



RiverOak Strategic Partners

Applicant's Overall Summary of Need Case

TR020002/11/OSON
Examination Document

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MANSTON AIRPORT DEVELOPMENT CONSENT ORDER APPLICATION

APPLICANT'S SUMMARY OF NEED CASE

DOCUMENT TR020002/D11/NEED

1 Introduction

- 1.1 This document summarises the case put by RiverOak Strategic Partners (**the Applicant**) as to the need for the project. At Appendix 1 is then a supplementary submission rebutting the arguments on need presented by Stone Hill Park Ltd during the examination.

- 1.2 Air freight is vital to the UK economy and is a rapidly growing sector.

“There were record quantities of freight handled by UK airports in 2017, highlighting the growing importance of aviation to the transport of freight. Globally, air freight grew more than twice as fast as overall global trade during 2017 – the widest margin of outperformance since 2010. The changing nature of the goods and services we trade means that aviation freight is becoming increasingly significant to the economy.” ([Aviation 2050](#), paragraph 1.19) [It should be noted that total UK freight tonnage increased again between 2017 and 2018.]

- 1.3 The UK's ability to capitalise on the growth in this market is hindered due to under-investment in freight facilities and capacity constraints at UK airports. Manston Airport is a valuable regional and national asset, capable of providing infrastructure badly needed by the UK in the short, medium and long-term. Manston could play a vital role in helping Britain's connectedness and trade with the rest of the world, and in making a substantial contribution to the future economic and social well-being of the UK (Azimuth Report III).

2 Policy

- 2.1 The Government's increasing recognition of the importance of air freight to the UK economy is demonstrated in aviation policy.

- 2.2 The Aviation Policy Framework 2013, which sets out the Government's high level objectives and policy on aviation, identifies air freight as, *“a key element of the supply chain in the advanced manufacturing sector in which the UK is looking to build competitive strength”*.

- 2.3 The Executive Summary to the Beyond the Horizon: Next Steps towards an Aviation Strategy (April 2018) ([Beyond the Horizon](#)) cites that one of the objectives to the Aviation Strategy is to provide a global and connected Britain including through reducing barriers to the movement of freight. At paragraph 4.5: the strategy goes on to state:

“Whether in the bellyhold of commercial airlines or in dedicated aircraft, air freight plays a crucial role in the sector and is currently flourishing. The strategy will establish our approach to place the UK at the forefront of air freight technology and facilitation processes”

and at paragraph 4.26:

“Many of the respondents to the call for evidence underlined the importance of aviation and air freight to the UK economy. As an island nation in a globalised world, aviation is critical to enable businesses to deliver services across the world and to maintain the UK’s place in international supply chains. A thriving air freight sector makes the UK more attractive for multi-national companies, and more able to attract international talent and tourists.”

- 2.4 The Applicant’s proposals for the re-opening of Manston Airport are capable of providing infrastructure badly needed by the UK and could play a vital role in helping Britain’s connectedness and trade with the rest of the world.
- 2.5 The Applicant has set out a fuller summary of aviation policy in its written summary of oral submissions put at the Need hearing on 21 March 2019 [\[REP5-024\]](#).

Use of existing runways

- 2.6 The Applicant has accepted that, aside from London Heathrow, policies do not explicitly support specific development at those other airports. However, as noted by Beyond the Horizon:

*“The Aviation Strategy call for evidence set out that the government agrees with the Airports Commission’s recommendation and was minded to be supportive of **all airports** who wish to make best use of their existing runways, including those in the South East, subject to environmental issues being addressed. The position is different for Heathrow, where the government’s proposed policy on expansion is set out in the proposed Airports NPS.”* (emphasis added).

- 2.7 The Applicant considers that the government’s policy emphasis on making best use of existing runways applies to the existing runway at Manston. Gaining political support for the construction of new runways is notoriously difficult – indeed there have been no new full length runways constructed in the South East of England (London City Airport having a short runway) for over 60 years and it was 1963 when a government committee first looked at possible sites for a major new airport in the South East. Existing runways are therefore valuable assets that should be utilised rather than lost.

3 Capacity constraints in the South East

- 3.1 As noted in the Azimuth report, the UK patently and urgently requires additional airport infrastructure. Without this, the UK is hemorrhaging potential trade, particularly with non-EU countries. In monetary terms, the UK could be missing out on at least £9.5 billion in potential trade each year, accumulating losses at the rate of £1.1 million every hour (CEBR, 2016).
- 3.2 Paragraph 6.48 of Beyond the Horizon outlines the capacity constraints facing the UK and in particular the South East.

“The UK’s airport and airspace capacity is constrained, and there will be no new significant airport runway capacity until 2025. The benefits of airspace modernisation are still a number of years away. The situation is particularly acute in the south-east of England where increases in capacity have been achieved through higher utilisation of existing runways and airspace.”

