



# RiverOak Response 28<sup>th</sup> October 2016

AviaSolutions for Thanet District Council

November 2016



**aviasolutions**  
A GECAS Company

## Disclaimer of Liability

This publication provides general information and should not be used or taken as business, financial, tax, accounting, legal or other advice, or relied upon in substitution for the exercise of your independent judgment. For your specific situation or where otherwise required, expert advice should be sought. Although Avia Solutions Limited or any of its affiliates (together, "Avia") believes that the information contained in this publication has been obtained from and is based upon sources Avia believes to be reliable, Avia does not guarantee its accuracy and it may be incomplete or condensed. Avia makes no representation or warranties of any kind whatsoever in respect of such information. Avia accepts no liability of any kind for loss arising from the use of the material presented in this publication.

## Copyright

Copyright © 2016 the General Electric Company. All rights reserved.

"GE," "General Electric Company," "General Electric," "GECAS", "GE Capital Aviation Services Limited", "AviaSolutions," the GE Logo, and various other marks and logos used in this publication are registered trademarks, trade vice marks of the General Electric Company. No part of this publication or any trademark or trade name may be used without the written permission of the General Electric Company.

# 1. Introduction

## 1.1. Context

Thanet District Council (“TDC”) has asked AviaSolutions to prepare a short response to a letter (hereafter “the letter”) received by the Council Chief Executive, Madeline Homer, on 28<sup>th</sup> October 2016 regarding AviaSolutions’ report into the viability of Manston Airport and the Local Plan process. The letter was issued by Bircham Dyson Bell LLP on behalf of its client, RiverOak.

This letter purports to provide explanation as to why, in RiverOak’s opinion, it considers AviaSolutions’ report to be “...wholly inaccurate, inadequate and misleading”. The letter puts forward nine key points as to why RiverOak has reached the above conclusion. This response document addresses these key points.

AviaSolutions has only sought to address the points raised in the letter that are concerned directly with its report. This letter does not seek to address any of the wider subjects raised by RiverOak (e.g. the Local Plan and the way in which the Council wish to utilise the findings of AviaSolutions’ report).

## 2. Response to RiverOak’s Key Points

### 2.1. It relies upon interviews with anonymous contributors which prevents an open and fair assessment of their contributions.

The report contained details of 13 stakeholder interviews and responses. Over half (7) of the interviewees are identifiable by the company and individual representing the company.

Where comments are not attributable to an individual, this is because their inclusion in AviaSolutions’ report was conditional upon an anonymous basis. However, the report does identify the individual’s role and therefore suitability for inclusion as a qualified stakeholder.

### 2.2. It is authored by an organisation which is heavily involved in advising on Heathrow Airport and gives rise to a serious concern over a conflict of interest.

AviaSolutions is not currently engaged by Heathrow Airport in any capacity. AviaSolutions’ most recent engagement by Heathrow Airport Ltd was in 2011.

### 2.3. It deliberately ignores all the information provided to it by RiverOak

RiverOak provided links to seven reports, all of which were reviewed by AviaSolutions in the course of compiling its report. Several of these reports had already been considered and one of these reports (Oxford Economics / Ramboll for TfL) forms the basis of the UK freight demand forecast within AviaSolutions’ report.



## **2.4. It does not divulge the data or modelling on which it heavily relies, instead it asserts its conclusions without setting out its evidence, rendering it impossible for a reader to assess its conclusions**

AviaSolutions has set out in chapters 4, 5 and 6 details of its methodology. In chapters 7 and 11 the specific analysis with regards to Manston Airport is set out. Full details of the working model and underlying modelling assumptions have been provided to Thanet District Council.

## **2.5. On cargo demand it is in direct conflict with the conclusions of (and does not even acknowledge) at least six respected studies showing considerable unmet demand/future forecasts for dedicated air freight, although it does seek to dismiss the findings of York Aviation (page 27)**

Whilst the six reports are not specifically identified, we assume RiverOak is referring to the following. Many aspects of our report align with the conclusions of these reports, even though they may not be directly referenced.

### **1. Civil Aviation Authority (2013), *Appendix E: Evidence and analysis on competitive constraints*. Available from <http://www.caa.co.uk/WorkArea/DownloadAsset.aspx?id=4294972473>**

This report is not a freight traffic forecast.

The report considers the effect of competitive constraints in the UK airport market and whether airlines can easily switch from Heathrow to other airports. In terms of freight, the report highlights:

- “BA cannot switch its hub and spoken operation to another airport .... BA has invested some £800 million in its new world cargo terminal”.
- “Nearly all [freight] (more than 99 per cent) of this is carried in bellyhold of passenger aircraft”.
- The report concludes “The potential loss of cargo revenue may also be an incremental switching cost for certain airlines, as the feed of cargo at Heathrow is the largest in the UK, due to the concentration of the air cargo community around Heathrow. In addition, airlines are likely to have sunk costs from marketing and other related costs from promoting its services”.

