

FALCON CONSULTANCY LIMITED 

THANET DISTRICT COUNCIL



EXPERT OPINION ON THE PROSPECTS FOR THE VIABLE DEVELOPMENT OF MANSTON AIRPORT

STAGE 1 – INITIAL EVALUATION AND VALIDATION OF THE AIRPORT OWNER'S ASSESSMENT



16 JULY 2014



PREFACE

AIRPORTS

History:

Before considering the future of Manston Airfield, it is worth reflecting for a moment upon the history of regional airports in the UK, their role and the challenges that face them in the short to medium term future.

Unlike most other countries, the early regional airports in this county were constructed, not by a central civil aviation agency but by the councils of the cities they were designed to serve. This is important because, at the time of their inception, there was no national strategic plan for the location of airports. These airports were developed as public facilities, and managed professionally to ensure a safe operational platform for aviation activities.

In those early days of aviation, airports catered for a number of small airlines, private aviators and post office mail carriers. There was no requirement for paved runways and the operational infrastructure required was relative cheap to provide.

World War II delivered a profound change in civil aviation. Surplus military airfields offered an attractive prospect for the development of new additional airports, with the consequence that the UK abounded with airfields/airports that were uneconomically close to each other. An outstanding example of the civil use of a WWII airfield is Manchester Ringway Airport a development that curtailed the growth of purpose-built, nearby Liverpool Airport.

The War also provided a quantum leap in the capabilities and performance of civil aircraft. As a consequence, airport owners had to provide far greater sophistication in airport aeronautical facilities, typically, runways, taxiways, hard standing for aircraft parking and navigation aids such as Radar and ILS.

Ever increasing safety regulation required airports to employ dedicated personnel and costly equipment. The cost of the local councils' ownership of their local airport began to spiral upwards.

The advent of another generation of post war aircraft introduced the jet and brought air travel to the public at large, spawning a demand for the growth of passenger and cargo facilities thus requiring councils to provide ever greater capital expenditure.

Meanwhile surface transport links improved across the nation with the construction of the Motorway network and investment in the railways. As each airport sought to compete for a larger share of the "catchment" area of passengers and cargo so the airlines, anxious to focus their resources wisely, began to pick and choose the airport that offered the best surface transport "feed". Some airport's lost where others gained. It could be argued that mainland Britain has too many airports too close together and, ideally, needs one very large airport serving the South East, another perhaps in the North West and these fed by a handful of regional airports no nearer than 1.5 to 2 hours driving from each other

In 1986, the Airport's Act ended the management of airports as public assets and required them to operate as businesses. In the absence of a national airport strategy, airports competed openly with each other and a race began to build the facilities necessary to attract the airlines. Councils faced an impossible task to raise the necessary finance and most turned to various forms of private sector initiatives to bridge the gap, including outright sale.



Non-aviation Profit Generation:

Although safety remained the imperative and regulation ensured its compliance, the new breed of airport managers turned their focus to the commercial exploitation of the drawing power of the airport activity and developed a diverse range of non-aeronautical activities yielding higher profits than the aeronautical services they provided. Initially focused merely upon land surplus to the airport's operation, Schiphol Airport, Amsterdam developed the concept into an "Airport City", a business and retail community that is strategically planned and marketed to have synergy with the airport's activities. Today a successful airport seeks to generate approximately half its turnover and considerably more than half its profit from non aviation activities such as real estate development, retailing and rental.

Airlines:

As airports developed so did the airlines. Aircraft grew in capacity and with more seats to fill, airlines reconsidered their commercial strategies. The large legacy airlines such as Air France, Lufthansa, and British Airways took their lead from the US airline industry, developing "hub and spoke" networks. This technique worked on the broad principal that ultimate market efficiency was reached when a third of a load of passengers disembarked at the destination, a third remained on board in transit to the ultimate destination and a third connected to another flight or another airline. Under this philosophy, regional airports were firmly relegated into the role of hub feed airports. The opportunity for them to attract lucrative long hauls flights receded.

The, regional airports responded to the decline in scheduled airline business and found new revenue opportunities by attracting seasonal tour traffic and all freight services.

For a while, regional airports enjoyed a niche role in a new concept of airline operation, the low cost carrier (LCC). The business model of the LCC is to provide a short to medium distance air travel product to the market that had hitherto not afforded to fly by eliminating all unnecessary costs and maximising on the capacity of the aircraft. They chose to base their operations on regional airports where they could negotiate virtually free operating costs with the desperate airport operator, arguing that the airport could generate compensating revenues from car parking and retailing, especially Duty Free. For a while this formula satisfied both airline and airport operator although the airports struggled to generate the investment necessary for upkeep and modernisation.

At the time of writing this introduction, fierce competition between all the airlines is redrawing the map once again and forcing the low cost airlines back towards the larger airports. Ever larger aircraft delivered to the major airlines offer many more seats to be filled from the major airports and the capacity and performance of these aircraft is so great that, for the moment at least, the growth in air cargo can be absorbed in the belly holds of passenger aircraft.

The seasonal tour business too is changing as passengers prefer to book individual inclusive tours on the large airlines from the main airports.

Thus the role of the regional airport has been relegated once again to hub feed.



So far, this overview has dealt with the role of regional airports in serving the airline community. However regional airports may serve a number of aviation roles from which they may generate revenues.

GENERAL AVIATION (GA)

The General Aviation community is diverse, comprising private aviation, corporate aviation, crop spraying, air ambulance, gliding, helicopters, and training. GA has enjoyed a brief period of growth exploiting the war surplus facilities, hangars and runways; in many cases facilities that far exceeded their needs. However it was not long before the cost of maintaining these facilities exceeded the meagre revenues generated by this segment of the civil aviation market. Inevitably, failing airports had to close and much of the private flying community, operating light aircraft gravitated back to grass runway airfields. Serving major businesses, corporate aviation has flourished. Large, high performance corporate aircraft have evolved that are generally accommodated at major airports and serviced in FBO (Fixed base Operations) specially designed service facilities. Around London, where the capacity at Heathrow and Gatwick is limited, specialist corporate airports have developed at Farnborough, Fairoaks and Biggin Hill served by the excellent road and rail connections to London that are the imperative for their corporate clients. However even here, the operational constraints are limiting further growth. If Manston could offer a guarantee of long term operation, necessary to support the high levels of investment, an FBO operator might be attracted.

MISCELLANEOUS

Regional airports may also provide the operating facility for other civil aviation activities:

AIRCRAFT MAINTENANCE REPAIR AND OVERHAUL (MRO)

MRO is a highly competitive business where the availability of high skills at low cost is the imperative. The airlines have chosen to look around the world for low MRO costs and are willing to fly the aircraft wherever this can be found. A large investment is required to construct a modern MRO facility and investors must be assured of continuity of airport operation.