- 3.3 The London airports facilitate 76% of the UK’s air freight and all London airports will be at capacity by 2030 (Airports Commission, 2017). The South East is particularly hard hit by the

lack of airport capacity with losses in potential trade running at £2 billion each year (CEBR, 2016). Demand is driven by where airlines want to fly to and from and demand is highest in the South East. Dedicated freighters are squeezed out of airports, including all main South East airports that focus on passengers as their preferred market particularly since the LCCs, a key market for airports, do not carry belly freight and tend to believe that handling freight interferes with passengers operations. Other potential sites for freight-focused activities at airports in the South East either do not have the runway length or space for warehousing to accommodate a vibrant freight operation.

- 3.4 At the Need Issue Specific Hearing held on 21 March 2019 the Applicant highlighted the key capacity constraints at existing airports and the Northpoint Report [\[REP4-031\]](#) outlines further constraints (at paragraphs 13 – 31) and a summary of these is provided below.

3.4.1 Heathrow is operating at slot utilisation of 99%, it prioritises passengers over freight and has a Traffic Distribution Rule limiting pure freighters. The York Aviation 2015 report found that even with a third runway at Heathrow, by 2050 some 1.2 million tonnes of freight would have to be diverted elsewhere because of a lack of capacity (page 19), even before account is taken of the burgeoning ecommerce sector.

3.4.2 Stansted is approaching capacity. The Applicant explained that there was a correlation between increased slot utilisation and delays, and stated that, due to operational issues it becomes increasingly difficult to attract an airline when an airport suffers from delayed departure. The Applicant has provided an analysis of the Stansted cargo position (current and projections for dedicated freight) at Appendix 4 to the Written Summary of Need Hearing [\[REP5-024\]](#) and a UK CAA runway resilience study at Appendix 5 to support this – the ExA is referred in particular to the graphs at pages 100-104.

3.4.3 Gatwick is already the single busiest runway in the world and close to its operating capacity. Gatwick has a Traffic Distribution Rule making it difficult for pure freighters to operate.

3.4.4 Luton has two cargo stands but its operations focus on passengers and it is currently planning to double passenger numbers. Luton, like Gatwick, is dominated by low cost carriers that don't carry bellyhold freight. Their plans note no change to their freighter operation.

3.4.5 East Midlands currently handles 350,000 tonnes of freight and has plans to increase long-term capacity to up to a million tonnes from 2035 to 2040. The Northpoint Report acknowledged this growth aspiration and found that even if East Midlands achieved or indeed exceeded its goal of 1mt, there would still be unmet demand of at least 500,000mt of freight based on anticipated growth rates. Manston would capture some of that demand and provide healthy competition by providing capacity in the South East.

- 3.5 The Applicant has previously noted that East Midlands and Doncaster serve markets in the centre of the UK whereas Manston will help improve the resilience of the south-eastern airport system for both passengers and freight (the Applicant has provided an analysis of freight growth at Doncaster airport at Appendix 3 to the Written Summary of Need Hearing [\[REP5-024\]](#)).

Location of Manston Airport

- 3.6 Manston Airport is located in the South East where aviation industry demand is highest and most constrained. The airport has a long runway, an ideal airspace location, benefits from easy surface access to London and the rest of the UK, is located close to mainland Europe, and, with RiverOak's proposed investment, can provide rapid handling and turnaround times for air freight.
- 3.7 Figure 4 on page 28 of the Azimuth report (APP-085) shows businesses served by integrators at East Midlands Airport. As is apparent from the map, East Midlands Airport serves a wide catchment area. The map shows that London is a big market for those integrators flying into East Midlands Airport, and that there are a lot of deliveries being made by road via the two main motorway corridors.
- 3.8 Manston Airport is ideally located to serve the South East market. Situated on the Isle of Thanet in East Kent, it lies 17 miles from the Port of Dover, 65 miles from Central London and 60 miles from the Port of Tilbury.
- 3.9 The road network around Manston Airport means that if there were significant issues with the motorways it would be possible to deliver via a series of cross routes between the M2/A299 and M20 corridors, starting with the A256 to Dover and Folkestone, the A28 via Canterbury and Ashford, the A249 and the A229 if the M2 was closed. The Applicant has previously noted that the level of traffic on these networks is for the most part substantially less than the M1, M25 and other radial and circular routes in London.
- 3.10 The Lower Thames Crossing will allow easier access to the M11/A14 corridor, and consequently allow for quicker and more reliable times to the biomedical industry and technology companies in Cambridge, the M11 Growth Corridor and prospectively to the planned Varsity Corridor. Construction on this new crossing has now commenced and is expected to be completed by 2027, providing 90% extra road capacity across the Thames between Kent and Essex.
- 3.11 Whilst the Applicant has acknowledged that Stansted is arguably better placed than Manston to serve the South East freighter market, as already explained, it does not have the capacity to accommodate the demand without affecting its preferred growth in the passenger market.

