

APP/L2250/V/10/2131934 & APP/L2250/V/10/2131936

SECTION 77 TOWN AND COUNTRY PLANNING ACT 1990 – REFERENCE OF APPLICATIONS TO THE SECRETARY OF STATE FOR COMMUNITIES AND LOCAL GOVERNMENT

TOWN AND COUNTRY PLANNING (INQUIRIES PROCEDURE) (ENGLAND) RULES 2000

**REBUTTAL PROOF OF EVIDENCE OF LOUISE CONGDON  
BA (Soc Sci), MTD**

**SOCIO-ECONOMIC CASE**

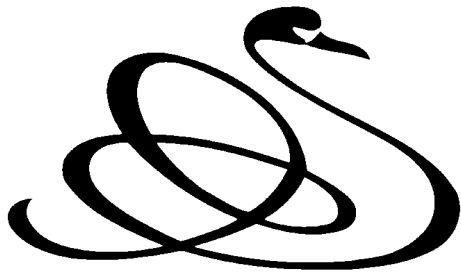
In respect of:

Planning Application Reference: Y06/1647/SH (New Terminal Building)

Planning Application Reference: Y06/1648/SH (Runway Extension)

relating to land at London Ashford Airport, Lydd, Romney Marsh, Kent, TN29 9QL





**York Aviation**

**Originated by: Louise Congdon**

**Dated: 8<sup>th</sup> February 2011**

**Updated: 17<sup>th</sup> February 2011**

**Reviewed by: Niall Gunn**

**Dated: 8<sup>th</sup> February 2011**

**DEVELOPMENT OF A PASSENGER TERMINAL, A RUNWAY  
EXTENSION AND IMPROVED ACCESS ARRANGEMENTS AT  
LYDD AIRPORT, ROMNEY MARSH, KENT**

**SOCIO-ECONOMIC CASE**

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## 1 INTRODUCTION

- 1.1 This Rebuttal Proof of Evidence has been prepared in response to evidence submitted by a number of Rule 6 parties in connection with aviation policy, the need for the development and the socio-economic issues. I am principally dealing in this Rebuttal Proof of Evidence with four Proofs of Evidence submitted by Louise Barton on behalf of LAAG; LAAG 6A, LAAG 7A, LAAG 8A and LAAG 9A. I also deal with specific points raised in the Proofs of Evidence of Malcolm Spaven (LAAG 10A) and Mark Watts (LAAG 11A), as well as specific points in the evidence submitted by CPRE; namely Brian Lloyd (CPRE 1A), Nick Levinson (CPRE 3A), Cllr. Loseby (CPRE 4A), Cllr. Jones (CPRE 4B), Gareth Thomas (CPRE 5A), Sean Furey (CPRE 6A), and RSPB by Frederick Gomes (RSPB 3A) and the Written Representation on Climate Change (RSPB 5A).
- 1.2 I set out below by way of assisting the Inquiry some points in writing in response to those proofs of evidence, but this is not intended to be exhaustive and I only deal with selected points where it is considered necessary to respond now in writing. Where a specific point has not been dealt with, this does not mean that these points are accepted and these other points will be addressed at the Inquiry.
- 1.3 I have organised this Rebuttal Proof of Evidence according to themes and will refer to points in other parties' Proofs of Evidence by theme as they arise. The themes which I cover are:
- The Status of White Paper Policies (Section 2);
  - Airport Profitability and the Basis of Assessment (Section 3);
  - Market Performance (Section 4);
  - Economic Issues (Section 5);
  - Conclusions (Section 6).

## 2 THE STATUS OF WHITE PAPER POLICIES

### Events since the Publication of the White Paper

2.1 Brian Lloyd for CPRE (CPRE 1A) acknowledges that the *Future of Air Transport White Paper*<sup>1</sup> is a relevant consideration for this Inquiry, but he claims at paragraph 3.9 of his evidence that there have been three substantive changes since the publication of the White Paper which materially diminish the weight which can be attached to the policies within it, particularly those in support of the provision of increased airport capacity. The three matters which he seeks to rely upon are:

- the Climate Change Act 2008, which sets legally binding targets for emissions;
- the recession; and
- the lack of support from the Coalition for specific policies within the White Paper.

I deal with each of these matters in turn

### The Implications of the Heathrow Judgement and the Climate Change Act 2008

2.2 I considered the implications of the Heathrow Judgement, which took into account the Climate Change Act, at paragraph 3.14 of my main Proof of Evidence (LAA 4A). As I indicated there, it is clear that the effect of this Judgement has not been a bar to approval being granted to other schemes for the enhancement of capacity at regional airports, in line with the policies in support of such expansion in the *Future of Air Transport White Paper*. I do not agree with Brian Lloyd nor the Written Statement of RSPB (RSPB 5A), therefore, that the effect of the Heathrow Judgement and the Climate Change Act of themselves diminish the weight which can be attached to the support that the White Paper gives to the provision of additional capacity at regional airports. It is evident from the decisions that the absence of a new National Policy Statement has not been a bar to approval being granted to specific airport development schemes at individual airports.

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<sup>1</sup> CD5.24

2.3 This view is reinforced by the January 2011 Judgement in relation to London City Airport<sup>2</sup>. This Judgement analyses (amongst other things) the extent to which the targets for aviation set out in the Climate Change Act affect the extent to which the policies set out in the Future of Air Transport White Paper remain a valid basis upon which to assess proposals for airport capacity development. The Judgement concludes that setting of targets for emissions over the longer term in the Climate Change Act does not automatically render support for airport expansion within the White Paper invalid and that any decisions on changes in policy will need to be taken having regard to advice from the Committee on Climate Change and embodied in due course in a new national policy statement. The Judgement includes the statement that:

*“Mr Hoon’s statement of January 2009 announcing a target for aviation emissions in 2050, neither expressly nor by implication, created a limit on increased capacity at existing smaller airports in the south east”<sup>3</sup>*

A new policy statement is not anticipated before 2013, and there is currently no change to the policies set out in the White Paper which support expansion at regional airports and the contribution which can be made by a smaller airport such as London Ashford Airport (LAA). I leave further comment on this matter to legal submissions.

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<sup>2</sup> CD9.21.

<sup>3</sup> Ibid, paragraph 38.

- 2.4 As discussed in the evidence of Stuart Coventry (LAA 11A) at paragraphs 3.11 to 3.14, the Committee on Climate Change gave more detailed consideration to how the overall targets within the Climate Change Act could be met by the aviation sector. The Committee's report of December 2009 "*Meeting the UK Aviation Target*"<sup>4</sup> notes that there would be scope for an increase in demand of 60% nationally above 2005 levels<sup>5</sup> without the target being breached. This amounts to a potential increase of some 140 million passengers a year above current demand levels. The Committee takes no view as to where this demand growth should be accommodated as this inevitably needs to be weighed against the other criteria and policies within the White Paper. In the light of the cancellation of the planned new runways at Heathrow and Gatwick, there is now even greater scope for increases in demand at smaller regional airports, such as LAA, without the target being breached. The existence of this target does not, of itself, weaken the reliance which can be placed on the policy principles set out in the *Future of Air Transport White Paper*. These principles encourage smaller regional airports to meet more demand locally, so reducing long surface access journeys to airports and delivering local economic benefits.
- 2.5 Brian Lloyd goes on to assert, at paragraph 4.42 of his evidence, that increasing the number of flights at LAA will inevitably lead to an increase in greenhouse gas emissions. He seeks to cross-refer to the evidence from Sean Furey (CPRE 6A), who in turn asserts at paragraph 2.2.5 of his evidence that the implications of the Heathrow Judgement mean that climate change should form part of the material evidence before the Inquiry. This sentiment is echoed by RSPB in its Written Statement (RSPB 5A). These matters are dealt with in evidence by Stuart Coventry (LAA 11A), who considers the effect on emissions. I refute the notion that development at LAA will necessarily result in additional flights to and from the UK. My assessment, set out in Section 5 of my main Proof of Evidence, is that demand will largely be diverted from other airports, principally Gatwick. There will be no net addition to UK emissions due to air transport as claimed by RSPB (RSPB 5A, paragraph 9.5).

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<sup>4</sup> CD12.16

<sup>5</sup> Ibid, Executive Summary, page 10.



2.6 I also consider it significant that the recent decision in respect of Farnborough Airport<sup>6</sup> makes clear that climate change issues are not a reason for the rejection of planning applications for airport expansion. The Secretaries of State stated in their Decision Letter of 10<sup>th</sup> February 2011 that:

*“The Secretaries of State agree with the Inspector (IR651) that, for the reasons given at IR604-614, emissions of carbon attributable to aircraft in flight are more properly dealt with through the forthcoming EU Emission Trading Scheme, which will apply to aviation from January 2012, and which is intended to cap carbon emissions to a fixed limit by requiring airlines operating within the EU to surrender allowances to cover annual carbon emissions.”*

In other words, the policies set out in the White Paper and subsequent Progress Report on the treatment of carbon emissions continue to apply. Despite CPRE and others having made similar allegations and arguments at the Farnborough Airport Inquiry to those being made at this Inquiry, those arguments have been rejected and I do not consider that subsequent developments in policy can form a basis for refusal.