SPECIALIST CARGO CHARTERS

Employing “just-in-time” manufacturing principles, some industries charter large cargo aircraft to deliver components from remote suppliers as required. Perishable commodities such as flowers and food stuffs are often transported by air.

Cargo charterers welcome the open availability of regional airports if the transport links are suitable but this invariably requires the airport to provide largely under-utilised equipment and facilities,

PARCEL AND MAIL HUB

A lucrative business for a regional airport, operating a post office hub (generally at night) or a parcel hub involves a large number of aircraft arrivals and departures in a concentrated period of time. However it is best located at airports that do not have community noise issues.

AIRCRAFT BREAKERS

Aircraft breaking is a specialist business with few participants. A substantial runway is required but the utilisation is extremely low.



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1 KEY OBSERVATIONS

1.1 Overview:

	Key Observations	Comment
1	The airport is a major (sunk) capital asset. Nevertheless it has lacked the investment needed to develop it for today's airport role, especially for the development of key transport links to London.	The closure and surrender of the CAA licence is unfortunate as is the disposal of equipment, but can be turned to an advantage. Until a positive and realistic business plan has been developed, investment is visible through construction, and the fast rail link is near completion, that airport should remain closed. .
2	The site offers ample opportunity for considerable aviation and commercial development (with other land available for acquisition).	A Business Plan must set out the phased development of the airport in respect of both operational facilities and commercial infrastructure, so that the full synergies of both may be realised.
3	It is located in the S.E. where airport capacity is a major issue.	The issue of capacity saturation and the need for additional runway capacity in the S.E. should be exploited as the core business opportunity.
4	Although there are plans for additional runways in the S.E., the reality is that a new runway is years away.	Whatever the political decisions arising from the Davies Commission, the planning process will take at least 10 years and the benefit of one new runway may be short lived thereafter. Manston could play a significant role in providing the required capacity even if only in the short term.
5	Many regional airports have to supplement their aviation revenues through a visionary strategy of real estate development, Manston is no exception.	Air operators and investors in airport real estate must be assured that the airport will remain operational for at least 20 years, thus the real estate business must be integral to the aviation business
6	Neither Infratil nor Kent Airport Limited have offered a clear strategic option to develop the airport (with financial projections) in partnership with the Council,	Either the airport is written off or a long term business plan to profit is developed in financeable phases and with full council and national political support.
7	The airport has never sustained growth. Now, the doubts surrounding Manston's survival have become a self fulfilling prophesy.	No business plan with a credible investment plan of less than 20 years is likely to define the commitment necessary to rebuild confidence. Phase 1 investment required could be in the order of £100m with no guarantees of success. Political support will be required to attract investors and PR work will be needed to convince the airlines.





This Report was commissioned following the unexpected closure of the airport by its owners, Kent International Airport Limited

The Report was compiled by the FCL in only 7 working days following contract signing. Further research is therefore essential to prove and develop the comments contained herein.

2 EXECUTIVE SUMMARY

Kent Airport Limited and Thanet Council have provided FCL with sufficient data to understand the key issues and opinions that have led to the airport's closure. Kent Airport Limited declined to provide the full range of information requested, restricting it to that which they considered relevant. For this reason, the FCL Team have initiated our own research in advance of Stage 2.

2.1 Present State

Kent Airport Limited is selling off crucial airport equipment and facilities, rendering the airport inoperable. Any proposal to reopen the airport with existing facilities would need to consider, whether to purchase new or second hand replacement equipment.

The general appearance of redundancy and the reputation of failure will conspire to frustrate any promotion of the airport to prospective operators.

2.2 The Role the Airport

Airports play various roles in the civil aviation industry mix. For example, Heathrow is clearly:

- A capital city gateway airport,
- A hub for global air passenger traffic connectivity,
- A major cargo airport,
- A huge retail facility
- A large real estate business.

(It is important to note that highly successful airports attract adjacent commercial land values equivalent to city centres. Under the airport ownership and properly managed and developed in synergy with the aviation activity, the profits from an airport real estate portfolio help to sustain the airport's investment planning.)

2.3 Manston as a UK Regional Airport

Manston has always been perceived as a Regional Airport.

Kent Airport Limited is right to identify the negative marketing features of the airport's location as a regional airport. The airport is not well located to serve as a travel interchange serving the wider UK.



Regional Airports provide an operational service to most segments of the civil aviation operation, typically regional airlines, corporate aircraft, flying training, private flying and so on.

The primary segment is commercial air transport (the airlines). However, this business is rarely profitable as airports struggle to resist the downward pressure on airport charges as the airlines seek to offer lower fares.

Cargo generates very little revenue for an airport and is invariably unprofitable.

Much of the revenue from FBO’s comes from the sale of fuel and the provision of aircraft maintenance.

Regional Airports need the profits from rentals, retail, car parking and real estate to bridge the profit gap of the aviation activities.

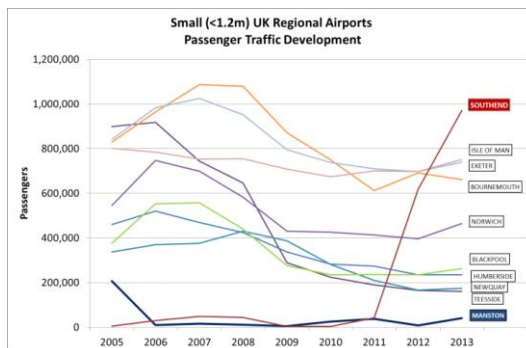
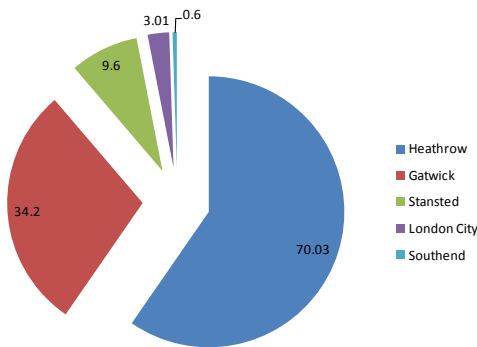
Schiphol Airport Amsterdam invented the concept of the Airport City, the development of specialised retail and business community located at the airport with synergy between the airport activity and the focused development of the real estate.