4 Trucking

- 4.1 At the Need hearing held on 21 March 2019 the Applicant explained that the prevalence of trucking goods produced in or destined for the UK to European airports was largely a result of capacity constraints rather than market preference. Goods that could be flown from the UK, to the benefit of the UK economy, are instead trucked across the channel to European airports.
- 4.2 The York Aviation Report of 2015 was commissioned by Freight Trade Association and TfL and was used to inform their response to the Airports Commission. The report is still available on the TfL website and TfL have made it clear that they stand by its predictions. It explains that air freight is a significant driver for UK economy. Damaging its ability to function effectively could have serious implications for the UK economy (page 4). The report explains that speed is a key feature for a number of goods (machinery parts, aircraft parts, perishables etc.) and that express freight, with the most time-critical activities, is the fastest growing segment of the

market (pages 9 and 15). If demand cannot be met in the London system, freight will need to be trucked elsewhere, resulting in longer transit times or earlier final pick-up times. For some parts of the market this could represent a critical loss of utility with significant impact on operations (page 15). Trucking leads to delay and to additional costs, which are likely to be passed on to the users of air freight services (page 4).

- 4.3 The York Aviation 2015 report found that even with a third runway at Heathrow, by 2050 some 1.2 million tonnes of freight would have to be diverted elsewhere because of a lack of capacity (page 19). This forecast was produced before account could be taken of the burgeoning ecommerce sector. York Aviation (supported by other research including that commissioned by the Applicant) anticipates that a significant proportion of excess demand would be trucked overseas for air freighting. The York Aviation Gravity Model (page 23) showed that 71% of excess freight was likely to be trucked to Europe and flown from northern European airports: 71% of the anticipated 1.2m tonnes of excess demand equates to 852,000 tonnes of freight being trucked to European airports. These are goods destined for or produced in the UK being flown into or out of European airports and trucked across the channel: a market that could be served by UK airports. The Applicant's forecasts assume that by Year 20, Manston will handle 340,000t of freight. Since this is only a proportion of the excess demand calculated by York, the forecast is entirely reasonable.
- 4.4 The York Aviation 2015 report notes that even with a third runway at Heathrow, by 2050 the additional trucking costs arising from unmet need would equate to £23.5 million per annum. The increase in costs associated with additional trucking and loss of utility to users will affect the level of air freight demand in and around London which, in turn, will impact on economic activity as productivity is reduced through impairment of trade and/or companies relocating to places with better connectivity (York Aviation, page 27). The impact of Brexit and the UK's withdrawal from the EU were not factored into the York Aviation report and may increase the negative affect on the UK as it begins to increase trade outside Europe, placing greater reliance on air freight rather than on trucking.
- 4.5 The Steer Report of October 2018 has informed, and is cited in the recent Aviation 2050 Green Paper. It explains that freight is often flown to continental European airports, particularly from Asia, as there is often more available air freight capacity than at UK airports, partly due to the lack of slots for freighter aircraft at Heathrow. This represents an inefficiency from the perspective of the UK economy (paragraph 2.24). It reports that several stakeholders noted that capacity constraints are a significant hindrance to the operation of air freight – one stated that it has caused volume growth to fall behind other European countries and another stated it is one of the main reasons why so much air freight is flown to mainland Europe and trucked to the UK, in turn causing more road and port congestion (paragraph 2.34). The Steer Report includes (on page 10) a case study of a particular business. It explains that the importer only flies 20% of its total imports directly to the UK, with the remaining 80% flown to mainland Europe and trucked to the UK. The reason such a high proportion of its goods are flown to the UK via Europe is because the UK's air freight capacity is not sufficient to service the required import volumes. The main problem the importer cited with UK air freight capacity was the quality of the infrastructure. The importer said that it avoids using UK airports because they are too congested and therefore not efficient; air freight infrastructure has not been upgraded in line with increased traffic which causes delays that can be avoided at continental airports. Indeed, "Several stakeholders commented that the quality of the UK's air freight infrastructure is a major issue, with freight facilities at UK airports often being decades old and having suffered from continued under-investment" (paragraph 2.34).

