



Review of Azimuth & Northpoint Forecast for Manston Airport – FINAL REPORT

*Report prepared by AviaSolutions
for Thanet District Council*

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Executive Summary

AviaSolutions has reviewed the cases for Manston Airport prepared by Azimuth Associates and Northpoint on behalf of RiverOak Strategic Partners in February 2017. Azimuth's case for Manston Airport is based on an assessment of the airport's ability to capture a significant share of the air and road freight market in London and the south east. Northpoint's forecast is based on a similar premise coupled with the introduction of multiple aviation related auxiliary activities.

AviaSolutions' view is that the Azimuth and Northpoint forecasts both represent a highly ambitious outlook for air freight volume at Manston Airport and the likelihood of the forecasts being realised is very low. We do believe that there may be scope for the reintroduction of passenger services, broadly consistent with the volume projections set out in AviaSolutions report, although this alone would not generate sufficient revenue to develop profitable operations.

Neither report puts forward a sufficiently credible case, nor provides the evidence, for AviaSolutions to change its views on the financial viability of Manston Airport.

We remain of the view that whilst Heathrow Airport continues to offer substantial freight capacity to an extensive global network, and Stansted Airport offers capacity for air freighter movements, the London air freight market has capacity to grow without the re-introduction of capacity at Manston Airport. Freight Forwarders have invested heavily in infrastructure around the UK's core cargo airports and carriers have developed their networks as such. Without clear value drivers that support relocating services to Manston Airport, the case remains to be made that demand exists for a freight facility at Manston Airport.

Provision of capacity alone is no guarantee of financial success, a view reinforced by the empirical evidence of multiple failed attempts to develop profitable aviation operations at Manston Airport.

1. Introduction

1.1. Context

AviaSolutions (“Avia”) has been commissioned by Thanet District Council (“TDC”) to undertake a detailed analysis of the reports prepared by Sally Dixon of Azimuth Associates (“Azimuth”) for RiverOak in February 2017.

- Volume I – Demand in the south east of the UK
- Volume II – A qualitative study of potential demand
- Volume III – The forecast

Additionally, a Representation to the Local Plan was produced, entitled “The Shortcomings of the AviaSolutions Report and an Overview of RSP’s Proposals for Airport Operation at Manston” prepared for RiverOak Strategic Partners by Chris Cain of Northpoint Aviation Services (“Northpoint”). The Representation is largely a repeat of the Appeal prepared on behalf of RiverOak Strategic Partners, which has already been the subject of review by AviaSolutions in March 2017. In the second part of this document, AviaSolutions presents the earlier critique of Northpoint’s appeal, updated to reflect some additional airport benchmarks included in the Representation.

Avia has previously been engaged by TDC to assess the financial viability of Manston Airport. The report was completed in September 2016 and concluded that it is unlikely that the airport would be financially viable in the long term, and almost certainly not possible in the period to 2031. This conclusion was reached after interviewing key stakeholders and industry experts and analysing extensive market data. In the UK, today and into the foreseeable future, there is excess market capacity for air freighter movements due to the strength of the bellyhold market at Heathrow, which continues to grow despite the statutory movement cap. Stansted and East Midlands, which both are much more centrally located than Manston Airport, provide ample capacity for air freighter movements in the short to medium term, by which time we expect the south east market to introduce new capacity at Heathrow.

Azimuth Associates is an independent aviation and business research consultancy providing analysis and insight into the future direction and potential for airport development around the world (source: www.azimuthassociates.co.uk).

In March 2017, RiverOak Investment Corp., LLC announced that RiverOak Strategic Partners Limited, a newly UK-registered joint venture company had acquired all rights and interests and has assumed full financial and operational responsibility for the Development Consent Order (DCO) with respect to Manston Airport and the future reopening and operation of the airport. The new operating company, which is not affiliated with RiverOak Investment Corp., LLC, will pursue the DCO application to acquire and reinstate Manston as a fully operational

airport and if successful, will be operated, owned and managed completely independently of RiverOak Investment Corp., LLC (source: www.riveroakic.com/news.html).

The stated objective of the Azimuth report is to consider whether there is a compelling case in the public interest to create a freight focused facility at Manston Airport. The report contends that the decision for Manston Airport to be returned to operational use hinges on three key questions:

1. Does the UK require additional airport capacity in order to meet its political, economic, and social aims?
2. Should this additional capacity be located in the south east of England?
3. Can Manston Airport, with investment from RiverOak, relieve pressure on the UK network and meet the requirement of a nationally significant infrastructure project?