MANSTONS ROLE AS A UK CIVIL AIRPORT		
ROLE	ATTAINMENT	REASON
Regional Airport	Repeatedly failed to sustain scheduled airline services and attract other profitable aviation activities.	<ul style="list-style-type: none"> Poor UK network location Poor surface transport links Limited UK catchment area
Cargo Airport	Proven record of success in attracting all-freight air carriers.	<ul style="list-style-type: none"> Ideal operating facilities Ease of access.
London Corporate FBO	Failed to attract a share of the London Corporate market.	<ul style="list-style-type: none"> Lack of quality facilities and Poor surface transport links <p>Farnborough to Canary Wharf 45 miles / 1.14 hrs Manston the Canary Wharf 72 miles 1.25 hrs</p>
London Satellite Airport	Failed to compete with other satellite airports.	<ul style="list-style-type: none"> Lack of quality facilities and Poor surface transport links
Airport “City” Business Park	Failed to develop a viable estate portfolio.	<ul style="list-style-type: none"> Failure to sustain activity growth Lack of vision Lack of infrastructure.
NOTE 1:	<i>Where airports are close to their capacity, they are able to sustain published aviation tariffs. The activity drives up real estate values and the throughput generates retail revenues. Such airports generate substantial profits.</i>	
NOTE 2:	<i>Manston Airport was up for sale for some time. That there was no interest reflects its poor business reputation, (it has never made a profit in all the years since the RAF moved out) and the general industry perception that it is not in an ideal location. It has failed to fulfil its perceived role as a regional airport.</i>	



London Air Passenger Market – 2011

Total market: 134,997,486



2.4 Manston Airport’s Passenger Market

Kent Airport Limited had commissioned a professional passenger market assessment (DF Aviation Consultancy) however this stopped short of a demand forecast. Although we were told of the contacts made with airlines, no minutes of meeting were available.

FCL agrees that as a regional airport, Manston has no natural sustainable passenger market. The practical experience of the airport’s operation demonstrates that its catchment area and its propensity to travel is insufficient to generate for the airlines enough traffic on one route to sustain a twice daily operation, the minimum required to risk launching a service.

The Infratil Masterplan for Manston does not provide a sound basis to initiate a refurbishment plan nor does it convey an attractive proposition for investors and potential users of the airport. It is not surprising therefore those airlines have shown little faith in its realisation.

Nevertheless, the airport is s approximately and hour’s surface travel from London. As saturation of runway capacity in the S.E. moves towards reality and decisions to build new runways seems years away, Manston’s location should enable it to compete for a market share as a London airport.

Southend Airport on the opposite bank of the Thames, has demonstrated that a share of this huge and lucrative market can be captured with adequate facilities and a travel time to London competitive with other London Airports (Luton, Stansted, Gatwick and so on).

FCL’s research has discovered a submission by Infratil to the Davies Commission, this has yet to be analysed.

2.5 Cargo

Kent Airport Limited had commissioned a professional cargo market assessment (ILS Solutions) this also stopped short of a demand forecast. The assessment pointed towards a contact list and a price based marketing strategy but we are unaware of follow up.

The construction of an international component assembly plant (e.g. car plant) on nearby land would dramatically stimulate the cargo throughput.





IMPORTANT:

The Davies Commission is due to decide whether or not to shortlist a Thames Estuary option for new airport capacity for London, and will then undertake formal consultation on the shortlisted options.

Manston is not shortlisted.

2.6 Business Planning

Kent Airport Limited is right to identify the ongoing evolution of the airline industry as new aircraft enter service with ever more impressive performance capabilities. It is true that these developments detract from Manston’s immediate market opportunity, in the short term.

Kent Airport Limited’s negative operating financial projections are reasonable, based on past performance but it must be noted that an analysis of the accounts of some major airports would show a similar shortcoming. The pressure on the air travel and air cargo industry to reduce tariffs against a background of high fuel costs places inevitable pressure upon them to drive down their operating costs especially all costs associated with the time the aircraft is on the ground, including airport charges. Airport operating revenues are under pressure and must be compensated by exploiting the aviation activity base to attract other revenue generating activities.

Kent Airport Limited did not provide a comprehensive Business Plan to support their decision to close the airport. The decision would appear to have been made on the basis of past performance and short term projections without the support of a credible long term (minimum 20 years) investment plan, a key component of a detailed Business Plan (developed logically from a demand forecast through a capacity plan, phased master plan, CAPEX/OPEX projections to financial projections for the full planning term).

FCL’s observations of Manston Airport at the end of Stage 1 are:

- It is not unique among the UK’s regional airports in failing to secure a scale of aviation activities that will cover the cost of its aviation related operation.
- It is fortunate among regional airports in its location in the S.E. so close to London, for, given significant improvement in road and rail links to the capital, it could compete as a London airport.
- The trigger to revival would seem to be a fast rail link to London and the protracted timescale needed to properly address the saturation of the S. E. airports.
- The promotion of any revival will depend upon a credible investment plan and initial construction that encompasses the trigger (above) and provides airline user friendly facilities.
- The success of Manston revival must be proved through a 20 year business plan with financial projections based on the assumption that the trigger will be realised.
- More work must be done to engage the airlines’ views on a Manston Business Plan that offers a 20 year commitment.



2.7 The Road to Sustained Profitability

The chart below offers FCL’s view of the path to profitability. Note that, even with an associated business park, the airport is unlikely to succeed and, in our opinion, will generate substantial operating losses. However, through phased planning and investment aimed at capturing a share of the London traffic, the airport could move into profit. A nearby international component assembly plant (e.g. car factory) would add further value.



3 CONCLUSIONS AND RECOMMENDATIONS

3.1 THANET DISTRICT COUNCIL'S OBJECTIVES & SUMMARY OF CONCLUSIONS

Stage 1 – The Brief

THANET COUNCIL'S OBJECTIVES	FCL'S CONCLUSIONS
Validation of the underlying costs and profit drivers.	We have had insufficient financial detail and insufficient time to probe Kent Airport Limited's financial figures. However, in our view, the order of costs as presented are in line with the operation as it was before closure.
Validation of assumptions regarding investment needs.	We are unable to validate the assumptions many of which are now rendered irrelevant by the airport's closure and the sale of assets.
Take a view on whether all available opportunities have been taken to identify different aircraft operators capable of being attracted to and capable of operating from the airport – freight and passenger, and including short haul aircraft and private aviation.	<p>In our view Kent Airport Limited rightly commissioned professional reviews of the commercial passenger and cargo operator markets but these offered no projections of demand.</p> <p>We have no evidence that the reviews were subjected to detailed scrutiny or followed up with sound commercial propositions to identified target airlines.</p> <p>In our opinion, overtures by Kent Airport Limited to airlines to introduce air services to Manston were unlikely to succeed without the tangible evidence of substantial investment necessary to convince them of the medium term sustainability of their operations.</p>
Take a view on whether all available markets for ancillary airport operations which could take place at the airport have been considered.	In our view, Kent Airport Limited has identified all the aviation related activities that are typical of regional airport but we have no evidence that these markets have been assessed and projected into a comprehensive Business Plan.



