



“Expert Opinion on the Prospects for the Viable Development of Manston Airport” – Falcon Consultancy Ltd, July 2014

Background

The Falcon report on the viability of an airport at Manston was commissioned against a backdrop of RiverOak Investment Corporation LLC (ROIC) trying to persuade Thanet District Council (TDC) to acquire the airport site via a compulsory purchase order and then to transfer the property immediately to ROIC in a back-to-back agreement. At the same time, TDC was rewriting its Local Plan and looking for evidence to help it to decide what it should do about the land that was now a closed airport.

The Falcon report is relevant to the DCO process. It sets out the conclusion of independent aviation consultants as to the future viability of an airport at Manston under a number of possible business strategies. It informed the decision of the Labour administration of TDC to allocate the airport site away from aviation use only and to mixed development use in the draft Local Plan.

Chronology

At the beginning of 2014 Tony Freudmann (now a Director of RSP) was in discussion with Ms Ann Gloag about the possibility of acquiring the airport from her. As part of that, Mr Freudmann and his consultants, Indigo Planning Ltd, met TDC to seek TDC’s view as to how it would respond to a planning proposal to turn the entire Northern Grass over to 1,000 new homes.¹

In March 2014, Ann Gloag began a period of statutory negotiation with airport staff, having set out her expectation that the airport would have to close in May 2014 should nothing come forward as part of that consultation to change the airport’s viability. Mr Freudmann then introduced ROIC to Ms Gloag. ROIC met Ms Gloag in the third week of April 2014² to express an interest in acquiring Manston Airport. The Airport was at that stage still operational. Ms Gloag was not convinced by ROIC as an organisation. Nothing came of these negotiations and the last contact between Ms Gloag and ROIC was on 15th May 2014.³

Conversations then started taking place between ROIC and TDC about the possibility of TDC acquiring the airport via a CPO. The ROIC proposal was that ROIC would indemnify TDC for all costs and ROIC would immediately acquire the airport from TDC in a back-to-back agreement. TDC was at this stage under a Labour administration.

¹ Manston Airport – submission in respect of Thanet District council’s draft new Local Plan – March 2014

² Letter from ROIC to TDC Leader Cllr Iris Johnson – 24 July 2014

³ Ditto

At the same time as these discussions were taking place, TDC was in the process of producing its new Local Plan. On 1st July 2014 TDC issued a brief to aviation consultants, asking for an assessment of the viability of the now closed Manston Airport. In that brief, TDC said it needed:

“... to understand whether an airport would be a viable operation for the site, so that it [TDC] can fully consider the options for the site, to provide evidence for the Council to support the new Local Plan.”⁴

TDC said it required:

“... an independent assessment advising whether or not it is possible to run a viable and economically sustainable airport operation from Manston.”⁵

Falcon Consultants Ltd was commissioned to undertake the viability study. The first stage of the work was reported to TDC’s Cabinet on 31st July 2014. We summarise that report further on in this document.

TDC accepted the report. It also resolved to test the market to see whether a suitable indemnity partner existed for TDC should TDC decide to pursue a CPO of the Manston site. In this open market testing process only ROIC expressed more than an initial interest in being that indemnity partner and acquiring the airport. However, over the next few months ROIC failed to convince TDC that ROIC had either the financial resources or the investors to cover the costs of the CPO.⁶

In September 2014, Messrs Cartner & Musgrave acquired a majority interest from Ms Gloag in the Manston site. Messrs Cartner and Musgrave came with a track record of redeveloping and regenerating UK sites. They set out their intention to do this for Manston. This meant that the site was no longer a closed airport with no new use identified for it. Taking account of this change in ownership and new plan for the site, TDC said that:

“The new ownership of the site and any proposals put forward would make it much more challenging to demonstrate an overwhelming case for compulsory purchase.”⁷

On 11th December 2014, TDC decided not to pursue the idea of acquiring the Manston site via a CPO so that it could continue to operate as an airport. TDC took into account the Falcon report; the failure of the only interested party - ROIC - to demonstrate that it was a suitable indemnity partner for TDC; and the acquisition of the airport site by experienced regeneration experts who intended to redevelop it for housing and for employment land.

The Falcon report - headlines

Anything in italics in the summary that follows is a direct quote from the report.