### **2. Civil Aviation Authority (2016), *Strategic themes for the review of Heathrow Airport Limited's charges (“H7”) Technical Appendices*. Available from <https://publicapps.caa.co.uk/docs/33/CAP%201383A%20final%20March%202016.pdf>**

This report is not a freight traffic forecast.

The report considers the main themes for reviewing Heathrow Airport’s published charges. In terms of freight, the report highlights the following:

- “Given the nature of the operation at Heathrow where 95 per cent of cargo is carried by passenger aircraft, we consider that the interests of cargo owners will generally be closely aligned to those of passengers” (pg. 34).
- The report also sets out a summary of the trends in cargo traffic since 2000 in the UK (pg.75) which highlights that there has been virtually no growth since 2000 and that Heathrow is by far the most dominant airport.

**3. Department for Transport (2009), The Air Freight End-to-End Journey: An analysis of the end-to-end journey of air freight through UK international gateways. Available from <http://webarchive.nationalarchives.gov.uk/+http://www.dft.gov.uk/about/strategy/transportstrategy/tasts/userexperience/endtoendjourney.pdf>**

This report is not a freight traffic forecast.

The report considers the end-to-end journey of freight, focusing on East Midlands and Heathrow airports. Some highlights include:

- Details as to why rail access is not used for airfreight anywhere in the UK, which explains why Thanet Parkway is not a relevant consideration for airfreight purposes (pg. 41).
- Evidence of how much international trucking takes place at Heathrow to and from continental Europe (pg. 50). This indicates the extent of the pull of large airports such as Heathrow, Paris (CDG), Amsterdam (AMS) and Frankfurt (FRA), and illustrates that road feeder services are an integral part of a freight network and not necessarily due to airport capacity being constrained.

**4. Gardiner, J. (2006), An International Study of the Airport Choice Factors for Non-Integrated Cargo Airlines. Doctoral Thesis, Loughborough University**

This report is not a freight traffic forecast.

This PhD thesis considers the reasons why cargo airlines select airports for operations. The report concludes with the most important factors which are set out below:

- Origin and Destination (O&D) Demand; actual evidence from the previous twenty years indicates minimal O&D demand from Manston Airport.
- Freight Forwarder Presence; Heathrow and Stansted have both developed large freight forwarding communities. Manston Airport would be in direct competition with these established cargo centres that are centrally located and offer users significant scale economies.
- Passenger Airline Ops for Transshipments; Manston is highly unlikely to have long-haul operations which are required to support an extensive transshipment product (for example at Heathrow or the other major European hub airports).
- Presence of Partner Airlines; Cargo airlines often partner other cargo airlines to obtain greater network coverage through hub transshipments. This requires the freight hub to have many carriers operating, such as at Stansted or Luxemburg.
- Flying Time/Cost; Manston Airport would offer some marginal gains in flight time over other London Airports for inbound flights from Africa and Asia.
- Access to Market: Manston Airport's location in the South-East corner of the UK make it very unattractive for the UK market compared with established alternatives.

The principles set out in this report are in line with those of AviaSolutions and underpin our approach to this project. Therefore, whilst the study has not been directly referenced, we believe that contrary to being "in direct conflict with the conclusions of the report", there are a number of areas where AviaSolutions' report puts forward similar themes and draws similar conclusions.

## 5. Implication for the Air Freight Sector of Different Airport Capacity Options by York Aviation <https://tfl.gov.uk/cdn/static/cms/documents/air-freight-implications-from-new-capacity.pdf>

This report studies the effect of capacity options on the air freight market in London and includes a freight forecast.

The report demonstrates the importance of a large hub airport and does not advocate alternative or regional airports to support freight growth. Some highlights of the report are detailed below:

- “Overall, it seems to *[sic]* reasonable to suggest that the air freight market in London is already being constrained by the capacity issues at Heathrow. It also seems clear that to a significant degree other airports cannot step in to provide relief as they do not have the long-haul networks to support bellyhold capacity.” (pg. 11)
- It concludes with a snapshot forecast of demand in 2050, which suggests that in a 3<sup>rd</sup> Heathrow Runway scenario there will be insufficient capacity for freight (as does AviaSolutions report). Back-solving the demand (based on CAGR) suggests that capacity at London airports will not be exceeded until 2037 according to the York Aviation report. AviaSolutions’ report suggests this will be in 2047.

Therefore, contrary to dismissing York Aviation’s report, AviaSolutions own findings broadly concur with those of York Aviation.

