

## **Response to Airports Commission Discussion Paper No.6 Utilizing the UK's Existing Airport Capacity**

### **Introduction**

- 1.1. As a proposed partner of Thanet District Council in the acquisition and future development of Manston Airport, whether through voluntary agreement with the current owner or Compulsory Purchase Order (CPO), RiverOak Investment Corporation wishes to take the opportunity afforded by the consultation on the Commission's Discussion Paper No.6 to put on the record our vision for the airport. To further detail the material contribution that we believe it can make to both the interim and longer terms airport requirements of the aviation sector in the South East of England.
- 1.2. You will probably be aware that the situation relating to Manston has been moving forward apace in the last 2-3 weeks and we are therefore grateful for the Commission's indulgence in affording us a short extension to finalize our submission. This paper, through which we aim to show not only our commitment to an exciting and strategically significant long term future for the airport, but also the quality and commercial robustness of our proposals.

We are conscious that the context for this response is somewhat unusual: the airport is closed and its current owner is unwilling to sell it to a third party to enable it to be re-opened to air traffic - this despite the clearly stated wishes of relevant public authorities, the entreaties of local MP's, a substantial petition handed into the Prime Minister and a firm and very realistic commercial offer put on the table by RiverOak. Notwithstanding the attitude of the current owner, we are confident that a solution will be found to retain and reinstate what without doubt is a regionally significant infrastructure asset into productive aviation use. We trust the Commission will agree that in view of the following that the contribution that Manston could yet make to the strategic needs of the South East airport system, should not be ignored and merits inclusion in formative airport's policy while its long term future is being resolved.

- 1.3.
  1. The scale and quality of the asset;
  2. Its proximity to high quality surface transport links;
  3. The overwhelming support there is regionally to see it returned to full operational status; and
  4. The time horizons the Commission's recommendations will cover the potentially significant contribution that Manston could yet make to the strategic needs of the South East airport system.

## Background

- 1.1. The airport has suffered since the mid 2000's from arms length ownership by a parent company based in New Zealand. Infratil, plc who were unwilling to make the consistent investment in terms of both financial and human capital needed to bring about the diversification and step-change in activity levels needed to put the airport on a sound commercial footing in the face of a major downturn in the UK economy and the global aviation industry. The company's strategic need to dispose of the asset afforded the current owner Ann Gloag an entirely speculative opportunity to acquire a large brownfield site in Kent cheaply, with a view to asset stripping and realizing its alternative use value, rather than its potential as an airport. However there is no public support for redeveloping the airport for non-aviation uses and a clear recognition that strategically important assets such as a 2,750m long runway in the South East of England, where a full-length runway has not been built for over 30 years, should not be lightly foregone.
- 1.2. It is significant that in a response to a question from on 14 May, Sir Roger Gale, MP for Thanet North, the Prime Minister's indicated that the UK government recognises the airport:  
  
*"has played an important role in the local economy and employed local people",*  
and that while the future of Manston,  
  
*"remains the responsibility of the airport owner, but it is important that the Government are engaged, and I know that my right hon. Friend the Transport Secretary is engaged".*
- 1.3. With this kind of support, Thanet District Council has resolved to investigate using a Compulsory Purchase Order to:  
  
*"remove the airport from the hands of those who clearly have other objectives".* and then lease or sell it to a commercial partner<sup>1</sup>.
- 1.4. RiverOak Investment Corp., LLC and RiverOak affiliates have made a formal offer to the Council in this regard and have already undertaken discussions with the CAA with regards to re-opening the airport, and received assurances that the CAA will not be onerous or penal in its approach should a re-opening prove possible.

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<sup>1</sup> <http://www.kentonline.co.uk/thanet/news/manston-compulsory-purchase-17412/>

- 1.5. We are aware the airport's previous owners, Infratil, submitted a series of responses to the Commission including most significantly to its calls for evidence on Interim Measures and Long Term Proposals. Whilst they were made with the aim of persuading the Commission to support Manston as a solution to the South East's strategic runway capacity shortfall and relied upon very large scale public investments in new high speed rail connections and a range of propitious policy interventions, our proposals are more realistically framed and are not dependent on the public sector financial participation that Infratil outlined. RiverOak also has the commercial insight, experience, resources and resolve to:
- Execute its carefully thought through business plan, which has been market tested with potential airline customers, tenants and development partners.
  - Place Manston Airport on a firm and independent commercial footing.
  - Act as a significant catalyst for regeneration of the local and regional economy.

