

**Town & Country Planning Act 1990 - Section 77
Town & Country Planning (Inquiries Procedure)
(England) Rules 2000**

Lydd Airport Action Group (LAAG)

Rebuttal of LAA/4/A

Economic Impact

Applicant: London Ashford Airport Limited

Location: London Ashford Airport Limited, Lydd,
Romney Marsh, TN29 9QL

Applications: Y06/1647/SH and Y06/1648/SH

Proposals: 294m runway extension and a 150m starter
extension plus a new terminal to
accommodate up to 500,000ppa

Inspectorate APP/L2250/V/10/2131934
References: APP/L2250/V/10/2131936

Document
Reference: LAAG/8/D

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1.0 Scope of evidence

- 1.1 In this rebuttal I address issues presented in the socio economic proof of evidence submitted by Louise Congdon on behalf of London Ashford Airport (Lydd Airport).
- 1.2 My silence on a point made in this proof or the fact that I have not addressed it should not be taken as my agreement with that point.
- 1.3 I reserve the right to make further comments.
- 1.4 Figures in square brackets refer to paragraph numbers in LAA/4/A.

2.0: The Policy Context

- 2.1 LAAG has not covered the policy context other than conformity to the Aviation White Paper and will confine comments to this paper: We stand by the comments made in LAAG/9/A.
- 2.2 In [3.3] of LAA/4/A the author refers to the importance of travel highlighted in the White paper and in 3.4 states

”The White Paper goes on to say that:

“Our starting point is that we must make best use of existing airport capacity”;

but goes on to make clear that making best use did not preclude the development of additional terminal or even runway capacity. This provides the context in which to consider the specific proposals for London Ashford Airport (the Airport), which comprise an extension to the runway and the provision of a new terminal to enable better use to be made of the existing runway and other airport infrastructure.”

- 2.3 For a start the last sentence is illogical - the extension of the runway physically lengthens the runway and increases airport capacity so that it cannot be argued that it makes best use of the existing runway.
- 2.4 We dispute the claim that the White Paper *“goes on to make clear that making best use did not preclude the development of additional terminal or even runway capacity”* .

To put the above overarching statement - “*Our starting point is that we must make best use of existing airport capacity*” - into context, the White Paper says¹ the following:

“Our starting point is that we must make best use of existing airport capacity. We have concluded against proposals to build new airports at a number of locations. In every case we considered the consequences would be severe and better options are available.

We want to encourage growth at regional airports, and we have concluded that increased capacity is needed at a number of airports across the country, including some new runway capacity, more terminal and support services.”

The White Paper again addresses the importance of utilising existing infrastructure on page 24².

“The availability of sufficient airport capacity is an important constraint on future growth. Our starting point is that we should make the best use of existing airports before supporting the provision of additional capacity. A sustainable approach entails first making better use of existing infrastructure, wherever possible, and this has been a primary consideration in developing our conclusions.” The White Paper then goes on to describe in 2.12 that a number of airports are close to full capacity utilisation which is not the case at Lydd.

- 2.5 The provision of new terminal capacity, the lengthening of runways and the addition of new runways are all means by which capacity at an airport can be increased and therefore by definition must be subject to the dictate that the starting point must be - making the most of existing capacity. The conclusion reached by the White Paper is that some airports are growing rapidly and /or close to full capacity utilisation and that additional capacity is needed which could take the form of new runway capacity as well as new terminals. It does not mean that airports such as Lydd operating at a fraction of their existing capacities have a mandate for expansion.

3.0: Economic Baseline Conditions³

- 3.1 The author has cited economic data without putting the information into context. There is no dispute that Shepway overall performs poorly relative to other districts in the South East. But economic performance must be seen in context, and accordingly the proposed development.

Table 1.0 below shows the unemployment rate of Shepway by ward.

¹ The Future of Air Transport, Foreword, page 7 (CD 5.24)

² Ibid, 2.11, page 24

³ LAA/4/A page 16

Table 1: Unemployment in Shepway Wards - December 2010

Shepway December 2010 Monthly Summary of Unemployment in Kent : Wards (Resident Based)			
		Unemployed December 2010	
		Number	%
Great Britain		1,368,310	3.5
South East		127,821	2.4
Kent County Council Area		25,020	2.8
Shepway District		2,462	4.0
29ULGC	Dymchurch and St Mary's Bay	107	3.1
29ULGD	Elham and Stelling Minnis	8	0.6
29ULGE	Folkestone Cheriton	144	2.9
29ULGF	Folkestone East	201	7.2
29ULGG	Folkestone Foord	217	6.4
29ULGH	Folkestone Harbour	273	8.7
29ULGJ	Folkestone Harvey Central	392	12.6
29ULGK	Folkestone Harvey West	113	4.8
29ULGL	Folkestone Morehall	86	3.2
29ULGM	Folkestone Park	157	4.1
29ULGN	Folkestone Sandgate	78	2.5
29ULGP	Hythe Central	85	2.7
29ULGQ	Hythe East	45	2.0
29ULGR	Hythe West	65	2.6
29ULGS	Lydd	161	4.3
29ULGT	Lympne and Stanford	18	1.4
29ULGU	New Romney Coast	27	1.3
29ULGW	New Romney Town	73	3.5
29ULGX	North Downs East	125	2.7
29ULGY	North Downs West	38	1.5
29ULGZ	Romney Marsh	37	2.4
29ULHA	Tolsford	12	1.0

Source: Kent County Council

These are the relevant factors:

(a) There is a wide disparity in unemployment between wards.

(b) The principal area of deprivation is Folkestone where the unemployment rate is as high as 12.6%. The shaded areas depict the wards of Folkestone proper as Cheriton and Sandgate are satellite towns. The three “better off” wards have unemployment rates of 4.8%, 4.1% and 3.2% and the four worst performing wards have unemployment rates of 12.6%, 8.7%, 7.2% and 6.4%. The overall rate is 6.8% ~ twice the national average.

(c) The economic scoring of Shepway would be substantially more favourable without Folkestone and this is the context in which the analysis of the airport’s development should be made.

3.2 The unemployment rate on Romney Marsh, where the alleged halo effect of the airport is mainly likely to be felt, is shown below. Romney Marsh is defined by its physical flood plain area - the area between the Royal Military Canal and the sea and in Kent⁴ comprises the wards of Dymchurch and St Mary’s Bay, West Hythe, Lydd, New Romney Coast, New Romney Town and Romney Marsh.

Unemployment varies in this area as well from a low of 1.3% to a high of 4.3% in Lydd. The overall rate is 3.1% - higher than the average for the South East but below the national average. The highest unemployment rates are correlated with areas where social housing has been introduced without regard to the areas’ capacity to provide jobs for the ensuing population influx.

**Table 2: Unemployment on Romney Marsh*
December 2010**

Ward	Number Unemployed	Unemployment Rate	Proportion Unemployed Under 24
Dymchurch & St Mary’s	107	3.1%	34%
Hythe West	65	2.6%	35%
Lydd	161	4.3%	28%
New Romney Coast	27	1.3%	22%
New Romney Town	73	3.5%	32%
Romney Marsh	37	2.4%	42%

Source: Kent County Council * Defined as the area inside the Royal Military Canal. Note, a small part of West Hythe is outside the Royal Military Canal

⁴ The bulk of Romney Marsh is in Kent, the balance in East Sussex.

**Table 3: Unemployment Rate
Romney Marsh vs Folkestone***

Romney Marsh	Folkestone
3.1%	6.8%

Source: Kent County Council

* Folkestone proper, Romney Marsh as defined in Table 2.0

3.3 Much of the employment argument for this development centres on jobs for Romney Marsh. This is a rural area. It has some of the most productive agricultural land in the UK, sandy beaches and at Dungeness some of Europe's most unique natural habitats. Its uniqueness is demonstrated by this small stretch of shingle being home to species that are unique worldwide. It is in the national interest to maintain Romney Marsh as a rural area, from a food production viewpoint, to provide a green/leisure "lung" to complement urban development both in the Shepway and Ashford districts and to act as a buffer zone for the protected habitats on the coast at Dungeness.