The report considers a range of data sources and publications to answer the above questions, concluding that there is an overwhelming case to support planning and development at Manston Airport.

In this review of the Azimuth and Northpoint reports, Avia considers the supporting evidence, rationale and the case put forward by the authors to inform subsequent discussion on the future of Manston Airport.

2. REVIEW OF AZIMUTH ASSOCIATES REPORT

2.1. Volume I – Demand in the south east of the UK

2.1.1. Overview

The first document prepared by Azimuth (Volume I) sets out an overview of airport capacity in the UK, focussing on the south east of England. This is followed by a review of air freight capacity in the south east that may fulfil excess air freight demand in the short to medium term. The report proceeds with an outline of the political context for UK aviation decision making before focussing on Manston Airport's potential as a freight focussed airport and the various external influences on the airport's future.

The report by Azimuth draws on a range of data sources and publications although there are several aspects of the report which we believe merit further scrutiny and challenge which are set out below.

2.1.2. Requirement for additional airport capacity in the UK and South East

There is little to add with regards to Azimuth's assessment of the lack of capacity in the UK airport sector and its impact on the UK economy (Chapter 2). Supporting information is drawn from extensive material available on the subject including a range of data sources referred to in the Airports Commission publication on UK airport capacity, July 2015. We do note however that the conclusions drawn from the research are centred on air passenger traffic rather than air freight.

In Chapter 3 of Volume I, the focus of the report shifts to air freight, drawing on information from Boeing and Airbus forecasts which consider the global aviation markets and intercontinental trends in production and supply, citing long term air freight growth rates of 4.2% and 4.0% respectively. Azimuth further note that the UK air freight market has become constrained at London airports, with the implication that a lack of air freight capacity is one of the causal factors behind the stagnation of the UK air freight market, the annual performance of which is set out below.

UK Air Freight ('000 Tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016 Vs 15	CAGR (2006-16)
London Airports	1,717	1,724	1,743	1,564	1,808	1,803	1,806	1,761	1,820	1,806	1,869	3.5%	0.9%
UK Airports	2,315	2,325	2,282	2,048	2,325	2,298	2,302	2,262	2,304	2,299	2,385	3.7%	0.0%

Source: CAA



We would also highlight the excess capacity that exists in the UK market today which supported air freight growth of 3.7% in 2016, and in the London market which increased by 3.5%. Stansted Airport (the second largest UK airport by freighter ATMs after East Midlands Airport) increased freight tonnage by 7.3%, though utilised only around half of the airport's statutory freighter movement cap (20,500 per annum). Further, load factors from Heathrow in bellyhold remain well below constrained levels. Azimuth has not commented on the market's ability to continue driving freight throughput out of the existing infrastructure as evidenced by the above growth in 2016.

A key observation is Azimuth's absence of comment on the uniqueness of the UK air freight market, particularly in London. Only around 30% of UK air freight is carried on dedicated freighter aircraft, substantially lower than the global average, where 56% of revenue tonne kilometres (RTKs) are transported on freighter aircraft. This is at least in part due to the significant bellyhold capacity and network diversity available to exporters and importers from an airport as large as Heathrow. The lack of excess air transport movement (ATM) capacity at Heathrow (480,000 annual movement cap) has led to a sustained increase in aircraft size, which increases bellyhold capacity and keeps the price of bellyhold air freight low, relative to dedicated freighter based capacity. Around 35% of ATMs at Heathrow are widebody, long haul aircraft resulting in an average bellyhold cargo capacity of around 7-8 tonnes per aircraft and an extensive network of direct flights to destinations around the world that is unrivalled by any other European airport.

A central tenet of the Azimuth reports appears to be that the bellyhold and dedicated freighter markets are mutually exclusive, whereas the reality is that they are intrinsically linked and overlapping markets with some minor exceptions (low density bulk freight), and where price per kg plays a pivotal role in determining the movement of goods by shippers and freight forwarders. Bellyhold freight tends to be far more cost effective than freighters for an equivalent distance and density from Heathrow which, especially when coupled with the extensive network, ensures the predominance of Heathrow in the UK air freight market.

2.1.3. Can Manston Airport relieve pressure on the UK aviation system, and be considered a nationally significant infrastructure project?

The Azimuth report concludes that the London Airports will be at capacity by 2030 based on the Airports Commission findings. As noted earlier, the findings of this report relate mainly to passenger plus freighter movements, and AviaSolutions' view is that excess cargo capacity (combining bellyhold and freighter capacity) will continue to exist in the south east of England beyond 2030.

