



“Commercial Viability of Manston Airport”, Avia Solutions, September 2016

### Background

The ExA has asked questions based on the Avia report. We take this to mean that the ExA already has access to the report. This summary therefore confines itself to setting out the context for the report and some concluding observations by NNF.

The Avia report is relevant to the DCO process because it offers the perspective of another set of independent aviation expert consultants as to the future viability of an airport at Manston. The report informed the decision of the UKIP administration of TDC not to pursue a CPO of the airport site to restore airport operations at Manston. It also informed the Council’s decision to change the allocation of the airport site from exclusive aviation use and to reserve it instead for mixed development use in the draft Local Plan.

### Chronology

UKIP took control of TDC in the 2015 local government elections. UKIP supported the idea that the Manston Airport site should be an airport and not a mixed use development. UKIP pledged that it would seek to acquire the airport site via a CPO and that it would seek an indemnity partner to fund this process and thus take ownership of the site and operate it as an airport.

Through 2015 ROIC sought to persuade TDC that ROIC would be a suitable indemnity partner for TDC to enable TDC to acquire the land via a CPO. ROIC was unsuccessful in persuading TDC that it had either the finance or the investors for it to be a suitable indemnity partner for TDC.

In June 2016, TDC sought independent advice from aviation consultants as to the future viability of an airport at Manston.<sup>1</sup> The brief said that:

*“The Council requires an independent assessment advising whether or not it is possible to run a viable and economically sustainable free-standing airport operation from Manston. The Council is seeking advice from an independent expert aviation consultant who can make this assessment within the context of the national and international air traffic market, the viability of airport operations at a national and international scale and likely future developments in airport operations.”*

Avia Solutions submitted the successful proposal to undertake the work. Avia Solutions then submitted its report to TDC in September 2016. On 4<sup>th</sup> October 2016 Cllr Wells, Leader of TDC, issued a Press release in which he said:

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<sup>1</sup> TDC Project Brief – Viability of Manston Airport – June 2014

*“It is with regret that I must accept the solid evidence-based report that tells me what I do not want to hear but must listen to. Manston has a glorious history but a different future”.*

## **The Avia report - headlines**

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

Avia said that it took a consistently generous view in its financial models of the numbers that Manston could achieve. Avia also adopted the optimistic assumption that the site could be acquired for £10m. The consultancy did not include in any calculation of future viability the cost of a DCO process. The report therefore represents the very best case from a potential operator’s point of view. However, even taking this rose-coloured approach to its assessment of viability, Avia concluded that an airport on the Manston site would not be viable.

Avia modelled four different scenarios:

- A third runway at Heathrow
- A new London runway at Gatwick rather than Heathrow
- Both Heathrow and Gatwick get a new runway
- There is no new London runway.

## **Freight operations**

Avia began by assuming that Manston could attract the level of traffic that it had in the past (p.15). Avia then recognised that total air freight at UK airports has been constant at around 2.3m p.a. tonnes since 2000 (p.26), and that, in 2015, there were 60,000 dedicated cargo flights in the UK (p.28). Avia makes the point that UK cargo demand has not stagnated because there isn’t enough airport capacity to cope with the demand. In the period when cargo volumes have been flat, Stanstead has had spare capacity (and yet Stansted’s freight flights decreased) and Manston had lots of capacity (and yet Manston closed) - (p.27). Avia concluded that there is still spare capacity for air freight in the South East.

Avia highlighted the fact that, as UK passenger numbers increase, belly hold space increases. Avia said that this:

*“... can result in excess capacity in the market. As a result airlines will often sell this belly-hold capacity using a marginal cost pricing structure. This pricing structure does not need to account for the high cost of the aircraft and must only meet the additional marginal cost that each kilogram of cargo incurs. Through the application of this pricing structure, belly-hold cargo often undercuts the minimum price that can be charged on dedicated freighter operations.” (p.28-29)*

Avia said that, on average, Manston handled 1% of the UK’s air cargo. This was almost exclusively imports. Although freight operators liked the slot availability and the fast turnaround of Manston, their return flights were going back virtually empty. This had cost implications (p29). Freight operators told Avia that the airport was in the wrong place. It is not near freight forwarding companies. These are at Heathrow and Stansted (p.29-30).

Freight airlines said that if they were pushed out of Stansted, they would look at East Midlands and Manchester in preference to Manston (p.30).

*“... there is virtually no incentive for operators to move operations to Manston, there are alternative UK airports that offer competitive services on reasonable terms. The UK doesn't need another airport for freight that has no USP.”*

Avia said:

*“There is no compelling reason to believe that the airport would be able to generate appreciably more freight activity than previously, other than in the context of a shortage of airport capacity in the London area. [...] if Manston were to re-open as an airport, it would attract some dedicated freighter operations. However, in the absence of a firm commitment from a multinational to establish a distribution centre [by this, Avia mean something like Amazon or a white goods manufacturer in the Far East. Separately they mention a car manufacturing plant.] near Manston, the growth of freight activity at the airport would be in line with historic performance, with incremental growth resulting from a general expansion of the UK cargo market and a diversion of freighter flights if these were constrained at Stansted.” (p.30)*

*“...all forecast freight demand can be accommodated in all scenarios [i.e. all of the four possible outcomes re a new runway] up to 2045. It is only in this year that some demand remains unaccommodated in two of the scenarios, although by 2050 there is unaccommodated demand in all scenarios.”*

In the model of what Manston might attract by way of freight after 2045, Avia assumed that Manston would get 40% of any freight demand not met by the London airports. Given Manston's history, this really was very generous.

Avia then set out Manston's history of passenger operations. Avia said that:

- EUJet achieved load factors of just 42%
- Flybe achieved load factors of between 26% (Manchester) and 53% (Edinburgh) (p.20). Flybe withdrew all routes because they did not make money. Normally Flybe would allow a route to build over two to three years. However, numbers at Manston were so bad that Flybe pulled the routes within 12 months (p.51)
- KLM – only 42% of the people in Manston's catchment area who flew to Amsterdam chose to fly from Manston. The majority flew from other London airports (p.20).

Avia looked at the number of flights taken in 2014 from people in Manston's core catchment area via the London airports and concluded that, even if Manston could attract 60% of these to fly from Manston (the going rate for regional airports), it would only attract 330,000 passengers. This is the equivalent of one 150 seat plane being stationed at Manston. This means that, to be viable, Manston would have to attract passengers from outside its own catchment area. (p.21 and 22)

Avia spoke to passenger airlines and concluded:

*“Based on AviaSolutions interviews in relation to passenger services, we conclude that whilst there is some notional interest in passenger services at Manston Airport, no airline was committed at present, or in the future seeking to serve to the airport*

*should it re-open. No airline wished to give any more commitment beyond that it would consider Manston as part of their process of reviewing their network.” p.23*

Avia then considered the financial implications of its cargo and passenger projections under the different new runway scenarios. Looking at what Avia considered to be the most likely scenario (i.e. a third runway at Heathrow) Avia concluded that:

*“... There is no viable long term prospect of an economically viable airport being established at Manston. It should also be noted that the scenario outlined above excludes any return to the investor, and we have therefore effectively weighted the cost of equity at zero in our model.” (p.44)*

*“While we consider that a re-opened Manston Airport would attract some passenger services and regain freighter operations at a level similar to its historic performance, our financial assessment is that this would be insufficient to support financially viable operations of the airport.” p.10*