



AICES Response: Airports Commission Discussion Paper 02: Aviation Connectivity and the Economy

The Association of International Courier and Express Services (AICES) welcomes this opportunity to respond to the Airports Commission Discussion Paper 02: Aviation Connectivity and the Economy. AICES is the UK trade organisation for companies handling international express documents and package shipments. Our members provide door-to-door transport and deliveries of tracked next-day or time-definite shipments, including documents, parcels and merchandise goods. AICES members – including DHL, FedEx, TNT and UPS – directly employ around 38,000 people and indirectly support a total of almost 82,000 UK jobs and are responsible for over 95% of the international courier and express shipments moved through the UK every day.

In 2010, the express sector contributed £2.3 billion to UK GDP, and the sector facilitated £11 billion of UK exports a year. The express sector connects UK business to the international marketplace. Express services allow UK companies to implement best international business practice in terms of speed and efficiency, improve their customer service and compete effectively in the global economy. Our members enable UK businesses to achieve rapid, time-definite delivery of high value goods and documents to customers throughout the world. This speed and the ability to collect and deliver overnight would not be possible without air freight hubs and night flights. In a global marketplace, the ability to have such fast and reliable access is essential and it is vital that the Commission recognises the economic importance of express services and the need for connectivity particularly through night flights.

AICES has responded to the relevant questions from the discussion document below.

Questions Chapter 2

2.10 This raises a key question: to what extent can the UK's international aviation network adapt to changing connectivity needs?

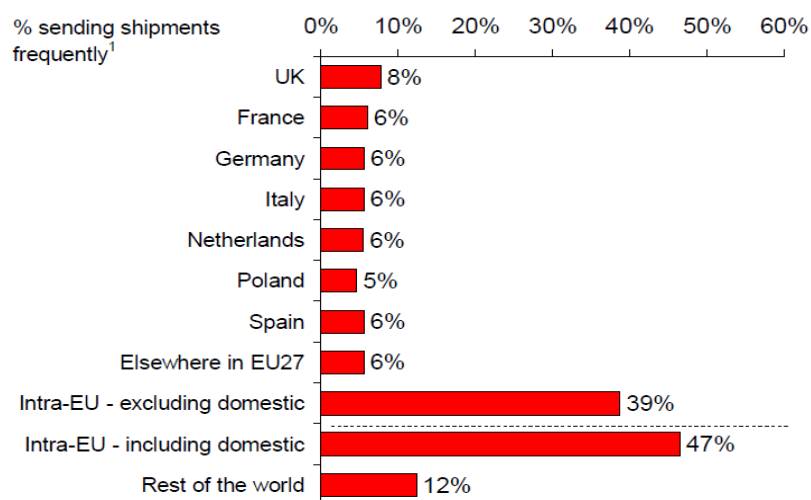
AICES believes the UK has to adapt to changing connectivity needs if we are to compete internationally. Maintaining an international network of connections is vital to UK business. An Oxford Economics (OE)¹ report in 2011 for the European Express Association (EEA) demonstrated the importance of global connectivity through express services for UK business. A copy of this 2011 report is attached to this response.

The 2011 OE report contains a survey of UK businesses by NSM research². Around 40% of respondents in the UK business survey frequently send shipments to other countries in the EU27, and 12% frequently send shipments to countries outside the EU27 (Chart 4).

¹ 'The Economic Impact of Express Carriers in Europe, Country Report: United Kingdom', 2011, Oxford Economics pages 4 and 5.

² Survey conducted in June 2011 by an independent research group, NSM Research.

Chart 4: UK express industry customers sending shipments frequently to various destinations in 2010

