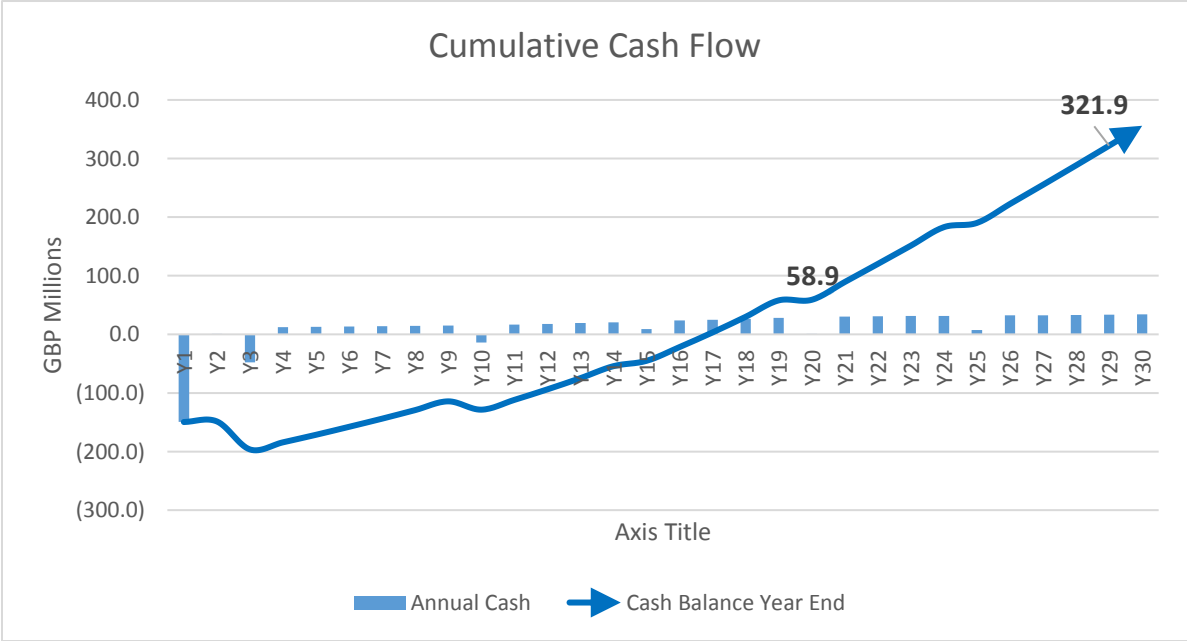
Figure 9.



Cash Flow Profile

28. Post tax cash-flow continues to rise strongly after Year 20 when growth assumptions are flattened demonstrating the CapEx cycle effect.

Figure 10.



Risk Matrix and Returns on Capital

29. Using the ranges of CapEx and a performance slider between +/- 25% the project exhibits a post-tax return of between 4.1% and 12.52%. Removing the low probability tail events, the normal returns range between 7% and 9%.

Table 11.

CapEx 287 Million GBP	Underperformance	Base Case	Outperformance
	-25%	0%	25%
Project IRR	4.10%	7.12%	9.90%
Total Capex	287,000	287,000	287,000
Total EBITDA	455,101	765,871	1,076,642
Net Cash Total Y30	107,612	355,937	604,262
Max Capital Draw	(204,038)	(196,452)	(196,452)
10k Movements Year	13	5	4
CapEx Breakeven	26	16	14

Table 12.

CapEx 215 Million GBP	Underperformance	Base Case	Outperformance
	-25%	0%	25%
Project IRR	5.33%	9.02%	12.52%
Total Capex	215,250	215,250	215,250
Total EBITDA	455,101	765,871	1,076,642
Net Cash Total Y30	169,883	418,208	666,533
Max Capital Draw	(156,538)	(148,952)	(141,365)
10k Movements Year	13	5	4
CapEx Breakeven	20	15	12

Conclusion

30. The business model of Manston Airport is a Cargo Airport. The revenue generated from Cargo Model per WLU is twice that generated in the Passenger Model (Table 3) with similar operating and overhead costs per WLU. The differentiating factor in the investment is the CapEx and the replacement cycle. Passenger CapEx is lower at the outset but is replaced more frequently with similar sums repeating. Cargo CapEx is a large initial outlay with smaller expenditure over time and with economies of scale. The large capital outlay for Cargo Airports is a barrier to entry and the long-tail “Balloon” return profile is for sophisticated long term investors who understand infrastructure and CapEx financing.

31. The economics of the Cargo Airport have a convex relationship to GDP growth and most forms of inflation broadening the class of investors and finance providers to include those with long term inflation-linked liabilities

32. Due to the pent-up demand and structural positioning of Manston, the potential market for this business is capacity driven as opposed to passenger traffic driven which, for any scale, becomes price driven.

33. Manston, as a Cargo Airport with this scale of CapEx, generates an unleveraged annualised return between 7% and 9% over a 30-year period making this a highly attractive infrastructure opportunity.



Manston Airport

Supplementary Submission following Hearings into Compulsory Acquisition and Need held on 20th and 21st March 2019

1. This note expands on points made on behalf of SHP during the Hearings held on 20th and 21st March 2019 in the light of the very limited time afforded to SHP to present its case and test the case made on behalf of the Applicant. This note provides further evidence to assist the Examining Authority in considering the Need case presented by RSP and whether there is a compelling case in the public interest. This submission should be read alongside the Summary of Oral Evidence submitted by SHP.

Correct Interpretation of YAL's work for TfL and the FTA

2. In their comments on Written Representations (Deadline 4) and at the Need Hearing, RSP persisted in relying heavily on quotations from our work in 2013 and 2015 for TfL and for TfL and the FTA respectively. This is despite being told repeatedly that, when read in their entirety, neither of these two notes/reports supported the interpretation being made of them by RSP and its advisers in relation to the asserted need for a freight focussed airport in the South East of England.
3. At the outset, we would reiterate that we do not resile from either of these pieces of work and, as stated to RSP in 2016, the report for TfL and the FTA is in the public domain and, therefore, could be cited by them. The same is not true of the note for TfL, which was an initial informal briefing note intended for the client's internal use only. We have made clear to RSP since 2017 (see correspondence submitted as Appendix B to our comments on RSP's Responses to the ExA's first set of questions) that their interpretation of these two notes/reports was in error. We understand that TfL and the FTA similarly confirmed that the 2015 Report was in the public domain and that they had relied on the contents of the report in submissions to the Airports Commission and Government. However, it is our understanding that neither body has expressed any direct view on the use made by RSP of the note and report, contrary to the inference made by RSP at 4.18.3 of its commentary on Written Representations. RSP did not check directly with us whether its interpretation of our work was correct nor has it addressed the criticisms made of its interpretation in both our 2017 and 2019 reports.
4. To summarise the meaning of these documents:
TfL Note
5. This was an informal briefing note prepared by York Aviation for TfL relatively early in the process of the Airports Commission's work. It considered three scenarios, Max Use (i.e. no additional runway capacity at any of the London airports), 2x2x2 (i.e. additional runways at Gatwick and Stansted) or a New 4 Runway Hub (with the closure of Heathrow). It did not consider the Government's adopted strategy of the development of a new runway at Heathrow.