## 6. Impacts on the Air Freight Industry, Customers and Associated Business Sectors by Oxford Economics / Ramboll <https://tfl.gov.uk/cdn/static/cms/documents/impacts-of-a-new-hub-airport-on-air-freight-industry.pdf>

This report is the basis of AviaSolutions’ freight traffic forecast, therefore it is difficult to see in what way AviaSolutions’ forecast is either in direct conflict with, or fails to acknowledge the report.

### **2.6. It assumes that all demand for air freight will be met by existing flights having greater loads until 2050 and that there is therefore no demand for air cargo to or from new destinations for 34 years, which is incorrect (page 31)**

This statement is factually incorrect.

AviaSolutions’ report assumes 240,000 additional ATMs at Heathrow, many of which may serve new destinations. We also assume an increase of 7,000 freighter ATMs at Stansted.

We do assume that in an increasing demand scenario, the average freight load per aircraft will marginally increase on passenger flights<sup>1</sup>, though well within existing capacity. We also assume that the average load per flight on freighters will increase as transshipments are displaced with higher yielding UK-based freight.

<sup>1</sup> This is a method common throughout AviaSolutions and York Aviation’s reports.

**2.7. It assumes that Manston would reopen in the same configuration as before given the underestimate of the considerable investment RiverOak will make, when in fact its capacity will be expanded considerably (pages 30 and 37)**

In our experience, even when an airport has ambitious development plans, these are introduced in a phased manner in line with expected demand, rather investing in facilities that have a capacity for volumes forecast in 20 or 30 years' time. AviaSolutions capital investment assumptions are aligned with the demand forecast.

RiverOak appear to have focused on the supply side (which is currently well ahead of current demand in the London system), rather than the demand fundamentals.

**2.8. Insofar as its passenger analysis is comprehensible it assumes that very little of 5m rising to 44m unallocated demand for passenger services in the south east would use Manston if it reopened (page 24)**

This is correct.

The analysis is based upon the origin of passengers currently using Heathrow Airport, and in turn where they may choose to fly from if the London airports are full.

Of these passengers, 4% are from Kent. We assume that 90% of these passengers would choose Manston. The Greater London area accounts for 49% of Heathrow passengers and we assume 10% of the unaccommodated demand from Greater London chooses Manston Airport. The proportion of the Greater London Area selecting Manston Airport is far lower as they have many more alternative options all within reasonable reach (Southampton, Birmingham and East Midlands). The remaining 47% of UK unaccommodated demand for Heathrow (UK total demand less 4% from Kent and 49% from Greater London) is assumed to use airports within their regions which would be more convenient.

**2.9. It assumes a turnover of 2.2m passengers would be unviable, but at least ten airports within the UK currently operate viably with fewer than 2m passengers and no significant freight component, and passenger flights are only a minor component of RiverOak's plans**

It is not clear where '2.2m passengers' is quoted from.

Many regional airports in the UK struggle to achieve profitability as they are unable to generate sufficient passenger volume and revenues required to cover the costs of operation and necessary investment in facilities. These airports include a number that have closed or ceased to operate commercial passenger services in recent years (Manston Airport, Plymouth Airport, Coventry Airport, Blackpool Airport). Other UK airports have required public investment to remain open (Prestwick Airport and Cardiff Airport).

AviaSolutions' report indicates that passengers would grow quickly at Manston Airport until a new runway (at either Heathrow or Gatwick) is opened. At that point, we believe that passenger volumes would then fall away very quickly before slowly recovering.

Given the scale of upfront investment required to acquire the airport and rehabilitate the operational facilities (terminal, runway, control tower, fire station etc.), retained earnings are not expected to be positive until 2035.

The table below sets out passenger volumes and profit (EBIT) for UK airports sourced from CRI and published accounts. It suggests that airports with low passenger volumes typically find it difficult to generate positive earnings on a sustainable basis.

Source: CRI and Published Accounts*	Profit (£'000)**	Passengers ('000)
Heathrow	987,000	72,332
Gatwick	174,700	35,868
Manchester	84,889	21,152
Stansted	70,250	17,995
Edinburgh	44,859	9,786
Birmingham International	30,626	9,251
Bristol	29,439	6,075
London City	28,670	3,381
London Luton	28,296	9,711
Glasgow	18,107	7,359
Newcastle	17,617	4,415
Aberdeen	15,282	3,488
East Midlands	7,647	4,343
Southampton	3,563	1,723
Belfast International	2,461	4,018
Humberside	569	292
Bournemouth	157	668
Highlands & Islands	-442	1,367
Liverpool	-800	4,013
Exeter	-1,438	860
Durham Tees Valley	-2,639	154
Cardiff International	-2,851	1,222
Leeds Bradford	-3,226	3,329
Southend	-3,763	1,002
Doncaster Sheffield	-4,968	696
Prestwick	-8,900	827

\*2014/15 (CRI), or most recently available (Companies House)

\*\*EBIT