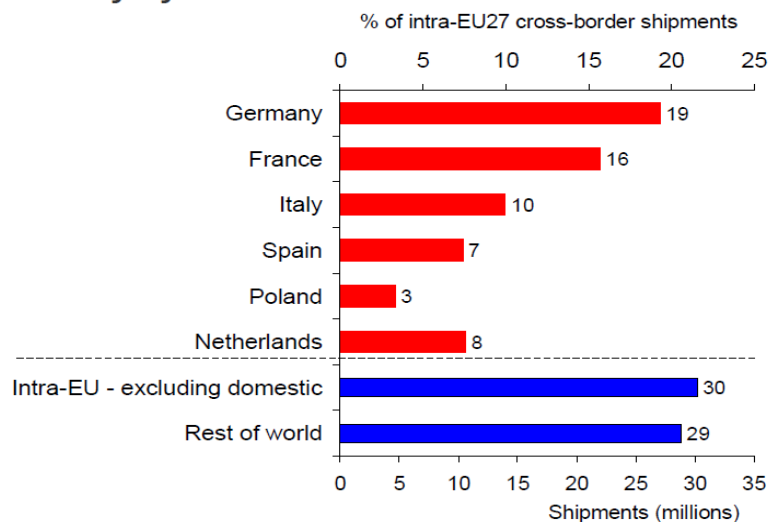


Source: Oxford Economics, NMS survey

¹ frequently defined as sending a shipment at least once a month

In 2010, express customers in the UK sent 30 million shipments to other EU27 countries, and 29 million shipments to destinations outside the EU27 (Chart 5).

Chart 5: Shipments sent by the UK express industry by destination in 2010



Source : Oxford Economics, Industry data

The scope and volume of these shipments demonstrates the value of express services and the importance of connectivity.

Questions Chapter 3

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

Heathrow is important for express services both in terms of cargo flights and most particularly, bellyhold. Bellyhold offers a valuable addition to freight only flights, providing flexibility and efficiency. Some 93% of all flown cargo moving at night at Heathrow is belly cargo on passenger aircraft, amounting to 212,000 tonnes a year, 98% of it long haul, including significant transfer traffic. This represents 15% of the total cargo handled at Heathrow. The fact that a significant volume of air freight is bellyhold is important for understanding the knock on impact that restrictions on the freight market may have on passenger market; with the viability of some passenger flights dependent on the revenues generated by air cargo.

The connectivity that Heathrow provides express services is essential as it gives access to routes and countries that are not directly served by cargo aircraft. Capacity constraints at Heathrow that limit the frequency and diversity of destinations served can impact on express services' ability to move material around the world as quickly and efficiently as customers require. There is already evidence of the impact of capacity constraints at Heathrow with increased competition from European airports to import and export materials. Currently many imports are flown into Heathrow to be distributed by road to the rest of Europe. This has created jobs within the warehousing and distribution sectors as well as broader economic spread effects in the service sector around the airport. As other European airports grow their capacity, they are able to handle a greater air freight volume which is encouraging growth in the associated freight and logistics sectors. This poses a potential threat to the long-term viability of operations around Heathrow.

It is also worth noting the potential pressure that will be put on bellyhold express freight at Heathrow as a result of the decision by passenger airlines to move to A380 - the largest, wide-bodied aircraft available. Greater use of A380s could certainly benefit passengers' throughput at South East airports. However it should be noted that these aircraft could actually restrict air freight movements and lead to movement of materials and associated jobs and infrastructure to other European airport hubs. Despite its significantly greater size and passenger carrying capacity, the A380 has around 50% less cargo carrying capacity than a Boeing 777-300 which is currently the optimum aircraft for carrying bellyhold freight. For example two 777-300 aircraft carry the same number of passengers as one A380, with up to 18 canisters of freight whilst the A380 carries only 4 of the same size cans. The Commission needs to consider the impact on express of such a change in aircraft usage given the potential impact on the wider economy.

It is also important for the Commission to be aware of the economic significance of the current flights that arrive in the night period into Heathrow which are long haul aircraft coming from strategically important origins. Express services have freight on all these movements which get cleared and delivered into the UK same day of arrival. In general, the passenger flights that land in the UK in the early hours of the morning are all late evening departures from origin i.e. 23.00 – 00.00. To arrive later in the UK because of additional restrictions or capacity constraints, one would have to inconvenience passengers at the origin who would then need to catch their aircraft at 01.00 – 02.00 and would also worsen the environmental impact at origin. In such an instance, in any case, such passengers could opt to go to a continental European destination instead. These are important flights for the UK economy and any reduction in connectivity would make the UK less competitive.

3.33 The Commission would be interested in receiving evidence in this area and case studies providing examples on where the availability of aviation links has directly influenced firms' supply chains.