3.4 Young people are the highest component of the unemployed both nationally and on Romney Marsh. The difference between Romney Marsh and other areas is that when the economy recovers, Romney Marsh, as a rural economy with seasonal leisure interests will be unable to provide full time employment for the entire complement of its young people, despite the presence of the power station. The appreciation that a rural economy cannot furnish its young people is axiomatic in other developed countries and begs the question as to why an area in one of the most heavily populated regions in Europe should expect to provide jobs for its entire younger generation. In country areas of Australia and the United States it is assumed that only one/two people per family will be accommodated locally either on farms or in rural towns. The balance, appreciate that they need to find work elsewhere and they gear their expectations and education accordingly.

3.5 Against this background education and changing attitudes are the ingredients for overcoming pockets of deprivation on Romney Marsh. Children need to be educated to have the qualifications and the confidence to compete internationally so that they can establish successful careers outside Romney Marsh, and indeed, to secure a job on Romney Marsh.

3.6 Labour mobility is high throughout Europe. Jobs have already, and will continue to be, taken on Romney Marsh by highly motivated people from other parts of Europe and from and the UK. New sources of employment on Romney Marsh will not guarantee the eradication or even alleviation of unemployment "hot spots". Local people, and particularly young people, with

the tools to secure jobs outside the area will remain on Romney Marsh and secure any worthwhile positions available at the airport.

3.7 A more enlightened approach needs to be taken to education. Formal education must be improved and complemented by a mentoring framework to change attitudes particularly in the poorest families - based on the approach by City institutions working with inner city Academies. The latter is essential and Shepway is well placed to produce this framework (through say, citizen advice bureaus) as there is a high proportion of retired people in the coastal areas of Romney Marsh (see Table 5), many of them highly skilled having moved into the area or retired from the power station. It is not only their skills that are of value, but the vision that they can impart to young people - that it is possible to achieve a top ranking position in a chosen field - and the encouragement and knowledge to get them underway.

3.8 Although Romney Marsh is a rural area, people on the Marsh are better placed than many rural areas in the UK to secure work in the general vicinity. Romney Marsh has leisure interests/green tourism centred on the beaches and confines of Romney Marsh and a nuclear power complex. These industries will continue to be sources of employment, and in the latter case, a source of high quality non seasonal employment provided the airport's development does not scupper the development of Dungeness C. In addition, Romney Marsh/Shepway benefits from its proximity to Ashford, a major growth area and source of employment in its own right.

As the following table testifies, Ashford's unemployment rate has increased in common with the rest of the country but remains considerably below that of Shepway.

Table 4: Shepway versus Ashford - Unemployment Rate (Percentage)

	2003	2004	2005	2006	2007	2008	2009	2010
Ashford	1.5	1.5	1.2	1.3	1.5	1.4	1.9	2.8
Shepway	2.4	2.4	2.4	2.7	3.1	2.8	3.7	4.2

Source: Kent County Council

3.9 The resident Romney Marsh population has a high and growing proportion of retired people - a trend accentuated by inward migration. On Romney Marsh the over 65s represented 26% of the population in 2009, compared to 22% in 2001. This compares to proportions of 21% and 20% for 2009 and 2001 respectively for Shepway. This is a positive development for the district. Retired people have higher disposable incomes and are usually debt free and therefore have the resources to spend on local services, and in some cases, to employ people. It would appear that many of the people moving into the area are boosting their pensions by taking equity out of areas where house prices are

higher and downsizing and relocating to the coastal areas of Romney Marsh where house prices are lower. The influx of wealthier retired people is one of the principal reasons why the unemployment rate is only 1.3% in the New Romney Coast ward. This influence, which is likely to continue, is already leading to the improvement of the housing stock on Romney Marsh which has hitherto been run down in some locations.

3.10 Table 5 below shows changes in the proportion of ward populations over 65. The population estimates take into account net migration as registered by GP registration levels. As the table shows, Romney Marsh in total has experienced a greater aging of the population than Shepway overall, with New Romney Coast, experiencing a 7 percentage point increase in the proportion of over 65s in the period 2001 to 2009, compared to a 1 percentage point increase for Shepway and 4 percentage point increase for Romney Marsh.

Table 5: Changes in Proportions of Ward Populations Aged Over 65 (2001 versus 2009)

Ward	2001 Number Total	2001 Number Over 65	2001 Over 65 % of Total	2009 Number Total	2009 Number Over 65	2009 Over 65 % of Total
Dymchurch & St Mary's Bay	6,190	1,789	28.9%	6,140	2,040	33.2%
Lydd	5,771	1,088	18.9%	6,170	1,380	22.4%
New Romney Coast	3,450	866	25.1%	3,420	1,090	31.9%
New Romney Town	3,516	682	19.4%	3,550	780	22.0%
Romney Marsh Ward	2,257	305	13.5%	2,380	360	15.1%
West Hythe	4,317	876	20.3%	4,260	1,050	24.6%
Total Romney Marsh	25,501	5,606	22.0%	25,920	6,700	25.8%
Total Shepway	96,257	19,311	20.1%	100,300	21,300	21.2%

Source: Figures compiled from tables provided by Research & Intelligence, Kent County Council.
 Ultimate source: National Statistics. 2001 are census figures and 2009 mid year estimates.
 Note: New Romney Coast denotes Littlestone and part of Greatstone.

3.11 LAAG has outlined why the development of Lydd Airport will lead to the loss of Dungeness C. There is also a strong possibility that Dungeness B will be given a life extension of 5-10 years. Therefore it could remain in operation until 2028. (In December EDF/British Energy announced five year extensions to both Heysham 1 and Hartlepool). Four years after the decommissioning of Dungeness A, 356 FTE remain in work. There will be a tail of employment for many years, although this will fluctuate. The pattern of employment for the decommissioning of Dungeness B will be similar.

4.0: Operational Constraints (Page 25, LAA/4/A)

The author distils the operational constraints at Lydd Airport to runway length and terminal capacity. We broadly agree with her analysis in [4.12] and [4.13] of the aircraft types that can, and cannot, use the airport today and we accept that some investment would be required to enable a throughput of 300,000ppa from the existing terminal. We disagree with her conclusion that the reason for the airport's poor performance to date is due to the lack of modern infrastructure particularly the runway extension.

- 4.1 There has been a failure to explore other factors - particularly other operational constraints. It would appear the author has accepted the explanation given by the airport in Appendix B. LAAG has analysed the range of operational and competitive factors that have contributed to the airport's poor performance to date and which will detract from its performance in the future (See, LAAG/10/A, LAAG/7/A, LAAG/8/A).
- 4.2 In relation to the terminal, the author points out in [4.16] that assuming planning permission is granted, there would be an improved terminal in the first instance, followed by a new terminal over the medium to longer term.

Assuming approval is granted to extend the length of the runway, London Ashford Airport Ltd plans to reconfigure parts of the terminal building to allow The passenger load from a jet aircraft of up to 189 seats to be handled simultaneously with another smaller aircraft operation. Having examined these reconfiguration plans, I have concluded that they are consistent with allowing approximately 300,000 passengers per year to be handled based on our assessment of likely airline operating patterns as set out in the next section.