### **The Effects of the Recession**

2.7 Brian Lloyd also contends, at paragraph 3.9 of his evidence, that the effect of the recession is to reduce the weight which can be attached to the policies set out in the White Paper. Whilst a reduction of demand in the short term means that the timing when additional capacity is required at the congested London airports will be later than originally expected, this does not remove the support which was given to airports such as LAA in meeting a greater proportion of demand locally. The support within the White Paper was expressly stated in these terms as being in the light of *“Their ability to provide services to meet local demand, and thereby help relieve pressures on the main airports”*. In other words, the first priority was to meet demand locally, with the relief of capacity pressures at the main London airports being a consequential effect.

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<sup>6</sup> CD9.22, paragraph 16.

2.8 The White Paper's support for growth at regional, including smaller regional, airports is based on a number of factors, namely:

- *“supporting the growth of the economies of Scotland, Wales, Northern Ireland and the English regions;*
- *relieving congestion at more over-crowded airports, particularly in the South East, and therefore making better use of existing capacity;*
- *reducing the need for long-distance travel to and from airports; and*
- *giving passengers greater choice.”<sup>7</sup>*

2.9 Whilst the need for relief of congestion may be lessened in the short term by the recession, the other factors which support the role of a smaller regional airport such as LAA remain equally valid today as in 2003. In any event, long term projections of air traffic growth represent a smoothing of the rate of growth, within which it is expected there will be peaks and troughs. As has occurred following previous recessions, demand growth is expected to resume at a rate similar to that previously projected as the UK economy recovers.

### **Coalition Policies**

2.10 Brian Lloyd also states, in paragraphs 3.9 and 3.10 of his evidence, that the Coalition has announced that *“it does not support many of the specific proposals in the White Paper”*. This is misleading as the only specific proposals upon which it has expressed a view are those for new runways at Heathrow (or Gatwick in the alternative) and Stansted.

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<sup>7</sup> CD5.24, paragraph 4.35.

2.11 More recent statements by Ministers regarding possible changes to Air Passenger Duty to increase rates for international flights at the congested South East airports and to create differential rates between these airports and other airports<sup>8</sup> show that, in preparing its review of Aviation Policy, the Government is still committed to considering measures to support the more rapid development of air services at regional, including smaller regional, airports. At a conference in December 2010<sup>9</sup>, the Minister of State, Theresa Villiers, is reported to have said that:

*"A key part of our approach is to create conditions for regional airports to flourish, and this also has the potential to help relieve overcrowding at south east airports".*

2.12 At the same conference, she also said that:

*"We need to find a way to create the right conditions for aviation to flourish within a capacity constrained environment. Key to achieving that is making the best use of the capacity we have and improving the quality of the passenger experience at UK airports."*

Going on to say that:

*"the Government fully recognises the vital importance of regional airports right across the country. They can be vital economic drivers for the regions they serve ..... providing crucial connectivity and helping to support local businesses. A key part of our approach to aviation is to seek to create the right conditions for regional airports to flourish..... They also have the potential to help relieve overcrowding at south east airports."*

2.13 I, therefore, consider that the Government remains committed to securing growth of traffic at regional, including smaller regional, airports so as to reduce pressure at the main London airports and to support local economic regeneration. I consider that, in the context of the performance of the local economy in Kent, the recent statements of the Coalition Government confirm the policy support for making best use of the capacity offered by LAA.

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<sup>8</sup> See **Appendix 1**.

<sup>9</sup> Ibid.

## National Infrastructure Plan

- 2.14 Brian Lloyd goes on to refer to the support given to high speed rail within the National Infrastructure Plan<sup>10</sup>, at paragraph 3.11 of his evidence. He states that this recent plan reiterates the objective set in the Future of Air Transport White Paper to “*make best use of existing airport capacity.*” He also notes that development of high speed rail for domestic journeys is seen as a mechanism for releasing some airport capacity at the congested airports.
- 2.15 The scheme for a new high speed rail link will not be implemented for some time. The Department for Transport’s Business Plan 2011-2015 sets out a timetable for obtaining parliamentary powers to construct the first leg of the High Speed 2 network as far as Birmingham by 2015<sup>11</sup>. This link will then take many years to construct. The timescale for later phases to the North of England and Scotland are more uncertain but I understand that the first phases of High Speed 2 are unlikely to open until around 2026. As there are no domestic air services from Birmingham to London, the first phase will have no impact on domestic air services to the main London airports. I do not consider that the prospect of further high speed rail services within the UK in the longer term is a material factor in considering the need for enhancement of facilities at LAA now to ensure its capacity can be effectively used in the short to medium term. In the longer term, with growth in demand overall, the effect of moving all domestic services to rail will only delay the requirement for additional capacity at the main London airports by around 3 years.

## Implications of Recent Planning Decisions

- 2.16 Louise Barton of LAAG asserts, at paragraph 3.0 of LAAG 9A, that, to the extent that the Future of Air Transport White Paper conveyed any policy support for the development of LAA, this support was dismissed in the Secretary of State’s decision in respect of Little Cheyne Court Wind Farm. She quotes from the Inspector’s Report not the decision itself.

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<sup>10</sup> CD8.18 (CPRE document)

<sup>11</sup> CD8.12, page 6.

2.17 The Inspector expressed the view at paragraph 488 of his report (quoted by Louise Barton<sup>12</sup>) that the White Paper went no further than support in principle for the development of LAA subject to environmental tests being met, but the Inspector went on to consider the consequences of expansion at paragraph 489. Although he said that LAA faced environmental challenges and that he considered there were doubts over the timing of investment (paragraph 491), his conclusions at paragraph 492 made clear that some expansion at LAA was still envisaged:

*“I conclude that the safety of current operations at Lydd Airport would not be compromised by the application scheme. As and when any radar system is installed, I am confident that a variety of technical and procedural fixes exist, proven elsewhere, which would be available to draw on to overcome any difficulties experienced. LAA’s expansion proposals face a number of hurdles before they can be realised. But I see no fundamental incompatibility between the scope of that development and the construction and operation of a wind farm at Little Cheyne Court.”*

2.18 I do not consider the Inspector in that case dismissed the relevance of the White Paper policy giving in principle support to the expansion of LAA but, rather, he rightly noted that such development was not a foregone conclusion and that it would be subject to its own environmental tests. As such, the support given in the White Paper for development of the Airport was not expressed in terms so definitive as to of itself be sufficient reason to refuse planning permission for the wind farm, even if had he considered that the developments were in conflict which he did not.

2.19 Louise Barton, at paragraph 3.0 of LAAG 9A, also cites the decision of the Secretary of State in respect of the development of Coventry Airport as further evidence of the interpretation which can be placed on the policies towards regional airports within the Future of Air Transport White Paper, citing the emphasis to be placed on making best use of existing airport capacity. In fact, the decision in that case was taken in the light of a specific identified niche role for Coventry Airport within the Future of Air Transport White Paper as having a specialist role serving business aviation, mail and some air freight<sup>13</sup>.

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<sup>12</sup> CD9.23.b (LAAG document)

<sup>13</sup> CD 5.24, paragraph 9.31.

2.20 In addition, a particular factor in that case was the fact that the Regional Spatial Strategy specifically identified that Coventry Airport should have a complementary role to Birmingham Airport<sup>14</sup>. When taken together with surface access considerations, including the availability of public transport to Birmingham Airport, and given that the two airports are within 20 minutes drive time of each other, it was considered that there would be substantial overlap of services with Birmingham such that the development of additional terminal capacity at Coventry did not represent a sustainable option<sup>15</sup>.

2.21 The conclusions reached in respect of Coventry Airport were, therefore, specific to the local circumstances, the identified policy roles of Coventry and Birmingham Airports, and local sustainability considerations relating to the availability of public transport. This decision does not provide any guidance on the relevance of the White Paper policy to make best use of existing capacity in the case of LAA. I go on to consider this further below.

### **Capacity Assumptions in SERAS**

2.22 Louise Barton claims, at paragraph 2.2 (page 6) of LAAG 9A and at paragraph 3.1.1. of LAAG 7A, that the White Paper assessed the capacity of LAA as being 125,000 passengers per annum and that this represents the capacity ceiling for the Airport foreseen by Government. She then seeks to question the validity of considering an application for development up to 500,000 passengers per annum against this threshold. This appears at odds with other claims by LAAG that the development ought to be assessed at 2 mppa.