### **Our Strategic Vision for Manston**

- 1.6. Starting from the fundamental principle that airports, and particularly those with a heavy duty 2,750 meter runways, uncongested airspace, plenty of accompanying land, and a location close to the heart of northern Europe, are extremely valuable economic assets. RiverOak's plans for Manston do not rely on redeveloping it for housing. Rather they are based broadly on the model developed at Alliance Fort Worth airport in Texas, with which we are very familiar, but tailored to reflect Manston's unique facets and its potential strategic role in the wider South East airport's system.
- 1.7. With this in mind, our strategy revolves around:
- i. Re-opening Manston in 2015/16 as a Sky Port and Integrated Aviation Services Hub.
  - ii. Initially the focus would be on re-establishing the airport's cargo business, particularly in the '*perishables*' niche it had successfully carved out, *General Aviation* activities (e.g. Business Aviation, military and emergency service related movements, flying schools, private light aircraft) and *commercial aircraft training and testing* such as that seen over the summer of 2013 with BA's acceptance flights for their new Airbus A380's and Dreamliners.
  - iii. The development of open and covered facilities for aircraft servicing, including off-line C and D checks and specialist aircraft teardown operations. The gradual expansion of this activity will form a second key phase/element of the project.
  - iv. The third would follow 18 months to two years later (i.e. probably summer 2017 at the earliest), and would involve re-opening of passenger services if appropriate contracts can be agreed with suitable carriers. We anticipate that at

first any such services are likely to be outbound leisure oriented and provided by no frills or charter operators, but with a limited network of scheduled business services to follow using aircraft with the right levels of seat capacity and economics for the local Kent market.

- v. Re-establishing Manston as a key diversion airport, capable of providing emergency resilience to the wider South East airport system.
- 1.8. The preceding elements of our plans involve activities ‘inside’ the operational fence, where there is more than adequate space for a major expansion of cargo related buildings, engineering and specialized aircraft recycling facilities and General Aviation hangars, without impinging on land required for any future passenger related development and apron. But in the medium term we also envisage bringing forward a range of related developments outside the boundary fence, including:
- An airport commercial ‘campus’ – offering office, logistics and manufacturing/servicing space for both aviation companies that do not require airside access and non-aviation companies, freight forwarders/logistics companies, attracted by the airport’s presence.
  - The campus would also include business-class hotel accommodation, an aviation training academy, incubation units for small businesses, an enhanced heritage and leisure offer and crèche/café and other facilities for those working in and around the airport.

The unique historical prominence that Manston offers the Spitfire and RAF Museums should be greatly enhanced to become a major tourist destination, whilst at the same time developing the engineering capability of the RAF Museum. RiverOak firmly believes that this enhancement could be transformative for both museums and can be achieved by a modest injection of private capital

- Renewable energy developments designed to make the whole development carbon neutral.
- 1.9. Taken together, the foregoing would turn Manston into a strategically important reliever airport in the South East, an important international transport gateway for Kent and a huge regeneration catalyst for Thanet and East Kent. Such is the size of the opportunity Manston provides, we envisage that it would take 20 years for the Skyport and Integrated Aviation Services Hub to reach its full potential, but when it does it will provide a flagship development and anchor for economic development in the Eastern Part of the Thames Corridor. 20 years is the average life of investment with which we at RiverOak are comfortable

### **The Scale of the Air Cargo Opportunity**

- 1.10. In 2013 Kent International handled 30,000 tonnes of cargo, the equivalent in work load unit terms of 300,000 passengers and consequently was the sixth busiest

airfreight airport in the UK with freight volumes greater than Luton, Belfast, Edinburgh and Birmingham. There are strong indications from discussions we have had that the carriers and freight forwarders who used Kent International prior to its closure will return as soon as it is operational because of its reputation for quick and efficient turnarounds. Indeed one of the carriers has already promised to increase the number of their flights by 30%. But this simply provided confirmation of what our own strategic assessment of the current and long term trends in the cargo market had already shown.