Azimuth put forward a case for the re-introduction of Manston Airport to relieve pressure on the London airport system. However, AviaSolutions view is that the provision of airfield and terminal capacity alone is not sufficient to develop financially viable air freight based airport operations as there must be a corresponding demand scenario to support such operations. In the long term, only if additional runway capacity is not delivered at Heathrow / Gatwick is there likely to be excess demand that will spill from the London system to Manston Airport, but that is a very long term, risk-laden investment proposition.

The stated objective of RiverOak is to develop an air freight focussed business at Manston Airport, but the provision of capacity is not the determinant of profitability. It is AviaSolutions' view that Azimuth's report does not provide sufficient evidence of demand at Manston Airport from air freight operators to support the required investment in facilities and profit generation potential to re-establish Manston Airport as a going concern.

Manston Airport continued to provide a gateway to the UK air freight market until ceasing operations in 2014. It is therefore difficult for Azimuth to argue that the UK air freight market has stagnated due to a lack of capacity, without also acknowledging that one of the providers of air freight capacity in the UK and south east market during this period (Manston Airport) was unable to attract sufficient cargo volume throughput to operate profitably, leading to its eventual demise as a London based air freight focussed facility. The Azimuth report does not acknowledge nor address the fact that even if there has been a lack of air freight capacity in the UK and south east causing the cargo market to stagnate (a hypothesis that is not supported by Avia), the market still chose not to utilise Manston Airport as a solution to this capacity shortfall.

Overall, taking these issues into consideration, whilst the airport envisioned by inference from RiverOak Strategic Partners' proposal would technically be capable of handling more than 10,000 freighter ATMs, it is Avia's view that the demand would not exist at Manston Airport to support such a number of ATMs, and by deduction, therefore Manston Airport would not serve to relieve pressure elsewhere on the aviation system.

2.2. Volume II – A qualitative study of potential demand

2.2.1. Overview

The second document prepared by Azimuth sets out an assessment of the expected demand for Manston Airport as a freight hub for the south east of the UK. The objective is to provide a 20-year demand forecast for freight and passenger movements based on a thorough review of the market, existing literature and stakeholder interviews. The report contends that Manston Airport has the location, airspace, capacity potential and demand required to grant a DCO which would allow the redevelopment of the airport.

Azimuth acknowledges the challenge of reliably forecasting freight demand and instead of extrapolating past trends seeks to establish a body of qualitative evidence to underpin the proposal to retain Manston Airport as a freight based airport serving London and the south east market. The report identifies specific opportunities for Manston Airport based on constraints in the London airport market and aviation related activities which could improve the prospects of profitability at the airport.

2.2.2. Methodology

The report sets out an extensive review of the air freight market characteristics and the available air freight forecasting literature, acknowledging not only the lack of academic research into this subject but also the differences between forecasting cargo and passenger movements. The review concludes that instead of adopting a mathematical model, a qualitative approach that gathers opinions from industry experts will allow areas of potential demand for Manston Airport to be identified and explored. There follows an outline of the methodology to identify and select interviewees and the freight related questions that would inform the demand forecast model for Manston Airport.

Chapter 5 sets out the stakeholder responses which are almost entirely favourable and present Manston Airport as a solution to the challenges caused by an air freight market operating in London's highly congested air travel system. Chapter 6 provides a summary of these findings and their influence on expected freight and passenger demand at Manston Airport, including sector and geographic market opportunities.

2.2.3. Conclusions

The report concludes with a summary of the stakeholder feedback which is considered to be an affirmation of the findings in Volume I, namely a significant and deteriorating lack of aircraft movement capacity in London and the south east. The report ends with statements outlining the implications of the research outcomes for UK aviation policymakers and RiverOak.

Avia’s assessment of this report is that it reflects a wider body of evidence that supports an urgent need for additional movement capacity in the London air travel market. Similarly, we would concur with the view that UK aviation policymakers do not have the same depth of knowledge about the air freight market that they do about the air passenger travel market and a National Air Freight Demand Model would be a useful development.

The findings of the stakeholder interviews do however contrast markedly with Avia’s own findings, published by Thanet District Council in September 2016 (“Commercial Viability of Manston Airport”, Chapter 6.3). Avia’s primary research indicated that whilst Manston Airport offered some service quality and processing time benefits, the cargo market did not value these over the remote geographic location which is 3/4 surrounded by the English Channel. When considered against its competitors such as Stansted Airport and East Midlands Airport, the location of Manston Airport and its relative access to the south and south east of the UK is inferior.