2.23 The figure of 125,000 passengers per annum did not represent the Government's assessment of the acceptable level of capacity which could be supported at the LAA site. It was, in fact, an assessment by their consultants in 2001 as to the level of demand it might be able to attract. At paragraph 13.2.6 of the SERAS<sup>16</sup> Stage Two Appraisal Findings Report<sup>17</sup>, it is made clear that:

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<sup>14</sup> LAAG9B, Appendix 2, paragraphs 46 and 47.

<sup>15</sup> Ibid, paragraph 49.

<sup>16</sup> SERAS – South East Regional Air Services Study.

<sup>17</sup> See **Appendix 2**.

*“In practice, as the following discussion of demand indicates, the viability of development at all the small sites, and at London City and Southampton, is likely to be determined, in the first instance, more by their ability to attract traffic than by their physical potential for expansion.”*

2.24 Hence, in adopting 125,000 passengers per annum as the contribution which LAA might make to meeting demand in the South East, the Government was not seeking to identify this as the maximum acceptable level of throughput at LAA, particularly in the context of limited environmental constraints identified in Table 13.7 of the same report<sup>18</sup>. Indeed, in Chapter 4 of the same report, the capacity of the site at Lydd was assessed as 2 million passengers per annum<sup>19</sup>. The figure of 125,000 passengers per annum was, in practice, an assessment of the scale of contribution which LAA might be expected to make, given its existing restricted runway length, in the context of determining whether the smaller regional airports could, in aggregate, make sufficient contribution that there was no need for additional runway capacity at the main London airports. In this context, a conservative assessment of the contribution which the smaller regional airports might make was prudent but such an assessment is overtaken by the more detailed specific analysis of the market which I have set out in my main Proof of Evidence.

### **“Best Use”**

2.25 Both Louise Barton for LAAG and Brian Lloyd for CPRE appear to equate the term *“best use of existing airport capacity”* as being the same as maximum use. This is not correct. Best use must be read in the context of best meeting demand in terms of attracting airlines to operate services required locally.

2.26 Brian Lloyd, at paragraph 3.13 of CPRE 1A, claims that because LAA’s existing capacity is not being fully used, no further enhancement of facilities should be allowed until all the existing capacity is taken up. He goes on at paragraph 3.15 to claim that the reduction in congestion at the larger airports means that there is no longer a role for LAA in assisting to make best use of capacity at the larger airports.

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<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

2.27 Louise Barton, at paragraphs 3.1 and 4.0 of LAAG 9A, also claims that the availability of excess capacity at LAA and Manston means that development at LAA would not accord with the White Paper policy as LAA is not making the most of its existing infrastructure capacity.

2.28 These contentions are flawed and misinterpret the policy. As set out in my main Proof of Evidence, LAA does not attract airlines to make use of its existing runway capacity due to the restricted runway length. In these terms, provision of an extended runway would accord with the policy in the White Paper to secure “*best use of existing airport capacity*” as it would allow the obstacle to more effective use of the existing runway movement capacity and existing facilities to be overcome. Indeed, the extension of the runway and provision of a new modern terminal would be entirely consistent with intent of the Future of Air Transport Progress Report<sup>20</sup>, as quoted by Louise Barton at her paragraph 2.0 of LAAG 9A, where it states:

*“The first priority is to make the most of the UK's existing airports through a process of improvement and modernisation.”*

2.29 I have already demonstrated at paragraph 3.14 of my main Proof of Evidence that the Coalition Government has been willing to allow airport terminal expansion to go ahead at Bristol. Terminal expansion has been permitted, subject to local environmental considerations, precisely because such expansion supports better use being made of airport runway capacity, which is where the scarcity in the London areas was primarily deemed to exist.

## Conclusion

2.30 In summary, I do not agree that there are any material changes which affect the validity of the White Paper policy towards development at the smaller regional airports in the South East, including LAA. I consider that extension of the existing runway and the provision of modern terminal capacity would be consistent with the objective to secure best use of the capacity offered by LAA in terms of meeting local demand for air travel and, therefore, providing some relief to congestion at the main London airports.

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<sup>20</sup> CD5.25, paragraph 1.12.



### 3 AIRPORT PROFITABILITY AND THE BASIS OF ASSESSMENT

3.1 Both Louise Barton (at paragraph 8.0 of LAAG 8A) and Mark Watts (at paragraphs 26 to 34 of LAAG 11A) for LAAG claim that LAA cannot operate profitably at a throughput of 500,000 passengers per annum and that the development ought to have been assessed on the basis of the informal 2003 (updated 2005) Master Plan aspiration for LAA to expand over time to handle up to 2 million passengers per annum.

#### Airport Profitability

3.2 I deal first with the contention that LAA cannot operate profitably at a throughput of 500,000 passengers per annum, as claimed in the Report by Cranfield University appended to LAAG Proofs at LAAG 8B Appendix 2 and LAAG 11B Appendix A. Louise Barton alleges explicitly at paragraph 1.18A of LAAG 8A that she considers that LAA will be reliant on development up to 2 mppa to achieve profitability.

3.3 In my view, it is misleading to reach conclusions about whether an Airport Company can attain profitability from its operations at an airport without considering the full scope and context for its activities. In the case of LAA, it is particularly important to take into account the nature of the airport ownership and its position within the portfolio of businesses. I regard it as significant that FAL holdings, the parent company of London Ashford Airport Ltd, also owns:

- **Phoenix Aero Engineering**, which operates on the airport site;
- **FAL Aviation UK Ltd**, which operates the fixed base operator service for visiting general aviation aircraft to the site as well as operating an air charter service;
- **Lydd Golf Club and Driving Range**, which is adjacent to the Airport site and where a major hotel development is also planned.

- 3.4 As can be seen, LAA is part of a portfolio of businesses owned by FAL holdings. It is the combination of these assets which constitutes the relevant vehicle to consider the profitability of investment at LAA. In this respect, I consider that it is more appropriate to consider the potential for the attainment of overall profitability against those airports, such as Bournemouth or Humberside, where the operation of the airport itself is supported by income from a number of ancillary businesses, as I discuss below.
- 3.5 Furthermore, the LAA business is part of a multi-national, multi-sector conglomerate with a consolidated balance sheet. FAL Holdings see LAA as a long term investment, with the potential for appreciation in the asset value. Therefore, attaining an operational profit, although desirable, is not the only factor for FAL in determining future value. FAL's international business investments and operations (and by implication, frequent visits to London as a key international finance centre) benefit from the company owning an operational airport in the Southeast of England, which reduces its costs of operation compared to using other airports serving London. FAL itself owns a small fleet of aircraft which use the facilities at LAA.
- 3.6 In this context, top down comparative analysis of profitability is misleading unless the precise circumstances of each airport are taken into account. Taking each of the airports listed by Cranfield in turn:
- **Blackpool** – this airport previously operated under local authority ownership. New owners in 2004 invested heavily in improved facilities to enable it to handle more passengers, increasing airport operating costs, at the same time attracting low fares airlines, Jet2 and Ryanair, to start services from the airport with heavily discounted airport charges. Subsequently an airport departure fee, collected directly from passengers, was introduced resulting in the airlines withdrawing services from the Airport. Blackpool Airport itself does not operate any of the ancillary aviation business, such as the general aviation fixed base operator or any maintenance activities itself, limiting the scope for ancillary revenue streams.
  - **Bournemouth** – as noted by Cranfield at paragraph 3.3.1, this airport attains profitability because of rental income from maintenance activities carried on land owned by the airport. As shown in Appendix 3, Bournemouth was operating profitably when it was handling 500,000 passengers per annum.

- **Cardiff** – Cardiff is a substantially larger airport and benefits from on-site major maintenance activities for, inter alia, British Airways.
- **Durham Tees Valley** – losses at this airport increased when it attracted major low cost operations and with the erosion of its scheduled service links to Heathrow. Land adjacent to the Airport has been vested by Peel Holdings into a separate company which is developing the land for a business park.
- **Exeter** – the airport is the main base for Flybe and has operated profitably for some time, with the exception of 2007/8 when non-staff costs rose substantially in the year following the acquisition by Balfour Beatty.
- **Humberside** – Humberside has maintained a small operating profit since its acquisition by Manchester Airport group, assisted by helicopter support operations and, more recently, the perishables facility.
- **Inverness** – Inverness continues to operate with a subsidy from the Scottish Executive as part of Highlands and Islands Airports Ltd. The existence of an ongoing operating subsidy lessens the pressure to attain profitable operations to which a privately owned airport is subject.
- **Leeds/Bradford** – Leeds/Bradford traditionally maintained an operating profit up until 2006/7 but this was eroded by a combination of an almost doubling of depreciation in 2007/8, as a result of major investment in terminal facilities, and initial commercial arrangements with Jet 2, which established its base at the airport.
- **Newquay** – as with Inverness, this Airport is in receipt of an ongoing operating subsidy from Cornwall County Council, which weakens the incentive to attain profitable operations. In 2009, the Airport Company was required to incur substantially increased costs in operating the airfield due to the mothballing of RAF St Mawgan, on which the airport is located.
- **Norwich** – Norwich did operate profitably at a throughout of 500,000 passengers per annum but has slipped into losses more recently as it has sought to attract low fare airlines.