3.50 The Commission would be interested in receiving evidence and case studies in this area – for example, providing examples on where the availability of aviation links has directly influenced investment decisions or, conversely, where such investment has been made despite a lack of connectivity.

AICES supports the Commission's observation in paragraph 3.32 that:

“Reductions or changes in aviation connectivity may therefore mostly impact those manufacturing supply chains that rely on having access to last-minute shipments of components from overseas. For example, as supply chains become more stretched (for example, through greater reliance on indirect connections) manufacturers may have to bear the cost of having to maintain higher stock levels or securing more expensive or less reliable channels of supply, which would increase the total cost of goods that they produce. Where firms aggressively compete on price of their inputs through utilising global supply chains (for example, in the high tech sector that produces such technologically advanced goods as solar panels or plasma TVs), lack of connectivity may negatively affect their competitive position.”

Express services are used primarily to achieve the next-day delivery of goods and documents allowing UK businesses to compete in the global market. They reduce the high cost of warehousing and enable businesses to achieve rapid, time-definite delivery of high value goods and documents to customers throughout the world. Packages are collected towards the end of the business day for delivery early the following day. The only way for this schedule to succeed is for the main part of the delivery process to take place during the night.

Generally, this overnight delivery is only achievable if the goods are transported by air, although goods will always be trucked if timely delivery can be assured for cost and environmental reasons. However, since the UK is geographically located on the periphery of Europe and divided by a stretch of sea, the UK is more reliant on air services to provide a next day service than other European countries. Road and rail options that meet customers service expectations (next day morning delivery) are not available other than to relatively close locations such as Brussels, Charles de Gaulle and Amsterdam and then only from the South of England. Night flights will therefore always be vital to express services.

In 2010, the express sector contributed £2.3 billion to UK GDP, and the sector facilitated £11 billion of UK exports a year. Chapter 3 of the Discussion Paper states that in 2011, goods worth £116 billion were shipped by air freight between the UK and Non-EU countries. However, although these figures are substantial, they underestimate the 'true value' of these goods to the recipients. For customs purposes the goods might be shown as being of low economic value as standalone items (ie the cost to manufacture a single unit), whilst the value that they add to the economy may be many times higher. For example a £10 widget manufactured in the US may be required the next day to fix broken equipment in a car manufacturing plant in Wales where every day of lost production costs many £1000s. The value-add of the widget not only to the car manufacturing company, but also to the UK economy and the Exchequer is many times higher than the actual physical cost of the widget

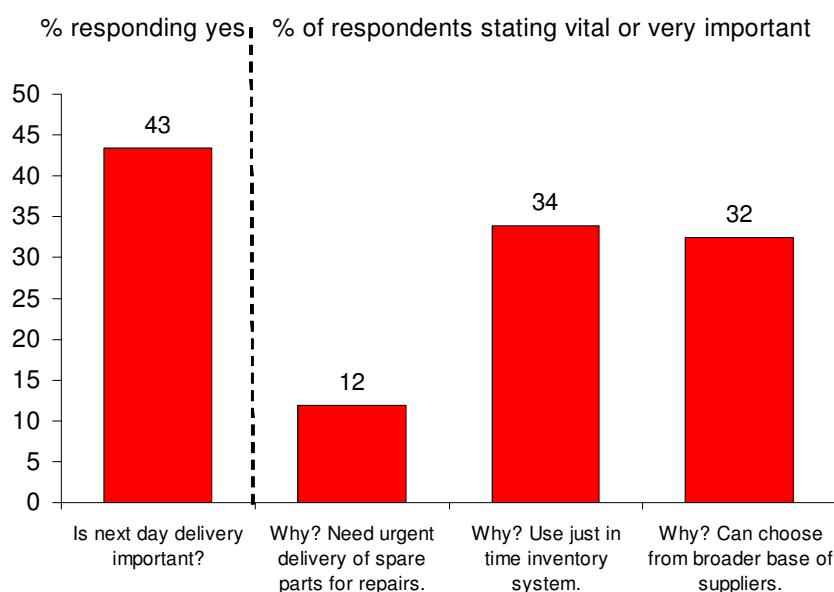
being transported. It is extremely difficult therefore for AICES to provide a true value of the goods that they are transporting as clearly the value is only fully known by the recipient of the goods.