5 Dedicated Freighters

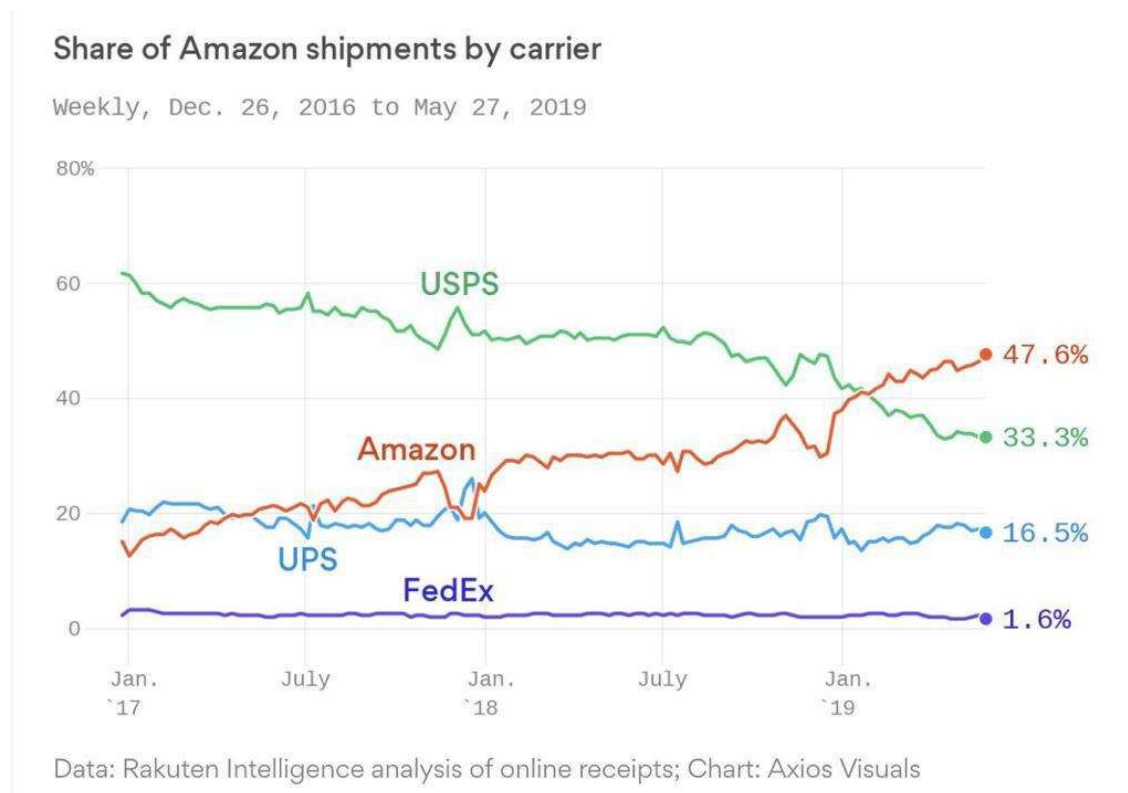
- 5.1 The Azimuth Report states that, “In the future, the UK and its reliance on air freight faces a number of issues including the potential ramifications of a withdrawal from the EU, the continuing impact of e-commerce and changes to manufacturing practices. Speed is now a key source of competitive advantage and this is potentially a game changer for the air freight market. Using dedicated freighters may be the only way to reliably shorten delivery times across the global marketplace.” The Applicant’s proposals for Manston Airport are for a focus on dedicated freighter operations. The UK does not currently have a dedicated freighter airport and the South East in particular is currently poorly served.
- 5.2 The York 2015 Report states that there are limitations on the usefulness of bellyhold and Boeing has explained the reasons for using dedicated freighters, “Range restrictions on fully loaded passenger flights and the limited number of passenger frequencies serving high-demand cargo markets make freighters essential where both long-range and frequent service are required.” (Boeing, [World Air Cargo Forecast](#) 2016-2017, p.4) Dedicated freighters can carry goods where and when needed without the encumbrance of passenger timetables, destinations, turnarounds, etc. Perishable and time sensitive goods rely on dedicated freighter transportation for these reasons. In addition, Ecommerce is one of the drivers for growth in air freight and demands rapid delivery that may only be met by dedicated freighter operations (Azimuth Report, VI section 6.1). The extraordinary growth by Amazon’s fleet of dedicated aircraft provide testament to the potential in this market.
- 5.3 Capacity shortages at UK airports are restricting the market for dedicated freighters, both in terms of runway capacity but also freight handling facilities, resulting in a domination of bellyhold freight in the UK. Whilst bellyhold air freight currently dominates by percentage in the UK, this is the reverse of the position globally (UK 70/30 Global 44/56), where dedicated freighter capacity is more freely available. For example, in 2018, Frankfurt Airport, which has four runways, moved 63% of freight on dedicated freighters, a sharp contrast to the picture in the UK. Boeing’s 2018 market analysis shows that globally over 50% has been consistently carried in dedicated freighters since 2000. It forecasts that over 50% will continue to be carried by dedicated freighters in 2037 (Azimuth and Northpoint reports). Manston would be well placed to attract this market.

6 Modern airport (e-commerce)

- 6.1 Paragraph 2.37 of the Steer Report (Appendix ND.1.13 to our 1WQ Responses [[REP3-187](#)]) states that *“Several stakeholders commented that the quality of the UK’s air freight infrastructure is a major issue, with freight facilities at UK airports often being decades old and having suffered from continued under-investment”*
- 6.2 The Applicant has previously explained that the cargo industry is fundamentally changing. It needs an innovative response, which cannot be provided at other South East airports because of constraints. A complementary facility tailored to the demands of freighters is required in the same way that similar facilities have begun to emerge in Europe and North America. If the UK does not keep up, there is a real danger it will lose market share to the detriment of the wider economy.
- 6.3 Previous operations at Manston suffered from lack of investment by the airport owners with the absence of modern infrastructure at the airport making it unattractive to investors. British

Airways was in discussions with Infratil to operate from Manston but ultimately pulled out as they lacked confidence in the airport owner, given their lack of investment and failure to provide a state-of-the-art facility. The Applicant's strategy for Manston Airport is transformational and cannot be compared to previous approaches. The Applicant has the opportunity to create a brand new, modern, automated and digitalised airport, designed to serve cargo markets in their new emerging form, unprecedented at other airports in the UK.