Source: Google

2.2.4. Additional Considerations

We would also add that the perceived advantages and opportunities that exist for Manston Airport reported by Azimuth are not new. This is not to underestimate the value of introducing these non-core activities at the airport, more to highlight the fact that previous owners will also have sought to exploit these opportunities, though no previous owner has been able to do so successfully.

- Maintenance, Repair & Overhaul (MRO) base
- Fixed Base Operator (FBO) facility
- Integrator operations
- Aircraft recycling

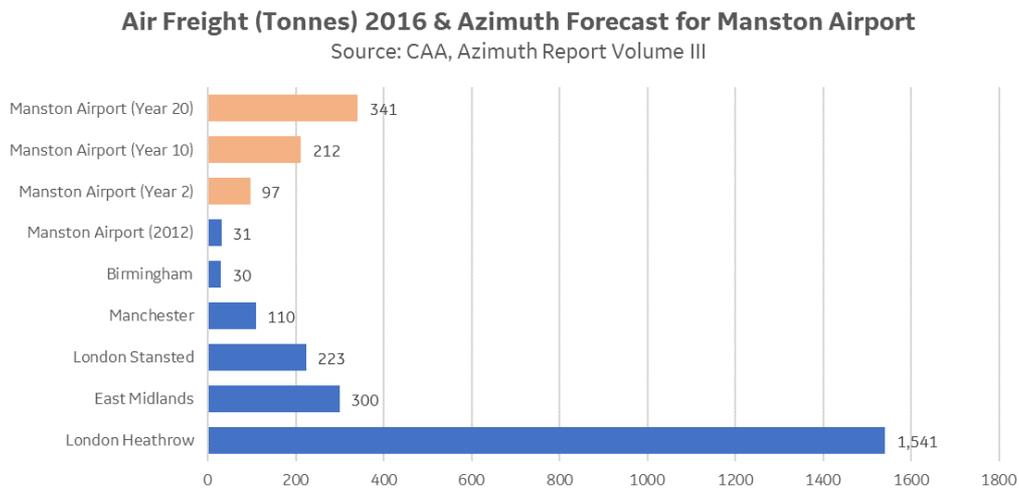
2.3. Volume III – The forecast

2.3.1. Overview

The third document prepared by Azimuth presents the air traffic forecasts for Manston Airport including freight and passenger movements for the first 20 years of operation (notionally 2020 to 2040). The report also sets out the expected infrastructure requirements to provide suitable facilities to accommodate the demand.