- 4.3 This strategy is testament to the speculative nature of this development. The airport plans to reconfigure the empty old terminal to cater for initial demand before building the new terminal. Commercially it is understandable why the airport intends to adopt this approach given its track record, but this is not the response of a company making investment decisions in response to the demand for its services. A successful Lydd Airport would be responding to a situation where the capacity utilisation of the existing terminal is increasing, and in the light of current trends, a new terminal is required. Instead, we have an operator desperately hoping to "jump start" a business.
- 4.4 In [4.18] the author canters through the history of the airport's unsuccessful attempts to establish business. She points out that while some of the earlier operational constraints have been addressed "*more recent attempts by the Airport to attract airlines to operate commercial passenger services have been hampered by the runway length which, as I have explained, is inadequate for*

services by charter and low fares airlines using medium sized jet aircraft and is also not suitable for some of the modern smaller jet aircraft which regional scheduled airlines are using to replace older jet and smaller turboprop aircraft. This is a misleading and inadequate explanation of reality.

- 4.5 The author has not explained why the airport has not been successful, despite heavy marketing and the investment to date, with airlines such as Flybe which operates aircraft types able to commercially use the existing runway. This savvy small airline is widely based across UK regional airports (See Appendix 1, Page 47) and if there was a deal to be done, they would be operating out of Lydd using their Bombardier Q400 fleet. In the marketing document *Closer to you, Closer to the Market* (CD 11.10 (LAAG) page 15, Flybe is listed as a possible carrier for four of the seven listed domestic destinations, while on page 17 the Q400 is described as a perfect fit for Lydd - *Blending jet-like speed, passenger comfort and fuel economy, Bombardier's DHC -8 Q400 aircraft is a perfect fit for Lydd.*
- 4.6 There are further examples of airlines that could fly from Lydd using its existing runway. Eastern Airways is also featured in the above marketing document (page 19) and has been approached one would assume, to operate services from Lydd. The document cites Eastern Airways fleet of smaller passenger aircraft including four 50 seat Saabs which can all operate on the existing runway. Oxford Airport (London Oxford Airport) has announced that a new weekly service will be provided from mid June to end September using Eastern Airways 50 seat Saab aircraft to Palma, Mallorca. Oxford Airport's runway is smaller than Lydd's being only 1319ms long and 30ms wide compared to Lydd's length and width of 1505ms and 32m. This is a new holiday service operated by a traditional business airline and a service that will be required to accept a payload restriction as it does not have the range to reach Palma with a full payload. Why hasn't the service been launched from Lydd?
- 4.7 Footnote 41, page 26: Restrictions on payloads do not necessarily mean that routes will not be flown - routes can still be successful, if for example, yields are high. The 118 seat Embraer 195 (E195) used by Flybe could fly shorter routes with a full payload⁵ from the current runway to locations such as Glasgow, Edinburgh, Belfast, Paris and Amsterdam. The 88 seat configured Embraer 175, which will become an important part of Flybe's future fleet (see later) should be able to operate successfully with a full payload on many routes from an airport with Lydd's existing runway size. Flybe announced last July that Guernsey-Gatwick would be the E175's first route. This is a short route and is normally associated with high yielding passengers. We are unsure whether Flybe will be accepting payload restrictions, but the aircraft is flying from an airport which has a shorter runway (1463m) than Lydd's current

⁵ Embraer official specifications give a take-off field length for all versions of the E195 flying a 500 nautical mile route, with a full passenger load, of 1460 metres, which is within the current Lydd runway.

runway length (1505m) which means there is more latitude at Lydd on its existing runway for longer flights.

4.A The Market for London Ashford Airport (Page 31)/Forecasting Methodology (page 36)

The catchment mapping [5.5] presented as evidence is simplistic and produces misleading conclusions. It focuses on Lydd, mentions co-existence with Manston and ignores Gatwick.

4.A1 Even in the most basic form of competitive market analysis, it is usual to overlay on the catchment map, the like catchment area for relevant local competitors - in the case of Lydd, the overlaying of one hour drive times for Gatwick and Manston

The author has chosen not to do this, preferring to assign [5.22] the districts with one hour drive times from Lydd to three groups; Inner (least competitive overlap), Outer East (likely to be drawn to Manston) and Outer West (likely to be drawn to Gatwick). There is no robust explanation of the basis of these groupings which appear to be arbitrarily selected and there has been no referencing of competitive drive times. Market share capture rates [5.24] are then applied to these three groups which purportedly reflect the strength of competitive presence per group.

4.A2 This process fails to acknowledge the impact that a 1 hour drive time market catchment area around Gatwick has on Kent. Gatwick Airport is located on Junction 9 of the M23 with direct links to the M25/M20/M2 network running into Kent which means Tunbridge Wells, Sittingbourne, & Maidstone are all within one hour drive times of Gatwick .

4.A3 The weakness of the LAA catchment analysis can be demonstrated by looking at two examples: The author defines Tunbridge Wells as an "Inner Market" which will provide a prime source of passengers for Lydd. A Google mapping analysis shows the drive time from Tunbridge Wells to Lydd is 1hr 11 minutes .The drive time from Tunbridge Wells to Gatwick is 45 minutes. The Tunbridge Wells market for Lydd passengers will be one which faces the greatest competition from Gatwick, not the least competitive, as the author's analysis shows.

LAA defines Maidstone as being in the prime catchment area for Manston. Analysis of drive times shows that Maidstone is 1 hour drive time away from Manston, 53 minutes away from Lydd , but only 50 minutes from Gatwick. Lydd will be in competition with two existing Airports which cover the Maidstone market with overlapping 1 hour drive time catchment areas.

4.A4 Market share gains will prove harder to achieve than forecast by the simplistic analysis which the author has presented. None of the analysis recognises the existence of local markets served by one hour drive times from all three airports. By selectively defining catchment areas without referencing competitive drive times the LAA exercise side-steps existing market conditions to create an artificial market place on which unrealistic market share goals are imposed. These market share capture rates are applied to a range of probable flight routes and form the basis of the forecast passenger numbers. This simplistic and flawed approach creates unrealistically optimistic results which cannot be relied upon.

4.A5 Even allowing for the overoptimistic market share assumptions, it will take 17 years (2028) to achieve the objective of 500,000ppa under the low growth scenario and 13 years (2024) to achieve the same throughput under the high growth scenario [Table 5.4]. This does not denote confidence in the outlook.

5.0 Airline Considerations (Page 42)

5.1 In this section the author claims that the runway extension is required to “kick start” the market since the first adopter airlines will be charter airlines using larger jet aircraft. Once the charter industry has proved the market, regular scheduled operations will then commence.

There is substantially less risk for an airline operating a low frequency charter service than embarking on regular scheduled operations. Hence, we do not envisage such regular scheduled operations being established in the first year or two at LAA, given the lack of a track record for commercial services at the Airport, other than the limited operations by Lydd Air [5.40].

The author assumes that a regular scheduled service would follow the market proving exercise by charter airlines and that the domestic services are likely to be operated by aircraft capable of using the existing runway, but that scheduled services are unlikely to develop unless the market has been proved by the first mover charter airlines.

Although such domestic/regional services are likely to be operated by aircraft which would be capable of using the existing runway length, I do not believe such services would operate without the charter services, using jet aircraft requiring a longer runway, having demonstrated the market potential from LAA is capable of being realised [5.41].

The author then goes on to state that a further consideration, re the extended runway requirement, is the upsizing of fleet sizes and the need to cater for this upsizing trend. She specifically highlights trends at Flybe.

5.2 We do not agree with the Author's assessment. For a start the author is not confident about the airport's prospects. In [5.36] the author states "*Overall, many of the destinations for which there may be sufficient demand for services from LAA are to traditional leisure destinations.*" The emphasis is on "may". As an experienced industry commentator she would have given a more confident assessment had she believed the outcome. "I believe despite the level of competition on routes to traditional destinations that Lydd etc, etc.....". Indeed the charter first mover option she advocates is testament to how speculative the development is perceived to be.

5.3 The author points out, that despite charter airlines such as Thomsonfly and Thomas Cook airlines facing competition from Ryanair and Easyjet on traditional leisure routes, they continue to provide services to these destinations and would be the most likely airlines to serve these routes from Lydd.