3.2 Recommendations

The FCL Team are not convinced that enough has been done to develop a visionary strategy and Business Plan for Manston. Therefore, FCL recommends that Thanet District Council should take the following next steps:

1. Revisit the Stage 2 ToRs and instruct FCL, typically:
 - a. Develop a high level Vision of the maximum planning potential of the airport, identifying any further potential land acquisitions necessary to fully realise the potential.
 - b. Develop a high level, 20 year, Business Plan, commencing from the opening of the rail link, that integrates five business models:
 - 1)Manston as a London Airport,
 - 2)Manston as a multi-purpose Regional Airport,
 - 3)Manston as a Cargo Airport,
 - 4)Manston as a Corporate FBO (Corporate aircraft service centre),
 - 5)Manston as a sophisticate Airport City (Real estate).
 - c. In partnership with the Council, undertake a first-cut review of the environmental issues of major development.
 - d. In partnership with the Council, define an aero-political strategy to promote Manston as a London airport.
 - e. In partnership with the Council, define a framework “Airport City” strategy.
 - f. In partnership with the Council, develop an investment strategy
2. Open discussions to establish the earliest construction of the rail link,
3. Open discussions to facilitate a Phase 1 “Airport City” business park including the relaxation of Planning restrictions / Processes,
4. Instruct FCL to engage an expert to establish the cost of replacing the equipment essential to resume operations,
5. Open discussions on investment funding,
6. Open discussions with Government on the S.E. Runway issue.

Meanwhile there is no commercial justification for reopening and marketing the airport in the same configuration as it was upon closure. It should remain closed but arrangements put in hand for the low level maintenance of key facilities.



4 UK DEMAND FOR REGIONAL AIRPORTS

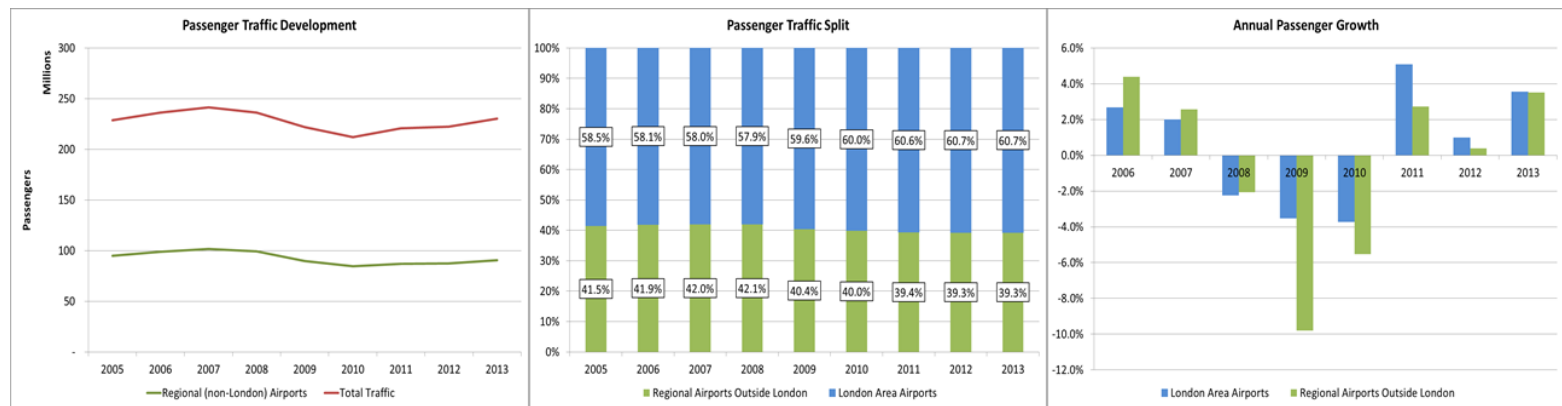
4.1 Passengers

In 2013 there were 230.1 million passengers using airports within the United Kingdom. Those airports serving the London Area including Heathrow, Gatwick, Stansted, Luton, Southend and Manston dominate total activity accounting for 139.7m passengers. The rest (loosely termed Regional or non-London Area airports) accounted for 90.4m passengers. The split of traffic has been steadily increasing in favour of London Area airports rising from 58.5% in 2005 to 60.7% in 2013.

Since 2005 and throughout the recession in the UK the overall development of

passenger traffic has hardly changed, rising only by 0.08% (CAGR) over the period. This masks the fact that traffic at regional airports has actually declined 0.53% compared with a rise of 0.49% for those in the London Area over the period. Furthermore, whilst growth rates at regional airports in 2006 and 2007 were ahead of those in the London Area, since then rates have been lower with the impact of the recession hitting traffic development in the regions far more severely than that in the London Area. In 2013 however growth at regional airports was (3.5%) almost the same as the London Area (3.54%).

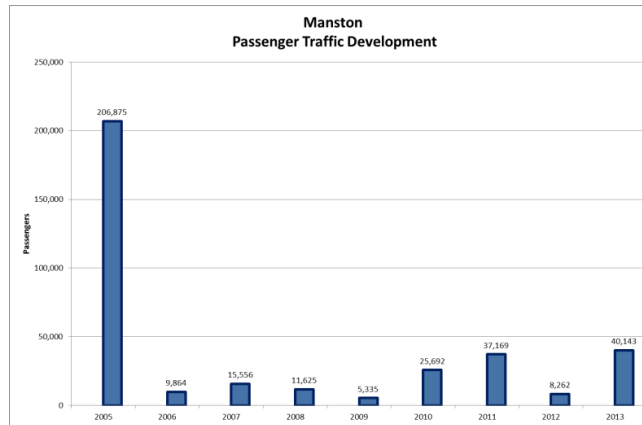
Figure 1 UK Airport Market 2005-2013 Source CAA



Passenger traffic development at Manston during this period (2005-2013) has been small apart from during 2005 when a low cost carrier EUJet briefly set up a base at the airport only to collapse and cease operations

in July of that year. In the period prior to closure announcement, the arrival of the Dutch carrier KLM, providing services directly to Amsterdam, appeared to herald the beginnings of a new dawn at the airport.

Figure 2 Passenger Traffic at Manston 2005-2013



Generally speaking traffic development at the airport has been lower than might be expected for a smaller airport in the UK, especially when compared to other airports at similar coastal locations such as Blackpool, Humberside and Newquay. They all tend to have low traffic flows, yet even they have seen greater flows than Manston. Indeed there are examples at coastal locations such as Exeter and Bournemouth that can support larger traffic volumes. It therefore remains a mystery why a major piece of aviation infrastructure at a

coastal location in the UK cannot support greater volumes than at Manston.