- **Plymouth** – Plymouth handles substantially less than 500,000 passengers per annum and development of services from the airport, necessary to attain profitability, has been substantially hampered by the extremely short runway length limiting the aircraft types and airlines which could be attracted to operate.

3.7 A further factor, evident from the commentary above, is the extent to which an airport relies on low fares airline operations to grow volume and to attain profitability through growth above 500,000 passengers per annum. To assist the Inquiry, I have tabulated data from the University of Bath Centre for Regulated Industries (CRI)<sup>21</sup> back to 2004/5 in **Appendix 3**. Where information was not available from CRI, I have used Civil Aviation Authority statistical data and information from airport reports and accounts. Where I rely on data sourced by Cranfield, the cell is outlined. In some cases, particularly where airports have changed ownership, data is not always available on a consistent basis for a given financial year. In some cases, the financial year ends at 31<sup>st</sup> March, in others at 31<sup>st</sup> December. Data in the table represents an equivalent 12 month period.

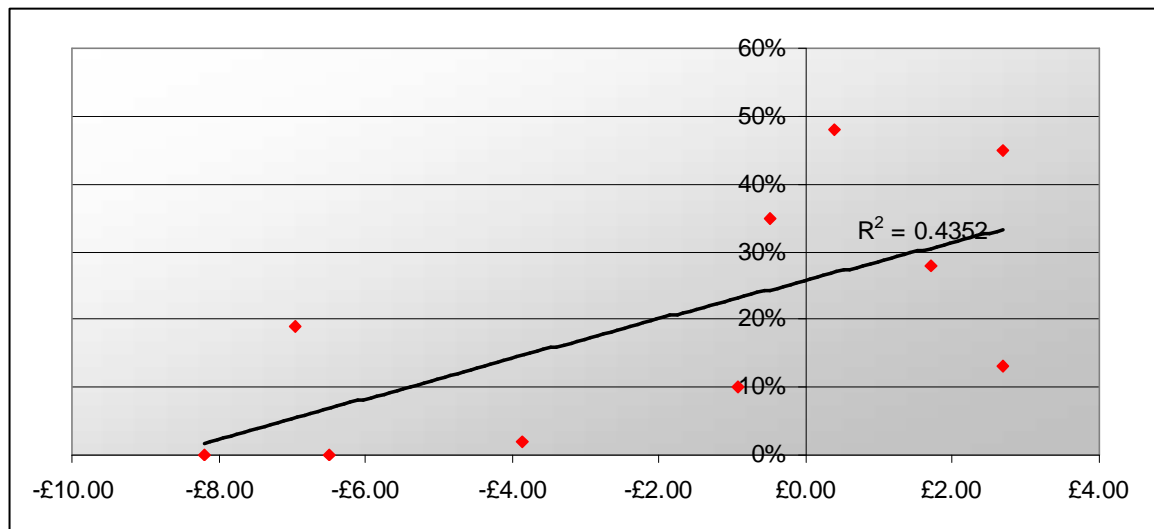
3.8 My demand projections for LAA do not suggest that its growth will come from the low fares sector to any great extent and that the majority of viable markets will be served through charter operations or regional scheduled services. Charter services are expected to account for 58% of passengers at LAA in the Lower Growth scenario and 64% in the Higher Growth scenario. Charter operations tend to deliver higher revenues to an airport, not least as passengers using such services usually have a longer dwell time at the airport. I have analysed the relationship between airport profit per passenger and the proportion of charter passengers for 2008/9 in **Figure 3.1**<sup>22</sup>. This suggests that small airports with more than 30% of passengers on charter services may be expected to attain profitable operations. Historical data in Appendix 3 also tends to confirm this trend.

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<sup>21</sup> I have used the same principal source as Cranfield.

<sup>22</sup> The R<sup>2</sup> value shown on the graph is a measure of the strength of the relationship, with a value of 1 indicating a perfect relationship. An R<sup>2</sup> of 0.43 indicates that there is a reasonably strong relationship between the proportion of charter passengers and profitability.

**Figure 3.1: Airport Profit/Loss per Passenger compared to Proportion of Charter Passengers**



Source: CRI, CAA Airport Statistics

3.9 Based on my analysis of the factors driving airport profitability overall, I consider there to be a realistic prospect of profitable operations being attained at around 500,000 passengers per annum, given the traffic mix which I project for LAA, the other on-site activities and the potential for operating cost efficiencies in the new terminal. Moreover, even if this proved to be wrong, it is clear that losses from airport operations alone will be materially reduced compared to the current situation. In these terms, the investment would be commercially worthwhile and, to that end, I believe that it makes commercial sense to construct the runway extension first, allowing commercial traffic to be attracted, before incurring the additional cost of constructing the new terminal. Louise Barton, at paragraph 3.7 of LAAG 7A implies that the decision to phase the investment is somehow an expression of lack of confidence in the market for LAA. I do not agree. It is prudent business planning.

3.10 I do not agree with Gareth Jones for CPRE (CPRE 5A) that LAA with an extended runway will be unable to attract airlines and have to rely on substantial training operations by larger jet aircraft (CPRE 5A, paragraph 6.1). In any event, such training is typically undertaken on simulators and does not necessarily involve substantial flying outside of normal operations. I deal with the points made about the size of the market in the next section.

3.11 Hence, I believe that, when coupled with the other revenue earning activities of the FAL group in the Lydd area, the investment in LAA will be financially sustainable as part of the overall portfolio of interests. I do not believe that the viability of LAA at 500,000 passengers per annum is a factor in considering this development proposal, nor that attainment of 2 million passengers per annum will be necessary to secure overall profitability for the Group.

### **The Lydd Airport Master Plan**

3.12 Mark Watts for LAAG asserts in LAAG 11A that, in the light of profitability issues, the development of LAA should have been assessed on the basis of its stated intent in the 2003 (updated 2005) informal Master Plan to expand up to 2 mppa in the longer term. As noted above, I do not consider that attainment of viable operations for the Group as a whole is dependent on the Airport handling more than 500,000 passengers per annum and this is not what the Airport is seeking planning permission for.

3.13 Whilst LAA did produce a draft Master Plan in 2003, concurrently with the preparation of the Future of Air Transport White Paper, this plan has no formal status. Indeed, neither LAA nor Manston were included in the Department for Transport's list of 30 airports required to produce Master Plans in its Guidance on the Preparation of Airport Master Plans published in 2004<sup>23</sup>.

3.14 It is common for airport planning applications to be considered against a throughput for which planning permission is sought, and not that set out in a full Master Plan. For example, the recent planning approval granted at Bristol Airport was for a terminal extension to provide capacity up to 10 mppa<sup>24</sup>, and it was on this basis that the impacts were assessed, whereas the Master Plan envisages growth up to 12.5 mppa<sup>25</sup>.

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<sup>23</sup> CD5.34

<sup>24</sup> Bristol Airport website.

<sup>25</sup> CD10.5.

3.15 This point is also relevant to the claim made by Brian Lloyd for LAAG that the absence of an up to date Master Plan means that the development at LAA is automatically not in accordance with policy T9 of the Regional Spatial Strategy<sup>26</sup>. This policy states that plans should “*take account of airport operator masterplans produced in accordance with the Air Transport White Paper*”. Mr Lloyd is mistaken in his claim. There was no formal requirement for LAA to produce such a plan by the Department for Transport. Although LAA is not listed in the text of policy T9, its development is covered at paragraph 8.30 of the explanatory text, which states:

*“Other smaller airports could play a valuable role in meeting local demand and contributing to regional economic development. Subject to relevant environmental considerations, their development should be supported, and regional and local planning frameworks should consider policies which facilitate growth at these airports.”*

3.16 I do not consider the absence of an up to date Master Plan, reflecting growth to 500,000 passengers per annum, to affect or diminish the support in regional policy for its growth as a small regional airport.

### **Fallback Position**

3.17 The objectors appear to take contradictory positions in respect of what should be taken as the baseline or fallback position in considering the impact of the proposed developments. Louise Barton, in LAAG 8A paragraphs 1.11A and 4, alleges that the beneficial impact of the development should be assessed against a ‘do nothing’ scenario of 300,000 passengers per annum which could theoretically use the existing airport infrastructure. This is then contradicted by Malcolm Spaven in LAAG 10A, at paragraph 3.3, where he claims that the baseline cannot be assessed as 300,000 passengers per annum “*since the actual current conditions at Lydd Airport fall well short of those traffic levels and there is no evidence of any growth towards that level of traffic.*” It appears that the objectors are seeking to assess the benefits against the highest possible baseline scenario but to test the environmental implications against the current status quo. This is inconsistent.