### **Global Market Trends**

- 1.11. Looking first at long-term trends, since 1970, there has been 6.4% average growth in annual global air cargo traffic, although that number drops to about 4.8% over the last 20 years. Historical analysis suggests that global airfreight grows at roughly a multiplying factor of 2-to-1 compared to growth in global GDP. So even though the market currently flat in terms of growth, economists still believe that looking forward, with GDP expected to grow at roughly 3% a year, it's logical to assume that airfreight will grow at 5%-6% per year if that multiplier effect still applies.
- 1.12. There is no guarantee that the multiplier will apply going forward but most analysts conclude that airfreight will grow on average, over the longer term, at least at the rate of global GDP, giving a spread for year on year growth somewhere in the 3%-6% range. Boeing forecast growth rates of 2.4% annually between 2012 and 2031, whilst Airbus forecast a more bullish 4.1% annual increase<sup>2</sup>.
- 1.13. This outlook is in sharp contrast to the distinct weakening in airfreight growth over the last decade, but the industry remains fairly bullish about the long growth of airfreight. As Tom Crabtree, Boeing Commercial Airplanes regional marketing director and primary author of the manufacturer's World Cargo Forecast notes:

*"When things start to turn around, it's the mode most in demand. When things get soft, it's the mode that shippers try to retreat from." As a result, he said, "we're seeing . . . an exaggerated impact of trends on the airfreight industry over the last 3-4 years"<sup>3</sup>.*

### **UK Perspective**

- 1.14. Moreover, at a national level there is official acknowledgement that cargo capacity constraints will continue to mount at airports in the South East of England. The Department for Transport forecasts that by 2020, £42 billion of air cargo will be lost to London airports because of capacity constraints. Other than Manston, Stansted has been the principal airport accommodating express and dedicated cargo aircraft wishing to access the South East with volumes growing by over 600% from 1990 to 2012. But with MAG's aggressive plans to expand low cost services from Stansted

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<sup>2</sup> The Air Freight Industry in the UK – PWC report Dec 2013

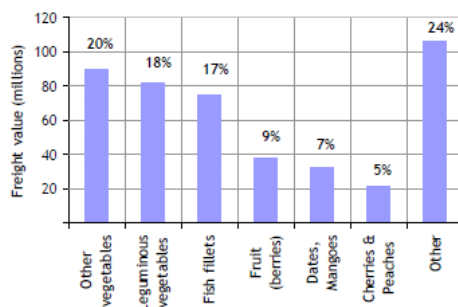
<sup>3</sup> ATW: quoted in Maddening Cargo - Aaron Karp - January 1, 2012

we are conscious that in the medium term as Stansted's runway capacity will become much more limited and dedicated cargo operations will be displaced by lack of slots or rising airport charges. .

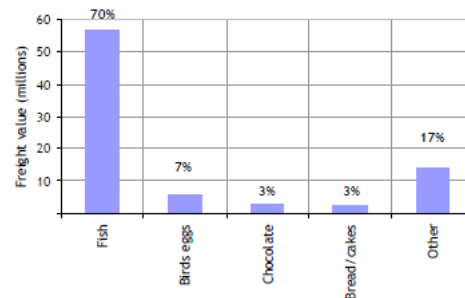
- 1.15. As there is nowhere else in the South East that can accept and process such flights with the speed and cost effectiveness Manston can offer, it certainly seems to us that it would be extremely short-sighted to allow Manston to be permanently closed simply on the whim of an owner with no interest in aviation.

### **Focusing on Manston's Potential Market Position**

- 1.16. At the micro level, we look specifically at perishable cargo, which represented Kent International's core business for several years before closure, there is clear evidence that this sector has healthy long term prospects.
- 1.17. The use of air transport for moving high value or perishable cargo has become critical to national, continental and global supply chains. Distributed production patterns, time-definite international transactions, just in time and low inventory practices have driven the development of sophisticated airfreight systems. Products such as electronics, pharmaceuticals, medical devices and sophisticated components account for the majority of international air cargo by value, but highly perishable goods that see a significant decrease in value with delay have become significant users of airfreight. About 80% of the perishables sector consists of food and ornamental plants.
- 1.18. Perishables is widely considered by the industry to be the biggest (by volume) and fastest growing air freight sector; for example in 2006 BA estimated that it constituted 11 per cent of world air cargo<sup>4</sup>. The amount of food air freighted into the UK more than trebled between 1992 and 2006 and there is every indication they will continue to rise. An SDG report (2010) provided a breakdown on types of UK perishable imports<sup>4</sup>, and noted that fish dominates the UK perishable export market