6. It is important to note that the market was considered in the first instance in terms of tonnage capacity expected to be provided in the bellyhold of passenger aircraft as the primary requirement, with the need for additional capacity for air freight being expressed as a residual. The reference in the note to 14,000 freighter movements that might still use an airport, such as Manston, in the vicinity of London in the 'Max Use' case was a reference to the then existing 14,000 freighter movements operated at the London airports, which might need to be displaced by 2050 if no additional capacity was provided at any of the main London airports. To reiterate comments made in our 2017 and 2019 Reports, Manston was only referenced on the basis that it was, at the time, an airport handling a number of freighter movements and the context of the 'Max Use' scenario only, i.e. a heavily constrained case.
7. Table 4 presents the potential excess cargo tonnage, after considering bellyhold capacity, as 'freighter tonnage required' and converts this to an indicative number of freighters so as to consider whether, prima facie, there would be runway capacity available to accommodate additional freighter movements under each of the scenarios, to the extent there was any shortage of bellyhold capacity by 2050. Para. 24 makes clear that the only in the case of no new capacity being provided (Max Use) would there be an effective shortfall in capacity:

"We estimate that the number of freighters required to accommodate projected air freight demand would rise from 14,000 in 2012 to around 41,000 in the New Hub case, 47,000 in the 2+2+2 case and 68,000 in the Max Use case. In both the New Hub case and 2+2+2 case, we estimate there will be sufficient runway capacity available to accommodate these movements at 2050, at the New Hub and/or Stansted respectively."
8. It is important to note that the number of international passenger ATMs expected to be provided with a 3rd runway at Heathrow lies between the 2x2x2 and New 4 Runway Hub cases. Given increasing tonnage capacities on new generation passenger aircraft coupled with an emphasis on maximising global connectivity from the new capacity at Heathrow, as set out in the Airports NPS paras 3.18 and 3.19, this means that the bellyhold capability from the new runway at Heathrow is likely to exceed that which we assumed in the case of the two expansion scenarios considered in our 2013 note. The effect of this will be to reduce further any residual element of air freight capacity required over and above bellyhold capacity to be provided. Furthermore, in the circumstances of a 3rd runway at Heathrow and in the light of the available capacity at Stansted (see below), we expect any required freighter movements to continue to operate from the existing airports.
9. Importantly, the note then goes on to explain how any shortfall in capacity would be met, noting in the first instance the clear opportunity for more freight to be handled at the main regional airports such as Manchester and Birmingham alongside East Midlands, citing in particular the benefits of reducing the amount of freight trucked from the regions for carriage from Heathrow (para. 26 of the note). Only in the case of no additional capacity being provided (Max Use) was it considered likely that more freight would need to be trucked to Europe. It is evident, nonetheless, that our note considered that the consequence of any constraint on capacity at the main London airports would be more trucking of freight to find cost efficient bellyhold capacity elsewhere rather than identifying a need for a dedicated freighter airport.
10. The note concludes, at para 29, that *"In the latter two cases, our assessment is that, across both bellyhold capacity and pure freighter activity, there would be sufficient capacity to meet expected demand for air freight to and from the UK"*, going on to conclude that *"The key difference between these two scenarios (2x2x2 and New 4 Runway Hub) would be in terms of the efficiencies and economies of scale gained by the industry arising from the concentration of freight activity at a single hub. In both cases, the overall volume of air freight to and from the UK is expected to be broadly the same, although the actual freight carried including transit freight would be higher in the hub case. However, under the new hub scenario, savings from greater efficiency may be passed onto users, so reducing shipping costs and facilitating trade leading to higher freight volumes"* (para. 30). These efficiency benefits will be delivered by facilitating further growth in cargo capacity at Heathrow with a 3rd runway exploiting the existing synergies of consolidation already present around Heathrow.

Report for TfL and the FTA

11. Our work for TfL and the FTA in 2015 adopted the same approach but was based on updated information from the Airports Commission as well as an updated assessment of the underlying growth of the air cargo market as a whole. Again, the excess tonnage expected at 2050 under each of the capacity scenarios under consideration by the Airports Commission was set out. This was again presented in terms of freighter movement equivalents on Page 19.
12. It is significant that the estimated cargo capability at Heathrow assumed in 2050 was 2.6 million tonnes a year with a third runway whereas, given increased bellyhold capacities on newer generation aircraft, the estimated tonnage capacity at Heathrow is now expected to exceed 3 million tonnes a year. This alone wipes out any excess demand that would need to be accommodated in dedicated freighter aircraft.
13. In any event, it is made clear that the actual requirement for dedicated freighter aircraft is limited and, over and above existing operations, a residual to the extent that bellyhold capacity is insufficient:
“For the purposes of this analysis, we have assumed that freighter aircraft primarily act as a means to supplement bellyhold capacity where insufficient bellyhold capacity is available. This is simplification as there are items that cannot be transported on passenger aircraft or for which freighter transport is preferable and destinations that are not served by passenger aircraft. Consequently, we have further assumed that a residual number of freighter movements will still be accommodated in London in capacity constrained scenarios at 2050, i.e. all scenarios other than the 4 Runway Hub” (Page 20).
14. We then go on, on Pages 22ff titled *“How will the Freight Industry React”*, to explain how the excess tonnage would be accommodated in practice, i.e. not through additional movements by dedicated freight aircraft:
“The options in relation to the excess demand that cannot be satisfied within the London system are subtly different. Again, some companies may simply choose to step back from the London market, either withdrawing or choosing not to seek to expand with demand. This may be particularly true for major global companies with the ability to shift the emphasis of their activity. However, this will ultimately leave unsatisfied demand in and around London and potentially market space for others to step in and seek to serve the market via a different business model. This is most likely to involve trucking freight from London to other airports either in the UK or on the continent that have the necessary capacity and/or long haul passenger networks to support the required levels of demand. This will, however, come at a cost in terms of both additional trucking costs and a loss of utility to users as these avenues will need more time to ship freight, which in an industry where speed is an essential feature is clearly potentially damaging. Again, there is also the potential for increased service failures and delays via this route.”
15. We go on to set out a Gravity Model to examine how any excess demand would be expected to be handled (Appendix C to our comments on RSP’s Written Answers) and the cost and time implications of the need for additional trucking. However, to the extent that air freight from the regions simply reverts to using available capacity in the regions, these costs will have been overstated and cost/time to shippers in this case could actually be reduced. Ultimately, any loss of utility/consumer benefit arising from increased costs/time for shippers has to be set against the increased costs implied by the use of more expensive dedicated freighter aircraft and the costs of establishing and operating an airport capable of handling such aircraft. Given our understanding of the cost of trucking compared to the costs involved in the operation of dedicated freighter aircraft, we would expect trucking to remain the most economically beneficial solution. Furthermore, when the increased bellyhold tonnage now expected to be available at Heathrow is taken into account, the issue simply disappears.
16. As made clear during the Hearing on Need, the demand and capacity assessments set out in Section 3 of our 2017 Report and Section 4 of our 2019 Report are an updating of the analysis carried out in 2015 for TfL and the FTA using the most up to date data. Hence, this analysis reflects the correct interpretation of our earlier work in the context of the current market situation and known airport plans for capacity expansion.

