

Airports Commission  
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31 October, 2013

Dear Sir

**RESPONSE TO THE AIRPORTS COMMISSION 'EMERGING THINKING'  
DATED 7 OCTOBER 2013**

This submission responds, on behalf of Manston – Kent's International Airport (MSE), of which I am the Chief Executive Officer, to the invitation to submit comments on the Airports Commission's 'emerging thinking', based on Sir Howard Davies speech on 7 October on the way it is minded to move forward in relation to its core remit on South East Airport and hub capacity. This is our eighth submission to the Commission and should be read in conjunction with those that preceded it.

Throughout our engagement with the Commission over the past nine months, our primary objective has been to ensure that the significant role that second tier airports in the South East such as Southend, Luton, Southampton – and of course Manston – can play within an overarching integrated airport system serving London and the South East system during the interim period before new runways are brought online is not lost sight of. While we support completely the tentative view put forward by Sir Howard that substantive new capacity in the South East will be needed over the next 35 years as part of a coherent long term solution to maintain the UK as one of the leading aviation hubs (as required by the Commission's Terms of Reference), we also wish to ensure that the 30-35 mppa's worth of additional capacity that the second tier airports potentially could provide (10m at Luton, 2.5m at Southend, 5m at Southampton and 15m at Manston), by making better use of runways that already exist, is not overlooked. Given that this contribution would be far more cost effective (in terms of private led investment and surface access improvements) and less environmentally damaging to exploit than capacity increments of a similar scale at LHR, LGW or STN, we think the case for this is overwhelming. There is a clearly understood propensity of passengers to use their local airport, reducing expensive and uncertain surface access journeys, which supports the development of the regional airports in the South East to satisfy locally generated demand.

Areas of Concern

Our principal concern about the Commission's emerging thinking, therefore, is that there is:

- no obvious acknowledgement of this opportunity in Sir Howard's speech,
- an excessive focus on regional airports 'outside' the South East (e.g. Birmingham, Bristol and Manchester) in the arguments it put forward without a clear distinction being drawn between these and those located much more conveniently in the South East itself, and that
- certain passages suggest these latter airports are being rather too readily dismissed in terms of the contribution they can make.

Witness for example the following statement:

*“An attempt to rely only on runways currently in operation would be likely to produce a distinctly sub-optimal solution for passengers, connectivity and the economy.”*

Or

*“Distributing demand to some destinations across a number of airports could see a higher number of smaller flights being needed to achieve the same degree of national connectivity”.*

These are generic statements that do not properly reflect the complexity and dynamics of the roles that different airports could play in an integrated South East system. Indeed, there seems to be rather too much focus on ‘big ticket item solutions’ at the larger airports, as reflected in the list of airports with whom the Commissioners have had direct engagement, rather than the incremental, quicker and more easily delivered, but none the less significant capacity at the small and medium sized airports in the region.

We are also aware that Sir Howard expressed concern about ‘commuter traffic’ being dispersed to reliever airports under questioning at the AoA conference. But this fundamentally fails to draw the distinction between ‘feeder traffic’ in the form of flights from other parts of the UK, which we agree should be accommodated at a fully-fledged London hub airport, and locally originating sub-regional traffic - as for example in Kent and South East London. We believe the latter would prefer not to have to make a long surface journey on congested roads (particularly the M2, M20 and M25), or via crowded London rail termini, to busy and expensive large international airports some distance away to access flights to:

- key UK business destinations such as Manchester, Leeds and Edinburgh,
- European hubs like as Amsterdam, Frankfurt and Dublin, or to
- mainstream leisure destinations (e.g. Malaga, Alicante, Palma de Majorca and Jersey).

As we pointed out in our previous submission to the Commission commenting on the long-term options for new or enhanced capacity, there are many good examples of where ‘reliever’ airports have taken pressure off major airports serving other World Cities by catering for this kind of core local traffic as well as serving more specialized functions such as providing for dedicated cargo, GA, military and diverted aircraft that either cannot be accommodated or in terms of efficiency are better kept away from large slot-congested airports.

It is with this in mind, therefore, that we also completely reject the notion expressed in the speech that:

*“... the tools available to the authorities to influence the location of flights are very limited”,*

This is simply not true and as we will explain at greater length when we return to this issue below.