Of particular interest to Manston is the development of traffic at Southend Airport. For many years the airport handled low passenger volumes until in 2008 it was purchased by the Stobart Group and major investments followed. These included a newly terminal building, control tower and an extended runway. However the most significant development was a new station built within walking distance of

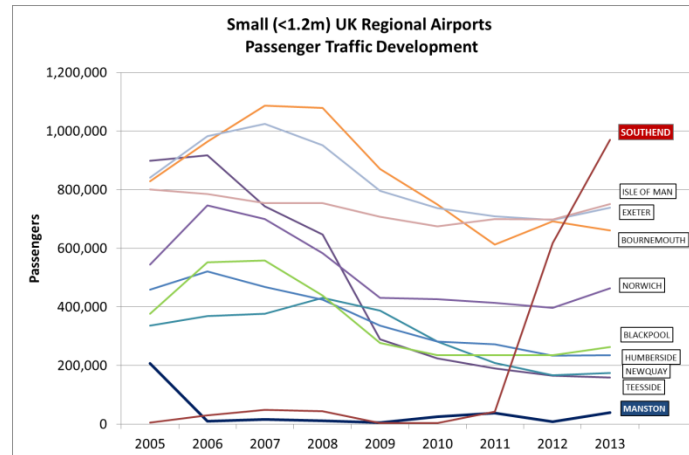


the terminal enabling access to regular rail services to central London in under an hour.

EasyJet began operating services opening a base at the airport in April 2012 and a rapid

increase in passenger numbers followed; from 42,439 in 2011 to 969,950 in 2013. In the first four months of 2014 traffic had risen by a further 40%.

Figure 3 Passenger Traffic at Smaller UK Airports 2005-2013



This is relevant to Manston because Southend has shown that where access to the London area conurbation can be achieved swiftly and seamlessly the potential for airport passenger expansion can be rapid. Traffic development is not simply a function of local catchment area but of accessibility.

This model holds considerable potential for the Thanet region because it enables the airport facility at Manston to move towards achieving a critical operating mass in a realistic time frame. If it could be replicated on the site the scale of traffic flow would generate activity to justify the levels of investment likely. This need not be necessarily measured simply in cash-flow terms for the airport operating



account but more importantly from the regional perspective at the job creation and economic regeneration levels.

The key question is which carrier would respond to this development of the airport and its access in order to develop traffic at the airport. An extensive review of potential candidates undertaken by previous consultants concluded that EasyJet, Ryanair and Jet2 are likely targets although a further potential target could be the Low Cost-long haul operator Norwegian.

The airport owners made the following comment when asked about contact with airlines:

“...we spoke with a number of airlines. No passenger airlines with any current activities had any interest to start operations at the airport (albeit Ryanair had had an interest that went away just prior to Christmas)”

Alistair Welch July 2014

This response from the airlines is not unsurprising given that the fundamental issue of access to London area conurbation has not yet been addressed by any investment proposal at the airport. Indeed it seems

probable that the airport’s history of consistently failed passenger operations and marginal airline activity would undoubtedly dissuade most carriers. It is interesting to note however the flicker of hope - which came and went - from Ryanair, demonstrates that even without access resolution, traffic expansion could be possible.

There is therefore a challenging period ahead where the issue of reduced journey time to the London area conurbation needs to be radically addressed. Even the proposed Thanet Parkway station would require some additional mode of transport to connect passengers from the terminal to the station. A solution is necessary that minimises journey time to the capital. This is a critical issue since there are so many alternative airport choices that the traveller to and from the London conurbation can decide upon.

However if an improved access could be resolved the future potential of the airport could soon be realised.



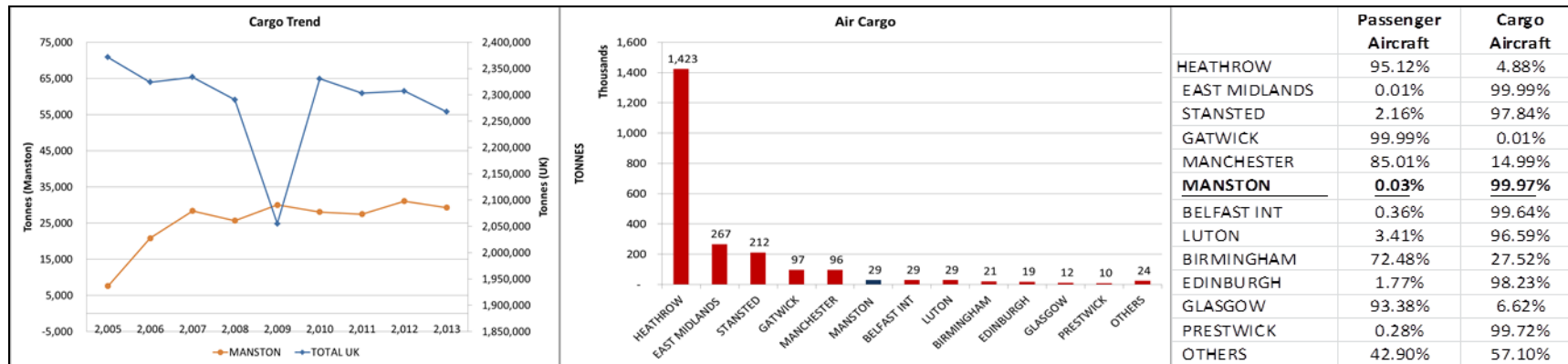
4.2 Cargo

4.2.1 *UK Background*

Manston is the sixth largest airport for air cargo in the UK representing an important and often overlooked aspect of the operation at the airport. In 2013 cargo reached 29,306

Tonnes. This was down 6% on the previous year in a market that was down 1.7% throughout the UK on the year previously. Almost all (99.9%) of the cargo at Manston was carried on dedicated cargo aircraft.

Figure 4 Cargo Trend; Largest Cargo Airports in UK; Proportion Cargo Carried by Aircraft Type Source CAA



By comparison London Heathrow, the largest cargo airport in the UK handling over 1.423million Tonnes in 2013, handled only 5% on dedicated cargo aircraft with the balance carried in the under-belly of passenger aircraft. This was true also of Gatwick which handled almost no cargo on dedicated freighters with most its cargo conveyed on passenger aircraft.

East Midlands is the UKs most important dedicated cargo airport with nearly all its 267,000T carried on cargo aircraft. It is an important base for Royal Mail as a major overnight mail hub as does DHL, Fedex, TNT and UPS express cargo operators A significant factor in the success of the airport is its close proximity to an excellent motorway network which ensures that 90% of the land mass of England and Wales is within a four hours truck journey from the airport.

In addition twenty four hour operations also make the airport friendly for freighter operations. Despite all these advantages East Midlands airport cargo throughput has only grown by 5.6% in the past nine years..

Airport competition in the UK is naturally centred on London Heathrow and it is estimated that approximately 85% of the

UK forwarding industry is based with a 10 mile radius of the airport.

