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Sent by email to: jagoda.egeland@airports.gsi.gov.uk

Dear Ms Egeland,

Airport's Commission Discussion Paper 02 - Aviation Connectivity and the Economy

Please find enclosed a copy of the SEGRO submission to the Airport's Commission Discussion Paper 02 on Aviation Connectivity and the Economy.

SEGRO's response has been developed having sought the input from a number of our customers that are located in West London and the Thames Valley.

If you need any further information please do not hesitate to get in touch.

Yours sincerely,



Andrew Gulliford
Chief Operating Officer

**SEGRO response to the Airports Commission
Discussion Paper 02 (dated March 2013)
Aviation Connectivity and the Economy
1st May 2013**

1. Introduction

The purpose of this paper is to provide SEGRO's response to the Airports Commission Discussion Paper 02 (dated March 2013) on aviation connectivity and the economy.

This paper is structured as follows:

- About SEGRO
- Methodology
- Our response to relevant questions raised in Discussion Paper 02
- Conclusion
- Appendix

2. About SEGRO

SEGRO is a leading owner, asset manager and developer of modern warehousing, light industrial and data centre properties, with £4.7 billion of assets (including our share of joint venture assets) principally concentrated in London's Western Corridor (including the Thames Valley) and in key conurbations in France, Germany and Poland, as well as suburban office buildings in the Thames Valley, Brussels and Milan. The Group serves over 1,300 customers spread across a diverse range of industry sectors.

In the UK, we have a leading market position around South East airports, including Heathrow, Gatwick and Stansted. Our Heathrow portfolio is the largest and consists of over 6 million sq. ft. of space and 230 customers. In close proximity to Heathrow, SEGRO also owns a 4 million sq. ft. portfolio at Park Royal, which mainly serves the food and drink, media and urban logistics sectors. Within the Thames Valley, Slough Trading Estate (Europe's largest business park in single ownership) represent SEGRO's main holding.

These major portfolio clusters are all located within 10 miles of Heathrow Airport and are home to over 800 customers, employing an estimated 30,000 people. Our customers include many leading international businesses such as, 02 Telefonica, Mars, Blackberry, UPS, DHL, FedEx, DB Schenker, UCB, Rolls-Royce, TNT, Toll Global Forwarding, Menzies Aviation, Air France, WFS, Fiat, JAL, British Airways, Ferrari, LG Electronics, Ipsen, Lonza and Dnata. These customers and many more are using Heathrow Airport to move people, products and goods all over the world. Having close proximity to a globally competitive airport with high levels of connectivity and the ability to grow, is vital to their ability to compete in an international market place.

For further information on SEGRO, please [click here](#) or go to www.segro.com

3. Methodology - Engaging with our Customers

In order to respond to the Airports Commission Discussion Paper 02, SEGRO has engaged and consulted with a number of customers to help gather evidence on the importance of air connectivity and the economy, including the challenges that UK businesses face as a result of continued aviation capacity constraints.

The customers that we have consulted represent a diverse range of industries and sectors including bio-pharmaceutical, freight forwarding and ground handling, airline, advanced engineering and express transit shed and parcel operators. We have also engaged with a number of trade bodies.

This document represents SEGRO's view and response to the Discussion Paper.

4. Responses to questions in Chapter Three

We have chosen to respond to the questions in Chapter 3 of the Discussion Paper that are most relevant to SEGRO and our customer base. These are questions 3.29 and 3.33 and each response below represents the views of SEGRO.

Question 3.29 – The Commission would be interested in evidence as to whether capacity constraints at Heathrow are affecting the operation of the trade in goods as well as the air freight markets serving other emerging economies and major trade partners.