- 6.4 The offer at Manston will take an innovative approach, providing a facility that is not replicated elsewhere in this country. It will provide a state of the art facility that offers unconstrained capacity and that is digitalised to handle the latest data requirements that the air freight industry is currently developing. The offer at Manston will be extremely attractive to the market.
- 6.5 The Applicant explained that the e-commerce integrators it plans to attract would be different to the old-style integrators and not reliant on night-time flights. The businesses targeted by Manston would include the new e-commerce integrator-type carriers such as Amazon Air, who now operates 50 aircraft with further expansion planned.
- 6.6 The chart below graphically illustrates the rapid recent rise in e-commerce air freight operations and the relative decline of old-style integrators:



7 Summary

- 7.1 As summarised in the Azimuth Report, Manston provides a unique opportunity to focus on the air freight market. Its strategic location, runway length and potential to accommodate all necessary infrastructure together with considerable local backing mean it is without comparison in the UK. Manston Airport is located in the South East of the UK where aviation industry

demand is highest and most constrained. The airport has a long runway; an ideal airspace location; benefits from easy surface access to London and the rest of the UK; and can provide rapid handling and turnaround times for air freight. The airport would provide almost immediate relief to the pressing situation that is causing considerable loss of potential trade to the South East each year the UK remains without additional runway capacity.

7.2 Paragraph 1.20 of the Aviation Policy Framework 2013 states:

7.3 *“One of the Government’s aims in helping the economy to grow is to encourage investment and exports as a route to a more balanced economy. Airports are in some ways cities in themselves, creating local jobs and fuelling opportunities for economic rebalancing in their wider region or area. New or more frequent international connections attract business activity, boosting the economy of the region and providing new opportunities and better access to new markets for existing businesses.”*

7.4 This is exactly the effect that Manston Airport will have, bringing desperately needed jobs and opportunities for upskilling to the deprived local area as well as wider benefits for the UK economy by providing critical access to markets and helping to drive the UK’s competitiveness in the global market.

Appendix 1: Rebuttal of SHP Need Argument

1 Introduction

- 1.1 This document sets out the core strategic arguments for the Applicant's proposals and should be read alongside the detailed supporting evidence provided in the original application documents and Northpoint Aviation's strategic overview paper ([REP4-031](#)) and the above summary paper.
- 1.2 As the ExA is aware, the Applicant and Stone Hill Park Ltd have now exchanged contracts on the sale of the entire airport site, including the Northern Grass and Stone Hill Park Ltd has agreed to withdraw its objection to the scheme on the completion of the land transfer, which is expected to take place shortly (and well before the ExA's deadline for reporting to the Secretary of State).
- 1.3 Notwithstanding the above, and the little weight that should now be afforded to SHP's submissions, the Applicant has set out to address previous assertions made by SHP in this paper.

2 The Core Issues and Arguments

- 2.1 At the heart of the Applicant's need case is our belief that slot and other constraints (extant or impending) at the London airports will create a major demand-capacity imbalance in the South East in terms of air freight tonnage and freighter ATMs. The most recent data suggests that East Midlands and other regional airports, which are growing slightly faster than their London and South East counterparts, may be offering some mitigation for this divergence, but not at a level sufficient to replace falling volumes at Stansted or to keep up with the underlying growth driven by e-commerce which began to re-emerge from 2015 onwards across the UK. Nor will it be able to cater for future air cargo growth predicted by the industry (Boeing and Airbus confirm¹) to be an increase of 10-15% in the next ten years as a result of UK exporters and importers looking to increase trade in longer haul markets outside the EU², which is more suited to shipment by general cargo aircraft.
- 2.2 The Applicant does not accept SHP's unevidenced assertion that much of this will be serviced by increased bellyhold capacity provided by additional passenger aircraft movements associated with a third runway at Heathrow. The Applicant refutes this assertion for the following reasons:
 - Heathrow is heavily congested airside and landside in terms of its freight facilities and the R3 DCO proposals have not yet concluded how its 3MT freight target will be accommodated in terms of handling facilities;
 - Not all freight is suitable for carriage in the bellies of passenger aircraft;
 - Bellyhold routings are determined by passenger not freight demand;

¹ See Northpoint Aviation Strategic Overview Paper (March 2019)

² Long haul markets have a much higher propensity to attract air freight because of the distances involved and the belly capacity of passenger aircraft and larger freight aircraft.