Source: HMRC data, SDG analysis



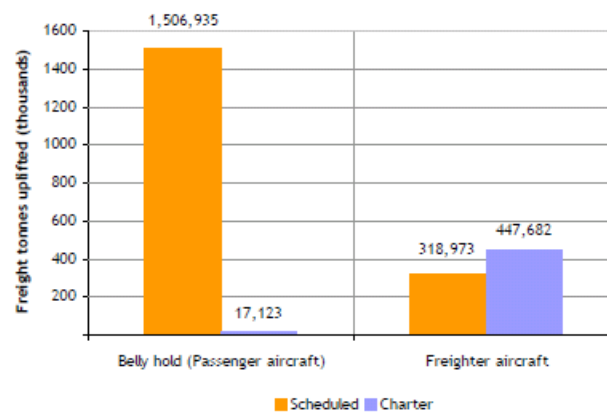
Source: HMRC data, SDG analysis

- 1.19. Foodstuffs brought into the UK are either trucked direct from the aircraft to the retailer's regional distribution centre by a subcontracted specialty hauler, or taken directly to the supermarket's own UK based suppliers, as many UK based growers



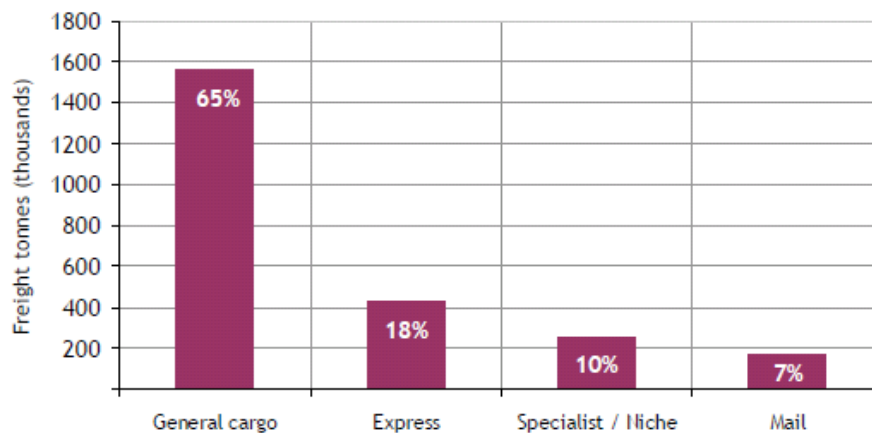
import perishables to supplement their own stocks. Some UK based retailers with overseas operations often import food items and quality check, label and package them in the UK, before shipping overseas (by air) to their overseas stores. In both cases speedy and efficient handling from plane to truck, of the kind for which Manston was legendary is essential. This base of operations can be grown on a compounded basis with better integration for example with the large grocery multiples. Indeed Kent is a geographic region in agri-production that is exemplary in the UK

- 1.20. On this basis we foresee the potential for income from airfreight potentially being substantial and capable of “covering” many of the airports more streamlined core operating costs. Whilst Manston is known as a freight airport in aviation circles, its value as a cost effective and logistically sound base for freight is probably not fully appreciated.
- 1.21. Moreover, whereas previously inbound aircraft into Kent International carrying perishables usually departed empty to take on return loads at other airports we will promote outbound loads as an obvious and compelling business opportunity. New non-perishable cargo business can be handled at the airport and already identified carriers will be afforded a reliable base within the European Union.
- 1.22. Manston will focus on the dedicated *freighter* market serving the UK (both scheduled and charter). This diagram of its relative importance compared with bellyhold volumes is reproduced from the SDG 2010 report using 2008 data.



Source: CAA

- 1.23. Within that freighter segment of the market, Manston will focus on the general cargo and specialist niche elements, which the SDG report puts into perspective.