A recent survey of UK companies³ conducted in June 2011 by an independent research group, NSM Research, asked 71 UK companies about their use of express delivery services. Of the 71 businesses covered by the survey, 43 per cent reported that next-day delivery is an important factor in their decision to use express delivery services.

Companies gave a number of reasons for why next-day delivery is so important for them (see Chart 5 below). It enables firms to:

- provide a better after-sales service, such as a next-day delivery of urgent spare parts or a quick turnaround of repairs (12 per cent);
- operate just-in-time inventory management, reducing storage costs, losses due to stock-outages and disruption caused by the failure of production machinery (34 per cent); and
- reduce purchasing costs, by increasing the area from which inputs can be sourced and facilitating sourcing from cheaper suppliers (32 per cent).

Reason why next day delivery is important to its business users



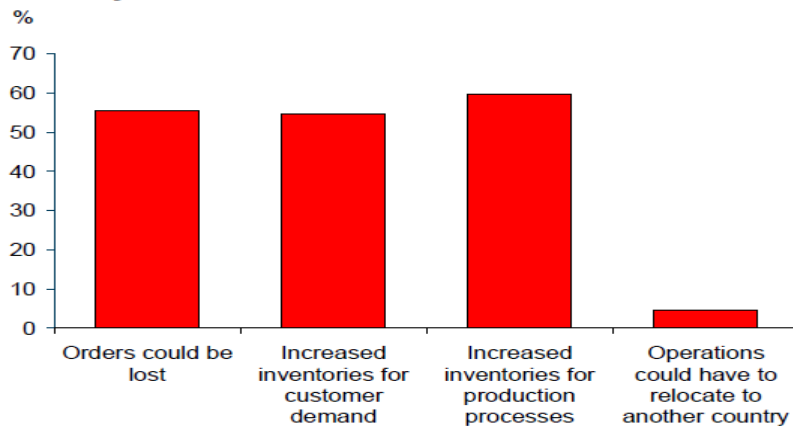
Source : Oxford Economics, NMS survey

Over 80 per cent of UK businesses surveyed stated that their businesses would be badly affected if international next-day delivery services were no longer available. UK-based businesses are more dependent on express services than businesses based in continental Europe. Oxford Economics identified one possible explanation for this as being the UK's success at attracting inward investment, with many leading international manufacturing firms choosing to base their European

³ 'The Economic Impact of Express Carriers in Europe, Country Report: United Kingdom', 2011, Oxford Economics

operations in the UK. Such companies have international supply chains and often operate just-in-time inventory systems that rely heavily on express services. Chart 10 shows the impact of loss of next day express delivery.

Chart 10: Impact of losing next-day express delivery



Source : Oxford Economics, NMS survey

The 2011 Oxford Economics report estimated that restrictions that led to next-day delivery services no longer being available in the UK could cut UK GDP by £3 billion a year at 2010 prices. That figure takes into account the impact on UK companies' sales revenues, costs, and investment decisions, including the importance of maintaining production lines. This reduction in GDP comes through the negative impact that the loss of next-day delivery services would have on average productivity across the whole economy, including the relocation of around 5% of firms.

Oxford Economics has conducted further research into the impact of the loss of next day delivery on UK business⁴. In the 2013 report, Oxford Economics explored two potential measurements for the 'catalytic' effects of next day deliveries: loss of the reductions in transport costs that express enables; and the increased cost of holding inventory should just-in-time inventory management not be possible. In both cases, Oxford Economics found a cost increase of around £1-1.5 billion a year. This is in line with the previous research. Oxford Economics concluded:

"Should next-day delivery services no longer be available in the UK, we estimate this would reduce UK GDP by around £3 billion. Half of this impact reflects the disruption to logistical networks, while the remainder mostly reflects its adverse effect on investment."

When considering the impact on business of connectivity it is also important to take into account the impact on transshipments. A key feature of the express industry is the use of the 'hub-and-spoke' distribution model. International packages are consolidated with packages from other countries for transportation on to their final destination, so called 'transshipments'. The UK is in a good geographical location to act as a hub between the EU and US but competes directly with continental EU airports for this role, for example, Charles de Gaulle in France and Schiphol in the Netherlands.