"Overall, many of the destinations for which there may be sufficient demand for services from LAA are to traditional leisure destinations. These destinations have historically been served by charter airlines, but more recently have also come to be served by the low fares airlines, such as Ryanair and easyJet. Charter carriers continue to provide services to these destinations, and based on the patterns of growth at other UK regional airports, I expect that these types of destinations are more likely to be served by charter airlines, such as Thomsonfly, Thomas Cook Airlines or foreign charter airlines, from LAA [5.36]."

5.4 The problem with this analysis is that it fails to acknowledge that the nature of charter travel has changed. Low cost operators have stimulated a change in the relationship between airlines providing charter and scheduled airlines, and as a result, the distinction between the two types of travel has blurred. Airlines such as Thomsonfly (now rebranded Thomson Airways) and Thomas Cook Airlines no longer only cater for their own package holidays but provide a scheduled service, taking passengers on their own package holidays, selling seat blocks to other tour operators and seats directly to individuals, while scheduled airlines such as Flybe sell seat blocks to tour operators. All airlines are providing a schedule.

5.5 Although a charter operator might start developing a route with its own traditional package holidays on a low frequency/few times a year basis, the airline would be looking to build up the pattern of schedule service seen elsewhere at other airports with seat sales made available to other tour operators and individuals. The charter operators would soon discover the operational constraints that characterise the airport.

5.6 In particular, when the wind direction favours runway 03 and the Lydd military range is active which is over 80% of the year, a flight from say Malaga" might not be able to land at Lydd. (The airport has made a commitment not to fly at

night.) This is because the aircraft would be unable to land on runway 03, and would be required to land on runway 21 with a tailwind, and if conditions are not right (eg high winds), the aircraft would be forced to divert (see LAAG/10A page 46-58). It is difficult to envisage any commercial airline tolerating these operational impediments. A charter airline might have more flexibility in that it does not require a fast turn around service in the manner of a low cost operator such as Ryanair, but it will be providing a regular service. Even if it only departs from an airport a few times a week, aircraft must arrive and depart at the specified times. The reputational and commercial risks are too high if diversions and delays occur.

- 5.7 Another crucial factor that limits charter operations are the fleet mixes of the charter airline operators. Thomsonfly has a fleet consisting of four B737-300s, thirteen B 737-800s, five A320s plus A321s, B757s and B767s. The B737-300s might be able to operate on the extended runway to some destinations, but 737-800 would not primarily due to the constraints mentioned above. Thomsonfly is phasing out the 737-300 and replacing them with the 737-800 which for all intensive purposes cannot operate at Lydd Airport with its extended runway. Similarly, Thomas Cook's fleet is exclusively A320, A321, A330, Boeing 757 and 767 - only the A320 would have any prospect of operating out of the extended Lydd runway with commercial charter payloads, but even this is doubtful as it is likely to face similar issues as the B737-800.
- 5.8 It is wrong to imply that the charter first mover option is the only option available to “kick start” Lydd Airport, and on this basis the lengthened runway is required.

There are alternative route development options that are available which could be serviced by the existing runway. For example, Flybe has positioned itself in the market below companies such as Ryanair and Easyjet with smaller aircraft types with lower breakeven points than the B737s and A320s utilised by these airlines. Its fleet consists entirely of the aircraft types that are mentioned above in [4.12] that can operate from Lydd Airport today.

- 5.9 In Flybe’s prospectus (Appendix 1 - Page 39) associated with its recent stock market listing, the company states the following about the competitive advantage resulting from its fleet configuration.

“By way of example, the Directors believe that the total average cost to the Group of operating a 78-seat Q400 on a one hour flight (the average flight time of Flybe’s route network is 58 minutes), is 42 per cent. less than it would cost the Group to operate a 150-seat (or more) Boeing 737 or a 149-seat (or more) Airbus 319/320 on the same flight, allowing Flybe to fly 74 per cent. more frequently on a route of this duration for approximately the same overall cost i.e. 8 one hour flights for the cost of 4.6 flights on a Boeing 737 or Airbus

319/320. The Directors expect that operating the 88-seat E-175 jet aircraft will offer similar advantages.”

This gives the airline the flexibility to introduce scheduled routes that would not be considered viable by companies such as Ryanair and Easyjet.

- 5.10 Last year Flybe introduced low frequency services at Manston Airport to Manchester and Edinburgh and these are mentioned by the author in [5.38]. Manston Airport, like Lydd, is substantially underutilised and loss making. Flybe is essentially testing the market with these two services. Both routes are serviced by the Q400 which can operate without any payload restrictions from Lydd Airport. The airline chose Manston rather than Lydd, not because of the length of the runway (it is longer than Lydd’s runway even after the proposed extension) but because Lydd was a less attractive option due to its location, the scale of restricted airspace in its vicinity and its non standard flight procedures.
- 5.11 It is interesting to note that Flybe would be in a better position to exploit Lydd Airport, than a charter operator or indeed any jet based operation. Its Q400 turboprops which are used on the routes to Edinburgh and Manchester from Manston have specifications that make them more able to cope than jet aircraft with the operational constraints at Lydd Airport.

The Q400 certificated tailwind limit is 20 knots, compared to 15 knots for A319/320 and generally 10 knots for 737-700/800, although this can be 15 knots in some circumstances. Therefore, the Q400 copes better with tailwinds. Further, it is also better at slowing down on the approach than a jet so more able to cope with steep approaches (the glide path of the ILS at Lydd is 3.5 degrees as opposed to the standard 3 degrees).

Fleet Replacement / Upscaling

- 5.12 The author states the following in [5.42].

“A further consideration is the fleet replacement plans of the airlines. Many of the smaller aircraft types of 50 seats or less are being phased out of the UK airline fleets and further upscaling to regional jets is likely, such as Flybe gradually introducing Embraer 195 aircraft. These airlines will want the confidence that they will be able to upsize to such larger aircraft over time in order to sustain the investment in opening up new routes from LAA.”

- 5.13 This is not borne out by the facts. Flybe is broadly maintaining the number of Embraer 195’s (118 seats) in its fleet but is replacing most of the current fleet of 78 seat turboprop Bombardier Q 400 with 88 seat Embraer 175 jets. Although there is some upscaling in the move from a 78 seat turboprop to 88 seat jet, the airline remains committed to the smaller end of the market.

5.14 Flybe’s current fleet consists of 14, 118-seat E195 -Series regional jets and 54 78-seat Bombardier Q400 turboprop aircraft. Both the Bombardier Q400 and the Embraer E195 can operate from Lydd’s current runway, albeit the latter with some payload restrictions on some routes.

The airline has options to purchase another 12 Embraer 195s, 12 Bombardier Q400s and 65, 88 seat Embraer 175 which will replace the existing Q400s over time. The following table shows Flybe’s current fleet relative to the mainstream low cost operators (reproduced from our main proof of evidence).

Table 6: Popular Airline Fleet Mixes

Airline	Aircraft Type	Jet/Turboprop	Number	Seat Numbers
Ryanair	Boeing 737-800s	Jet	232	189 seats
Easy Jet	A319	Jet	145	156 seats
	A320	Jet	24	180seats
	Boeing 737-700	Jet	8	149 seats
	Boeing 737-700 to be phased out by 2012			
Flybe	Bombardier (Dash 8) Q400	Turboprop	54	78 seats
	Embraer E195	Jet	14	118 seats
Source: Ryanair, fleet at March 31st, 2010, Form 20-F, year to March 2010, EasyJet September 2010, CAA Aircraft Register, Flybe, as at March 31 st 2010, Report & Accounts, year to March 2010.				