We would like to turn the four key arguments for opposing new capacity that Sir Howard set out in his speech. Whilst we do not support, or indeed see any particular merit in any of them, we certainly do not consider that any amount individually or collectively amount to sufficient justification for failing to provide new capacity in the South East.

#### Over-optimistic Forecasts of the Demand for Air Travel

Although DfT have not seen fit to include Manston in their forecasting process since the time of the 2003 Air Transport White Paper, we have nevertheless taken a significant interest in their modelling work which as we explained in our initial submission we think has significant flaws. Based on the text of Sir Howard’s speech, we cannot help but reflect how quickly those that continue to suggest air traffic forecasts have been ‘systematically over-optimistic’ forget that in the period up to 2006-7 the criticism was usually that the ‘official’ forecasts had consistently ‘under-estimated’ future growth.

In our view, not enough work has been done to understand both the direct and indirect effects on underlying demand of (a) the extremely high levels of APD in the UK, (b) the persistent shortage of peak period, and now day-long, capacity at Heathrow and Gatwick and (c) the likely 'bounce-back' effect that has been seen in the aviation sector after previous economic down-turns and short-term shocks. The gainsayers are eager to dismiss this phenomenon on the grounds of 'market maturity', and yet there are already signs of it re-appearing at many UK airports - not least those in the South East – which have returned to growth in 2013.

We would also like to draw the Commission's attention to the fact that the carbon-price assumptions used in the latest DfT forecasts seem likely to bear little resemblance to conditions in carbon trading markets for the foreseeable future and that the level on bio-diesel fuel use that has been modelled are significantly out of line with industry expectations.

With this in mind we are encouraged, however, that the Commission appears to be taking an independent approach to the forecasting process, agree that *"considering a greater range of scenarios than the DfT does currently"* is essential, and believe that it will not be distracted by those whose principal aim is to press for the adoption of a worst case set of assumptions rather than those which are more pragmatic and realistic in the context of long term trends. We certainly believe, for the reasons we have set out in our other submissions, that both passenger air travel and air cargo at Manston will grow strongly over the next 5-10 years as the economy recovers and the principal London airports become more and more crowded and expensive, and that this process would be speeded up substantially, freeing capacity at major airports, if APD were reduced differentially or removed altogether at secondary South East and other UK regional airports.

#### Climate Change Commitments

On this issue, we agree with Sir Howard's analysis, particularly his statement that:

*"Our work so far suggests that doing nothing to address the capacity constraints in our current airport system would not be the right approach. Its likely effect would be to restrict passengers' choices and it could have unintended consequences for the efficiency and resilience of UK airports, as well as possibly leading to some flights and emissions being displaced to other countries."*

We are keen, however, that the UK Government stops its predilection for acting unilaterally on aircraft emissions (e.g. through the imposition of very high levels of APD and Emission Trading), on the grounds of demonstrating environmental 'leadership' - an overused political notion that in this case has made the UK's world-leading aviation sector vulnerable to external competition. We are hopeful that a politically neutral Commission, will recognize that such policy - especially in the 'one size fits all' form it is usually framed – has had a much greater distorting effect on flights to and from small airports like Manston compared to those operating from larger airports such as Gatwick and Stansted. Building policy in this area around large airport markets and long haul flying, as the Government always seems to do, is to the significant disadvantage of small airports and short haul/domestic air services.

#### Redistribution of traffic to Airports Outside the South East

Our reading of this section of Sir Howard's speech, is that it sets out the hypothesis that one option for addressing capacity shortages in the South East is to re-direct traffic away from London's main airports to airports in adjacent regions such as Birmingham, Bristol, Southampton or even Manchester where there is spare capacity available. There may indeed be some merit in encouraging regional traffic originating outside the South East that is currently making long surface journeys to access London's already over-crowded airports to use their local airports as an alternative. But we believe this applies just as much for airports serving primarily sub-regional South East markets outside London.

Clawing back regional leakage on routes that can be sustained at regional airports is likely to appeal to passengers' instinctive preference to use their local airports. It will also be more environmentally efficient and have the indirect benefit of freeing up some capacity at Gatwick and Heathrow for traffic that only they can sustain.