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<sup>26</sup> CD7.1.

3.18 I have set out my assessment of the most likely ‘fallback’ or ‘no development’ case in my main Proof of Evidence at paragraphs 5.47 to 5.57. This includes the attraction of some night freighter and maintenance operations, taking advantage of unrestricted night movement capability in the ‘no development’ case. I have assessed the economic benefits of development against both the ‘fallback’ and current situations.

3.19 It is notable that witnesses for CPRE in CPRE 4A and 4B appear to fear that night movements and additional training related circuit flying will be attracted as a consequence of the development. This is erroneous as such activities will be controlled by the S106 Agreement and/or Conditions should the development go ahead, whereas if planning approval is not granted such operations will be unrestricted and likely to grow in future.



## 4 MARKET PERFORMANCE

### LAA Performance since 1992

- 4.1 Louise Barton submits a Proof of Evidence, LAAG 6A, cataloguing changes since the previous grant of planning approval for a runway extension as part of LAAG's case that there is no need for the development. I deal here with the sections on the performance of LAA and changes in the competitive environment.
- 4.2 Louise Barton notes that passengers using LAA have declined since 1992 in LAAG 6A Table 1. This is not disputed. Nor is the fact that the Airport is currently loss-making. However, this decline is not the product of competition from Manston or from the Channel Tunnel, as she asserts at paragraphs 3.4 and 3.5, but the consequence of the changing airline market and the need for a longer runway to enable airlines to be attracted to operate services. I have explained this more fully in my main Proof of Evidence at paragraphs 4.12, 4.13, 4.18, 4.19, 4.24, 5.40 to 5.43. The market performance of the Airport since 1992 is in large part a reflection of the non-implementation of the previous approval granted to the construction of a runway extension.
- 4.3 The point about high speed rail to Europe is reiterated at paragraph 3.6 of LAAG 7A. However, in the light of my assessment of the routes likely to be viable from LAA, given its catchment area, high speed rail is unlikely to provide an alternative for the majority if not all destinations as shown in Appendix D of my main Proof of Evidence.
- 4.4 Further claims in relation to the failure to attract services to LAA is given in paragraphs 3.3.1 to 3.3.3 of LAAG 7A. I disagree with Louise Barton at paragraph 3.4.2 of LAAG 7A when she claims that runway length is not the reason why LAA has failed to attract commercial air services and to grow its passenger numbers.

- 4.5 First of all, Flybe's decision to operate from Manston is not an either/or to operating from LAA. Whilst LAA did approach Flybe a number of years ago, it did not then have an instrument landing system and it has not approached the airline since the ILS was in place, pending the outcome of the current planning applications. Airlines also like to have some basis for assessing the potential take up in the local catchment area and, hence, I believe that Flybe's decision to operate from Manston to Manchester and Edinburgh was influenced by the volumes of passengers carried on these routes by EUjet, which indicated a potential market to be served. This is consistent with my view that LAA will need to attract low frequency charter services in the first instance to prove its ability to attract passengers on a low risk basis before seeking to attract regular scheduled operations, even with smaller aircraft types. As discussed in my main Proof of Evidence, Flybe will also have been seeking confidence in its ability to expand its network and to continue to operate as it upscales its fleet over time, both of which mitigate against operating from LAA at the present time given the restricted runway length.
- 4.6 Secondly, the demand for air travel in the area around LAA is dominated by leisure type markets which need to be served by larger aircraft on a charter (or possibly low fares) basis to offer the competitive prices demanded by consumers. This is a very different market to that served by London City Airport (also mentioned by Louise Barton at paragraph 4.2 of LAAG 8A and Gareth Thomas for CPRE at paragraph 2.3 of CPRE 11A), where the predominant source of demand is business travel to and from the City of London and Canary Wharf to key near European business cities. This market can be served by regional jet aircraft and turboprops capable of operating from London City Airport's restricted runway length. The ability to command high fares on these services, given the market local to London City, means that the airlines are able to withstand the higher per seat mile operating costs of such aircraft in a way which simply would not be possible in the LAA market.

- 4.7 Nor is Southampton Airport, as referred to by Louise Barton at paragraph 3.4.2.2 of LAAG 7A, a relevant comparator. Firstly, at 1,723 metres, the runway is significantly longer than the current runway length at LAA and nearly as long as that proposed for LAA in the current application. This allows the airlines the resilience and robustness to provide for fleet changes as discussed in paragraph 5.42 of my original Proof. In any event, Southampton Airport serves a major conurbation in the Southampton/Portsmouth metropolitan area with a population in excess of 1.5 million local to the Airport. Its catchment area is hence of a much larger scale than that for LAA, allowing it to support a much wider range of services.
- 4.8 Malcolm Spaven from LAAG (LAAG 10E, paragraph 11.61) also seeks to refer to examples of airports with shorter runways than LAA's current runway length which handle commercial operations. However, with the exception of London City Airport, these handle very small numbers of commercial operations. Dundee and Plymouth are small airports, handling less than 100,000 passengers per annum, serving relatively remote areas of the UK with feeder links to London and elsewhere. They are currently loss making, which would not meet the criterion of being commercially viable. These airports are no longer gaining services and, indeed, Plymouth recently lost its lifeline connection to London Gatwick due to operating losses to the airline. Gloucestershire and Oxford Airports are fundamentally business aviation and training airfields, which have attracted commercial services to supplement general aviation activities handling 16,000 and 2,000 passengers respectively in 2010. Oxford has very low frequency charter services to Jersey, Geneva and Palma on a seasonal basis operated with small aircraft in 2011. Gloucestershire has operations to the Isle of Man with Manx2. It should be noted that Southend Airport has approval to extend its runway for precisely the same reason as the extension proposed at LAA. Aer Arann has only been persuaded to operate the services as a result of an investment by the owner of the Airport, Stobart Air, in the airline. Overall, these airports do not demonstrate that commercial passenger operations on a significant scale can be supported with restricted runway lengths
- 4.9 In my main Proof of Evidence, I set out an analysis of the potential market from LAA undertaken from first principles. This reveals an updated pattern of demand from that which was assessed in the ES and upon which Louise Barton comments in LAAG 8A at paragraph 6.2.3. This would explain why the attempts to market the Airport to operators serving business oriented destinations with small aircraft, as listed by Louise Barton, was unsuccessful.

- 4.10 The cancellation of the planned weekly charter service to Jersey in Summer 2010, cited by Louise Barton at paragraph 6.2.3 (6) of LAAG 8A, is not indicative of a lack of a market potential for the future. It is more likely to reflect the perception that LAA was not open for mainstream commercial services in 2010 and the fact that the market for air travel between the UK mainland and Jersey continued to decline in 2010.
- 4.11 I also reject assertions by Malcolm Spaven (LAAG 10A), referred to by Louise Barton at paragraphs 1.19A, 6.2.1, 6.2.2 and 7.0 of LAAG 8A, that there will in future be operational reasons why airlines will not be willing to serve LAA. These assertions are rebutted by Tim Maskens in LAA 3D. I note that Malcolm Spaven, in his Rebuttal Proof (LAAG 10E) claims at paragraph 3.7 that one of the factors which will deter commercial operations from LAA is the restricted width of the runway at less than 45 metres. In practice, the runway at LAA at 32 metres is wider than that at other airports, for example the Greek Island airports of Mykonos, Santorini and Skiathos, with runways of width 30 metres which accept operations by UK airlines, such as easyJet, Thomson Airways, Thomas Cook Airlines and Monarch Airlines, with aircraft types such as the B737, B757, A320 and A321. With the exception of the B757, these are precisely the aircraft types and airlines which we would expect to operate from LAA.
- 4.12 At paragraph 3.5 of his Rebuttal Proof, Malcolm Spaven also alleges that no B737-800 operator would operate from LAA. However, airlines such as Thomsonfly operate such aircraft to the Mediterranean from Aberdeen with a runway of length 1,829m and it seems realistic that Mediterranean operations would be possible from LAA by such aircraft and operators.
- 4.13 CPRE also alleges a lack of detailed market assessment in CPRE 5A, at paragraph 5.1, and CPRE 6A, at paragraph 4.6. I set out a full market assessment in Section 4 of my main Proof of Evidence.