5.15 The following table has been compiled from the prospectus for Flybe’s recent stock market introduction. It shows the airline reducing its dependence on the 78 seat Q400 turbo prop and replacing it with the 88 seat Embraer E175 jet. The airline is still maintaining its position in the small end of the market, and remains committed to aircraft types able to operate from Lydd’s existing runway. The net result of the investment programme is that the airline will have a much reduced commitment to the Q400 turbo prop.

Table 7: Flybe - Aircraft Deliveries 2010/11 to 2020/21

Aircraft Type	Embraer 195	Embraer 175	Bombardier Q 400
No. of Seats	118 seats	88 seats	78 seats
No. Delivered	12	65	12

Source: Flybe Prospectus

Table 8: Flybe - Lease Expiry Date or Anticipated Retirement Date from Fleet - 2011/12 - 2022/23

Aircraft Type	Embraer 195	Embraer 175	Bombardier Q 400
No of Seats	118 seats	88 seats	78 seats
No Retired/L.Exp	14	-	54

Source: Flybe Prospectus

5.16 In conclusion, the operational constraints at the airport, which apply to the existing runway and would apply to the proposed extension, make it unattractive to both charter and scheduled airlines and I believe it is highly unlikely that the airport will generate the traffic projected. .

Pressure to change conditions/section 106 agreement

5.17 If planning permission is granted, and the airport continues to perform poorly, there will be pressure by the airport to change the conditions/section 106 agreement so that night flying can take place. This would improve the airport's prospects by enabling the airport to use both runway directions at night, although daytime schedules for over 80% of the year would still be subject to the restrictions on runway 03. However, even access to night time flying is subject to a great deal of uncertainty.

5.18 Any agreement by the MOD to allow flying between the hours of 23.00 and 8.30 would be subject to a caveat that the concession could be withdrawn at any time. The MOD has confirmed that the depiction of the airspace above the Lydd ranges in the AIP as being unavailable for 24 hours of the day when the official hours are given as 8.30 - 23.000, was a precaution introduced to ensure the army had maximum flexibility over the use of the range. During wars, range activity may need to continue through the night to cater for increased demand for training. A sudden surge in Afghanistan for example, could lead to greater usage of the range by night and the inability to land on 03 should the wind dictate.

6.0: Appendix B

Appendix B sets out the steps Lydd Airport has taken to try to attract airlines [4.18]. It is a brief account of the unsuccessful measures taken to secure business despite investment, which is attributed mainly to the suboptimal runway length. The letter and the accompanying power point presentation give a typical seemingly plausible explanation by a finance director wishing to promote his business, notable for the explanations it does not provide. It appears to be the briefing document used by the author and the sole basis on which the analysis in LAA/4/A is made.

The statement that the airport backed off a deal with an Express Parcel Operator in 2005 due to the planning application should be taken with a “pinch of salt” and considered in the context of the recent failures at Lydd (see LAAG/8/A, 6.2.3 and LAAG/7/A, 3.3.1).

7.0 The Future in the Absence of Development [4.21-4.24], No Development/ Fallback Case [5.47-5.5]

The author states the following in [4.22]:

“In particular, the Airport has indentified that, in the absence of being able to attract commercial passenger carrying operations, it would have no choice but to seek to maximise all operations which could use the existing runway on a 24 hour a day basis. This would include general and business aviation activities as constraints at the other airports serving London build up and target more freight and heavy maintenance activity. Such other activities as might be attracted may well include limited cargo operations at night, along the lines of those discussed with an operator in 2005 and additional maintenance related activities”.

7.1 The threat of night flying to the local community is implicit in this assessment as it was for the last planning application.

3.44 of the inspector’s 1989 report of the last public inquiry (Michael Griffin File No: SE2/5281/21/40 see Appendix 2) states the following.

In the alternative, if the present management or its successors in management were not to close the airport there would be considerable pressure to maximise its limited potential by any means. Now there are no restrictions on flying from Lydd Airport. The numbers of flights, the types of aircraft, their arrival and landing routes and the times of operation are controlled only by the physical and operational restrictions which apply. The alternative scenario has been drawn British Airports Services Ltd, (BASL), an experienced organisation. Their report is not lightweight evidence. The scenario they draw is one in

which the opportunity to fly by night , at weekends and summer evenings and to attract more training schools could be fully exploited, ie. all the forms of flying which are considered most objectionable by the residents of the area and most likely to impinge greatly on the SSSI. The alternative would therefore be contrary to the protective aims and the objectives of the development plan.

7.2 Over 20 years have past since this report was written. The airport was granted planning permission in 1992 but allowed the permission to lapse. Hence, by default the alternative to the development scenario - maximise the airport's potential by any means scenario referred to above - has occurred. So, Lydd Airport has had over 20 years to maximise its potential by any means - but none of these "other means" has occurred. Today there are around 22,000 movements at the airport and 99% are by light aircraft or helicopters with a Maximum Take-Off Weight of less than 5.7 tonnes. The activity occurs during the day and is dominated by the local flying club. There are no large flying schools, no large freight operations and no large maintenance operations, although there has been the odd night flight.

7.3 There is a belief that if planning permission is refused the airport can grow uncontrollably with an unlimited number of movements. This is not the case. (Table 5.7 of the author's work shows the movements associated with the various scenarios. For the fallback position the table shows projected movements of 38,451, compared to the current level of around ~ 22,000.)

Under the Habitats Regulations, if it were assessed that the number and nature of the movements were adversely affecting the protected habitats there would be a review of the existing consent. Restrictions could be placed on activity in the light of the findings of an Appropriate Assessment.

7.4: The presence of European Habitats will restrict the type of activities the airport and outside companies can conduct on the airport site, under existing conditions, and under the proposed development scenario. If a proposed development, such as a large maintenance facility, is suspected, alone or in combination with other developments, of damaging the protected habitats, then a company/Lydd Airport would incur the cost of preparing material for an Appropriate Assessment under the Habitats Regulations, and if this demonstrated adverse impacts, the development would be unable to proceed.

8.0: Aircraft movements

The author claims a lower number of movements for the 300,000ppa and 500,000ppa scenario than the ES ([5.51] and table 6.6) because of the shift to larger aircraft since the original ES was prepared. I assume from the discussions in Appendix C that the up scaling referred to is to a Boeing 737-800 and an Airbus 320. The analysis is flawed. First, Malcolm Spaven in his evidence (LAAG/10/A, page 50 and rebuttal (LAAG/10/E, page 22) has

demonstrated why it is unlikely that any 737-800 operator (180 seats) would choose to operate from Lydd, and questions Ms Congdon over whether she has made any assessment of the A320's ability to operate commercially from Lydd.

Secondly, the author has included the Q 400 (78 seat) in the fleet mix but has ignored the E175 (88 seats) and E195 jets (118 seats) which would be more likely to use the airport than a B737, if scheduled services proved viable, given the importance of Flybe to regional airports. Higher frequency services using smaller aircraft - the Flybe model - will produce considerably more movements than the author's scenario.

- 8.1 Assuming demand materialised, a more plausible scenario would be the Southampton Airport model (runway length between the existing and new proposed runway length). The table below shows the commercial passenger carrying movements at Southampton - 1.8m passengers in 2009 which is dominated by smaller aircraft. There were only 10 movements by Boeing 737s in the four month summer period shown. Flybe is Southampton's most important customer, representing 75% of movements in the period shown. The bulk of the movements made in the period below were by Flybe's 78 seat, Q400 - an aircraft comfortably able to operate from Lydd's current runway.

Aircraft Type	Total	Percentage
	Movements	Share
	(no)	(%)
ATR 42 & 72	456	2.8
BAE146	74	0.5
Boeing 737	10	0.1
British Aerospace Jetstream 31	1326	8.2
British Aerospace Jetstream 41	652	4.0
Bombardier Dash 8 Q 400 Series	10379	64.4
Embraer 195	1684	10.5
Fairchild Dornier Do.328	11	0.1
Fokker 70	0	0.0
Mk 111 Trislander	1288	8.0
Saab 2000	234	1.5
Total	16114	100.0
Source: BAA		

- 8.2 I have attempted to show how the author has calculated the 4900 annual movements (Table 5.6) for the low growth 500,000ppa scenario by assuming the 737 is a 737-800 and juggling load factors.