17. Correctly interpreted, our previous work explains how, to the extent that any shortfall in capacity exists, the need is likely to be met, i.e. through use of bellyhold capacity at regional airports and, to some degree, an increase in trucking to European hubs to avail of cost effective consolidation of freight loads to a wide range of global destinations. Operation of dedicated freighters on a limited range of routes would simply not provide a viable option for any freight displaced from Heathrow.

Role of Trucking

18. During the Hearing, the Applicant cited unevidenced figures for the number of cross-Channel trucks carrying airfreight. The Applicant also noted that a high proportion of these operated on airline flight numbers. It is important to note that such movements are part of the system of whereby airlines truck freight to and from their hubs to connect to bellyhold operations. By way of example, on 27th March 2019, the Official Airline Guide database (OAG) records a total of 635 truck movements on airline flight numbers to and from airports in the UK (evidence can be provided if required). Of these, 215 truck movements were scheduled from Heathrow, of which 65% were to UK domestic airports suggesting strongly that the primary purpose was the distribution of bellyhold imports. 197 truck movements were scheduled into Heathrow, of which 51% were from UK domestic points for consolidation of goods for onward transport. It is notable that trucking from Europe into Heathrow figures more strongly than trucking from Heathrow, suggesting that the primary purpose is to feed goods into the Heathrow hub for onward transport in the bellyhold of passenger aircraft. Similarly, to/from the UK regions, there were 10 trucks scheduled outbound to Europe but 51 trucks scheduled inbound indicating again a focus on imports. Excluding international trucking to the Republic of Ireland, there are of the order of 180 trucks a day operated across the Channel on airline flight numbers. This equates to of the order of 63,000 trucks a year (assuming not all trucks operate on 365 days a year). These truck movements would not be divertable to Manston as they are strictly related to the cargo hub at Heathrow and equivalent hubs in Europe. We would expect a similar number of truck movements connected with integrator operations also related to their patterns of hub and spoke operations but data is not systematically available.
19. Ultimately, the reason that trucking is common place within the general and integrator sectors relates to the price of aviation fuel, which changed the economic paradigm in terms of the optimum balance between use of dedicated freighters and trucking for part of the journey combined with the use of more economic bellyhold capacity. Since 2000, the price of aviation fuel has risen by 123% (<https://www.spglobal.com/platts/en/oil/refined-products/jetfuel>). This has impacted on the decision as to the balance between time and cost for shippers. This increase in the cost of air freight, and dedicated freighter operations in particular, is the primary reason why consideration of air freight trends prior to 2000 (which Northpoint seek to do (para. 8) in their report submitted at Deadline 4) is no longer relevant and slowdown in growth in air freight tonnage reflects a shift in the balance towards trucking and even towards shipping for some goods that might previously have used aviation. This is relevant to consideration of the appropriate rates of market growth to assume, as we discuss later in this note.

20. Understanding the economic drivers for shippers and the relationship to consolidation of loads at hub airports for bellyhold and general air cargo, and the hub network structures of the integrators, is vital to assessing the extent to which Manston could plausibly intercept or 'clawback' any part of the air freight currently being trucked across the Channel. In our assessment, the economics of dedicated freighter operations compared to the relative cost of trucking makes the interception of anything other than a small number of special loads highly unlikely. As Mr Cain said in oral evidence, shippers will trade off time and cost but as costs have risen, the balance has shifted and this, in large part, explains why bellyhold capacity is now clearly favoured for the majority of commodities. This would include fresh fish as cited by Dr Dixon in oral evidence (see Case Study on Page 16 of the Steer Report for Airlines UK referred to in our comments on the Applicant's responses to question ND.1.17 (<http://airlinesuk.org/wp-content/uploads/2018/10/Assessment-of-the-value-of-air-freight-services-to-the-UK-economy-Final-Report-v22-Oct-2018-b-SENT.pdf>)). The global change in the price of aviation fuel is a key reason why bellyhold capacity is preferred and why use of dedicated freighters is declining in relative terms, particularly where there is good availability of bellyhold capacity, as is the case in the UK.
21. Furthermore, in the highly unlikely event that some airlines engaged in trucking of freight between hubs considered the use of Manston for dedicated freighter movements as a viable alternative option, this would imply a totally different fleet mix to that assessed in the ES (Appendix 3.3). We discuss issues related to the fleet mix further below.

The Validity of Azimuth's 'Forecasts'

22. In oral evidence, Dr Dixon conceded that the Azimuth Report, which she prepared, was not really a forecast of what would happen but an assessment of the 'potential' need for a dedicated freight airport in the South East of England. She confirmed that she had taken no account of the viability of operating the services for the airlines or the viability of the operation of the Airport (despite the Azimuth Report being referenced as setting out the viability of and the Business Plan for the development in the ES, Planning Statement and Statement of Reasons - see para 2.5 of York Aviation 2019 Report).
23. At para. 2.2.10 of Vol III of the Azimuth Report, a number of key considerations are set out which would impact on the decisions of airlines as to whether to use Manston:
 - *"The cost of physical relocation*
 - *Cancellation of long-term contracts*
 - *Loss of economies of scale, although if an entire operation is switched, economies of scale would be gained at the new airport*
 - *Market effects such as marketing new routes and a potential loss of custom in the early years following the switch*
 - *Network effects lost by switching to a smaller airport*
 - *Capacity constraints at other airports, particularly in slot allocations*
 - *Sunk costs such as an airline's investment in the airport from which they are switching"*
24. Although the report claims that these factors have been taken into account in the 'forecasts', it is now clear from answers given in oral evidence that this was not the case and that Dr Dixon simply assumed that the costs would be *"neutral"*. We take this to mean that her underpinning assumption was that the costs for an airline of operating from Manston would be the same as from other airports and/or that the costs to shippers for a tonne of air cargo would be the same to/from Manston as from alternatives, including bellyhold options. Without proper consideration of switching costs, the charges to be levied at Manston and the relative price of dedicated freighter operations v. bellyhold for the shipper, the so-called 'forecasts' can have no validity as they do not reflect market realities.