Source: CAA, Stakeholder interviews, SDG Analysis

### **Strategic Considerations**

- 1.24. Kent International is well positioned for a cluster of third party logistics companies south east of the Thames around the Medway and Channel Ports. It is also able to optimally serve the south east of England and its convenience to the major market of London is its major asset. Its convenience to the Channel Tunnel increases the catchment reach of trucked deliveries for airfreight dispatch. Because of its lack of congestion other airports are simply unable to match the quality and speed of service for which Kent International was previously renowned. RiverOak is confident that the task of reassembling the former Kent International workforce that built the airport's excellent reputation in the sector can be readily and efficiently accomplished.
- 1.25. An OE report for TfL<sup>4</sup> that attempts to quantify loss of business to the London area owing to constrained supply of capacity for air cargo, provides some interesting analysis underlining the strategic value to London and the wider South East that Manston could play if re-opened. "The difference between forecasts through 2050 of air cargo and the DfT's constrained forecasts of total ATMs represents economic activity that may not pass through London. It is likely that surplus demand in the London area for air cargo business may be met using airports outside the London area or even airports in continental Europe, though at a higher cost (i.e. it represents a welfare loss).
- 1.26. The lost value of traded goods is illustrated using four scenarios: a comparison of DfT model parameters, an Oxford Economics lower bound forecast, an Oxford Economics central case and an Oxford Economics upper bound forecast. Under these four scenarios there is a range of lost value of trade via air in 2050 that goes from £0 in the OE lower bound scenario to £270 billion in the OE upper bound

<sup>4</sup> Impacts of New Hub Airport on the Air Freight Industry



scenario, with a central scenario at £106 billion. DfT assumptions imply an even larger lost value of £550 billion<sup>5</sup>.” If trade no longer passes through London airports, the OE report offers four outcomes:

- i. Some of this trade may divert to other UK airports.
  - ii. Some of this trade may divert to other modes, where practical.
  - iii. Some of this trade may divert to foreign airports.
  - iv. Some of this trade may never occur at either UK or foreign airports.
- 1.27. Manston can undoubtedly be part of an integrated UK response delivering the most effective deployment of UK aviation assets to respond to such requirements, and thereby minimizing the need to turn away good business.
- 1.28. In this context, a target of 250,000 tonnes of cargo a year by 2030, half a million by 2040 and 750,000 tonnes in 2050, does not look unrealistic for Manston. The key, in addition to attracting back previous Manston users, is to target airlines taking on new cargo aircraft that are serving consignments and geographical markets that cannot readily be handled by bellyhold operations wherein Heathrow has market dominance.
- 1.29. It is for all these reasons that air cargo will provide a key building block for our plans for Manston and over time will become a substantial revenue generator. It is little appreciated, that for airports that are well located relative to key markets - in Manston’s case London and the South East and near Europe – and capable of efficient handling and rapid turn rounds, the income accruing to an airport per tonne handled, can be the equivalent of 8-10 low cost air passengers<sup>6</sup>. Cargo formed was a significant share of the revenues generated under Infratil’s stewardship of the airport, it will again.

### **Other Non-Passenger Aviation Activity Market**

- 1.30. General Aviation covers a multitude of activities, from diversions and flight-testing/training of commercial aircraft, to military and emergency service use (e.g the Bristow Air Sea Rescue operation that will continue to be based at Manston), Business Aviation including offshore servicing, pilot training and private light aircraft flying. All of these activities are gradually being pushed down the airport hierarchy in the South East as the busier and better-located airports fill up with commercial passenger and BusAv flights. They will ultimately need to find a safe home somewhere and Manston can provide that.

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<sup>5</sup> Oxford Economics forecasts are lower than those implied by use of the DfT framework.

<sup>6</sup> Anne Graham: The Work Load Unit (WLU), which is the most popular measure, originated from the airline industry and uses a weight criteria for combining passenger and freight traffic (i.e. one WLU = one passenger or 100 kg of freight).

- 1.31. The scale of the airfield means there is also huge scope for developing MRO and aircraft teardown facilities. The former would focus on long-term heavy maintenance where aircraft are taken off-line for between one and six weeks, conversions and re-sprays. The latter is a growing component of the aerospace sector involving retired aircraft being carefully taken apart for spares and then in residual components taken away for recycling. Access to road, rail and a port is very valuable in the latter regard.
- 1.32. RiverOak will look for commercial partners amongst leading OEM's and third party contractors in these fields (and have already had positive reactions from a significant number we have approached). There is a need to develop a European Centre of Excellence in the mushrooming teardown sector and that is what we have in mind for Manston. Both OEM and teardown are high-skilled processes and we recognize, therefore, that there we will need to work with local partners in Kent to develop an academy facility to meet the specialized labor requirements of those companies. We envisage that this would form a center-piece of the mixed-use airport campus which we envisage being developed on land within the airport's ownership to the North of the runway but outside the operational boundary focused around the Old Control tower.