Aircraft	Number of Seats	Utilisation	Number Carried	LAA/4/A movements	Passengers per annum
Q 400	78	0.82	64	2,720	173,971
B 737-800	180	0.83	149	2,180	325,692
				4,900	499,663

By replacing the B737-800 with E195s and E175s the number of movements is increased. A back of the envelope calculation produces annual movements of 6740 (compared to the ES figure of 6570), and this figure could be higher as load factors could be lower.

Aircraft	Number of Seats	Utilisation	Number Carried	LAA/4/A Movements	Passengers per annum
Q 400	78	0.82	64	2720	173971
E175	88	0.83	73	2500	182600
E195	118	0.8	94	1520	143488
				6740	500059

9.0 Socio Economic Impact of the Proposed Development

LAAG has stated its case in LAAG/8/A [5.5], and I see no reason to change our case, that the airport will employ between 250 - 450 jobs per million passengers on the airport site. Indeed, we are pleased to read that York Aviation is heading “our way”. Based on York’s work, Lydd Airport started by projecting that the airport would produce 1100 jobs per million annual passenger throughput, the number was dropped to 600 per million and has again dropped to 500 per million throughput. Ms Congdon’s assessment of the employment situation to be achieved in 2030 due to productivity gains - 400 per million annual passenger - is in my view a more accurate assessment of the immediate direct employment prospects at the airport.

In [6.7] the author states (final two sentences):

It should be noted that there is no clear pattern of employment densities at smaller airports with densities ranging from 250 jobs per mppa at the City of Derry Airport to over 1,000 jobs per mppa at Humberside. We believe that 500

jobs per million passengers per annum is a reasonable initial estimate taking into account the expected traffic mix at LAA;

- 9.1 I believe the author is incorrect. There is a pattern that emerges - airports dependent solely on revenue from airlines and passengers and geared to low cost operators such as Ryanair, generate lower employment numbers per million, for example, Prestwick Airport - 250 jobs per million throughput.

Airports which also have ground tenants on their sites such as maintenance facilities (Cardiff and Exeter for example) or have specialist aviation activities such as Humberside Airport where there is a flourishing business servicing North Sea oil, have higher employment numbers per million passenger throughput - up to +1000 per million passenger throughput (see LAAG/8/A). There is also a correlation between the latter airports (ie with airports with other activities) and profitability (see Cranfield University for LAAG, Appendix 2, LAAG/8/A, page 2). By understanding these nuances a more accurate account can be made of Lydd Airport's employment prospects.

- 9.2 We have also demonstrated in LAAG/8/A (5.5.3) that it will be difficult for Lydd Airport to build up ancillary revenues from areas such as maintenance and business parks due to the strictures of the Habitat Regulations and for this reason, high intensity employers such, Exeter and Cardiff airports should not be used as templates for employment prospects at Lydd.

- 9.3 We disagree with the author's economic impact analysis assuming the airport can achieve its projected throughput. .

- 9.3.1 The base case should be the 300,000ppa scenario as this is the "do nothing scenario" claimed by the airport, although in reality this does not make a great deal of difference to the outcome due to the high existing employment at the airport relative to output. The Lydd Airport site currently supports 72 people and in 2009 carried ~ 600 passengers, and at 500,000ppa, according to Ms Congdon it will support, between 200 and 210 people - a 2.8X increase in employment for an 833X increase in output.

- 9.3.2 Even if we accept the author's assessment of direct employment gains on site - 130-140 jobs at 500,000ppa, (see Table 6.1) these gains are only small and will not be reached for almost two decades under the slow growth scenario and 13 years under the high growth scenario (Appendix D, Table D.1 and D.2).

- 9.3.3 No Consideration has been given to the adverse impact the airport will have on local employment

- 9.3.4 No consideration has been given to the possible loss of Dungeness C as a direct result of the airport's development.

- 9.3.5 Indirect and induced employment becomes irrelevant when the development of one business knocks out the development of another.
- 9.3.6 Only inbound tourism has been considered. No estimate has been made of the majority outbound tourism and its impact on the local economy and employment.
- 9.3.7 For UK Plc the assessment of domestic inbound passengers is irrelevant as it only represents the transfer of spending power between regions. There is no gain overall for UK Plc.
- 9.3.8 Failure to address the net employment situation means that all ensuing estimates are overstated.
- 9.3.9 The estimates of journey time savings are flawed. There are viable alternative transport alternatives in Kent closer than Gatwick such as the channel tunnel while the Gatwick versus Lydd journey savings assessment depends entirely on the starting point of the journey. Cheap fares and low car park charges might encourage travellers to travel further to Lydd.

Visitor Deficit

- 9.4 The graph taken from the National Statistics website clearly demonstrates the tourist deficit. In November 2008 over twice as many British citizens went abroad than overseas visitors to the UK, although this gap has narrowed with the recession.

Table 10: Overseas Visits to the UK and UK Visits Abroad



Source: National Statistics

9.5 The table below breaks down the deficit by regions. The only balance occurs in traffic to the US which will not be a Lydd Airport destination since the airport cannot support long haul aircraft types (before and after the runway extension). Twice as many UK residents visit Europe and Other Regions, compared to the number of residents from these regions that visit the UK. The only relevant area for Lydd is Europe as Other Regions are represented by long haul routes which are not possible to serve from Lydd. It is interesting to note that the ratio of “Outs” to “Ins” for Europe before the onset of the recession was 2.4X in calendar 2006.

Table 11: Visitor Deficit by Region*
(Millions of Passengers in Year to November 2010)

Europe			North America			Other Regions		
Out	In	Out/In	Out	In	Out/In	Out	In	Out/In
(m)	(m)	(X)	(m)	(m)		(m)	(m)	
43.0	22.2	1.9X	3.4	3.3	1.0X	8.9	4.3	2.0X

Source: National Statistics

*Out = visits by UK residents to overseas destination, In = Visits to the UK by residents of overseas destinations. Ratio rounded to one decimal point.

- 9.6 From the estimates of international inbound travel, gross expenditure in the catchment area and the level of expenditure required to support a job in the tourism industry, estimated by the author in [6.25] for the lower growth scenario based on a throughput of 500,000ppa, it is possible to make the following estimates. Based on the 2 to 1 ratio for travel to Europe, if Lydd Airport handles 37,000 international inbound passengers, there will be 74,000 UK residents who will travel to Europe for their holidays.
- 9.7 The author’s estimate of £11.7m expenditure arising from inbound international passengers and domestic inbound passengers denotes an average expenditure per passenger of £156. If we use this as a proxy for the lost expenditure to the UK economy caused by residents holidaying overseas rather than domestically this implies total gross expenditure of £11.5m lost to the UK economy. Based on the estimate that expenditure of £42,800 [6.23] is required to support a job in the UK tourist industry, this means a gross loss of 269 jobs.
- 9.8 At the net level, i.e. after taking into account the offsetting impact of the 37,000 international inbound passengers, there is a net loss to the UK economy of 135 jobs.
- 9.9 In [6.27] the author strips out the estimated proportion of passengers that would have visited the area even if services did not operate to Lydd. She comes

to the conclusion for the scenario considered here - the lower growth scenario at a throughput of 500,000ppa - that Lydd Airport will handle around 6000 additional inbound international passengers. Using the outbound/inbound metric of 2.0X above, 6000 inbound passengers implies that 12000 UK residents will be travelling abroad. Were these residents to stay at home they would spend around £2m and based on the estimated £42,800 expenditure required to create a job, create 47 jobs. After taking into account the impact of the 6000 inbound international travellers, the net loss to the UK is ~ 23jobs.