Manston airport also faces competition from five airports in Europe with excellent motorway links to the south east of England. Frankfurt (699km), Amsterdam (483km), Brussels (319km), Paris (377km) and Liege (403km) all have excellent cargo hub capability with fast motorway connections across Europe and to the UK.

4.2.2 Cargo Trends

In general airfreight business has had a turbulent period since 2010. The economic downturn and the fall in demand from China and Asia has significantly altered the key economic drivers of the cargo business. There is been very little growth in airfreight from Asia since the peak in April 2010. This has been exacerbated by the increase in aviation fuel since 2009. The current Fuel Price Index is 559 which has stabilised in the past year but the price of aviation fuel is still high at USD120/bbl.

Over recent months airfreight markets have maintained the 2013 year-end improvements but there has been no further increase in growth. Stronger economic growth has not generated the



expansion in economic trade as it has done in the past, as production has been on-shored due to a variety of factors.

Airlines are replacing their passenger aircraft with more fuel efficient aircraft at an increasing pace. Wide bodied twin aisle passenger aircraft deliveries are expected to grow by 19% this year which will effectively increase belly hold capacity worldwide by 8% allowing more and more cargo to be conveyed in the free under-belly cargo holds of passenger aircraft.

Capacity is growing at a far faster pace than demand for airfreight and as sea freight yields are falling there is also a shift from airfreight to sea freight.

The climate for cargo-only aircraft operations could not be much worse. This has led to decisions by many major airlines to move out of freighter aircraft or to down size their fleets significantly. Current developments in the carrier market include:

- Japanese Airlines (JAL) which have moved away from freighter aircraft in 2013 as have
- British Airways in May 2014.
- MK Airlines a UK Cargo Airline ceased operations in 2010. (It previously

operated produce freighters into Manston).

- Eva Air of Taiwan is reviewing its freighter operations.
- Lufthansa is reshaping and reducing its freighter fleet
- Air France/KLM are actively reviewing their fleets and there are indications that a sale of Martinair the wholly owned subsidiary of KLM is about to be sold.
- Cathay Pacific has ordered more freighters but these are being delivered into the desert for storage. Cathay Pacific has also cancelled freighter operations to Manchester after many years and restructured its freighter operations.

By contrast the only airlines currently increasing their freighter fleets are the four Middle East carriers, Emirates, Etihad, Qatar Airways and Saudia Airways Cargo. In Asia Korean Air still operate and extensive freighter fleet but it has no operations into the UK.

In conclusion dedicated freighter operations are not finished but trade flows coupled with strong demand need to be in place to make such operations viable in the next few years.



4.2.3 Cargo Opportunities

Although the current climate for cargo operations is not positive especially for “all cargo operations” there are still cargo airlines who successfully manage niche opportunities.

CAL of Israel is one example of a profitable cargo only airline. UN and other relief charity organisations could use Manston as a centre for their operations. The UK is the second largest contributor in the world to disaster relief flights. A flexible low cost operation is required by the major relief organisations.

The slot position at Stansted is tighter than it was under previous ownership as the success of Ryanair and Easy Jet is beginning to put pressure on slots at Stansted. Manston could be a south east alternative to “cargo only operations” out of Stansted.

Perishable and Equine freighter charters have been operated successfully in the past and with a strong marketing effort is possible that these activities could be restarted as there was a proven track record of fast and efficient operations of these two specialised activities.

In addition the produce charters activity could be augmented by industry investment in packaging and distribution on airport activity.



TAG Farnborough,

Recently voted International FBO of the Year by readers of Aviation International News magazine for the sixth consecutive time, Invested more than £100 million (US\$160.7 million) over the last 10 years to improve the airport’s facilities and infrastructure.



The airport now features an award-winning main terminal, control tower, on-site radar and two three-bay hangars, providing over 240,000ft2 of hangarage space, and further planned developments include re-designing one of the airport’s departure lounges, with the introduction of a bar and new seating areas.

www.farnboroughairport.co.uk/

4.3 General Aviation (GA) /Corporate

General Aviation is defined according by UK CAA to encompass aircraft ranging from micro-lights and amateur-built aircraft, through balloons, airships and gliders, to piston twins and single-engine turbine aeroplanes up to 5700kg Max Take-Off Mass (MTOM), and single-pilot helicopters up to 3175kg (MTOM).

GA provides significant economic benefits for the UK of around £1.4 billion per annum and has a large direct and indirect employment base. The sector delivers vital services, including search and rescue, mail delivery, life-saving (organ) transport, law enforcement, aerial survey and environmental protection flights, as well as underpinning the training of future pilots, ground-based aircraft engineers and technicians.

Business and general aviation connects many UK and international destinations that do not have, and are unlikely to develop, scheduled air services or other direct transport links. GA aerodromes can also complement commercial air transport and provide increased connectivity at important hubs such as London. These links are particularly important for

local businesses. According to a recent study ninety-six per cent of city pairs served by

business aviation in Europe have no scheduled air connection.¹

The UK Government is keen that, while recognising that at congested airports this may not be always be appropriate, it encourages airport operators to ensure that GA aircraft are able to continue to enjoy equitable access to their airports.

There is evidence however that GA activity is declining and that this is not just a result of economic recession. Excessive regulation, increasing costs and taxation are all perceived to be contributing factors.

The number of annual private pilot’s licence applications has fallen dramatically from 4500 in 1991 to around 2500 in 2012. There have also been recent declines in the number of hours flown by fixed-wing light aircraft: estimates² suggest 7% fewer hours flown in 2012 than 2003.

Overall revenue generated from GA is limited in scope and tends not to factor as a major contributor to airport economic activity. The range of competitor airports for Manston

¹ The Role of Business Aviation in the European Economy, Oxford Economics, October 2012

² DfT GA Challenge Panel Interim Report – January 2014



Business Aviation

London Biggin Hill Airport is just 12 miles from Canary Wharf and 15 from Central London, and it has three full service FBO's to cater for all the different wants and needs of the business aviation user.



where serious high yielding corporate aviation activity takes place include Lydd, Luton, Biggin Hill and Farnborough. In several instances there are significant investments by Fixed Based Operators present at these airports.

On balance therefore the likelihood that the continuation of GA at Manston will be a reason to prompt the retention of the airport is slim. However there is no doubt that GA is a valuable contributor to airport activity for training and recreational purposes and it would seem likely that the airport would be used by GA when open.