⁴ Response to the Department for Transport's Night Flights Consultation' Oxford Economics April 2013

This role has economic benefits to the UK directly because of the additional jobs and investment around hub airports.

Transshipments also help to sustain the range of destinations currently serviced in the UK and are needed to ensure that guaranteed next-day delivery is not limited to large 'point-to-point' routes. Independent research by Oxford Economics in 2010 commissioned by AICES found that the diversion of hub traffic to other European locations would particularly impact the number of flights to and from North America and would lead to a withdrawal of air services to Scotland and Northern Ireland. Such a loss in connectivity would damage the UK's competitiveness and have a disproportionate impact on the regions and SMEs.

The two key hub transshipment airports in the UK are Stansted and East Midlands (EMA). If further restrictions on night flights were introduced at Stansted there could be a direct impact on transshipment traffic with a direct negative impact on UK business. At Heathrow there could also be major consequences if express customers could not receive traffic off the current 16 early morning arrivals. This could also influence company decisions on where to locate, particularly considering that the 06.00 arrival into the UK, is a 07.00 arrival in continental Europe so because of the time difference the UK has a built in commercial disadvantage.

We also note that the international transportation of perishable goods is highlighted in Chapter 3 as a key component of goods being transported by aviation. It is worth considering that many of these air freight movements are the result of global trade imbalances. For example European manufactured goods may be flown to customers in Africa. In order to maximise the economic benefits of the flight and to achieve a lower cost per unit for the entire flight, freight carriers will source a filler product for the return flight to Europe. Given demand from European consumers for African perishable goods with a limited shelf-life, air freight is the only realistic option for bringing the goods to market, assisting local producers in accessing international markets.

Questions Chapter 4

4.8 The Commission is interested in evidence or case studies on how the economic importance of routes could be assessed and in what way capacity constraints may impede aviation connectivity for UK firms and residents.

AICES welcomes the acknowledgement in paragraph 4.2 of the need for access to markets through connectivity for UK competitiveness. The reference to frequency of flights in paragraph 4.5 needs to take into account specifically night flights to enable next day delivery of goods. AICES is concerned that when economic growth returns capacity constraints could impact on express services need for night flights to enable next day delivery.

4.11 The Airports Commission would welcome views on how to construct measures of connectivity that would help assess the UK's relative performance against other countries and the economic impacts of capacity constraints. In particular, the Commission is interested in such approaches to measuring connectivity that would help answer the following questions:

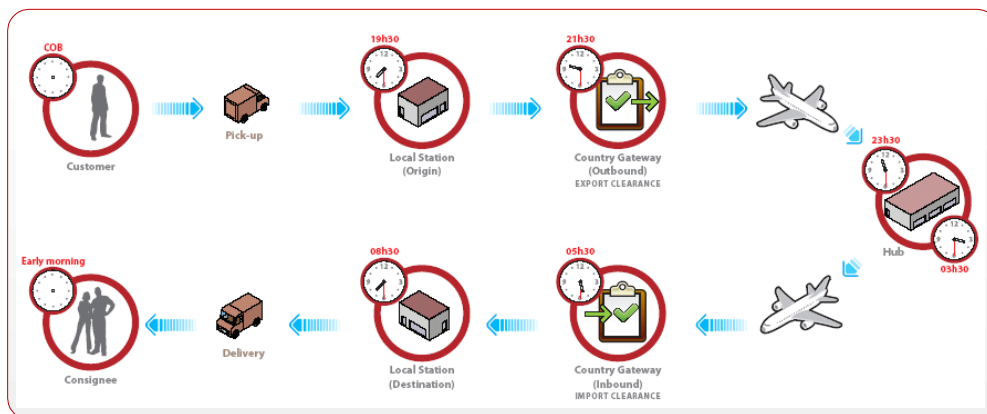
- **What is the impact of providing indirect flights (i.e. flights involving a transfer) rather than direct ones on connectivity of the consumer/freight? Which consumers are most affected?**

The potential impact could be earlier collection times for express pick up and potentially longer delivery windows. The UK regions (e.g. Scotland), which are already linking into UK international flights departing from South East England, could face greater delays which would have an impact on competitiveness.