- 9.10 The employment deficit is likely to be higher. The ratio of outgoing to inbound traffic for Lydd is likely to be higher than the industry average for Europe. If Lydd Airport attracts traffic it will be dominated by outbound travel as the catchment area is too far removed from the main tourist and business centres. Further, the expenditure proxy per incoming passenger is based on domestic inbound passengers as well as international inbound passengers and the former do not stay as long as the latter.

Domestic Inbound Passengers

- 9.11 These passengers are irrelevant to the current analysis as the spending leads to wealth transfers between regions, rather than value added to the UK economy. The argument forwarded by the author and Shepway District Council is that the airport is needed to create jobs given the poor economic performance of Shepway as a whole and the specific areas of deprivation within the area. These unemployment “hot spots” mean that the government is incurring the cost of unemployment benefits.

Let us assume an extreme situation for illustrative purposes - the operation of an aggressive low cost operator at Lydd, which attracts annually a large number of visitors from an area of Wales with similar socio economic characteristics to Shepway/Coastal Kent. We also assume (unrealistically) that few local residents are keen to holiday in Wales or any other destination so that their holiday spending remains in Shepway/Kent. Under these circumstances there would be a net inflow of passengers and expenditure to Shepway from Wales, which would help to reduce unemployment in Shepway. But the consistent drain of holidaymaker from Wales to the South would lead to increased expenditure on unemployment in Wales so that the profit and loss for the UK economy would be unchanged.

Profitability and Implications

- 9.12 As pointed out in LAAG/8/A there is strong evidence to show that airports such as Lydd that will find it difficult to establish revenue sources outside revenues derived from the movement of airlines and passengers (landing fees, parking charges, retail/retail concessions) will need a higher passenger

throughput than 500,000ppa to reach profitability. The airport's ability to become a freight hub is also limited due to competition from the channel tunnel in the short haul market and the airport's inability to cater for long haul traffic even after the proposed runway extension. This means it will remain unprofitable for the next two decades which has implications for employment and Sheikh Fahad al Athel's appetite for sustained losses.

9.13 The second phase of development will be required to make the airport profitable.

10.0: Other

The tables D.1 and D.2 produced by Ms Congdon in Appendix D represent the first time an attempt has been made to illustrate a possible route structure from Lydd Airport. Lydd Airport began marketing the new development in 2004 (Appendix E, LAAG/11/B), the final scoping opinion for the public inquiry was published in December 2005 and the original planning application was published in December 2006. There were four subsequent sets of supplementary information. Not once was a comprehensive analysis given of possible routes from this airport.

11.0: Conclusion

- 11.1 The economic base line is not assessed in context
- 11.2 The airport's fundamentals have not been analysed - particularly the full extent of the operational constraints under which the airport operates.
- 11.3 The explanation given for the poor performance of the airport and the need for the airport is uninformed.
- 11.4 The methodology for forecasting passenger demand for Lydd Airport is based on a flawed analysis of the competitive position within Lydd Airport's catchment area which means the passenger projections are too optimistic.
- 11.5 Even based on the author's optimistic assumptions there is a long lead time to achieving the 500,000ppa objective. This does not suggest confidence in the outlook for the airport
- 11.6 The analysis of the type of aircraft that will use the airport is flawed as is the argument that the number of commercial aircraft movements will be lower than that portrayed in the Environmental Statement.

- 11.7 The fallback case does not necessarily mean lower quality of life for local residents. The “horror” fallback scenario painted at the time of the last planning application has not materialised.
- 11.8 The “rule of thumb” for direct employment of 500 jobs generated per million annual passenger throughput, is still too high.
- 11.9 Even if the author’s assumptions are accepted, the gain of 130 -140 direct jobs on -site is small and will not be reached for almost two decades under the slow growth scenario and 13 years under the high growth scenario.
- 11.10 The author has focussed only on the gross employment generated by the airport.
- 11.11 There has been a failure to recognise the reduction in employment caused by the adverse impact the airport’s development would have on the employment prospects of some existing businesses on Romney Marsh
- 11.12 There has been a failure to account for the export of additional leisure jobs to overseas destinations as Lydd Airport will stimulate more outbound passengers than inbound passengers.
- 11.13 The loss of spending power resulting from the number of outbound passengers exceeding inbound passengers, would lead to a loss of 23 jobs locally.
- 11.14 For UK Plc the assessment of domestic inbound passengers is irrelevant as it only represents the transfer of spending power between regions. There is no gain overall for UK Plc.
- 11.15 The estimates of journey time savings are flawed.
- 11.16 The airport will remain unprofitable at a throughput of 500,000ppa - the second phase of development is required for the airport to become profitable.

APPENDIX 1 (note pages given in order of referral in text)

This document, which comprises a prospectus relating to Flybe Group plc (the "Company") prepared in accordance with the Prospectus Rules of the Financial Services Authority (the "FSA") made under section 73A of the Financial Services and Markets Act 2000 (the "FSMA"), has been approved by the FSA in accordance with section 87A of FSMA and filed with the FSA and made available to the public in accordance with the Prospectus Rules.

Application has been made to: (i) the FSA, and (ii) the London Stock Exchange, for the entire issued and to be issued ordinary share capital of the Company to be admitted to listing on the premium listing segment of the Official List, and to be admitted to trading on the London Stock Exchange's main market for listed securities respectively (together, "Admission"). Conditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange on 10 December 2010. It is expected that Admission will become effective, and that unconditional dealings in the Ordinary Shares on the London Stock Exchange will commence, at 8.00 a.m. (London time) on 15 December 2010. All dealings before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.

The Company and the Directors (whose names appear on page 22 of this document) accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

Prospective investors should read the entirety of this document and, in particular, the section of this document entitled "Risk Factors" on pages 9 to 19 (inclusive) for a discussion of certain risks and other factors that should be considered in connection with an investment in the Ordinary Shares.

FLYBE GROUP PLC

(Incorporated and registered in England and Wales with registered number 1373432)

Global Offer of 20,338,983 Ordinary Shares

at an Offer Price of 295 pence per Ordinary Share

**Admission of the Ordinary Shares to listing on the Official List
and to trading on the main market of the London Stock Exchange**

Sponsor, Global Co-ordinator and Bookrunner

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Execution Noble

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NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Airport bases

The Group's modern regional aircraft are primarily based at 14 domestic airports, as set out below:

	Aircraft in November 2010		
	E175	Q400	Total
Airport base			
Primary bases:			
Birmingham	3	7	10
Belfast City	2	7	9
Southampton	3	5	8
Manchester	1	7	8
Edinburgh	1	5	6
Glasgow	-	4	4
Isle of Man	-	4	4
Exeter	1	2	3
Exeter	-	2	2
Guernsey	1	1	2
Inverness	1	1	2
Jersey	-	2	2
London Gatwick	-	2	2
Newcastle	-	2	2
Aberdeen	1	-	1
Secondary bases:			
Düsseldorf (no crew)	-	1	1
Leeds Bradford (no crew)	-	1	1
Newquay (no crew)	-	1	1
Maintenance/standby	-	2	2
	14	54	68⁽⁸⁾

Source: Unaudited management information.

(8) "Total Aircraft" includes two Q400 aircraft sub-leased by Flybe from SAS. The SAS aircraft are scheduled to return to SAS in March 2011.

Flybe operated the largest number of UK domestic flights from London Gatwick in the 2010/11 First Half Year⁽⁹⁾ and was the largest airline by number of flights operating from Belfast City, Birmingham, Exeter, Inverness, Isle of Man, Jersey, Manchester, Norwich and Southampton during this period.

Fleet

Flybe's fleet has been strategically selected for the suitability of its performance characteristics to serve its business model and network profile in terms of low fuel consumption and noise emissions, and reducing the Group's environmental impact.