- *Around sixty based business jets ranging from small four seat citations to ultra long range Gulfstream, Global, and Falcon jets*
- *Convenient opening hours.*
- *Maintenance and hangarage facilities for most types of business jet.*
- *The Airport is a Port of Entry with full border control facilities during all opening hours.*
- *No runway slots required.*
- *Very user friendly airport.*
- *Close to the centre of London and in the heart of the South East of England.*





5 PRESENT STATE OF THE AIRPORT

At the time of closure to aircraft movements the airport was operating in a safe and secure manner. The state of the airport's operating surfaces can therefore be considered as being adequate. However essential aeronautical equipment has been disposed of leaving the airport inoperative. As with any facility that becomes unused deterioration will now occur as routine maintenance and heating is withdrawn. The airport was briefly visited on the 2nd July and the following opinions formed:-

5.1 Main Runway

The main runway is 2752m x 61m on a heading of 28 / 10. Originally constructed during WW2 it replaced the grass runways that had served the RFC, and then the RAF, since 1915. It has seen several re-surfacing operations, concluding with an asphalt overlay in 1999 (undertaken by the PSA) and then a slurry-seal type coat in 2013 (as advised by the current owners). The runway is therefore in pristine condition and should require only minor maintenance during the next 5 to 10 years.

Terminal Building – The passenger terminal was opened by The Duchess of York in 1989 with flights then operating to Yugoslavia and Spain. The building is set out on a single level with all the usual processes (check-in / baggage reclaim etc) well arranged. Some areas may require re-decoration but the overall impression is that the building is well maintained and more than adequate for the processing of up to, say, 750,000 passengers per annum. The running cost of the building may be high as a building of the late 1980's will not have the same thermal insulation values as a modern structure. Some elements of the building (e.g. electrical installations / flat roof covering) may need renewal in the short term; this opinion is based upon the 25 year design life often used at that time.

5.2 Hangers

There are a number of aircraft hangers, and similar small sheds, on the site. These were not inspected in detail but we were advised that they are all generally water-tight and fit for purpose. It is also understood that these hanger buildings do not contain any specialist aircraft maintenance or servicing equipment.





5.3 Cargo Building

The Cargo building, including a cold store and pallet conveyor, has not been extensively used as the majority of cargo handling was undertaken on the apron, direct from the aircraft to the lorry. There was one water leak noted, possibly from a blocked roof gutter, which will require attention. The cold store and pallet conveyor has had very little, if any, use and so is in very good condition.

5.4 Equine Facility

The equine building was not inspected but we were advised that it is only a few years old and had only handled about 10 horses since it was opened. It is therefore reasonable to assume this facility is also sound.

5.5 Aircraft Parking aprons and taxiways

There are 2 aprons, one for passenger and one for cargo aircraft. Both are formed of concrete and both are in good condition. The passenger aircraft stands nearest to the terminal building are on a significant slope, but remote, level, stands are available close by.

5.6 Car and Vehicle parking

There is ample car and vehicle parking adjacent to the terminal. Local information is that the car parks have never been congested. Some minor repairs are required to the car park surface and the general area could benefit from attention to the soft and hard landscaping.

5.7 Air Traffic Control Tower and Fire Fighting and Rescue centre

These buildings were not inspected but from a distant view they both appeared sound.

To conclude the facilities of the airport are in a generally good condition and are at least equal, or better, than some other regional airports in the UK. The airport equipment was also seen to be in a generally reasonable condition but we understand that items are now being offered for sale.



AIRPORT PLANNING

6.1 The Infratil Masterplan

Kent Airport Limited do not appear to have prepared an airport masterplan but refer to the Kent International Airport, Manston – Master Plan November 2009 – developed by their predecessors, Infratil Airports Europe Ltd.

The following comments refer to the global zoning strategy of the airport estate as illustrated in that plan, the illustrations of which are contained in Pages 58 to 60 of the relevant document. :

- (a) The overall site zoning policy does not seek to optimise the operational land footprint in order to maximise other commercial activities within the current airport boundaries.
- (b) The Master Plan advocates future investment in separate Cargo and Passenger aprons, which may not present the optimal solution in terms of capital and life time costs, operational flexibility as well as consolidated servicing and staffing requirements.
- (c) The proposed Passenger Terminal development, on the eastern and western flanks of the passenger apron is likely to frustrate the

potential future expansion of the apron pavement and limit its flexibility to accommodate a broader potential future fleet mix.

- (d) The proposed alternate location of fuel storage facilities immediate to the Threshold 28 runway strip safeguarding area places the hazardous installation in close proximity to the position of greatest accidental risk at the airport.
- (e) The Master Plan has failed to fully capitalize on the potential ground transportation resources and links in the immediate vicinity of the airport boundaries
- (f) The Master Plan did not explore additional land acquisition opportunities within the context of related commercial activities.



6.2 Planning Options

In view of the above it is recommended that the airport is subject to a rigorous capacity and operational zoning strategy review. Such a study shall address the following key issues:

- (a) Current and potential future ground transportation modal interface conditions. Stimulation of commercial opportunities through enhanced transportation links
- (b) Definition of the optimal sustainable operational airfield footprint envelope commensurate with the potential unconstrained capacity of the single existing runway and the projected aircraft mix. (Saturation Capacity Plan)

The definition of a high level Airport Saturation Plan will provide a strategic framework tool and decision matrix which can then be used to test and validate the following granular development aspects:

- a) Identification of operational land use requirements specific to target market sectors and their technical requirements reconciled with the demand forecast targets.

- b) Definition of the footprint(s) of residual land resources within the current airfield boundaries available for other aviation-related and general commercial activities.
- c) Illustration of short, intermediate and long term enabling tactical development initiatives to release maximum commercial land area in line with (d) above.
- d) Delivery of environmentally sensitive and sustainable solutions using leading edge and emerging technologies.
- e) Preparation of CAPEX aligned with any investment requirements to achieve those targets identified under headings (c) to (f) as outlined above.

Appendix – A to this report provides a range of generic illustrations consistent with the advocated planning deliverables.

At this stage of the study such illustrations are not aligned with any specific operational or commercial targets or business strategies. They are, however, representative of a holistic approach to Airport Planning with a view to optimising the use and value of the existing available land and technical resources of the airport estate.



7 INDEX OF DOCUMENTS PROVIDED BY THANET DISTRICT COUNCIL AND KENT INTERNATIONAL AIRPORT LIMITED

TITLE	SUBJECT	PROVIDED BY
Project Brief –	Viability of Manston Airport, June 2014	Thanet District Council
No document Name	Kent International Briefing Notes	2 July 2014
Kent International Airport and Kent facilities Limited	Management Accounts Financial year ending 31 March 2014	Thanet District Council
Manston Market Assessment	Market evaluation prepared by DF Aviation Consulting Limited	Thanet District Council
High Level Air Cargo Overview - Freighters	ILS Solutions High Level Market Overview	Thanet District Council
Kent International Airport, Manston – Master Plan	Infratil Airports Europe Ltd. Masterplan November 2009 –	
Thanet Economic and Employment Assessment December 2012	County demographics	Thanet District Council
Thanet Local Development Framework Employment Land Review 2010	Development Planning	Thanet District Council
Thanet Employment Topic Paper May 2013		Thanet District Council

In addition to these documents, FCL accessed the Infratil submission to the Davies Commission.