25. Furthermore, as pointed out in our comments on the Written Answer to question FD.1.15, whilst it is claimed that RSP's Business Model is based on being able to offer airport users competitive terms, this is clearly not the case. As we know from the Business Model spreadsheet submitted at Deadline 3, the Applicant plans to charge airlines around four times the equivalent cost at East Midlands Airport and without any countervailing incentives (see separate papers prepared by Altitude Aviation Advisory). Hence, it is clear that, leaving aside its other manifest shortcomings, the Azimuth Report has not assessed the actual position proposed by RSP of charging a significant premium over other airports for dedicated freighter operations, which are already significantly more expensive than bellyhold alternatives.
26. The consequence of this is that on any reasonable assessment of the costs of using Manston and the costs to the shipper of using dedicated freighter aircraft, when coupled with the costs of switching and other costs identified by Azimuth, the share of the market that Manston might hope to attract will be severely reduced below the 'neutral' assessment made by Azimuth. We have set out our view of the maximum potential in Section 4 of our 2019 Report. At the price RSP propose to charge, demand would be significantly lower and the revenues that they assume within the Business Model not attainable. We have already set out in Section 7 of our 2019 Report, the more likely financial position at competitive airport charges and, even then, this was based on the full Azimuth 'forecast' being attained, which is unlikely for the other reasons cited above. Either way, proper analysis strongly suggests that there is no prospect of the proposed investment in the development of a dedicated freight airport at Manston being viable even on the basis of the latest estimate of upfront construction costs, which we now understand from the oral evidence of George Yerrall are likely to be underestimated at this point in time.
27. Put simply, the oral evidence given by Azimuth Associates confirmed that the Report upon which the entirety of the Need Case for the development relies has no realistic foundation as a basis for predicting the extent to which Manston might actually be used.

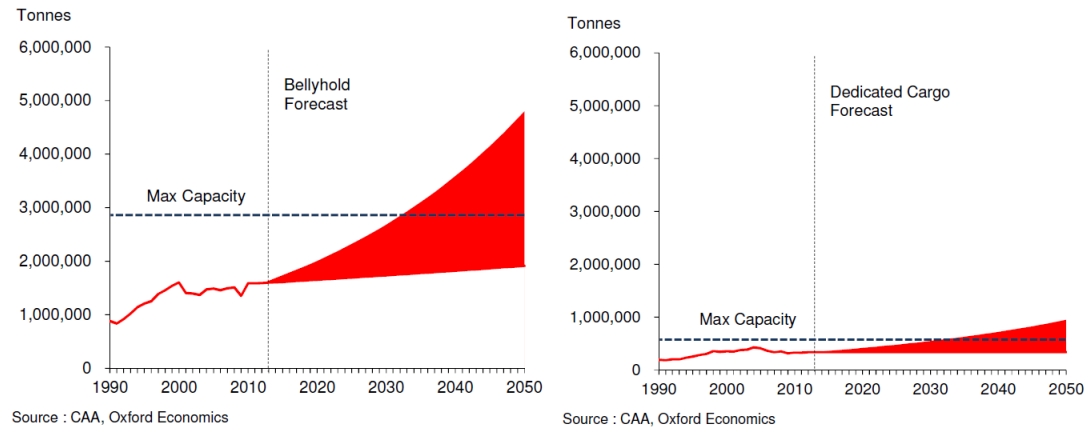
Northpoint Report

28. The Northpoint Report submitted by the Applicant at Deadline 4 is a clear attempt by the Applicant to produce a post event corroboration of the Azimuth forecasts that are used to underpin the entirety of their case for the development. This attempt at a putting a 'sticking plaster' over the flaws in the Azimuth must also be dismissed as it self-confessedly has not yet taken into account the key variables which should inform a robust prediction of the actual potential usage of Manston as set out at para. 67 of the Report, namely the model (it):
 - *"it does not use differential rates for bellyhold, express and ordinary freight - although the analysis is a level of aggregation where this is not a fundamental determining issue;*
 - *it does not examine aircraft movements - we regard this primarily a function of tonnage volumes and airport location and runway length*
 - *it does not look at the scope for migrating between type of carrier (e.g. bellyhold to freighter) and therefore between airports pairs; and*
 - *it does not examine the impact of price because it is primarily interested in the issue of capacity."*
29. These factors are precisely the reasons why Manston would struggle to penetrate the market to any material extent. It is stated at para. 68. that these factors are taken into account in a more detailed model that is being developed/used to inform the funding process. However, this more detailed model has not been provided to the Examination and would need to be carefully scrutinised once produced.
30. As already pointed out, the thesis underpinning the Northpoint Report that somehow considering the performance of the airfreight market over the last decade is not relevant and that trends from the 1990s need to be included is exposed as flawed when the effect of fuel price rises since 2000 is taken into account.

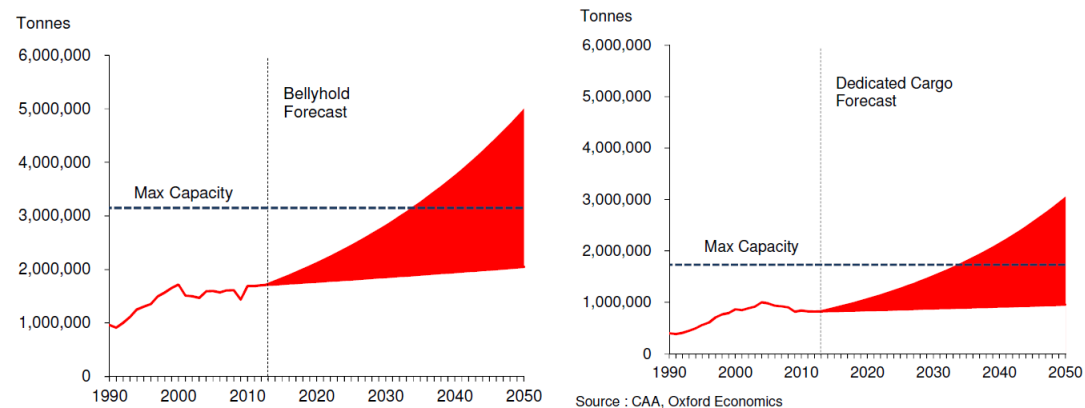
31. Nor are the benchmark comparisons in terms of cargo tonnage growth set out at para 10, particularly persuasive. The only airport where there appears to be a major jump in tonnage compared to the UK as a whole is Paris and (as set out on page 21 of the Steer 2018 Report for AirlinesUK) data for Paris before 2014 was measured differently so the jump in tonnage shown is not a real jump but the result of changes in data collection. This would have to be corrected for if any comparisons are to be made. The outperformance at Frankfurt is more down to the consolidation in the sector and the use of Germany and the Low Countries as distribution hubs for Europe. However, since 2000, the performance of Frankfurt is not significantly different from the performance at the total UK level and, in any event, a shift from Heathrow to the regions is no bad thing in the context of the proportion of freight with regional origins that has historically been trucked to London. All in all, this pattern is simply reflective of the market working to reduce unnecessary road journeys within the UK.
32. We have already referred in our comments on the Applicant's Written Answers (ND.1.18, ND.1.13, ND.1.18, ND.1.20) on the capacities available at the other airports and will comment further below on specific points made by the Applicant in oral evidence regarding Stansted. Suffice it to say that Northpoint continue to understate the tonnage capabilities of these other airports in paras. 16 to 32.
33. In terms of overall freight tonnage to and from the UK, notwithstanding our comments about the inherent invalidity of considering trends back to 1990, the actual freight tonnages projected for the UK and for the South East by Northpoint are not substantially different at 2040 from our own GDP based estimates (see Figures 4.7 and 4.8 of our 2019 Report) as far as the base case of 2.35% per annum growth is concerned (Table above para. 63). However, there is no foundation for the use of any higher underlying rate of growth in cargo tonnage.
34. The work used by Northpoint to corroborate its analysis is work carried out by Ramboll and Oxford Economics in 2014 (<http://content.tfl.gov.uk/impacts-of-a-new-hub-airport-on-air-freight-industry.pdf>). We note that the quotations from this work by Northpoint are selective and use graphs relating to the UK and London inconsistently. When read properly, this report explains precisely why fewer dedicated freighters are needed at London due to bellyhold capacity. This report also explains why the growth rate in cargo tonnage flown has slowed from the long term trend. Northpoint use Figures 3.7 and 3.8 from this report relating to the expected growth across the UK as a whole when the relevant ones for the South East are Figures 3.5 and 3.6, reproduced overleaf. The charts used by Northpoint illustrate the greater need for dedicated freighters in the rest of the UK on the basis of limited bellyhold growth other than at the London hub. The correct charts for the London airports show very limited need for dedicated freighter operations given bellyhold capacity expected to be available.
35. This report goes onto predict the extent of any shortage of freighter ATMS at the lower and upper bounds of the forecasts against DfT's capacity constrained forecasts. It shows that the maximum shortage of dedicated freighter capacity at 2040 is 4,000 movements (Table 4.3 reproduced overleaf) on the upper bound forecast. The big shortfall is in bellyhold ATMs. At the lower bound cargo forecast, there is no shortfall and spare capacity for 2,000 dedicated freighter movements (Table 4.2). This analysis confirms our assessment of the position, i.e. that there is limited, if any, need for additional capacity for dedicated freighter ATMs, even viewed from the position as at 2014.