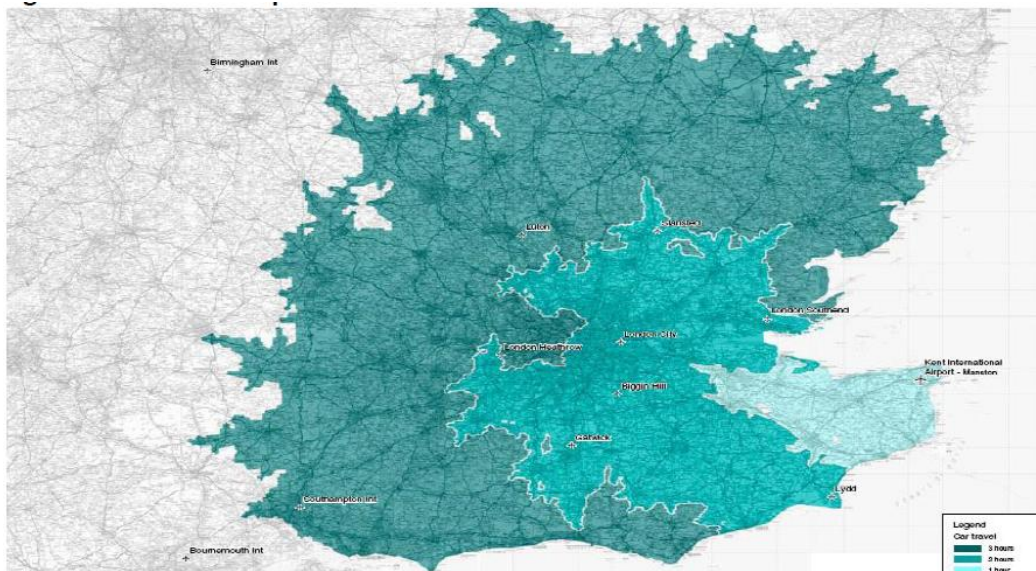
#### **The Air Passenger Market**

- 1.33. As we indicated earlier, the key difference between our proposals for Manston and those previously presented to the Commission by Infratil, is the scale and timing of the passenger operation. Their scheme showed a large terminal and accompanying apron capable of taking 15mppa. Without the new and expensive fast rail link they identified in their scheme, we believe this would be impossible to deliver. We are sanguine, that until there is a consensus that such a link is needed for broader purposes, and that is probably some way off, we need to plan without it relying solely on the planned upgrade to the existing javelin route and the possibility of a new parkway station being built somewhere nearby in the next 5 years.
- 1.34. Our intention, therefore, is to develop and operate the airport without passenger services for the first 18 months to establish a cost base that is serviceable without passenger revenues – the focus will be on cargo, GA and aviation services property income. It will then be far easier to build passenger activity incrementally, having to cover only incremental rather than full fixed costs, and to be competitive on that basis. We already have interest in the possibility of passenger services recommencing in summer 2016 or 2017 from a leading operator, but getting the cost base right is crucial for them, and for Manston as an operating entity.
- 1.35. We agree with the analysis in the previous submissions you have received on Manston, that there is real underlying local demand for passenger services from East and Mid-Kent, the Medway towns and South East London, all of which will have amongst the longest and most unreliable access times to access a wide range of air services of any part of the South East. As Gatwick and London City fill-up and

prices rise as a result, we are convinced that latent demand will only become stronger.

- 1.36. We know, for example, that the 2011 and 2012 CAA survey data indicates that Manston's core and floating catchment areas (see graphic below) generate demand put conservatively at between 3.5-4.0m passengers per annum, and the data suggests by far the largest percentage of this leaking traffic (around 85%) uses Gatwick and that much of it is leisure orientated (i.e. it is predominantly point-to-point and not dependent on access to a hub to be viable). By capturing as little as 30-40% of this, and drawing some traffic from based on price from West Kent and East London based on price and convenience, we can comfortably achieve our lower passenger projections of 2mppa by 2030, 3.5m 2040, and 5mppa by 2050.