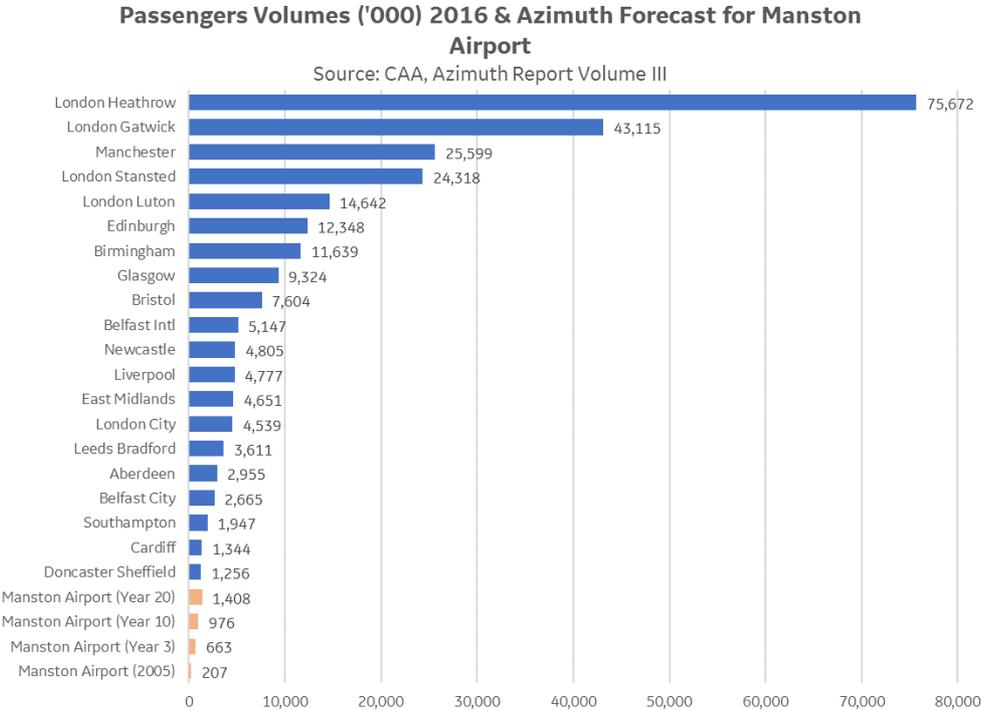
2.3.2. Forecast Results

The chart below illustrates the expected volume of freight (tonnes) at Manston Airport as set out in the Azimuth report (Volume III). The forecasts are compared with the most recent air freight tonnage throughput (2016) at the UK’s five largest air freight airports. Manston Airport is forecast to become a significant provider of air freight capacity by Year 2, which would see the airport rank alongside Manchester, and towards the end of the forecast horizon would be competing with London Stansted and East Midlands (assuming limited growth of the UK air freight market more generally over the next 20 years).



The report notes that the bottom-up approach to the air freight forecast, based on specific traffic types, is considered ‘... more conservative than those derived by a macro-level, top down method’. The approach utilises the outcomes of the stakeholder interviews (primary data) and industry forecasts from IATA, Boeing and Airbus *inter alia* (secondary data). The report asserts that the ‘push’ and ‘pull’ factors at Manston and more widely in the London and south east air freight market will catalyse a change in the air freight model, in a similar way that the low-cost passenger model has led to a paradigm shift in fares and demand for passenger air travel.

The chart below illustrates the forecast passenger volume at Manston Airport as set out in the Azimuth report (Volume III). For context, the forecasts are compared with the most recent passenger throughput (2016) at UK passenger airports with more than 1 million annual passengers.



The report notes that the short to medium term passenger forecast is based on market intelligence rather than an extrapolation of past performance or an allocation of spill from London’s congested airports. This includes *inter alia* a scheduled carrier with twice daily services to a European hub, two based low cost aircraft during years 3-5 and a further based aircraft thereafter and a small number of other charter operations. Longer term forecasts reflect recent industry projections from IATA, Boeing and Airbus.

2.3.3. Forecast Review

The projections set out in the Azimuth Report claim to be supported by stakeholder interviews and an extensive review on the literature available to inform the approach to air freight forecast modelling. The forecast growth reflects the combined expectation that Manston Airport can benefit from the spill resulting from a lack of air freighter capacity in the London and south east market and stimulate market growth by capturing a share of the freight market that is currently transported by road to and from Europe.

Avia's assessment of the forecast methodology is that the approach adopted by Azimuth is reasonable, though the reliance on primary data (interviews) to develop the bottom-up freight forecast has significant potential to exaggerate or overstate the market appetite to introduce services at Manston Airport.

For example, the forecast inputs set out in chapter 2.1 and 2.2 of the report focus exclusively on the opportunity, and do not take into consideration the many risks that would be incurred by a cargo operator or freight forwarder choosing to commence operations at Manston Airport. Many of the commercial risks which precipitated the recent air freight decline and subsequent closure of Manston Airport are still in evidence today. Azimuth continues to cite the lack of capacity at other airports in the south east as a major push factor in favour of services at Manston Airport, despite the evident excess combined freighter and bellyhold capacity at Heathrow and Stansted and mature air freight bases at both airports.

Furthermore, the use of OEM forecasts, which are developed around global trading patterns, as a base for long term development of air freight at Manston Airport is unsuitable, particularly given the static volumes seen in the UK air freight market over the last decade. Global trends are significantly ahead of recent trends in the UK market. To use global trends as the basis of forward projections for the UK market given the historic divergence between the two markets is at best naïve and without the necessary qualification is disingenuous.

Therefore, whilst there is the possibility given the right macro and micro economic conditions for Manston Airport to regenerate itself and act as catalyst for air freight operations transitioning away from Heathrow and Stansted, the probability of such an outcome remains very low. In our view this represents a significant risk to investors at the airport, and a significant operational risk to any airline that places services at the airport.

2.3.4. Infrastructure Review

The assessment of infrastructure requirements to meet the forecast demand has been developed by other independent consultants; Viscount Aviation, Osprey Consulting Group and RPS Group. The approach appears methodical, resulting in various capacity solutions covering aircraft stands, terminal buildings for international arrivals and departures and car parking. Fuel storage and transportation requirements are also considered, though the report appears to overlook air traffic control, security and fire service facilities which add significantly to the upfront capital cost of restoring commercial services.