The report starts with general observations about UK regional airports and their sources of revenue:

⁴ TDC Project Brief – Viability of Manston Airport – June 2014

⁵ Ditto

⁶ Report to TDC Cabinet 11th December 2014

⁷ Ditto

- After the war, surplus military airfields meant that lots of new airports were established. The result was that the UK *“abounded with airfields/airports that were uneconomically close to each other.”*
- Aircraft are getting bigger, which means that more passenger seats are available from the major airports. In addition *“the growth is [sic] air cargo can be absorbed in the belly holds of passenger aircraft.”*
- MRO (maintenance repair and overhaul) is a highly competitive business needing high skills at low cost. Airlines scour the globe for low MRO costs and will fly the aircraft to wherever they find them. *“A large investment is required to construct a modern MRO facility and investors must be assured of continuity of airport operation.”*
- The General Aviation sector is diverse and covers private aviation, corporate aviation, crop spraying, air ambulance, gliding, helicopters, and training. It gives *“meagre revenues”*.
- Providing a parcel and mail business and operating a post office hub can be a lucrative business for a regional airport, but that business operates mainly at night. This is *“best located at airports that do not have community noise issues.”*
- As for teardown: *“Aircraft breaking is a specialist business with few participants. A substantial runway is required but the utilisation is extremely low.”*

The report gave an overall summary of Manston Airport’s future viability:

“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.”

The suggested £100m investment required did not include the cost of acquiring the land and a CPO process.

Falcon assessed the UK air cargo market and the implications for an airport at Manston as follows:

- Cargo generates very little revenue for an airport and is *“invariably unprofitable”*
- East Midlands is the UK’s biggest dedicated cargo airport with 99.99% of its 267,000 tonnes carried on cargo aircraft. It supports Royal Mail as a major overnight mail hub and DHL, Fedex, TNT and UPS. Key to the airport’s success 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.”*
- 24hour unrestricted flying operations make EMA cargo-friendly
- Despite these advantages EMA cargo throughput has only grown by 5.6% in the past nine years.

- Airlines are replacing their passenger aircraft with bigger planes. This means belly hold capacity worldwide has gone up by 8%. More cargo can be carried by passenger aircraft so there's less need for the dedicated cargo planes that Manston wants to handle
- Air cargo capacity is growing far more quickly than demand for airfreight. The price to ship freight by sea is also falling. There is a shift from air cargo to sea freight.
- A number of factors are therefore keeping the air cargo market flat - *"The climate for cargo-only aircraft operations could not be much worse."* Major airlines are moving away from cargo freighters or are downsizing their fleets significantly - Japanese Airlines; British Airways; Lufthansa; Air France/KLM; Cathay Pacific.

Falcon summarised Manston's potential as a passenger airport as follows:

- The airport is *"not well located to serve as a travel interchange serving the wider UK"*
- Manston has *"no natural sustainable passenger market"*. Its catchment area and the propensity of local people to travel are both too small to generate enough traffic on one route to sustain a twice-daily operation, which is *"the minimum required to risk launching a service."*
- *"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."*
- Passenger business is rarely profitable because of *"the downward pressure on airport charges as the airlines seek to offer lower fares"*.
- *"Even the proposed Thanet Parkway station would require some additional mode of transport to connect passengers from the terminal to the station...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."*
- Regional airports need the income from rentals, retail, car parking and real estate to *"bridge the profit gap of the aviation activities."* The implication for Manston being that, as it can't develop a thriving passenger business, it can't use that passenger "spin off" revenue to make up for the loss that it makes from its other aviation activities.

Falcon assessed Manston's potential for general aviation (GA) business:

- *"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 where serious high yielding corporate aviation activity takes place includes Lydd, Luton, Biggin Hill and Farnborough... 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."*
- GA activity is declining. *"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..."

Falcon commented on the disadvantage of Manston's reputation:

- *"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."*
- *"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."*

Falcon also said:

- *"The construction of an international component assembly plant (e.g. car plant) on nearby land would dramatically stimulate the cargo throughput."*
- *"Note that, even with an associated business park, the airport is unlikely to succeed and, in our opinion, will generate substantial operating losses."*

In short, Falcon Consultants concluded that:

- The airport is in the wrong place for dedicated cargo planes and that market already is suffering from excess capacity. In addition, this is a sector that makes very little money for airports, if any. The airport would need an income stream from a passenger business to cross-subsidise any cargo operations
- The airport is in the wrong place for passenger business
- There is not enough money in general aviation to make a positive difference to Manston
- MRO needs significant investment and the cost competition is global
- Teardown is not a volume business
- Manston has a poor reputation in the industry and has never made a profit.