8 SIGNIFICANT EXTRACTS FROM THANET REPORTS:

Thanet Economic and Employment Assessment – Report 2012

Thanet benefits from a regionally significant airport and a major cross channel port, both of which have identified growth potential. If Manston Airport can achieve its ambitious growth plans, this could result in 2,000 additional jobs and up to 420 additional induced jobs as a result of the impact on the wider supply chain. We must however be cautious in interpreting these figures, as despite some promising developments, the airport faces a number of challenges.

The majority of manufacturing sectors have continued to decline during this time, as has agriculture forestry and fishing.

It is however clear that whilst across the UK around 5 per cent of businesses have the potential to export, in Thanet this figure is half (2.5%). This can be partly explained by foreign ownership figures which are lower than the UK average although given the presence of Ramsgate Port and Manston Airport provided easy access to overseas markets we might expect this figure to be higher.

If Manston Airport can achieve its ambitious growth plans, this could result in 2,000 additional jobs and up to 420 additional induced jobs as a result of the impact on the wider supply chain.

Employment Land Review 2010

In line with Government guidance, the Council wishes to ensure that its strategy, land allocations and policies provide for choice, flexibility and competition, and are sustainable and based upon a realistic assessment of the needs of local business and market reality. Thanet's economy is one the key themes in the Council's Corporate Plan, with the main priorities to attract inward investment and support indigenous companies, attracting more jobs to the area and helping those who are unemployed. **Note: This policy may be at variance with a priority to attract commerce to the airport.**

There are very few major employers in Thanet, with over 65% of businesses employing between 1-4 people. Out of a total of 4,000 firms, only 100 firms employ more than 100 people. (Figure 10). The largest companies in the district include Thorley Taverns, Cummins, Piper Windows, Thanet Earth and Tesco's.

Government and European Funding

2.39 Thanet benefits from having Assisted Area Status. Through the Grants for Business Investment (GBI) scheme the aim is to assist businesses to increase productivity by funding capital investment in equipment and technology. It is for businesses looking to expand, modernise, rationalise, diversify and increase productivity in order to maintain or establish sustainable growth and provide skilled jobs. Thanet is a Tier 2 area where any size of business can access the grant, with a possible 15% more funding available than a Tier 3 area. It is important that the District maximises the potential of its Area Assisted Status in order to promote inward investment and support the growth of indigenous companies to achieve economic development. 2.40 Under the



European Structural Fund Thanet has Objective 2 Status which enables the district to benefit from the European Competitiveness Grants through a bidding process and qualifies for Interreg Funding which is dependent on having partners in two other European Regions outside of the UK.

Regional Spatial Strategy: South East Plan *Policy EKA5: The Gateway Role* recognises that the growth of gateways should be supported as catalysts for economic development. Kent International Airport should become a catalyst for economic development and growth as a major passenger terminal, and the large land reserves within and adjacent to this should remain available for ancillary and related activity.

Thanet District Council's Corporate Plan; 3.47 An integrated transport hub:

- work with KIA to agree a masterplan for the airport
- develop a sustainable business plan to enable the Port of Ramsgate to be successful
- Work with the transport authorities to develop a plan to improve public transport links in Thanet
- work with partners to maximise benefits of the high speed rail link

Policies EC2, EC4 and EC5 relate to the Kent International Airport (KIA) at Manston, and the surrounding land. The policies support the growth of KIA which has significant potential to encourage the economic regeneration of Thanet, and East Kent as a whole. Policy EC4 relates to the land north of the runway (the Northern Grass), and is restricted for airside development purposes; for activities that have an operational requirement for direct access to aircraft and therefore dependent on a location immediately adjacent to the runway or capable of direct access to it via taxiways. This allocation, whilst restricted, does provide additional employment land for the district, as well as supporting the development of the airport. Planning permission was granted for a large hanger for aircraft painting, but this has now expired, and a freight building for a Border Inspection Point to facilitate the movement of fresh produce has been built. The only other airside development currently present has been established at the airport for a number of years.

Supporting the Growth of Kent International Airport (KIA)

The future growth of the airport to one of regional significance is supported as a preferred option for providing economic prosperity in the District, which continues the view of the existing Local Plan. One of the currently preferred options supports the recommendations set out in the Draft Airport Masterplan. These recommendations include the release of the Northern Land, which is currently protected for airside development, for general employment purposes.

Thanet Employment Topic Paper May 2013

Facilitating further growth at the Airport and Ramsgate Port could unlock further opportunities. Current export levels from Thanet are low and there could be growth potential in this area given the close proximity of Thanet to Europe coupled with transport links. There is also the potential for growth given knock on effects from the airport in terms of the supply chain. Facilitating further growth at the Airport and Ramsgate Port could unlock further opportunities. Current export levels from Thanet are low and there could be growth potential in this area given the close proximity of Thanet to Europe coupled with transport links. There is also the potential for growth given knock on effects from the airport in terms of the supply chain.



9 GLOSSARY OF TERMS

TERM	EXPLANATION	TERM	EXPLANATION
AODB	Airport Operational Data Base	PSA	Present State Analysis
CAPEX	Capital Expenditure	PSR	Present State Report
CCTV	Closed Circuit Television	“Quick Fix”	A period of concentrated effort to rectify minor deficiencies
CUTE	Common User Terminal Equipment	RFFS	The Fire and Rescue Service
FCL	Falcon Consultancy Limited	SLA	Service Level Agreements (typically between MSE and Customs/Passport Control)
FBO	Fixed Base Operation (Corporate Aviation)	VOR/DME	Aeronautical Navigation Equipment (<i>Visual Omni Directional Range & Distance Measuring Equipment</i>)
FIDIC	Fédération Internationale Des Ingénieurs-Conseils		
FIDS	Flight Information Display Systems		
HR	Human Resources		
ILS	Aeronautical Navigation Equipment (<i>Instrument Landing System</i>)		
MRO	Aircraft Maintenance repair and Overhaul Base		
MARS	Multiple Aircraft Ramp System		
OLS	Obstacle Limitation Surface		
OPEX	Operating Expenditure		
AIRPORT CODES			
AMS	Amsterdam Airport Schiphol	MSE	Kent International Airport
BOH	Bournemouth	SEN	Southend Airport
JER	Jersey	SOU	Southampton
LCY	London City	STN	London Stansted
LGW	London Gatwick		
LHR	London Heathrow		



10 APPENDIX A – CAPACITY PLAN