- To maintain a balanced operation supporting passenger interlining and therefore route viability on more marginal long-haul routes, around 60% of new runway slots may need to be dedicated to domestic and short haul services to generate hub feed;
 - On this basis to achieve 3MT will require loads on all Heathrow's long-haul aircraft to increase by over 50%,; and
 - Security concerns about carrying cargo in the bellyhold of passenger aircraft that is not reconciled with passengers on board (as their luggage is), could lead to the introduction of measures such as hardened containers and aircraft hardening, which will have weight and volume implications that restrict payloads.
- 2.3 Throughout the DCO process SHP and its consultants have repeatedly asserted that increased bellyhold capacity at Heathrow will negate the need for any new dedicated air cargo movements in the London system because freight will gravitate to the 'cheaper' bellyhold alternative and this is why only 30% of UK freight is carried on freighters. The Applicant strongly disagrees with this for a number of reasons:
- 2.4 First, this implies that all freight is substitutable between freighters and bellyhold, which for the reasons set out above is not true.
- 2.5 Second, that there is a clear and consistent step-change in costs to shippers associated with the use of a dedicated freighter and that demand is highly elastic to such pricing increments, except that:
- SHP and its consultants, or indeed any other objector, has not provided definitive empirical evidence that such price differentials exist – even on freighters operated by combination carriers like IAG, Middle East and Far East carriers;
 - only integrators, specific routings, seasonal peaks or special handling requirements that are known to make shipping costs markedly more expensive;
 - our own market soundings point to there being no material difference between the two and to the fact overall value for money considerations are much more likely to determine consignee and forwarder choices than price/kg alone.
- 2.6 Thirdly, the UK share of air cargo transported by freighter, which is so at odds with the global average (see Boeing chart in the Northpoint Paper (on page 20 of [REP4-031](#)) and the evidence of Heathrow's immediate competitors in Amsterdam, Paris and especially Frankfurt (where 60% of freight moved is by freighter), all point to the real problem clearly being slot constraints keeping out additional freighter movements at Heathrow, Gatwick and Stansted. This has been a problem for some time, coinciding with the much-vaunted reduction in freighter movements and is set to only get worse in the form of existing cargo slots potentially being lost to more remunerative passenger movements.
- 2.7 The issue of cross-channel trucking of UK origin and destined air freight is one which is acknowledged by the industry, although there is an absence of detailed research to understand the real scale, nature and spatial pattern of the issue. York Aviation have claimed the issue is due to price differentials associated with bellyhold capacity at other European hubs however it has not provided any empirical (as opposed to theoretical) evidence to prove cause and effect

and this is contradiction to the findings of its 2013 and 2015 reports for TfL and the Freight Transport Association (FTA)³.

- 2.8 At a strategic level this is part of a persistent belief that York Aviation has demonstrated in neo-classical liberal economics (i.e. all commercial behaviour can be explained by the price mechanism) rather than current attempts by most economists to embrace a more complex behavioural explanations – and the freight sector is multi-faceted with many decision-makers.
- 2.9 It is the Applicant's view, shared with freight specialists including HAL and MAG, that cross channel trucking is a response to capacity constraints on certain routes and at certain times of the year at Heathrow, leading to cargo being 'bumped' or delayed. As a result, and taking into account wider value for money considerations like timescales for shipment, the importance of customers, the reliability of other routings, handlers and airlines 'leaked' freight is being transferred to Europe where bellyhold or freighter capacity is available (with the associated trucking and transshipment costs being absorbed by forwarders within the margins they can charge). The re-opening of Manston Airport would reduce this economically and environmentally damaging traffic in the national interest.

3 Forecasts of Future Traffic

- 3.1 The Applicant's forecasts underpinning the project's development were built 'bottom-up' based on extensive research of product markets and potential carriers by Dr Sally Dixon. In the absence of any form of off-the-shelf model for freight (and none such exists in the UK), this type of methodology is used extensively in the industry because it is an effective way of generating dis-aggregated projections, anchored in market knowledge and in a form suitable for use in business plan modelling. Use of simplistic regression analyses that rely upon highly aggregated short run data sets, of the kind used by Avia Solutions and SHP's consultants, is only of value in setting scenario-based ranges. This approach is too crude and dependent on externally derived assumptions to be suitable for our purposes.
- 3.2 Ironically, one of the best uses for regression-analysis is sensitivity testing, of the kind Northpoint's Deadline 4 Paper [\[REP4-031\]](#) presented in detail, SHP's consultants did not see fit to undertake. Instead they endeavoured to undermine Northpoint's analysis, not by saying it was wrong, but by implying it was not sophisticated enough and did not reflect the assumptions they themselves had made. The Applicant has responded in its answers to the ExA's written questions on this issue to explain that Northpoint's work is fit for purpose because it is highly transparent and focuses on the variables that have the greatest impact and the highest risk profile. This work confirmed the circumstances in which the bottom-up forecasts of the Azimuth Report would fall within the projected demand-capacity gap projected by top-down modelling.
- 3.3 Moreover, the Northpoint modelling is anchored by a much longer run set of data on air freight growth in the UK than was used by SHP's consultants, which was seemingly selected in an attempt to minimise the slope of the regression line for their future projections. Northpoint then also sought to validate its model's growth assumptions by drawing on forecast analysis from several respected third-party sources (Boeing, Airbus, Oxford Economics) and by adopting long-run average CAGRs that are conservative even in comparison to these projections.