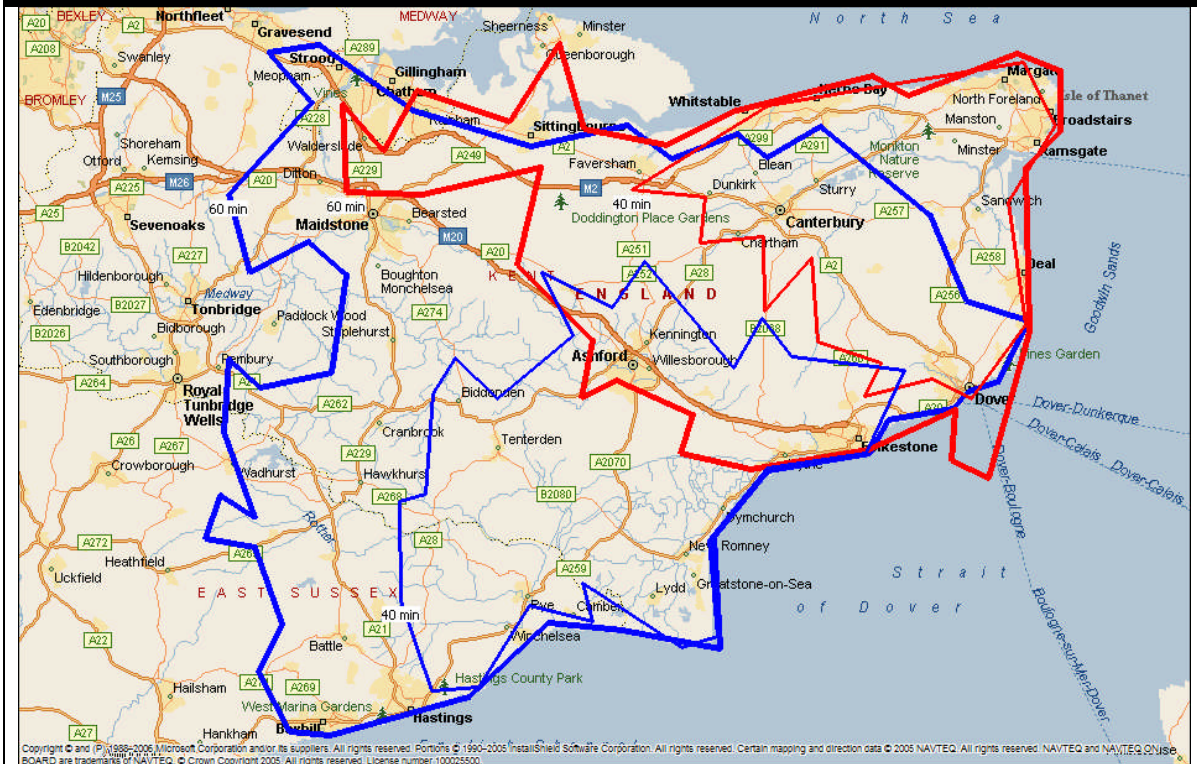
## Comparison with Manston

- 4.14 Both LAAG (LAAG 6A, paragraph 3.4.1; LAAG 7A, paragraphs 3.1.2, 3.5; and LAAG 8A, paragraph 6.2.3) and CPRE (CPRE 5A, paragraph 4.2) claim that the fact that Manston has so far failed to attain a viable level of operations with its longer runway and what they assert to be superior road and rail access to London is evidence why LAA can never succeed. They also allege this as a justification for why there is no need for development at LAA. It is also claimed that, in the light of the capacity already available at Manston, which has not yet been taken up by airlines, there is no need for the capacity which could be offered at LAA with a longer runway and new terminal. These points are not well-founded.
- 4.15 As set out in my main Proof of Evidence, I consider that there will be sufficient market for both airports to grow in future. Given their distance apart, both airports can serve their local markets. I illustrate the 1 hour and 40 minute drive time catchment areas of the two airports in **Figure 4.1**<sup>27</sup>. Whilst there is some overlap between the 1 hour drive time catchment areas of the two airports, there is very limited overlap of the core local catchment areas within 40 minutes of each airport. The catchment area for LAA is physically much larger than that for Manston due to the latter airport's position at the extremity of the Isle of Thanet. For a large part of LAA's catchment area, Gatwick Airport is closer than Manston Airport suggesting that, in the absence of development at LAA, passengers would be more likely to continue to use services from Gatwick rather than use Manston.
- 4.16 Whereas some 2.5 million air passenger trips originated in or were destined for the districts in the 1 hour catchment area of LAA in 2009 (see paragraphs 5.16 and 5.17 of my main Proof of Evidence), the equivalent number for Manston is 1.8 million air passenger trips from 7 districts, of which 5 overlap with the 10 districts which form the wider catchment area for LAA. In making projections of the demand which LAA might attract, I took account of this overlap in assessing potential market share or capture. In terms of the scale of its local catchment area, Manston is more dependent on spill from the congested London airports to achieve its Master Plan growth projections.

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<sup>27</sup> The catchment area for LAA is shown in blue and that for Manston in red, with the thinner lines showing the 40 minute drive times.

**Figure 4.1: Drivetime Catchment Areas for LAA and Manston Airports**



**Source: Mappoint**

4.17 The fact that Manston has historically struggled to sustain commercial air services does not provide a proper indication as to LAA’s ability to support viable operations to the identified destinations in future, not least as conditions of congestion at the main London airports have not yet reached the critical levels overall, as opposed to at Heathrow, which would have led to airlines seeking alternative airports from which to serve the London market. In this, I differentiate clawing back local demand which currently uses the London airports, as I expect to happen at LAA, from depending on London based demand spilling to other airports.

4.18 It is worth reiterating that I assessed the potential for LAA in both scenarios without assuming any specific benefit from overspill from London, basing the assessment on local demand within the catchment area, growth over time and the ability of LAA to claw back its local demand from, in particular, Gatwick as that airport becomes more congested.

4.19 The claimed superior infrastructure at Manston, cited at paragraph 3.5 of LAAG 7A, is not a reason why (even if correct) airlines would necessarily prefer Manston to LAA even with the extended runway and new terminal in place. It is about having the appropriate infrastructure to support the air services for which there is market demand. In the case of LAA, the infrastructure, in particular the runway length, is currently inadequate but would be sufficient to handle the demand which I have assessed if the proposed developments proceed. However, at Manston, whilst the longer runway and other elements of infrastructure are important in terms of attracting freight operations in the short term, the fact that it can handle wide-bodied aircraft on long haul passenger services (LAAG 7A, Table 5) is simply not relevant to assessing the attractiveness of either airport to short haul services.

## 5 ECONOMIC ISSUES

### Economic Policies

- 5.1 Brian Lloyd for CPRE seeks to suggest that a differentiation in policy support for LAA and Manston in economic policy documents is material at paragraphs 3.39 to 3.45 of CPRE 1A.
- 5.2 I deal in full with the support given to LAA in Section 3 of my main Proof of Evidence. These points are also covered in a statement of Common Ground being prepared with Shepway District Council. Brian Lloyd is selective in his discussion of these economic policy documents. For example, in relation to *Unlocking Kent's Potential*<sup>28</sup>, he cites only the references to LAA and Manston on page 70 rather than the fact that development at both airports are seen as potentially transformational investments on page 23.
- 5.3 Brian Lloyd goes on, at paragraphs 3.44 and 3.45 to cite the recent bid from Kent and Greater Essex to form a Local Enterprise Partnership, noting that explicit mention is made of the economic role of Manston and Southend airports as “*nationally critical transport assets*”. These airports are cited, alongside Stansted, on page 6 of the bid prospectus *Unlocking the Potential*<sup>29</sup>, with potential to grow to 6 and 2 mppa respectively. This scale of development is greater than that envisaged for LAA under the present applications so it is hardly surprising that the role for LAA is not identified as a nationally critical asset at 500,000 passengers per annum. LAA is identified as one of the airports serving the region on the map at page 2 of the prospectus, unlike the general aviation airfields at Rochester and Headcorn. This clearly suggests that LAA is seen as having a role in supporting commercial air services, for which the currently proposed developments are essential.
- 5.4 There is further evidence of support for the role which LAA can play in delivering jobs and regeneration in the statement (KCC W1) submitted to the Inquiry by Kent County Council in December 2010. This statement concludes:

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<sup>28</sup> CD11.18

<sup>29</sup> CD11.26



*“It now seems unlikely that the Dungeness “C” nuclear power station will be constructed and in view of the poor employment prospects on Romney Marsh it is vitally important to the regeneration prospects of the Shepway District and adjoining areas of East Kent that the proposals to expand air passenger transport at LAA is given every possible chance of success. KCC supported the expansion of Lydd Airport in the Kent & Medway Structure Plan and it is just as important that proposals succeed now. The introduction of new private sector jobs, particularly such as LAA can offer, is what is required to grow the economy, boost employment and tackle deprivation in accordance with both Government policy and the County Council’s regeneration framework”.*

- 5.5 The need for jobs and regeneration in East Kent is made all the more urgent by the recent announcement that 2,400 jobs are to be lost at Sandwich with the closure of Pfizer’s research facility, which will add to already rising unemployment levels.