2.4. Conclusions

Avia has considered the material set out in the Azimuth report which presents traffic forecasts for Manston Airport and is intended to establish the rationale for retaining Manston as an operational facility that contributes to the national aviation network.

Traffic forecasts are inherently subjective, but should be based on professional experience and judgement. However, at the heart of the Azimuth forecast is an assumption that there will be a paradigm shift in the approach to air freight in the London and south east, which will stimulate a switch from road freight to air freight and see significant air freight capacity move eastwards from London's Heathrow and Stansted airports. Given that Heathrow continues to offer substantial bellyhold capacity to a truly global network, and Stansted is utilising only around half of its statutory provision of air freighter movements, Avia's view is that the Azimuth forecast represents a highly ambitious outlook for air freight at Manston Airport, and one where the probability of such an outcome arising is very low under normal market conditions. We do however believe that there may be scope for the reintroduction of passenger services, broadly consistent with the projections set out by Azimuth and AviaSolutions' earlier report.

Avia's opinion, based on updated market information since the publication of our previous study (September 2016) is consistent with our earlier view that Manston Airport does not represent a financially viable investment opportunity under normal market conditions. As such, our conclusions are very much at odds with those of Azimuth, which in our opinion do not sufficiently consider or recognise the risks associated with investment in an airport which has failed to generate adequate financial returns since privatisation in 1998.

3. REVIEW OF NORTHPOINT REPORT

3.1. The Shortcomings of the AviaSolutions Report and an Overview of RSP’s Proposals for Airport Operation at Manston

3.1.1. Summary of Evidence

Chris Cain indicates the position that he holds with Northpoint Consulting and its relevance to the project. He also states his relevant experience that qualifies him to opine on the project in hand. Northpoint then set out the three key elements of the AviaSolutions Viability Study that the report seeks to challenge, namely freight projections, cross channel transshipments and substitutable bellyhold capacity. Finally, the report sets out suggestions for alternative forecasts for Manston Airport.

3.1.2. AviaSolutions Review

Northpoint’s Proof of Evidence focuses on three key aspects of the AviaSolutions Viability Study, namely the overall freight projections, cross Channel transshipments and substitutable belly hold capacity.

3.1.3. Manston Airport Benchmarks

Northpoint put forward several benchmark airports as comparable to a re-opened Manston Airport offering air cargo, air passenger links and aircraft servicing and re-cycling. We set out our reasoning why the comparison with Manston Airport is incongruous due to the vastly differing location and catchment characteristics of each benchmark airport.

Alliance Fort Worth: The airport in the centre point of an 18,000-acre industrial complex, with a multi-modal railway head located some 2km away and handling around 400k tonnes in 2016. The airport is at the heart of a huge complex of industrial and manufacturing companies with the business park specifically designed for large-scale manufacturing, distribution and industrial use. Many areas of the campus have direct access to the taxiway and airport apron to increase the speed of logistics. Additionally, it sits to the north of Fort Worth and the West of Dallas which have a combined GDP believed to be close to that of London.

Hamilton Ontario Airport: The airport’s website indicates it handled a total of 439k tonnes of freight in 2016, behind the Northpoint forecast for Manston in 2040. It also handled 300k passengers. It is an express cargo hub for domestic and international shipments with multiple airlines offering flights on international routes as far as South America. Additionally, the airport is the local point of access to the air travel market for the city of

Hamilton, with a population of c. 500k. Cargo partners include UPS and DHL who use it as their international Canadian hub and Canada Post.

Bergamo: Secondary hub for DHL / UPS facility, handling 117k tonnes of air freight in 2016, with DHL as a base operator and with UPS also present. The airport has 24/7 customs facilities with no restrictions on night operations. Most of Milanese cargo volume is processed through Milan Malpensa (550k tonnes in 2016) due to the large number of widebody aircraft offering bellyhold capacity across its extensive long haul network.

Liege: Located at the centre of the golden-triangle (Paris / Amsterdam / Frankfurt), the airport offers quick connections to all European destinations. It's breadth of airline customers is huge and offers a resilience from changes in mix. Operations are 24 hours a day with a limit of 90 ATM per night with no time restrictions. Offers aircraft landing to first truck leaving in 1 hour.

Leipzig: DHL's European hub, with the airport handling over 1m tonnes in 2016 which has grown rapidly in 10 years from 100k tonnes. The growth coincides with DHL making the airport its European hub and the birth of Aerologic, a JV between DHL and Lufthansa that has its base at the airport. The airport is a multi-modal hub with train line in terminal. The airport has a 24-hour operating permit for cargo flights and direct link to the trans-European motorways and railway network.