There is a marked difference in the range of growth of dedicated cargo for London Area Airports, as compared to the UK-wide growth rate. This is likely due to the high number of passenger flights originating in London compared to the rest of the UK, which allows for more bellyhold cargo growth as opposed to dedicated cargo growth. As mentioned in Section 2.2, one of the reasons for the much slower growth rate of cargo after 2000 is likely the steep rise in the price of aviation fuel. The fan charts below (charts 3.5 to 3.8) show the range of Oxford Economics trend forecasts for the UK and London area airports²⁵. The upper range of the forecast implies that after 2033, the higher range of cargo growth forecasts cannot even be met with a new hub airport. Therefore, the Oxford Economics upper bound forecast has been capped at the line shown in the charts at the capacity that can be built.

Charts 3.5 and 3.6: Actual and Forecast London Trend Bellyhold and Dedicated Freight Growth from 1990-2050



Charts 3.7 and 3.8: Actual and Forecast UK Trend Bellyhold and Dedicated Freight Growth from 1990-2050



~ Note that the Upper Bound ATM forecast has been capped from 2030 in order to match the ATM supply that could be delivered, using Atkins data.

Table 4.2: Predicted Annual Volumes of Constrained Air Cargo Using OE Lower Bound Trend Forecasts

Year	LAA Constrained Cargo (Thousand ATMs)	Belly Hold Cargo (000 ATMs)	Dedicated Cargo (000 ATMs)	Belly Hold Cargo (Kgs)	Dedicated Cargo (Kgs)
2020	-123	-122	-2	-199,007,217	-41,551,049
2030	-220	-217	-3	-354,390,025	-72,674,570
2040	-174	-172	-2	-281,370,352	-56,671,816
2050	-111	-110	-1	-179,940,132	-35,596,283

Source: DfT, Oxford Economics.

Table 4.3: Predicted Annual Volumes and Value of Constrained Air Cargo Using OE Upper Bound Trend Forecasts

Year	LAA Constrained Cargo (000 ATMs)	Belly Hold Cargo (000 ATMs)	Dedicated Cargo (000 ATMs)	Belly Hold Cargo (Kgs)	Dedicated Cargo (Kgs)	Projected Cargo Value (£/kg)	Belly Hold Cargo Value (£ m)	Dedicated Cargo Value (£m)	Total Cargo Value (£m)
2020	96	95	1	154,672,622	32,294,355	£110	£16,970	£3,543	£20,513
2030	70	69	1	112,960,704	23,164,790	£148	£16,679	£3,420	£20,099
2040	295	291	4	476,166,397	95,906,389	£199	£94,620	£19,058	£113,678
2050	522	515	7	842,454,190	166,656,750	£267	£225,297	£44,569	£269,866

Source: DfT, Oxford Economics.

36. The Northpoint Report then presents a simple spreadsheet model showing the tonnages that Manston might attain under a number of different scenarios. These scenarios are driven by:
- Different growth rate assumptions
 - Different assumed capacities at the other airports
 - Different assumptions about Manston's ability to clawback an element of the tonnage being trucked across the Channel

No probability is assigned to the achievability of any of these underpinning assumptions and results are simply presented in terms of whether the outcomes are higher or lower than Azimuth's forecasts. We would note that this is a tonnage spill model and does not, as pointed out above, consider how this tonnage would then travel. It is just assumed that in all cases it would choose a dedicated freighter service from Manston regardless of cost.

37. First of all, accepting at face value Northpoint's assertion that import/export tonnage leaked to European airports would amount to 1 million tonnes a year by 2050, the assumed claw back of this leakage is 25% in the base case (almost 20% in the first year of opening 2022 based on current leakage of 500,000 tonnes), 40% in the high case and 60% in the stepped up clawback case. For the reasons set out in paras. 18 to 20 above, this is patently absurd given the reasons for the trucking activity in the first place.
38. If you strip out the assumed clawback, 17 of the 24 Northpoint scenarios show negative demand for Manston at 2040 (with demand significantly less than Azimuth project in earlier years). The only remaining scenarios in which there would be any demand for Manston are those relying on unrealistically high market growth rates in cargo tonnage deriving from the analysis back to 1990 of 2.7% CAGR¹ and 3.0% CAGR and then only in the circumstances where the capacities attainable at the other airports have been understated in aggregate. Overall, the model provides no corroboration of there being material demand for Manston as a dedicated air freight airport. Rather the analysis contained in the report tends to confirm the reasons why the Airport could not succeed.