Differential APD may well be a powerful tool to achieve this, and unless some additional modelling has been done over and above that published earlier in the year by HMT, which related to the devolution of APD to devolved administrations, there is no evidence that we are aware of that *"even with a significant differential the effects would not necessarily be substantial, and there could be perverse consequences"*. There is too much external evidence to the contrary and DfT's model simply cannot be relied on for this purpose as it is not sensitive enough to small fare changes in the face of large generalised costs and has no behavioural component to its predictive capability that can operated independent of this mechanism.

#### Accommodation of Growth Within Current Runway Capacity

In terms of the fourth and final argument for outlined for rejecting the idea that new runway capacity is needed in the South East, namely that enough already exists in the region if it were to be used more efficiently, we do not support this notion, but do agree that the infrastructure that already exists should be used more effectively. So while there may be capacity available at Stansted and Luton in the short-medium term, even there the expectation is that peak and shoulder period slots, without which new business orientated short haul services are difficult to establish, will quickly disappear. Manston and Southampton also offer strategically placed log-term-capacity that also should not be ignored within a coherent system based approach to airport planning in the region – especially in the short-medium term. As Sir Howard pointed out:

*"Developing major infrastructure projects, whether road, rail or air-related, or in other sectors such as energy, is never easy"*, so why not make better use of existing infrastructure already available i.e. extant runways. The idea of:

*"looking at potential measures to improve surface access to South East and some regional airports",* and that

*"... such improvements could make a difference to the utilisation of runway capacity",*

appears to have been accepted. In which case, rail journey time improvements to Manston could be made as a very cost-effective way of improving the airport's catchment and wider strategic role?

#### Other Observations on the Commission's 'Emerging Thinking'

As highlighted earlier, we fundamentally disagree with the notion expressed towards the end of the speech, that there are no tools available to Government to favour or prevent certain types of service at individual London airports: apart from obvious case of PSO's where EU regulations specifically allow slots to be ring-fenced at a nominated London airport, Route Development Funds and TDRs are legal mechanisms which could also be used to influence the location of particular types of service. The latter were last deployed in 1991, but could be used to prevent Business Aviation and dedicated cargo flights using congested airports freeing up small but useful numbers of slots at LGW and LHR and so direct them elsewhere. There is no reason in principle why they could not be used to prevent flights to short haul destinations within four hours reach by HSR or overtly leisure destinations from a national hub such as Heathrow. Both measures would free up a lot of spare slots and the displaced traffic could be readily accommodated at other South East airports with little impact on local traffic.

We also believe there is scope within the EU slot regulations and the criteria under which new entrants are prioritised at each airport, to focus available capacity on serving specific markets (e.g.

UK regional services to London and long haul international routes to under-served emerging markets).

This is not a case of there being an insurmountable legal barrier; it is a policy-led issue and policy can be changed to meet the broader regional or national interest. It simply requires, therefore, an incumbent Government, perhaps taking its lead from the recommendations of an independent Commission, to use the tools already available to it in a pro-active way.

### Conclusions

While there is much in Sir Howard Davies' speech that we agree with and support, we also detect an 'emerging thinking' tendency to:

- focus overly on 'grand projects' rather than easier incremental ones;
- listen too readily to major interest to the detriment of smaller ones;
- be overly London and metropolitan in outlook, rather than also consider the needs of the wider South East;
- and to be rather to cowed by received wisdom about potential mechanisms for intervening pragmatically in an already deeply flawed aviation market to encourage a more optimal use of existing capacity in the short-medium term until new strategic capacity supporting a national hub can be brought on line.

We hope we are wrong about this, and that the Commission will have the vision and conviction to see beyond current convention and develop some authoritative and imaginative solutions that create an integrated, coherent, vibrant and competitive airport system for London and the South East that can and maintain the UK's pivotal role in the global aviation sector. If so we find it hard to believe that an established, licensed airport with an under-utilised 2750m runway, substantial spare apron and few operating restrictions (because it lies outside the London TMA), lying only 60 miles, or 60 minutes travel time, East of London will not have a significant role to play when the rest of the London Airport system is approaching capacity. The more so when this would have very significant upside economic and regeneration benefits for East Kent by becoming the catalyst for a local cluster of development in the only part of the South East with Assisted Area status.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Buchanan', with a stylized, flowing script.

Charles Buchanan  
**Chief Executive Officer**