³ See Appendix ND1.13 to the Applicant's response to 1WQs.

- 3.4 At its best good forecasting cannot be based on one methodology drawing on short run data and relying on one set of assumptions that are simply asserted to be correct. Rather it needs to draw upon the full range of data available, use different methodologies to examine and build upon it and then examine a wide range of sensitivities so that the circumstances in which the outturn will exceed or underperform the central forecasts are clearly known. That is the approach undertaken by the Applicant.
- 3.5 The Applicant's forecasts project a range of outcomes for the UK as a whole of between 4.9-5.4 MT in 2040 (5.7-6.5 MT in 2050), compared with SHP's consultant's 4.2 MT in 2040. The Applicant's forecasts assume a modicum of clawback of between 150-250,000T in 2040, which SHP's consultants eschew on the grounds that neither growing constraints at near European airports or Manston's presence will alter, and that in the continued absence of any UK policy to address it, the leakage will simply continue to grow as overspill for a constrained London and South East airport system.

4 Prospective Capacity Constraints

- 4.1 The demand forecasts need to be set against available bellyhold and freighter capacity at the major airports across the UK over the next 20 years. This is another area where the Applicant and SHP's analysis differs extensively. SHP claim that in conjunction with the projected expansion of capacity at East Midlands (from 0.375MT today to 1MT in 2040 – which the Applicant agrees with), the arrival of long haul bellyhold at Stansted (this has not happened yet despite some long haul operations already being based there) and incremental bellyhold gains at Gatwick (which the Applicant's projections have also allowed for), the new runway at Heathrow will generate sufficient new bellyhold capacity to meet the lower levels of demand they have forecast and that the surplus demand from the South East, will either be catered by use of bellyhold at Gatwick or freighters at Stansted or East Midlands.
- 4.2 This analysis lacks the in-depth knowledge of cargo operations and current commercial insights gathered by the Applicant through discussions with key industry players. Details of these discussions are commercially sensitive and must remain confidential however the key elements are that:
- **Heathrow's R3** will not open before 2027 and it will take as long as 23 years before full use is made of the new runway (confirmed in its recent statutory consultation documents) because capital expenditure is being delayed to meet regulatory requirements on charges. Terminal 4 is now unlikely to be replaced before 2050 and HAL do not yet have a solution which is projected to meet the full 3MT of capacity they are targeting. The window of opportunity for Manston is therefore even larger than initially assumed. Moreover, it is important to remember that while R3 has been supported in principle in the NPS, HAL still has to demonstrate how it will discharge the many important tests set for it in NPS (e.g. relating to surface access and air quality, airspace and noise, improving regional connectivity and meeting the climate change challenges likely to ensue from the Government's Zero Carbon commitments) as well as those being set for it by quinquennial review affecting financing.
 - **Gatwick** is unable to take freighters because of Traffic Distribution Rules and very few of its Low Cost Carriers carry freight as part of their business models. Furthermore, the notion that

additional capacity will arrive courtesy of more intensive use of a 'standby' runway is speculative and unlikely to be anything more than incremental.

- **Stansted** is close to 80% runway utilisation at which point delays begin to grow incrementally and the airport operator will focus all its efforts on attracting more remunerative passenger aircraft on using spare slots rather than freighters. Indeed, slot and night noise pressures will gradually squeeze general cargo freighters out of Stansted and there is evidence that is already happening, as there is that MAG are not supporting requests from its freight community to expand its facilities.
- **Luton's** new masterplan makes no allowance for expansion of freight facilities.

4.3 Even with the anticipated growth of East Midlands and the assumption that all other UK airports outside London and the South East are unconstrained and that as a consequence those airports pick up more than their expected share of growth there is still a sizeable projected gap of 400,000 – 800,000 tonnes in 2040 and more than that in 2050. There is no UK airport, other than Manston, or suitable European airport to meet this. Relying on the latter option as trading gateways would, in any event, be strategically, economically and environmentally to the detriment of the UK. Manston Airport is ideally located to capture this demand to the benefit of the UK economy.

4.4 The Applicant has explained at great length in responses to the ExA's written questions, why SHP's reading of the trucking phenomenon is not a case of demand chasing the lowest cost source of supply but rather of capacity constraints and overall value for money considerations (as confirmed in the Steer report).

4.5 The commercial interest of freight forwarders and airlines is not a national interest issue and should not be treated as such as SHP appear to imply. The Applicant believes that it is strategically important for the UK to address the current capacity issues in the South East by clawing back as much of this trucking traffic as possible using the new purpose designed facility proposed at Manston, alongside expansion at Heathrow, East Midlands and North of England airports in order to generate the required future capacity.