Night Flying and the Integrators

39. We set out in our commentary on RSP's Written Answers to Questions evidence as to the dependence of conventional integrators on night flights. Hence, leaving aside the locational reasons why Manston would not be a suitable base for an integrator, the proposed night scheduling ban effectively removes any prospect of such operations, a point effectively conceded by the Applicant when it says that an integrator base is not proposed for Manston (Written Answer to ND.1.16).
40. We are now asked to believe that the Azimuth did not mean conventional integrator operations when including them in the 'forecast' as set out at para. 3.2.3 of Vol III of the Azimuth Report, despite DHL/Fedex being specifically identified as the operators of these flights at Appendix 3.3. of the ES, which we were told in oral evidence was based on the Azimuth projections. We are now asked to believe that what was meant was a new form of integrator – Amazon or Alibaba- Cainiao - operating these flights. This is despite Amazon being separately identified in Appendix 3.3. of the ES in addition to the conventional integrator operations.

¹ Compound annual growth rate.

41. The Northpoint Report is used by RSP in an attempt to support this change of emphasis to 'New' integrators and the e-commerce model as the basis of justification for 48% of the aircraft movements claimed for Manston at Year 20 (more in the earlier years). This is no more than speculation as the extent to which the e-commerce operators will seek to operate their own aircraft within the European market and the nature of those operations is largely unknown. We set out below our understanding of the current operations.

Amazon

42. Amazon has set up its own airline operating within the USA so as to control its own supply chain rather than relying on the existing integrators. In essence, it is developing its own sorting facilities and replicating the type of hub and spoke systems used by the existing integrators. It is operating its own aircraft largely for the purpose of distributing goods between its main distribution centres, with onward transport to the customer locally by road (<https://aircargoworld.com/allposts/amazon-to-move-prime-air-cargo-hub-to-cincinnati/>). It is our understanding that the pattern of flying in terms of day/night operations follows closely that of a conventional integrator, positioning product between distribution centres overnight so as to be ready for delivery next day.
43. Amazon has an embryonic operation in the UK with a leased Boeing 737 freighter operating to East Midlands Airport (<https://www.ch-aviation.com/portal/news/63035-amazon-air-boosts-fleet-to-32-b767s-eyes-more>). Amazon is opening a 500,000 sq.ft. warehouse and sorting centre immediately adjacent to East Midlands Airport in April 2019 (<https://www.leicestermercury.co.uk/news/business/east-midlands-gateway-amazon-nestle-1444182>). This would strongly suggest that Amazon is likely to follow the lead of DHL and UPS and establish East Midlands as its UK air hub. Indeed, the two flights currently operated to Milan and Madrid appear to be joint operations with DHL. Like many DHL operations, these rely in part on night flights (based on Flight Radar data), with the departure to Milan at 06.00 and the arrival from Madrid at 02.40. This reinforces our view that, as operations to the UK expand, they would be expected to follow a similar pattern over the day as the conventional integrator operations at East Midlands.

Alibaba-Cainiao

44. Alibaba has committed to establishing its main European hub at Liege Airport (<https://www.retaildetail.eu/en/news/general/li%C3%A8ge-officially-becomes-alibabas-first-european-hub>). It is not yet clear whether it intends to commence direct operations or to contract with existing airlines at the Airport such as ASL Airlines, which operates for TNT/Fedex with its major hub at Liege and also provides the current Amazon service from East Midlands. Again, it seems most likely that any Alibaba operation in Europe will also mirror pre-existing patterns of integrator operation, using its main base as Liege, for the same reason as Amazon.
45. Overall, we see no reason to assume that the choice of airports for the 'new' integrators would be based on different criteria to the existing integrators nor that they would be any less dependent on night operations. Hence, given the proposed night scheduling ban, the establishment of a 'New' integrator base at Manston with 2 aircraft in Year 2 and 4 aircraft in Year 4 is simply not credible.

Consequences for the Environmental Assessment

46. Mr Hilton of Wood stated in oral evidence that environmental assessment relied on Appendix 3.3 of the ES and that it was derived based on the Azimuth 'forecasts'. However, as we have pointed out in Table 3.1 of our 2019 Report, there are inconsistencies in the proportions of aircraft in each ICAO category between Appendix 3.3 and other parts of the ES, and between the ES and the Azimuth Report. Dr Dixon said she was not responsible for producing Appendix 3.3 and Mr Hilton did not seem to know who was responsible either.

47. In the context that the information in Appendix 3.3 is claimed to be the basis upon which all of the environmental assessments have been carried out, it is important to note that Mr Hilton told the hearing that the assessments were based not only on the aircraft types named in Appendix 3.3 but also on the specific aircraft and engine types operated by the named airlines. Hence, to the extent that these airlines would not or could not operate to Manston (see para 3.10 of our 2019 Report), particularly once the impact of the night scheduling ban is taken into account, this invalidates the specific environmental assessments made. The particular example referred to in oral evidence is the assumption that the ATR-72 turbo-prop aircraft would account for around 25% of all freighter aircraft movements, specifically operating for DHL or Fedex. The 'New' integrator, Amazon, is currently using Boeing B737 jet aircraft for its European operations so, even if it was right that DHL or Fedex would be substituted by Amazon or similar, it could not be relied on that these airlines would use so many turbo-prop aircraft. This means that the ES can no longer be deemed to have assessed the worst or most likely case effects, even if that was ever the case.
48. Appendix 3.3 does not include any General Aviation movements, yet the Noise Mitigation Plan suggests that there could be up to 38,000 such movements a year or 104 a day on average. Elsewhere (para. 12.7.39), the ES states that 16 such movements a day have been included in the assessment. This is clearly inconsistent with the worst case for noise that would be permitted under the Noise Mitigation Plan.
49. As pointed out at the Noise Hearing, a further consequence of the night scheduling ban is to condense all of the aircraft operations into the day-time period. The response given by Mr Hilton that movements that were otherwise assumed to operate in the night (14% of total movements) would simply switch to the 06.00-07.00 hour, and so still be within the 8-hour night noise assessment period, lacks credibility. Faced with a night scheduling ban, the airlines would need to reprogramme their operations in their entirety to fit within a curfew and, to the extent that hypothetically they would still operate to Manston, this would result in proportionately more movements in the 16-hour day period used for daytime noise assessment, resulting in an increase in contour area over that assessed and an increase in the areas eligible for compensation. The veracity of this can only be tested further when RSP produces the more detailed analysis of the profile of flights over the day related to the infrastructure requirements as promised at the Compulsory Acquisition Hearing.
50. We note also that the effect of the night scheduling ban will also impact on the data used in the Transport Assessment as set out in Appendix E to the TA. First of all, Table 1.1 shows freight related truck movements evenly distributed over the day. However, if, as we are now told, more than half of the movements at the Airport are going to be associated with a 'New' e-commerce integrator, it would be reasonable to expect that truck movements would be bunched around the arrival of these aircraft to ensure speed of delivery to the customer. On the basis of the suggested bunching of flights into the 06.00-07.00 hour, this would result in a significant number of trucks on the highway network in the 08.00-09.00 period to ensure deliveries of goods. Equally, for outbound flights before the night curfew, it would be expected that goods would need to be at the Airport 2-3 hours ahead of the last flight (23.00) so this too would require more movements in the day time. It would appear unlikely, therefore, that the TA has assessed the true impact on the highway network including in the morning and evening peak periods.