**Figure 1: Manston Catchment Area; Based on Empirical Data from EU Jets 2005 Operation**



- 1.37. This new approach and business model, would therefore seek to position Manston as Kent's local airport within a wider South East airport system, serving primarily a local and broader sub regional market. Our long term expectation is that it might ultimately grow to 5mppa maximum (not unlike Southend), focused on a core network of domestic and near European business orientated services and an increasing range of no frills and charter based leisure services, including:

- Key UK business and VFR destinations such as Edinburgh, Glasgow, Manchester, Leeds, Newcastle, South Wales, the far South West, Northern Ireland and the Chanel Isles.
- European hubs like as Amsterdam, Dublin, Frankfurt or Munich, Milan or Rome.

- Mainstream leisure destinations (e.g. Malaga, Alicante, Palma de Majorca Barcelona, Greece, Turkey and Tenerife).
  - Special charters for skiing, hills and lakes markets and winter sun.
- 1.38. In terms of delivering this vision for Manston, we also propose to adopt a more partnership focused approach which will involve working closely with Thanet District and Kent County Councils, the South East LEP and the wider network of stakeholder support that has built up around the airport closure. After such a period of turbulence, Manston needs a clean slate, a new approach, a shared vision and a lead partner and operator that is prepared to take a long term view on investment and returns, rather than the short term fix that the current owner were seeking and found impossible to identify.
- 1.39. In Manston's favor is:
- The aviation industry is no longer on its knees from an extended recession; air travel demand is growing again, airlines are looking for new opportunities (as are cargo operators), and all the major OEMs have all reported strong order books and positive forecasts over the last six months.
  - There has been a tremendous coming together locally of an enormous range of community and political interest and support. We intend to build on the platform this has created and bring our long standing logistical, development and investment skills to bear to create a positive and progressive future for the airport.
  - RiverOak has a history of finding under-utilized, even distressed, assets and capitalizing on innovative thinking and good community relationships to identify value-added opportunities. We pride ourselves on thoroughly researching the macro trends that affect our various investments. We closely monitor the regional geographic and demographic shifts that are at work in our chosen sectors and assess the business climate and operating environment that will affect our development projects. As our outline above indicates we have a clear plan action for Manston and an ability to move quickly
  - There remains a minimum of ten years before a new runway comes on line and the South East airport system is bound to become increasingly congested; that is the one thing Manston will not be, allowing us to welcome anyone who wants to make long term plans that would be difficult elsewhere.
  - East Kent is the only Assisted Area of any consequence in the south east of England; it has significant levels of deprivation and is in desperate need of economic activity and good quality local employment.

- With the right fiscal and policy environment, which we hope the Airports Commission's recommendations can help to deliver, we are prepared to direct significant investment at Manston Airport, and take a medium to long term view to turn its prospects around. RiverOak's commitment to Manston will represent much needed foreign inward investment in East Kent which will complement the progress already made at the adjacent Discovery Park in Sandwich.
- 1.40. A re-invigorated Manston Airport would help to improve the western bias of current capacity by combining with Stansted and Southend to provide much of the capacity required by development in East of London and along the Thames Corridor. As such is provides a particularly good strategic fit in terms of functional and geographical markets with an expanded national hub, and this is the runway option we believe the Airports Commission should ultimately choose at Heathrow This airport could serve locally originating sub-regional traffic.

### **The Important Role of Reliever Airports**

- 1.41. In strategic policy terms, we consider the Commission's interest in the reliever airport concept, as expressed in its Interim report and Discussion Paper 6, entirely appropriate and moreover that Manston Airport is entirely suited to such a designation. In addition to serving the niche markets we have outlined in Sections 3-6, we think Manston could also be designated as a principal diversion for Gatwick and Heathrow, and equipped accordingly, so that it can introduce an element of system-wide resilience that would allow these "focal" airports to operate at higher levels of slot utilization than they might otherwise.
- 1.42. The 'reliever' airport model is well established in the airport systems serving other major World Cities; those bearing the closest resemblance to Manston include:
- Vatry, nr Rheims North West of Paris;
  - Stewart nr Islip for New York;
  - Frankfurt Hahn 100km east of Frankfurt Main; and
  - Bergamo 45 miles north east of Milan.

### **Fiscal and Policy Incentives**

- 1.43. While we want to make it absolutely clear that we are not seeking any public funds to acquire and re-open Manston, as commercial property developers and logistics operators, we understand the value of infrastructure such as airports. We believe that creating underlying value is a crucial part of the strategy for a regional airport like Manston. We are therefore very interested in seeing further airport Enterprise Zones



and Local Development Orders promoted to allow us to foster development clusters at airports such as Manston.