- Freight is vital to the economy because it enables the UK's high technology and fast growing knowledge sectors to do business by importing and exporting goods quickly and efficiently. Our customers that are in pharmaceuticals, advanced engineering and assembly and consumer products need fast and direct access to markets, especially emerging markets if they are to continue to grow their businesses both from a UK and international perspective.
- These knowledge based sectors have been identified by Government as being key drivers of growth and competitiveness but are increasingly challenged due to the lack of hub capacity in the UK. This is having a very real impact on our customers' ability to grow their business in the UK and will have an even more profound impact on businesses if capacity constraints continue. Our customers will miss out on new business opportunities in emerging economies due to poor direct links with those countries.
- During our engagement with customers, Louis Kunzig, Managing Director, Sciaky, a high end manufacturing business stated, *"The lack of direct flights to emerging markets makes vital travel to places like China much more time consuming and difficult especially as there are many business centres in the country, not just Shanghai and Beijing"*. He added, *"Winning Chinese business depends on strong personal relations with customers and this involves numerous trips. The lack of direct flights makes this a much more time consuming process that puts British businesses at a disadvantage"*.
- At one of our customer roundtable events, there was a general consensus amongst customers that the UK is already losing out to European competitor airports such as Schiphol, Frankfurt and Charles de Gaulle. These hubs offer far more destinations to key emerging markets. For example, Paris and Frankfurt already have over 1,000 more annual flights to the three largest cities in China than any UK airport.
- There was also growing concern expressed from freight handling customers that goods that would normally have been flown to the UK (via Heathrow) are now flown to European competitor hubs and trucked into the UK. Our customers noted a number of adverse impacts on the UK as a result of this practice, namely:
 - It creates considerable business inefficiencies for cargo customers as it reduces a company's ability to do business quickly and efficiently as goods take longer to reach their final point of destination.

- UK Government misses out on valuable tax income as the VAT on these goods is paid in the country where the goods land and not at the final destination.
- If levels of cargo and freight continue to rise at European competitor airports, then so does the demand for new warehousing and associated services. The UK could find itself losing investment by existing UK-based cargo operators and handlers as demand at Heathrow contracts.
- Our customers were all in agreement on the need for a competitive hub airport in the UK. As a hub, Heathrow carries more freight than all other UK airports put together – a total of 1.5 million tonnes. At Heathrow almost all freight is carried in the belly hold of planes and, as the Discussion Paper recognises in point 3.31, if aviation connectivity for passengers declines or stagnates, this will have an intrinsic effect on the movement of high value freight both in and out of the UK effecting the competitiveness of the economy.
- One of the fundamental issues that Government aviation policy needs to address is that the world's economic centre of gravity is shifting and the UK needs to be connected to growth markets. Gary Kendall, Managing Director, Courier Services, said, *“there are emerging threats from European and Middle Eastern hubs and if the UK does not act to address hub capacity now then it will continue to fall behind our global competitors and UK businesses will lose vital growth opportunities.”*

Question - 3.33 The Commission seeks case studies providing examples on where the availability of aviation links has directly influenced firms' supply chains.

Our customers presented a range of examples which evidence where aviation links have directly influenced supply chains.

- Gary Morgan, CEO of Dnata (a global cargo handling company which employs 1,800 people at Heathrow), stated, *“cargo handling companies are now mainly expanding at airports where new routes are opening across Europe to meet demand.”* He added, *“Growth is not in the UK and expansion is happening less in this country as a result of the lack of capacity.”*
- There is evidence of new investment taking place around available aviation links. For example at Heathrow SEGRO is currently developing a new 70,000 sq. ft. flagship headquarters facility for Toll Global Forwarding, which will support over 120 full time jobs. The new facility will enable Toll to consolidate and expand its Heathrow operations at a single site, from where it can provide enhanced supply chain solutions for its customers, thereby demonstrating the importance of aviation links. Toll Global Forwarding Regional MD (EMEA), Hakan Bicil, said at the time of the announcement that, *“This new base at North Feltham Trading Estate will provide us with better access to Heathrow Airport's airline cargo terminals, improve our operational efficiency and enhance our customer service levels. It will also deliver a striking flagship headquarters for our fast-growing UK operations.”*
- Toll confirmed that this investment would not happen at Heathrow if there was a decision to create a dual or split hub because of the inefficiencies it would create due to the need to move freight between hubs.
- Louis Kunzig, Managing Director, Sciaky, emphasised how the lack of direct flights to China was impacting on his ability to win new business. Sciaky is located on the Slough Trading

Estate highlighting that aviation links do not just impact negatively on the immediate airport supply chain.

5. Responses to questions in Chapter Five

In Chapter 5, we have responded to those questions most relevant to SEGRO and our customers, namely questions 5.4, 5.5 and 5.6. The responses represent the views of SEGRO.

Question 5.4 - Do you agree with the definition of connectivity presented in the paper? What other factors, if any, should we take into account and how do they impact connectivity?