Policy Tests

51. It was suggested by RSP that there is an overriding policy presumption in favour of more capacity for air freight stemming from the priority placed in this within the Airports NPS and more recent Aviation 2050 Green Paper and that there was an automatic presumption in favour of all airports making best use of existing runways.

52. As stated in our comments on the Applicant's Written Answers (ND.1.2 and ND.1.4), the Government makes clear that the principal means envisaged to ensure that the UK has sufficient air freight capacity is through the provision of a 3rd runway at Heathrow delivering, mainly, more bellyhold capacity. Growth at Stansted and East Midlands is also anticipated. The Government does not go on to identify any further anticipated shortfall in capacity for air freight that needs to be addressed before 2050.
53. In terms of the 'Best Use' policy, it is clear, as we set out at paras. 2.16 and 2.17 of our 2019 Report, that there is no automatic presumption that best use should be made of all runways as policy is clear that each case has to be tested on its merits, including whether there is a demonstrable need and benefits from the proposed use sufficient to outweigh any environmental or other negative impacts. The lack of a coherent Need Case for Manston strongly suggests that there is no presumption in favour of making best or other use of the runway in this instance.

Capacity Available at Stansted

54. We set out the position in relation to the consented capacity at Stansted in our comments on the Applicant's Written Answer to ND.1.18. In oral evidence, there appeared to be some confusion regarding the attitude of MAG (the Airport's owners) to cargo growth there.
55. The Aviation Forecasts underpinning the recent Stansted Planning Application to lift the cap on passengers are set out in Volume 4 of the ES (https://publicaccess.uttlesford.gov.uk/online-applications/files/2C9A5D09B9434B571771AF326D87A423/pdf/UTT_18_0460_FUL-ES_VOLUME_1_-_CHAPTER_4_AVIATION_FORECAST-2634298.pdf). The cargo forecasts to 2028 are set out at para. 4.59. These show the anticipated tonnage to grow to 376,000 tonnes a year by 2028, not far short of our assumed capacity of 400,000 tonnes by 2040, suggesting that we may have understated the true capacity available at Stansted over the longer term. Indeed, the forecasts show slightly more cargo in the with development case than without development (Stansted Planning Statement, para. 6.28).
56. The Stansted Airport cargo forecasts assume 16,000 cargo ATMs a year and an increasing proportion of bellyhold capacity as long haul airlines, such as Emirates expand operations at the airport. We would expect the cargo capacity of Stansted to continue to increase beyond 2028 up to the envisaged capacity of 400,000 tonnes a year as more long haul services commence at the Airport, displacing more marginal short haul routes. The claims by RSP's experts that cargo capacity at Stansted is constrained is without foundation.

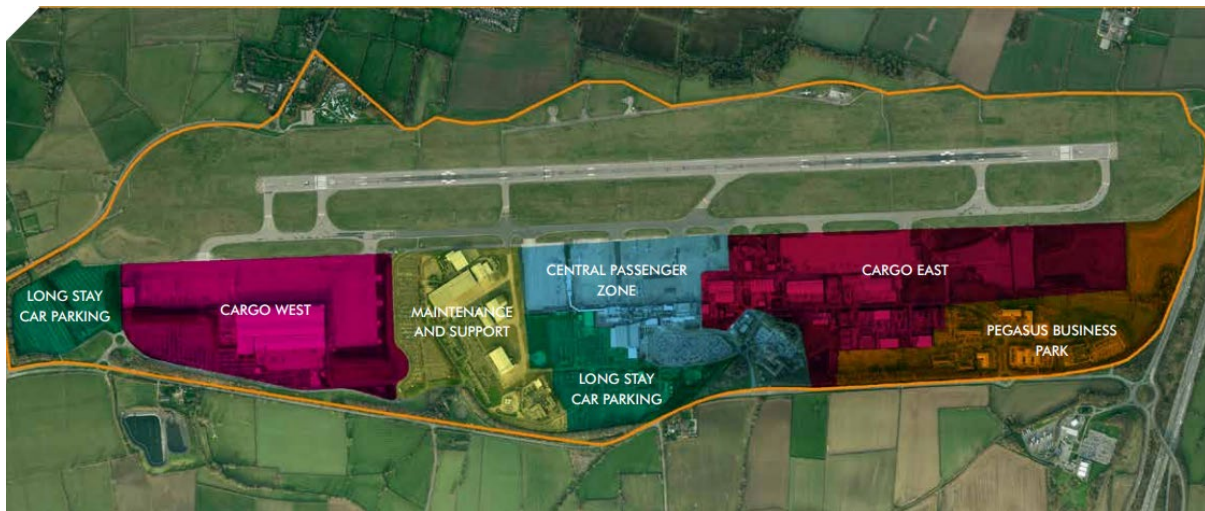
Capability of the Proposed Infrastructure

57. We now set out some observations on the capability of the existing and proposed infrastructure that we were prevented, by time constraints, from making at the Compulsory Acquisition hearing.
58. As Mr Rhodes of Quod for SHP made clear, the site has an established lawful use as an airport. Having examined the site in detail and spoken with those who previously managed operations on the ground, it is clear that the facilities, if reinstated, would have a capability of handling of the order of 21,000 freighter aircraft movements a year as set out in Section 4 of our 2017 Report. This assessment is consistent with the basis upon which RSP has calculated a theoretical capability of over 83,000 freighter aircraft movements a year from its proposed infrastructure.

59. Whilst the basis of this theoretical 'capability' assessment is set out by RSP in various documents, it has provided no explanation of how it has assessed that 19 freighter aircraft stands, all of the maximum Code E size, are required to handle the projected 17,170 annual freighter aircraft movements, which is equivalent to 23.5 freighter aircraft (half the number of aircraft movements) being handled each day on average, i.e. most stands would only be used once each day, suggesting an even heavier bunching of movements with consequential implications for vehicular traffic bunching on the highway network. Indeed, the concept that vehicle activity associated with air freight will be spread over the day, as set out in Appendix E to the TA, is inconsistent with the implied need for virtually all freighter aircraft to occupy stands simultaneously. Furthermore, many of the movements in the fleet mix assessed in the ES are shown to be using much smaller aircraft (such as the ATR72 turboprop) for which each Code E stand could easily accommodate two aircraft at a time, reducing the number of Code E stands required in total.
60. Overall, the proposed scale of infrastructure provision is completely inconsistent with claimed cost efficiency of the development (as required by the Airports NPS) nor likely to facilitate RSP being able to offer operators competitive terms as claimed by them, given the scale and cost of the infrastructure it proposes to provide and the consequent implications for the level of charges that it would have to levy to cover the costs of investment as set out in Section 7 of our 2019 Report. In effect, the Business Model spreadsheet corroborates the intention to charge at this level.
61. At the very least, the ExA needs to investigate further the requirement for the scale of infrastructure proposed to ensure that it is not excessive, particularly in relation to the compulsory acquisition of land. To assist, we have set out a detailed assessment, missing from the Applicant's documents, of the infrastructure required to support RSP's projected freighter airline operations at the times they would want to fly (which must necessarily include an allowance for night operations without which the airlines will be unlikely to operate or base aircraft so reducing the required infrastructure still further). Indeed, the concept that vehicle activity associated with air freight will be spread over the day, as set out in Appendix E to the TA, is inconsistent with the implied need for virtually all freighter aircraft to occupy stands simultaneously. We have explained the basis of our assumptions at paras 3.43 and 3.44 of our 2019 Update Report, with a fuller explanation of the infrastructure required at Section 6. This shows that, even allowing for resilience and flight delays using normal industry standards, the required infrastructure would be less than half of that proposed by RSP – 10 stands and 1/3 of the cargo sheds assuming efficient automated operations as stated by RSP - even if its projections of usage were attainable.
62. The scale of infrastructure proposed on the airfield is simply unjustified.