5 Summarising the Key Issues

5.1 Ultimately the strategic case for Manston comes down to three principal considerations:

- (1) Given the dynamic changes affecting the industry since the arrival of e-commerce, the Applicant believes the longer historic trends and those predicted by Airbus and Boeing are more likely to anticipate what will happen over the next 20 years than growth rates since the beginning of the century.

The Applicant's forecasts do not use the upper bounds of the OEM forecasts but focus around conservative long-term growth rates of 2.35% and 2.7%. These are higher than those suggested by SHP but substantially less than the industry, those seen historically and those being seen in terms of current e-commerce growth rates of 15-20%.

- (2) The Applicant believes that there is insufficient capacity, extant or planned, within the South East (or accessible from the South East) to meet future demand projections, having regard to slot constraints, space to build accompanying freight handling facilities and dedicated apron, and night noise quotas.

The Applicant's view is that SHP adopted an entirely unrealistic view of this issue, ignoring all the evidence of pressures growing on the South East Airports' system. Evidence points to capacity in the South East being effectively full for freight and even any relief gained by operation of the new runway at Heathrow will not address the full scale of the problem.

- (3) SHP have throughout their evidence sought to imply that commercial interests should provide the basis for strategic national policy, whereas the Applicant believes that aviation policy and decisions on associated national infrastructure projects ought to be based on the assessment of national need.

It is for this reason the Applicant believes that the redevelopment of Manston, which will develop modern freight facilities in an area of significant strategic need, attract jobs and GVA to one of the few remaining deprived areas in the South East will be of great catalytic value for UK businesses and trade. It is not acceptable to suggest reliance be placed on airports with long drive times, either in the North of England or in Europe, as suitable infrastructure for a competitive economy.

6 Conclusions

- 6.1 The ExA has been presented with two entirely different pictures of the UK air cargo sector over the next 20 years. The first from SHP relies on looking back to the past and recognising existing oligopolistic industry structures as the permanent status quo and consequently that the UK will never have adequate air freight capacity within its own boundaries to meet national long-term need. It also implies accepting that the capacity that exists is either congested, in the wrong geographical location or of an insufficiently modern standard to meet the needs of the key growth sector (i.e. e-commerce) moving forward. The willingness to rely upon other countries' airports, which already create significant delays for UK shippers and introduce the prospect of having to cross national borders with much greater levels of friction than hitherto, seem to us an anathema as the basis for national policy.
- 6.2 The alternative view set out by the Applicant is focussed on creating air cargo facilities suitable for the 21st century, strategically located, modern, automated, and designed around the needs of the customer not the needs of the freight forwarding industry. The Applicant's proposal would allow a significant demand capacity gap to be addressed efficiently and in a timely manner using an extant piece of infrastructure which is of considerable value and would otherwise be lost to aviation use. Critically if SHP's view is wrong, and there does prove to be a substantial requirement for new freight capacity in the South East which cannot be met at other South East airports, the re-development of Manston for non-aviation uses would remove the single most effective piece infrastructure which is available to address this national requirement.
- 6.3 Submissions have been made about the failure of previous operations to make Manston work as a viable entity. However, previous owners were under resourced to develop the airport in the way that is needed. The Applicant, its investors and professional team are both qualified

and well resourced. It is also important to recognise that airports that have closed and successfully re-opened in the UK recently (e.g. Blackpool, Carlisle, Doncaster Finningley - now Doncaster Sheffield) and others that lost substantial traffic during the financial recession have gone on to re-invent themselves under new ownership (e.g. Southend, Cardiff and Newquay). It is with these precedents in mind that the Applicant is confident that it can make a success of Manston and in so doing meet an important national need.

- 6.4 The Applicants has spent a significant amount of money getting the project to this point – including now agreeing to buy the land from SHP for £16.5 million. There are successful models in both Europe and North America of the kind of development proposed (see Appendix A) and they are likely to represent the direction of travel for the freight industry over the next 20 years. The Applicant has secured investors who share their vision to create a major infrastructure project which will address the UK's future needs and make a major contribution to the UK's ability to access global markets. It is therefore a choice between addressing the 'need' for a modern, forward looking ambitious plan for Manston, that will create substantial jobs and new economic activity or passively accepting a backward looking, static view of the UK airports sector that entrenches complacency and priority being given to established interests. The Applicant is firmly behind the first of these visions.

Appendix A - Flexport City Development – Liege Airport



- 1 Flexport City is an excellent example of the disaggregation of the cargo handling and logistic distribution functions at one of Europe's leading Cargo airports. In the layout plan above, the distinction between landside and airside facing areas can be clearly seen.
- 2 It is made even clearer in the isometric below where the cargo handling sheds can be seen facing onto the apron where the aircraft are loaded and unloaded. The logistics buildings behind them are outside the operational fence and designed for distribution operations that do not require airside contact but do need airport proximity.



- 3 This is the kind of separation we have been trying to explain in terms of the Northern Grass area at Manston.