- We broadly agree with the definition of connectivity as defined in the Discussion Paper. Based upon feedback from our customers, we cannot emphasise strongly enough the importance of a single hub in providing frequent and direct connectivity. Whilst we agree that indirect flights have a role to play (mainly in terms of lower costs), evidence from our customers is that for businesses direct and frequent flights are the key for maintaining and developing new business links.
- Customers, such as DHL, FedEx, TNT and UPS, structure their businesses around a hub and spoke model, as this provides the greatest operational efficiency and facilitates high levels of customer service. Goods and cargo are transported into Heathrow from all over the country and in exactly the same way transfer passengers support the viability of airlines to access new routes, so does cargo. These goods can then be sent to destinations all over the world on the network provided by Heathrow's hub, which a point to point airport cannot offer.
- Our customers were very clear that creating two hub (or a split hub) airports would create huge inefficiency in the supply chain as cargo businesses would have to transport goods from one hub to the other. A single hub airport provides economies of scale which UK businesses require in order to maintain competitiveness.
- We would emphasise the comments made by Gary Morgan CEO of Dnata who said, *"A dual hub would irreparably damage the UK cargo sector because most business models are predicated on the economies of scale that only consolidating cargo into a single hub can facilitate."*
- An additional issue that needs to be taken into account when considering connectivity is flexibility around night flights. We have received feedback from our customers that these are important to the fundamental operations of freight transport businesses. The demand of customers for next day delivery often entails a combination of late collection on one day, and requiring early delivery the following morning, as the Sciaky case study (see Appendix) demonstrates. Flying over night is often the only way to achieve this service, and allows for the timely delivery of business-essential goods and documents to customers across the UK. Our customers provided evidence that night flight restrictions in Brussels have resulted in business dis-investing from Belgium to airports where night flights are acceptable.

Question 5.5 - To what extent do you agree with evidence that aviation connectivity supports the UK's economic growth through trade in goods?

- We agree with the evidence that connectivity enables and supports economic growth but we would again emphasise that the most economic value is generated from direct and frequent connectivity from a single hub. We welcome the acknowledgement at 3.28 that 'The importance of connectivity to UK trade in goods is reflected in the fact that Heathrow, the UK's best connected airport, is also by far the largest UK port in terms of exports by value to non-EU countries, and the statistic that 'on average each flight from Heathrow to BRIC countries is worth over £400,000 in goods exports and each flight to China is worth over £1 million.' This statistic illustrates how valuable to the UK economy good connections from Heathrow are.
- The key factor for the Commission to recognise is that these kinds of services need a single hub to operate most frequently and cost effectively. Additionally, direct trade in goods from UK airports can only grow if extra hub capacity is increased to ensure that demand from UK business exporting and importing goods from emerging markets is met.
- We would also urge the Commission to recognise that as Heathrow is a major driver of growth for the UK economy, any doubt surrounding its future as a single hub airport will have a very negative effect on the local, regional and national economy.
- Evidence of the attraction of Heathrow for investment can be provided by recent new development within the SEGRO portfolio. During the last 12 months, 2 major customers, DB Schenker and Rolls Royce, have opened new build facilities to service the needs of their clients and customers at the airport. DB Schenker, one of the world's leading providers of integrated logistics services, established a new 106,500 sq. ft. UK HQ office and warehouse facility situated adjacent to the main cargo terminal. This facility, developed by SEGRO, supports over 160 full time jobs and was opened by DB Schenker in October 2012.
- In December 2012, SEGRO completed the development of a new London Heathrow Service Centre for Rolls Royce. The £50m development is the largest global facility for this customer and provides round-the-clock specialist maintenance and support for aero engines for a range of airlines. The facility preserves a wide range of advanced engineering and high skilled jobs and apprenticeships.
- However, future investment on this scale is being put at risk by the continued uncertainty of Heathrow. Major international investors such as UCB locate in Slough due to its proximity to Heathrow and our concern is that material on-going uncertainty on whether the airport will expand or contract is likely to jeopardise any future investment decision. This company, and many more, can choose to invest anywhere in the world.

Question 5.6 – Questions relating to what the UK's objectives for the future of aviation should be:

- Based upon the feedback from our customer base, we consider that airport capacity constraints, particularly at the UK's only hub airport, are already having a major impact on the frequency and number of destinations that are served. Both of these measures, along with time and costs, are essential to good connectivity. They are also inherently interlinked: the entire business model for global freight business are predicated on being able to consolidate cargo from different markets at a single airport. This is the only way to ensure that goods can be transported quickly and efficiently.