Flybe has also aimed to simplify its operations and increase scheduling flexibility by moving to a two aircraft type fleet. Over the last few years, the Group has moved its entire fleet of aircraft to Embraer E-Series regional jets and Bombardier Q400 turboprop aircraft. Flybe's current fleet consists of 14 119-seat E-Series regional jets and 54 78-seat Q400 turboprop aircraft. The average age of the fleet at 30 September 2010 was 3.8 years.

In July 2010, Flybe announced an agreement to purchase up to 140 Embraer E-series jets. This order includes 35 firm orders for the 88-seat Embraer E175. The addition of these aircraft to Flybe's fleet will enable the Company to retain its core principle of maintaining a two aircraft strategy as the E175 is common-rated with the E195 having similar operational and maintenance characteristics.

(9) By passenger carried (Source: CAA).

flight is 58 minutes and 82 per cent. of Flybe's routes cross open water⁽⁵⁰⁾, which in the majority of cases eliminates the possibility of customers being able to find a faster road, rail or sea alternative.

A modern fuel efficient fleet of 68 regional aircraft chosen specifically to suit Flybe's business model

Flybe's fleet consists exclusively of Embraer E-Series and Bombardier Q400 aircraft. These aircraft were selected after extensive review and analysis of available options for the suitability of their performance characteristics to serve the Group's route network and on the basis that they offer significant cost and performance advantages to larger short-haul aircraft such as the Boeing 737 or Airbus 319/320, which are typically used by European LCCs. By way of example, the Directors believe that the total average cost to the Group of operating a 78-seat Q400 on a one hour flight (the average flight time of Flybe's route network is 58 minutes), is 42 per cent. less than it would cost the Group to operate a 150-seat (or more) Boeing 737 or a 149-seat (or more) Airbus 319/320 on the same flight, allowing Flybe to fly 74 per cent. more frequently on a route of this duration for approximately the same overall cost i.e. 8 one hour flights for the cost of 4.6 flights on a Boeing 737 or Airbus 319/320. The Directors expect that operating the 88-seat E-175 jet aircraft will offer similar advantages.

This cost efficiency allows Flybe to provide a high frequency flight schedule, which is attractive to its target customers. In addition, in periods of lower demand, this high frequency model enables Flybe to reduce its number of daily departures on a particular route (thereby reducing its variable cost exposure) while still maintaining a presence on that particular route. In contrast, a competitor airline operating larger aircraft at lower frequency and experiencing lower demand may face the choice of either operating a particular route at a loss or ending service on that route altogether.

An aircraft order profile which provides flexible fleet growth options

Firm orders

Flybe will be taking delivery of 35 88-seat E-Series regional jets between June 2011 and October 2016. The Group has negotiated attractive debt financing arrangements for all 35 of these orders at a loan to value ratio of 85 per cent. The Group will also take delivery of four 78-seat Q400 turboprops between March and June 2011.

Based on these delivery dates, and assumed sale/return dates of Flybe's existing owned and operating leased aircraft, these aircraft will increase Flybe's seat capacity from 5,864 to 7,262, a 24 per cent. increase over the six year period to 31 October 2016.

Options

In the period to December 2020, Flybe has options to acquire 77 further E-Series regional jets and 12 Q400 turboprops. These options are exercisable at Flybe's discretion on specific dates and, if so exercised, oblige the manufacturer to deliver the aircraft at a specified time. If exercised, they would increase seat capacity by a further 63 per cent. beyond that currently available in the fleet, including aircraft on firm order, over the 6 year period to 31 October 2016.

Purchase Rights

Flybe has purchase rights for a further 40 E-Series regional jets. These are exercisable at Flybe's discretion at any time up to November 2017 but, if so exercised, each purchase right is subject to the existence of sufficient manufacturing capacity at Embraer to satisfy Flybe's requested delivery schedule. If all 40 purchase rights are exercised and delivered before 31 October 2016, the purchase rights would increase seat capacity by a further 60 per cent. over the current fleet, including those aircraft under options and aircraft on firm order, over the 6 year period to 31 October 2016.

Operating lease extensions

Further seat capacity growth could be achieved by the extension of existing operating leases beyond their primary term. At present, Flybe's operating leases run for periods of between 8 to 12 years. Having considered maintenance costs, operational and environmental factors, the Directors believe that the maximum age of any single aircraft in the fleet should not exceed 15 years. If leases on the aircraft were extended for a secondary term up to a maximum of 15 years, further growth of up to 33 per cent. in seat capacity above that currently available in the fleet (including aircraft on firm order) would be achievable, over the 6 year period to October 2016.

⁽⁵⁰⁾ Includes routes flown by Loganair under the Flybe brand.

APPENDIX 2

SHERWAY DISTRICT COUNCIL

AN APPLICATION

by

THE LYDD AIRPORT GROUP LTD.

Inspector: Michael Griffin BSc(Eng) CEng MICE DipTE

Date of the Inquiry: 27 September - 11 October 1988

File No: SE2/3281/21/40

3.42 There is strong national, regional, strategic and local policy support for the continuation of flying activities at Lydd. And, indeed, strong support for the expansion of both commercial and recreational flying activities even to the extent that supporting development would also be permitted ... 'where this would provide support for its (Lydd's) main use as an airport' ... provided that expansion is 'appropriate'. On policy grounds there can be no objection to the proposed development whereas if planning permission were refused, the possible consequences in the loss of employment would be contrary to the aims and objectives of the Development Plan.

The Policy implications of a Refusal of Planning Permission

3.43 If the application is refused and an economic return on the recent investment in the airport denied, it is possible that the present management would be forced to close the airport as unviable. Such a forced action would be contrary to the strategic and local aims for the airport and even contrary to the aims of the Lydd Airport Action Group (LAAG). (see below). In the wider sense it would be contrary to all the policies for the airport and others which support its continued existence by virtue of the contribution it makes to the local economy.

3.44 In the alternative, if the present management or its successors in management were not to close the airport there would be considerable pressure to maximise its limited potential by any means. Now, there are no restrictions on flying from Lydd Airport. The numbers of flights, the types of aircraft, their arrival and landing routes and the times of operation are controlled only by the physical and operational restrictions which apply. The alternative scenario has been drawn by British Airports Services Ltd., (BASL), an experienced organisation. Their report is not lightweight evidence. The scenario they draw is one in which the opportunity to fly by night, at weekends and summer evenings and to attract more training schools could be fully exploited, ie. all the forms of flying which are considered most objectionable by the residents of the area and most likely to impinge greatly on the SSSI. The alternative would therefore be contrary to the protective aims and the objectives of the Development Plan.

SECTION 3 - THE SSSI AND OTHER NATURE CONSERVATION INTEREST CONSIDERATIONS

The Statutory Background and the Importance of Dungeness

3.45 The Dungeness SSSI and the other associated nature conservation sites are shown on LAG Doc.9 Fig.1. Apart from the SSSI designation a number of international conventions have been made in order to protect areas of conservation value. Of these the following would seem to apply to Dungeness: -

- i The Ramsar Convention on Wetlands of International Importance.
- ii The Bern Convention on the Conservation of European Wildlife and Natural Habitats
- iii EC Directive (79/409/EEC) on the Conservation of Wild Birds.

3.46 DoE 27/87, 'Nature Conservation', is the Government's response to the above and sets out the responsibilities and obligations which it assumes and which now underlie the legislative framework for conservation. DoE 27/87 makes clear that a balance has to be struck. ... 'The Government wishes to ensure that its commitment to the achievement of economic growth without detriment to wildlife and natural beauty is fully reflected in local decision making' ... Dungeness appears to satisfy the criteria necessary to list the site under the Ramsar Convention as indicated by the DoE in written parliamentary answers, (HC Vol.3 Doc.3 App.1). With respect to the Bern