There are clearly structural and geographical reasons as to why each of these airports is different to the proposal for Manston Airport. As such, suggesting these are comparable benchmarks is not realistic. In order for Manston Airport to acquire the status of these airports it would need to demonstrate key elements of development, namely; commitments from key express players (DHL / UPS / FedEx / Amazon / Alibaba); an ability to operate night operations with few regulatory restrictions; and geographical advantages from nearby cities, industrial parks, and population centres.

3.1.4. Freight Projections

There are very few long term forecasts for the UK air cargo market, a position supported by Dr Dixon's report. However, RiverOak and AviaSolutions have both considered a report by York Aviation, and another by Oxford Economics / Ramboll. RiverOak consider that both these reports support their position.

Of these reports, York Aviation's forecast (produced for the Freight Transport Association) assumes that unconstrained cargo growth would be in line with UK GDP growth, a method that Dr Dixon appears to disagree with in the body of her report. York Aviation's study also assumes that freight growth is bellyhold focussed. This report also questions Boeing and Airbus' forecast growth rates, which are utilised in the long term growth forecast by Dr Dixon.

The cargo forecast produced by Oxford Economics and Ramboll was produced for Transport for London (TfL). The forecast produced was based upon various extrapolations of historic trends and provided high and low case projections.

AviaSolutions did not prepare its own UK cargo market forecasts (outside the scope of the original study) and instead adopted the mid-point of the most recent local forecast available for the UK market, namely that prepared by Oxford Economics. The UK market forecast was allocated by AviaSolutions based upon a cascade / preference model across the systems' airports (e.g. LHR, STN). As such, the AviaSolutions report does foresee some growth in the UK air cargo market, despite the market's stagnation for the last 16 years.

The differences between Northpoint's view and the assessment in the AviaSolutions Viability Study arise from alternative views of overall market growth and the airports that will handle the increase in demand. AviaSolutions' conclusions were based in part on inputs from industry experts, from its own knowledge of the sector, and from a detailed quantitative analysis of the freight capacity (bellyhold and main deck) which individual airports would be able to offer. Northpoint's views are based on the opinion that demand will be supply driven, and the evidence of the experts with whom RiverOak consulted.

It should also be noted that recent growth in the UK freight market is driven in large part through the weakening of UK Sterling (GBP) since the EU Referendum in June 2016. European shippers can access capacity to the West and East at more competitive rates than on continental Europe and channel traffic through the UK accordingly. Secondly, fears of cross-border tariffs in an increasingly protectionist environment are believed to be driving an element of inventory build-up in many economies, as the UK prepares to leave the EU and the USA focuses inwardly.

3.1.5. Cross Channel Transshipments

Northpoint's second point is in relation to the trucking of freight to and from continental Europe. This practice is recognised in the AviaSolutions report, largely in the context of UK airfreight being flown in and out of continental European airports. It is important though to note that a reverse flow also exists with continental European freight being trucked across the Channel to be flown into and out of UK airports. A lack of verifiable data on these flows hinders quantitative analysis, although the practice has existed for many years and despite this the freight industry chose not to use Manston Airport when it was open.

UK carriers rely heavily on European-originating freight to fill services ex-UK and on European-destined freight to fill services inbound to the UK. This freight is often priced at a discount to the direct-flight option as it is a sub-optimal routing, and the airline offers this routing to fill residual capacity it cannot fill otherwise with point to point shipments. The same is true in reverse for European carriers. It should also be noted that most freight shipped across the Channel in either direction will be flown from Heathrow in the UK and from the major

European hubs on the continent. This is driven through the large-scale passenger networks available at these airports, with bellyhold capacity to an extensive range of destinations, at a competitive price. This is a market position that would be difficult for Manston Airport to replicate.

Northpoint cite a York Aviation estimate of 55,000 additional dedicated freighter movements in the south east by 2050. This evidence cannot be located in the York Aviation report. Northpoint further cite York Aviation stating 'recognising that Manston is the only realistic opportunity to meet that scale of demand [55,000 freighter ATM]', again, this reference is not apparent in the York Aviation report.

3.1.6. Substitutable Bellyhold Capacity

Northpoint's final observation is in relation to the competitive dynamic between bellyhold capacity and pure freighters. Carriage of airfreight is a commodity and price is often the determining factor when selecting an airline for carriage (assuming all options are from airlines of a similar high regard).