- Expansion of our existing single hub is the most cost effective way of supporting knowledge and consumer led industries to invest, expand and export in the UK. Business is global and therefore it is important to maintain good trade and investment links with mature economies, whilst simultaneously building new links with fast and emerging economies. Our customers cannot access these markets effectively and competitively and safeguard their overseas markets without additional capacity.

6. Conclusion

Whilst we have sought views from our customer base and their representative trade bodies this paper represents SEGRO's response to the Airports Commission Discussion Paper on Connectivity and the Economy. In summary, we believe the key issues to be as follows:

- Aviation connectivity is vital to support and promote UK economic competitiveness. Trade in goods and associated freight, cargo and fast parcel delivery needs to be continually recognised and supported in order to deliver improved growth and competitiveness within the UK economy.
- Aviation connectivity has a significant influence on local, regional and national supply chains and is a key driver in attracting investment as well as supporting business exports.
- A single hub airport is critical in enabling UK businesses to operate efficiently, compete globally and access the emerging economies where new business growth is happening.
- The UK is losing out already. Our customers gave clear evidence and examples of why there is a need to grow capacity. A decision needs to be made quickly and our customers require a viable and deliverable hub solution that can deliver real capacity in the shortest time frame possible.

APPENDIX

Case studies from SEGRO customers

Sciaky - The role Heathrow plays in facilitating growth for export businesses

Views from Louis Kunzig, Managing Director

Sciaky has been operating from the Slough Trading Estate since 1934. It is a small high-end manufacturing business employing 20 people. Sciaky produce welding machines for the aerospace and defence industries and export these products from Heathrow to European markets as well as emerging markets in India, China and South America. Sciaky's major customers include Airbus, Boeing and Rolls Royce.

Sciaky's proximity to Heathrow is essential to its ability to export spare parts for its machines to customers on a next day basis. Whilst the product that is being exported might be relatively inexpensive, if it is needed to repair the Airbus production line, for example, the customer will pay hundreds more to ensure the part can be received as quickly as possible. This demand makes good connectivity a fundamental part of the business model.

This model is highly dependent on a strong single hub to ensure that products can get on flights to a broad range of routes which fly with the requisite frequency. Transporting vital parts to other airports would severely impact on Sciaky's ability to deliver products when customers need them, making a dual or split hub inherently unviable.

As an exporter, Sciaky's Managing Director, Louis Kunzig is clear that the lack of direct flights to emerging markets makes vital travel to places like China much more time consuming and difficult, especially as there are many business centres in the country, not just Shanghai and Beijing. He says that winning Chinese business is based on strong personal relations with customers which involve numerous trips. The lack of direct flights makes this process a much more time consuming process and puts British businesses at a disadvantage.

Dnata – The importance of a single hub for ground handling companies

Views from Gary Morgan, CEO

Dnata is one of the largest ground handling companies in the UK. They supply a full range of ground handling services to airlines at Heathrow. The company employs 1,800 people at the airport, the majority of whom live in the local area.

Like most ground handlers at Heathrow the Dnata business model is based on utilising a single hub. A large proportion of cargo that is flown out of Heathrow does not originate locally but comes from the UK regions or Europe. Using the road network Dnata transports cargo from 20 to 30 towns and cities each day, consolidating the cargo at Heathrow. The entire business model for ground handlers depends on the economies of scale offered by their airline clients being able to consolidate cargo into one hub and then the airlines appointed handling agent (like Dnata) making it ready for carriage and delivering to and from the aircraft side.

According to Gary Morgan, CEO of Dnata, Heathrow is “perfectly positioned” to offer the benefits of route connectivity to the UK regions because of its excellent connections to the road network.

Mr Morgan argues that the entire cargo industry in the UK would be irreparably damaged if other options, such as a dual or split hub, were considered because it would be impossible to generate the economies of scale needed to provide ground handling services at a cheap enough rate.

Dnata is an international business and Mr Morgan argues that cargo businesses are now mainly expanding at airports where new routes are opening across Europe to meet demand. This is happening less in the UK as a result of the lack of capacity.

Mr Morgan believes that Heathrow would have to close or severely downsize if another hub airport were given the go ahead and that this event would have a considerable impact on the local economy, putting thousands of workers out of a job. He also foresees significant issues for those wanting to relocate, with the homes of his employees potentially going into negative equity as a result of the airport closing. Should the employees and their families be able to relocate, it is not clear at this time whether the same salary structures would still exist, as they are largely weighted towards employees working in Heathrow, which would no longer be the case.