- 1.44. We are still trying to understand APD and how disproportionately it has impacted the low cost sector and smaller regional airports. Ostensibly we see strong arguments that this policy, particularly the domestic so-called “double whammy” component, should be finessed to provide the market with clear signals, to ensure that the available airport infrastructure in the South East is used optimally.
- 1.45. We are aware that there has been discussion of a differential APD in their submissions to the Commission, and we have also aware of refinements, whereby the congested main hubs airports would shoulder this tax burden and those that are less congested or below a certain size, would be exempt or enjoy reduced rates. This would seem to be a mechanism that could encourage more balanced growth and would help attract more operators to base aircraft at regional airports such as Manston. However, we want to make clear again, that whilst this might increase the speed at which a passenger operation could be developed to a material size at Manston, it is not fundamental to our plans nor to the commercial viability of the airport.
- 1.46. We also acknowledge, as Discussion Paper 6 flags, that there would also be merit in exploring ways of making more effective use of scarce capacity at Heathrow and Gatwick, including:
- Banning certain types of aircraft movements (eg non-VIP Bus AV in aircraft of Code C size or under, or dedicated freighter aircraft).
  - Capping frequencies on short haul routes where there are more than 15 services a day.
  - Increasing incentives through pricing mechanisms for airlines to use larger aircraft and focus on more business orientate and long haul routes.
  - Restricting air service frequencies between busy hubs and destinations less than four hours away by rail.
  - Restrict overtly leisure destinations from the main national hub.
- 1.47. These could be delivered by mechanisms such as Traffic Distribution Rights (TDRs). They may have been last deployed in 1991, but TDRs from as far back as 1977 are still extant and so there is no reason simply to shy away from them. They have been used perfectly legally in Milan, Paris, Stockholm and elsewhere. All that is needed is a sound operational or economic justification.
- 1.48. One suggestion put forward SELEP was the creation a waiting list or ‘credit’ system in which airlines would start new routes or transfer existing ones to one of the

smaller airports serving London and the South east (e.g. Luton, Southend, Manston, Southampton) where they would earn credits.

- 1.49. A complementary incentive might be to offer temporary subsidies (i.e. until such time as significant new capacity came on line), to such second tier airports so that they could offer significant discounts to carriers who might not need access to hub airports. This could either be done directly by Local Enterprise Partnerships (LEPs) or supportive local authorities in return for the wider GVA benefits that would accrue to a particular sub-region (and this would be especially valuable in East Kent) or indirectly via differential APD tariffs (see above).
- 1.50. But all such measures would simply be a bonus in delivering our plans, not a pre-requisite to achieving them and as such are much less important to us than the continuing recognition by the Commission of Manston's potential strategic role.

## Summary

- 1.51. In conclusion, given the level of local political and public support there is for re-opening Manston, we urge the Commission not to overlook it in its deliberations and to regard it as one of a number of second tier "reliever" airports capable of playing important overspill and/or niche market roles within the wider South East airport system.
- 1.52. While we support the view the Commission has put forward that a new runway is needed in the South East, effective use of these second tier airports would ease capacity constraints facing the region in the immediate and very long term. There are clear examples where peer airports to Manston have worked very effectively around major world cities like Paris, Frankfurt and New York. There are market mechanisms to deliver them and in the case of Manston a body of interests willing to come together to ensure they are used effectively. All that is missing is the strategic vision to recognize them. We hope the Commission has the courage and wisdom to do so.

July 31st, 2014.

### Resources:

<http://www.kentononline.co.uk/thanet/news/manston-compulsory-purchase-17412/>

The Air Freight Industry in the UK – PWC report Dec 2013

ATW: quoted in Maddening Cargo - Aaron Karp - January 1, 2012

The Air Freight Industry in the UK- PWC - Dec 2013

AIR FREIGHT Economic and Environmental Drivers and Impacts

Impacts of New Hub Airport on the Air Freight Industry

Oxford Economics forecasts are lower than those implied by use of the DfT framework.

Anne Graham: The Work Load Unit (WLU), which is the most popular measure, originated from the airline industry and uses a weight criteria for combining passenger and freight traffic (i.e. one WLU = one passenger or 100 kg of freight).