Airport Related Business Parks

63. There is then the matter of the Northern Grass. RSP's recent comments on the Written Representations suggest that it confused itself as to its own proposals. The developable area of the Northern Grass, after allowing for the area around the radar and the museum zone is of the order of 83.5 acres, broadly equivalent to the area of the Pegasus Business Park at East Midlands Airport at 70 acres. The 26 acres referred to by RSP in its recent submission (para. 2.9.17) in response to SHP's Written Representation appears to be the footprint of the buildings proposed, which is not, of course, the same thing as the area available for development.
64. We recognise that MAGProperty cite 218 acres of business property space as being available at EMA (<https://www.eastmidlandsairport.com/about-us/business/>) as referred to in RSP's comments on Written Representations (para. 2.9.16). It is not entirely clear to us which areas are included within this 218 acres, which may include airside as well as landside development zones. Further information on the development zones at EMA was included in our comments on RSP's Written Answer ND.1.15, with its development plan included and reproduced below.



65. Key metrics for the overall plan are:
- *The entire airport covers an area of approximately 900 acres;*
 - *Total area of development (coloured areas) approximately 460 acres;*
 - *Much of the development area comprises passenger facilities, airside cargo facilities and passenger car parking*
 - *Area designated as the landside 'Pegasus Business Park' (commercial development) totals 70 acres, of which 28 acres has been developed²;*
 - *60% of Orange hatched area has yet to be developed for any uses despite the tonnage throughput attained by EMA.*
66. This plan makes it evident that the total business development area cited for the EMA site is in no way equivalent to the Northern Grass with the more relevant direct comparison being with the 70 acres of landside 'Pegasus' business park at East Midlands and the proposed Manston Northern Grass development zone of 83.5 acres, at least on the basis of RSP's original proposals for B1/B8 development for businesses seeking an airport location as both of these zones are entirely landside areas with no direct airfield access.
67. However, the revised NSIP Justification Statement states that it is now intended that the uses on the Northern Grass be limited strictly to those which are 'airport related', presumably to be consistent with the 2006 Local Plan policy which requires the whole of the site, including the Northern Grass, to be used for airside uses. 'Airport related' is normally taken to be those uses required to directly support the operation of an airport, and this would exclude more general business park uses which would simply prefer a location on or adjacent to an airport that formed the basis for the Application. Such a general business park appears to be no longer what is proposed for Manston, particularly given the limitation to airport related uses now contained in the draft DCO, and, indeed, would not constitute Associated Development to the NSIP even if it was.
68. The list of 'airport related' facilities provided as part of the revised NSIP Justification comprises mainly operational facilities, such as crew report offices, offices for Border Force, airside transport offices which would need to be located with direct airside access, i.e. not on the Northern Grass as crossing Manston Road would be unacceptable (See Section 6 of our 2019 Report). Other uses proposed include facilities related to the ground transportation of passengers, which would not be compliant with the local plan policy. In any event, these facilities would be very small in scale using only a fraction of the site and not directly related to the NSIP facilities themselves so as to constitute Associated Development.

² This is developed area not building footprint.

69. The proposed restriction of uses to those strictly airport related is significant as the evidence from East Midlands (see our comments RSP's Written Answer to question CA.1.4) is that there is little or no requirement for landside airport related accommodation adjacent to the UK's main air freight hub and EMA is actively seeking to relax the usage constraint on such buildings to non-aviation related uses. Pegasus Business Park is, in practice, a general business park attracting businesses seeking a central location within the East Midlands, close to the M1. Even so, the full 70 acre site area has not yet been developed out, with currently only around 28 acres containing any buildings, car parks or road infrastructure at all.
70. In the absence of the promised (Deadline 3) benchmarking of land areas required for Associated Development, during the Compulsory Acquisition Hearing, the Applicant referenced other airport business parks with airport associated development. Two of those examples were Newquay Aerohub and Prestwick Aerospace Enterprise Zone. As is described below, neither of these examples supports the Applicant's case for the area of development land proposed for the Northern Grass area on the basis of airport related uses.
71. Newquay Airport Aerohub is an Enterprise Zone of that includes both airside development land (231 acres), a landside business park covering 87 acres of land and a further 45 acres of land defined as economic zones related, inter alia, to passenger terminal operations (<https://www.aerohub.co.uk/our-offer/development-opportunity>). In relation to the landside business park, which is the relevant comparison to the Northern Grass, "53.5 acres are now serviced and build-ready" amounting to 115,000 square metres of floor space, and is described by the EZ as being "Open to businesses from all sectors" with the caveat that they give priority to aerospace and aerospace supply chain companies (<https://www.aerohub.co.uk/business-park/the-development>). However, it is understood that only 2 businesses currently occupy space within the landside development and that neither of them are 'airport related' businesses or even aero sector related, with one being a manufacturer or prefabricated houses. As the Aerohub was established in 2012, with business park plots serviced and available for development in 2015, it is clear there is very little demand currently for this type of development. There is also limited take up of the airside development area but this is not relevant to the Northern Grass comparison.
72. Prestwick Aerospace is another Enterprise Zone established in 2011 covering 34 acres which includes existing airside and landside developments (hangars, warehouses and offices) plus a number of as yet undeveloped plots. Most of the current occupants are aerospace sector companies, such as BAE Systems and Spirit Aerosystems, but these companies are not airport related nor making extensive use of the airport as parts and supplies are trucked in rather than needed access to the runway³.
73. It would appear that the benchmark examples being relied on by RSP are general business parks that happen to be located on land holdings adjacent to operational airports. Even on this basis, the take up of these sites does not suggest that a general landside business park site of the scale of the Northern Grass could be justified.
74. Given the requirement for the development to be strictly related to the NSIP Project and with the restriction to strictly airport related uses, as defined in the Amended NSIP Justification Statement, the requirement for land for landside development is even more limited. Such uses as might locate on the Northern Grass are likely to be confined to passenger related car parking and surface transport related activities, which would occupy only a small part of the area at the throughput proposed.

27th March 2019

³ York Aviation has done a number of studies in relation to Prestwick Airport for Scottish Enterprise and are familiar with the site but the reports remain commercially confidential.