### **Employment Density**

- 5.6 Louise Barton for LAAG, at paragraph 3.3 of LAAG 6A and paragraphs 1.9A, 1.10A, 2.0 and section 5 of LAAG 8A, criticises the employment densities assumed at LAA within the original ES, citing the impact of low fares airlines in increasing productivity and reducing the number of jobs generated by airport operational activities at any given level of passenger throughput. She sets out calculations and estimates for a number of airports, some of these derived from original work carried out by York Aviation for the airports concerned. In many cases, the productivity gains shown are a function of a shift from predominantly charter to predominantly low fares operations at these airports. Such productivity gains, as for example cited for Stansted at paragraph 5.4.2 of LAAG 8A, will not be repeated as the costs have already been taken out of the businesses operating there to reflect the predominantly low fares nature of the traffic.

- 5.7 Employment densities are a function of the nature of traffic at an airport and its scale of operation. Employment densities will typically be higher at smaller airports due to the inherent inefficiencies in handling only a small number of flights per day. Employment densities will also be higher where there are airlines based at an airport or where there are substantial maintenance operations. In assessing the expected employment density at LAA, I have taken into account detailed assessments made of other airports and drawn comparison with the scale and nature of activity expected at LAA.
- 5.8 Although I do not expect there to be significant operations by low fares airlines at LAA at 500,000 passengers per annum, the trend for lower employment densities is evident throughout the sector as competitive pressures have forced all airlines to become more productive. In Section 5 of my main Proof of Evidence, I have presented estimates for the jobs to be generated by growth at LAA based on a lower employment density than used in the ES of 500 jobs per mppa initially, reducing over time to 400 jobs per mppa as economies of scale build up with increasing throughput at LAA. I consider this to be the correct basis upon which to project the number of jobs to be created at the Airport, taking into account experience elsewhere. The use of 250 jobs per mppa, as suggested by Louise Barton, would be unrealistically low given the nature of air services which we expect to use the Airport, its scale of passenger activity and the level of existing GA and maintenance operations.
- 5.9 At paragraph 6.2.2 of LAAG 8A, Louise Barton further criticises the job generation potential of LAA on the basis that the operations are likely to be seasonal at a throughput of 500,000 passengers per annum. In fact, the majority of jobs will be on a year round basis. All airports operate with an element of seasonal temporary staff to handle peaks of operation and this is taken into account in any assessment of the economic impact of airport activity. The job estimates which I have presented are on a full time equivalent basis and take into account patterns of seasonality.

## Net Employment Impact

### Dungeness

- 5.10 Louise Barton seeks to compare the seasonality of employment which she claims LAA will create with the full time employment offered at Dungeness Power Station at paragraph 8.5 of LAAG 8A. This is misleading as it is not an ‘either/or’ situation.
- 5.11 As I discuss at paragraphs 3.53 to 3.57 of my main Proof of Evidence, there is a high degree of uncertainty over whether Dungeness C will ever be built given the difficulties stated by Government in its Response to the Consultation on the draft NPSs for Energy Infrastructure<sup>30</sup>, which led to the site’s exclusion from the list of chosen sites in the Revised Draft National Policy Statement for Nuclear Power Generation of October 2010<sup>31</sup>. At best, it is a very long term prospect, with no prospect of jobs in the short to medium term, whilst the Airport offers the prospect of badly needed job generation in the short to medium term.
- 5.12 In any event, there is no evidence that growth of LAA as envisaged would impact on the probability of approval eventually being given to construction of Dungeness C. Nuclear risk issues are dealt with by other witnesses but I note that the Government’s Response to the Consultation on the draft NPSs for Energy Infrastructure<sup>32</sup> made clear that Dungeness’s exclusion as a site in the National Policy Statement was not as a consequence of its proximity to LAA, as asserted by Louise Barton at section 8.4 of LAAG 8A. The Government dismisses concerns regarding the impact of the development of LAA at paragraphs 7.906 to 7.909 of its Response:

*“In relation to the criterion on civil aircraft movements, the Civil Aviation Authority has advised that there is potential for an exclusion zone which mitigates impacts on the existing airport. The NII has advised that the risks to the existing Dungeness power stations from the proposed expansion of Lydd Airport have been considered to be acceptable and it has given advice to the planning authority*

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<sup>30</sup> CD6.15

<sup>31</sup> CD13.6

<sup>32</sup> CD6.15

*The NII has also advised that consideration of the risks posed to any new nuclear power station from airport operations would be assessed as part of the licensing process and take account of the prevailing conditions at Lydd Airport and any proposed developments. This would include a review of the implications of any new Restricted Areas on the risks from accidental aircraft impact.”*

- 5.13 It is clear there is no basis for suggesting that development at LAA would impact on the potential for Dungeness to be brought forward as a site for a new nuclear power station at some later date, provided that objections in relation to its impact on the SPA could be overcome.

### **Inbound Tourism**

- 5.14 At paragraphs 6.20 to 6.31 of my main Proof of Evidence, I have set out the contribution which I expect LAA to make in attracting additional inbound tourists to visit the local area. However, LAAG (paragraph 8.1 of LAAG 8A), CPRE (paragraph 3.2 of CPRE 3A) and RSPB (section 10 of RSPB 3A) all claim that the development of LAA will make the area less attractive to tourists and suggest that the potential for there to be a loss of tourism related jobs should be netted off the positive impact of LAA. I do not deal here with the specific noise or ornithological points made by these witnesses as these are dealt with by other witnesses for LAA.

- 5.15 At the scale of operations proposed, I do not believe that there will be any negative impact on existing levels of inbound tourism. The number of additional large aircraft each day (over and above continuing growth of general aviation activity under both the ‘with development’ and ‘fallback’ cases) is very small, no more than 8 arrivals and 8 departures on a busy day. Far from detracting from the attraction of a caravan holiday, I believe that the ability to plane spot could be an added attraction for such visitors. The number of movements will be too small to be a major intrusion to their visit, as confirmed by the noise evidence from Richard Perkins (LAA 5A) and others. I believe that the fears regarding the potential impact of airport operations on the attractiveness of the area for inbound tourism is exaggerated due to a false perception of the scale of development and number of movements proposed.

5.16 Hence, I do not believe there is any basis for netting off either lost tourism jobs or future potential nuclear related jobs from the jobs expected to be generated by the growth at LAA.

### **Wider Urbanisation Impacts**

5.17 CPRE (CPRE 1A, paragraph 3.17, and CPRE 3A, paragraph 3.2) also expresses a fear regarding the wider urbanisation implications of the development. Although I discuss, at paragraphs 6.39 to 6.46 of my main Proof of Evidence, the potential for the growth of commercial services at LAA to contribute to making the local area more attractive to businesses, at the scale of operations proposed at LAA is unlikely to act as a significant magnet for such activities to be located at the Airport itself. In any event, the development of an airport related business park, for example, would itself be subject to planning control. Development of such a business park does not form part of the proposals and therefore concerns regarding wider urbanisation in Romney Marsh and consequent increased road congestion are unfounded.

### **Outbound Tourism**

5.18 Louise Barton for LAAG raises specifically the potential for LAA to worsen the tourism deficit at paragraph 8.2 of LAAG 8A. She cross refers to a lobbying document *Airport jobs: false hopes, cruel hoax*<sup>33</sup> by Brendon Sewill, who is a well known campaigner against development at Gatwick Airport, which was published by the Airport Environment Federation as well as a similar lobbying document by Friends of the Earth (LAAG 8B, Appendix 3).

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<sup>33</sup> CD11.9

5.19 These documents are primarily concerned with attacking the growth of air transport and its impact on the economy as a whole, particularly in relation to the impact of tourism. The assessment of the regional tourism deficit undertaken by Friends of the Earth simply looks at the overall national growth in air travel projected in the Future of Air Transport White Paper, assumes that growth will apply pro-rata to inbound and outbound visitors and calculates the balance between inbound and outbound visitors in each region. This calculation takes no account of which airport these travellers might fly through. There is, therefore, an underlying assumption in the Friends of the Earth document that growth at a particular airport will always mean additional UK residents travelling overseas. They do not allow for the possibility that, at a local level, growth could come from the redistribution of existing demand between airports. They are, therefore, of very little relevance to the examination of the contribution of LAA which is primarily about meeting demand locally in a more sustainable way.

5.20 Furthermore, in relation to the tourism deficit argument, there appears to be an implicit assumption in both documents that if UK residents were not to fly abroad then the money that would have been spent overseas would immediately be retained in the UK economy. However, this is clearly not necessarily true. Increasingly UK consumers are, in fact, purchasing imported goods and services. Consequently, a significant proportion of any tourism expenditure retained in the UK would ultimately transfer overseas anyway. It is also somewhat disingenuous to simply compare inbound and outbound travel to/from the UK. UK leisure travel overseas is part of a much wider product group. Leisure travel is funded from consumers' discretionary expenditure. This further supports the hypothesis that UK leisure travel needs to be viewed in terms of what else that money might be spent on. It may be used to undertake tourism activities in the UK but there is also a more than reasonable chance that it might be used to buy a Japanese TV, a German car or a Chinese manufactured electronic gadget.