AviaSolutions' experience in the freight industry is that many bellyhold operators can, when supply exceeds demand, reduce rates to such a level as to cover the marginal cost of freight plus a margin. The business is often operated as an addition to the passenger service, and therefore its real marginal costs are low. It is simply impossible for a freighter operator to reduce its rate to match this marginal cost and operate at profitably. Therefore, freighters tend to operate on thick routes where the economies of scale of a freighter operation can be realised. These routes are also curtailed by a non-related market, that of passenger demand. Where large scale passenger demand exists e.g. UK to USA, a residual effect of this is large scale freight capacity, which is unmatched to demand. The reverse can be seen on routes to the East, where passenger demand is less, but freight demand, particularly inbound to the UK, is high. As such, many freighters operate on these routings.

Given these market dynamics, AviaSolutions is unable to reconcile Northpoint's stance, but note that none of Azimuth's 24 interviewees were from a passenger airline providing bellyhold capacity, the segment of the industry responsible for most of the airfreight to and from the UK.

While not all cargo can be flown in the bellyhold of passenger aircraft, the extent of freight that can be carried may surprise the casual observer. Dependent on the aircraft type, heavy shipments up to seven tonnes can be transported, and regularly many wide-body aircraft transport pallets of 4,500kg. Shipments can easily be accommodated up to 2.43M x 3.17M and up to 1.6M in height, with some larger items able to be split across multiple ULD. An example of this includes the carriage of luxury cars, which are a regular component of many wide-body passenger services. Many passenger airlines now offer express services that guarantee the shipment will travel, and can also provide carriage for many types of dangerous goods.

AviaSolutions also disagrees with the assertion that, because 50% of global airfreight is flown on freighters, and within the UK only 30% is flown on freighters, that therefore the UK must be suffering from a lack of freighters

slots. In fact, it could be argued that this difference is due to the highly developed passenger network available from the UK providing sufficient bellyhold capacity such that freighters cannot operate the routes on an economically sustainable basis.

3.1.7. Additional Comments

Northpoint appears to argue that Manston would be attractive because it would be available for night time operations, while at the same time indicating that freighter movements at German airports can be scheduled in daylight hours. The report does not therefore highlight how it proposes to handle Express Freight (e-commerce) which is almost exclusively handled through night operations.

The report also (inadvertently) recognises that passenger operations are more remunerative to airport operators than freight only movements, hence AviaSolutions in its report on the possible viability of a re-opened Manston Airport thoroughly investigated the passenger market, an investigation criticised by both Northpoint and Azimuth.

Northpoint is misleading in suggesting that airport operators always give preference to passenger operators, as the allocation of slots is not in their gift. In the UK, slots are allocated by an independent body (Airport Co-ordination Limited) and provided that airlines utilise the slots allocated to them, they may hold them in perpetuity. This situation would also mean that Manchester Airport Group (the owner of Stansted Airport) may have some difficulty in displacing “...several thousand freighter movements to create ‘new’ passenger slots...”, notwithstanding the legal ring-fencing of annual freighter movements that exists at Stansted.

It should be noted that the passenger numbers given in Table 1 of Northpoint’s Evidence relate to travel to all destinations from the catchment area, while the figures in the AviaSolutions report relate to passengers travelling just to destinations which a Low-Cost Carrier might serve from Manston. While of course Manston’s core catchment area “...does not have a large airport like Stansted close to it like as Southend does...” (Paragraph 3.3), the wider area corresponding “...closely to the industry standard 60-minute drive time...” is of course very close to Gatwick Airport.

Northpoint also discusses various aviation-related activities which could be attracted to a re-opened Manston Airport. However, such activities tend not to need an airport to be in a specific location. Consequently, there is considerable competition in these markets, both national and international, from airports with limited commercial traffic but considerable unoccupied real estate for such activities.

Northpoint concludes by indicating that the RiverOak vision is a completely different model from that envisioned in the AviaSolutions report, which focussed on passenger driven revenues. While AviaSolutions does not accept this categorisation, it notes that its remit from TDC was to assess if a re-opened Manston Airport could be viable,

and not per se to express an opinion on the RiverOak proposal. In view of Northpoint's own words, "...the preference airports will always give to more remunerative passenger operations...", we investigated the passenger market. Additionally, it was also necessary to establish the scale of belly hold capacity on passenger services likely to be available to be able to assess the volume of freight that might be available for freighters at Manston Airport.

Northpoint asserts that "...the AviaSolutions work...does not stand-up to close scrutiny...". It does not however identify any factual errors in the work and its evidence merely highlights areas where different interpretations of facts, and different assumptions about the future apply.