5.21 The argument around the tourism deficit also places no economic value to the UK on overseas leisure travel:

- overseas travel is an important quality of life factor. The ability to travel for pleasure or to see friends and relatives is an important part of making regions of the UK attractive places to live and work and this applies equally to the area around LAA;

- the services that enable business travel to/from the UK that support UK multinationals and foreign companies operating in the UK are to a significant extent 'underwritten' by leisure travel;
- tour operators for the services likely at LAA will be UK based, and therefore profits from package holidays will ultimately be retained in the UK.

5.22 In contrast to the additional impact from inbound tourism, I do not believe that there will be significant additional outbound expenditure generated by UK passengers travelling overseas from LAA for two principal reasons:

- the small number of stimulated outbound passengers assumed within the demand forecasts at route level are unlikely to be genuinely stimulated. They are stimulated to travel on the individual route in question from LAA but, given the easy availability of other outbound charter and low fares services from other airports in the area, these passengers would in all likelihood still have travelled from the UK but to another destination. This is not the case for stimulated inbound passengers. It is far more likely that they have decided to visit the area on the basis of the existence of a new service and would not have visited the area otherwise;
- allowance also needs to be made for how leisure travel is funded by UK residents and, hence, whether expenditure overseas while travelling is genuinely an additional loss to the UK economy. Travel is part of discretionary expenditure. This means that the competing goods for travel purchases are other goods and services funded through discretionary expenditure. The UK is a significant consumer of imported goods and consequently it is reasonable to assume that a significant proportion of any outbound tourism expenditure would have been lost to the UK economy anyway, spent on imports.

5.23 Airports policy does not differentiate between airports meeting the needs of inbound or outbound travellers. Both are seen as important in the context of the UK's role as a global trading nation. To the extent that development at LAA may allow a small additional number of UK residents to travel abroad and improve their quality of life, it is not a reason for refusing the development.

## Sustainable Development

- 5.24 Louise Barton for LAAG (at paragraph 5.1 of LAAG 8A) also refers to the Brendon Sewill document in the context of querying the job estimates for LAA, particularly in terms of indirect and induced effects. It is also referred to by Sean Furey of CPRE at paragraph 3.1 of CPRE 6A in relation to the alleged subsidy given to aviation.
- 5.25 The Sewill document seeks to undermine the credibility of airport operationally supported jobs (direct, indirect and induced) but the points made are principally about crowding out of other sources of employment at a national level. He also criticises the use of high employment densities of around 1,000 jobs per million passengers per annum as being inaccurate – something I have already corrected for. His work has little relevance to whether job generation at LAA would be beneficial locally in the context of the need for regeneration. In terms of indirect and induced jobs, both concepts are well established and have been a central part of economic impact analysis for some time. It is also unfair to describe the links as far-fetched or tenuous. They describe how an economy works via supply chains and consumer expenditure and enable an understanding of the wider effects of a development. It should also be noted that the local area multipliers which I have used for LAA in Section 5 of my main Proof of Evidence are designed to reflect the fact that some supply chain expenditure and indeed consumer expenditure will leak away from the local area around the Airport.
- 5.26 Brendon Sewill's analysis of the existence of catalytic effects is naïve. It makes the fundamental error of considering that access to air transport is a 'sufficient' condition as opposed to a 'necessary' condition. The simple existence of an air link is not the reason why a company locates in any given area. The existence of a market opportunity is the driver for that location decision. Air service access is, however, one of the things that determines the competitiveness of one location versus another. For regions seeking to operate in the global economy, to increase trade and to attract new investment, air service access is a prerequisite. It may not feature highly on companies' reasons for being in a location simply because it is not a 'sufficient' condition but many would not be there without it.



5.27 Furthermore, Sewill's comments regarding the two way nature of the impact of air access to global markets are also somewhat misguided. The whole point of gaining greater access to world markets is to enable greater competition, encourage specialisation and improve market efficiency. It may be that in some circumstances that does mean that overseas biscuit manufacturers produce better biscuits more efficiently which results in the closure of an indigenous biscuit company. However, this then frees up resource to focus on a different area where the region has a comparative advantage, benefitting the economy and society as a whole through the more efficient allocation of resources. This 'creative destruction' is a fundamental of a free market, capitalist economy and the ultimate driver of economic growth.

## **6 CONCLUSIONS AND SUMMARY**

- 6.1 In this Rebuttal Proof of Evidence, I have considered evidence submitted on behalf of LAAG, CPRE and RSPB. I have dealt with the comments made by other parties by theme.

### **The Status of White Paper Policies**

- 6.2 I do not consider that witnesses for LAAG and CPRE are correct in asserting that less weight can be placed on the support for LAA within the Future of Air Transport White Paper in the light of more recent developments, such as the Heathrow Judgement, Climate Change Act 2008 and the recession. Nor do I consider that recent airport related planning decisions serve to remove the specific support for development at LAA, subject to the environmental tests being met.
- 6.3 I do not agree that there are any material changes which affect the validity of the White Paper policy towards development at the smaller regional airports in the South East, including LAA. I consider that extension of the existing runway and the provision of modern terminal capacity would be consistent with the objective to secure best use of the capacity offered by LAA in terms of meeting local demand for air travel and, therefore, providing some relief to congestion at the main London airports.

### **Airport Profitability and the Basis of Assessment**

- 6.4 In terms of viability, LAA is part of a portfolio of businesses owned by FAL holdings. It is the combination of these assets which constitutes the relevant vehicle to consider the profitability of investment at LAA. In this respect, I consider that it is more appropriate to consider the potential for the attainment of overall profitability taking into account the other FAL businesses in aircraft engineering, general aviation and the Golf Club.

- 6.5 Furthermore, the LAA business is part of a multi-national, multi-sector conglomerate with a consolidated balance sheet. FAL Holdings see LAA as a long term investment, with the potential for appreciation in the asset value. Therefore, attaining an operational profit is not the only factor for FAL in determining future value.
- 6.6 I do not consider it relevant to consider the informal Master Plan intention regarding the possibility of developing the Airport to 2 mppa as relevant to consideration of the current applications.
- 6.7 LAAG has also presented a contradictory position in relation to the fallback or base case for assessment, with Louise Barton arguing it should be 300,000 passengers, representing maximum use of the existing infrastructure and Malcolm Spaven arguing that the impacts should be assessed against current conditions. I have set out what I consider to be the true fallback position in my main Proof of Evidence.

### **Market Performance**

- 6.8 In my main Proof of Evidence, I have set out a detailed assessment of the demand which LAA will attract and addressed the reasons why it has been unable to attract commercial air services to date. I do not agree with Louise Barton for LAAG that the reasons for LAA's inability to attract commercial air services to date are not related to the restricted length of its existing runway. I consider that a runway extension is essential to allow LAA to attract airlines to offer services to meet local demand.
- 6.9 I have set out the relative catchment areas of LAA and Manston and explained why the performance to date at Manston does not provide an indication of the extent to which LAA will be able to attract airlines to operate services. I reject the contention made by Louise Barton that superior infrastructure at Manston means that there is no need for the capacity which LAA can offer with appropriate facilities in place.

## Economic Issues

- 6.10 Brian Lloyd for CPRE contends that there is no support in economic policies for expansion at LAA. I disagree and have set out the support given in my main Proof of Evidence. The recent Local Enterprise Partnership bid clearly shows LAA as an airport expected to handle commercial traffic.
- 6.11 Louise Barton for LAAG asserts that the employment density used to assess the number of jobs which LAA will create is too high in the light of the impact of low fares airlines. In my main Proof of Evidence, I have presented revised employment estimates which fully take into account recent productivity improvements in the industry.
- 6.12 I also reject the view expressed by Louise Barton and other parties that there will be lost jobs in the tourism sector or a lost opportunity for jobs at Dungeness C as a consequence of the proposed development at LAA. There is no case for netting off any negative job implications from these proposals.
- 6.13 In terms of whether development of commercial air services from LAA will lead to a worsening of the tourism deficit, as asserted by Louise Barton for LAAG, this has to be examined in the light of the extent to which passengers which could use LAA would simply have used other airports if services from LAA are not available and the extent to which alternative uses of discretionary income would actually have been used to purchase imported goods. As I project only a small amount of stimulated outbound travel as a consequence of the proposed developments at LAA, any impact will be small, particularly once account is taken of alternative forms of discretionary expenditure leading to imports and the extent to which the outbound leisure industry is UK based, with profits being retained by UK companies, including airlines. Government airports policy does not distinguish between inbound and outbound travel, with the latter being seen as part of quality of life.
- 6.14 Nor are references to the sustainability of aviation related employment relevant to consideration of the application for development at LAA and its local impacts. The references used by Louise Barton for LAAG raise national level issues not relevant to consideration of whether the jobs which LAA can create would be valuable locally in the context of the need for regeneration.