- **How does providing flights at the right time of day and day of the week impact connectivity? Which consumers are most affected? What about freight?**

Night flights are essential to the operations of the express delivery sector, which provides a significant contribution to the economy. Operating services at precise times during the night quota period allows for the timely delivery of business-essential goods and documents to our customers across the UK. In order to transport packages in time for next day deliveries, night flights are essential. The graphic below shows the process that express operators have to follow in order to meet business needs. Later arrival would not allow a sustainable business model and would have a severe impact on UK economic competitiveness (see response to questions in Chapter 3).

Chart 4: International next day delivery services rely on night flights



Source: Oxford Economics 2013⁵

Questions Chapter 5

5.4 Questions relating to the nature of connectivity in the UK and its drivers:

- **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?**

AICES agrees with the Commission's analysis of the meaning and value of connectivity and welcomes the acknowledgement throughout that air freight, and in particular express, needs to be considered alongside passenger traffic.

In paragraph 2.1, we would also say a key aspect of connectivity is the ability to source and deliver goods in a timely manner, to enable the UK to compete in a truly international marketplace. We agree with the criterion 'Is a flight available at the right time of day or day of the week?' which we

⁵ 'Response to the Department for Transport's Night Flights Consultation' Oxford Economics April 2013.

assume to include night flights. In addition to this aspect, is the need for geographical spread across the UK. Express operators have hubs in the South East; central England (EMA and Manchester); Scotland; and Northern Ireland. This spread of hubs with connections to the international marketplace is vital to ensure our Members' commitment to next day deliveries.

Do you agree with the assessment we have made of the UK's current aviation connectivity?

Yes. AICES supports the Commission's analysis.

- **To what extent do you consider indirect connectivity to be an important part of presenting an accurate picture of the UK's nature of connectivity?**

Express integrators have continental European hubs as well as UK hubs. However, UK direct flights allow for a later pick up and enhance speed of delivery. Direct connectivity is also vital for transshipment activity.

5.5 Questions relating to the assessment of how aviation connectivity supports (1) trade in goods, (2) trade in services, (3) tourism, (4) business investment and innovation, and (5) productivity:

- **To what extent do you agree with evidence that aviation connectivity supports the UK's economic growth through facilitating each of (1)-(5)?**
- **How effective do you consider that the aviation connectivity of the UK may facilitate economic growth now and in the future? What risks and opportunities does it present?**
- **How important do you consider connectivity for each of (1)-(5)?**

The express sector connects UK business to the international marketplace. Express services allow UK companies to implement best international business practice in terms of speed and efficiency, improve their customer service and compete effectively in the global economy. Our members enable UK businesses to achieve rapid, time-definite delivery of high value goods and documents to customers throughout the world. This speed and the ability to deliver and collect overnight would not be possible without air freight hubs and night flights. In a global marketplace the ability to have such fast and reliable access is essential and it is vital that the Commission recognises the economic importance of express services and night flights.

The October 2011 British Chambers of Commerce report 'Flying in the face of Jobs and Growth: How aviation policy needs to change to support UK business' includes a number of case studies which demonstrate the importance of air freight to UK businesses. In November 2011, Oxford Economics also published 'The Economic Impact of Express Carriers in Europe', and 'The Economic Impact of Express Carriers in Europe Country Report: United Kingdom', which highlight the wider economic benefits of the sector (please see attached as an annex). The UK Country Report found:

- The express industry contributed £2.3 billion to GDP in UK in 2010. The industry's gross value added (GVA) accounts for £1.1 billion of this total: the remainder is the GVA that the express industry supports in other sectors of the economy.

- 82,000 full time equivalent jobs were supported by the UK express industry in 2010. Over 38,000 people are directly employed in the express industry, while the express industry supports more than 43,000 jobs in other sectors of the economy.
- Over 80% of UK businesses surveyed state that their businesses would be badly affected if international next-day delivery services were no longer available.
- One of the most important contributions that the express delivery industry makes to the European economy is to help firms compete in an increasingly global market. Out of a total of 59 million cross-border express shipments sent from the UK, 29 million shipments are sent to destinations outside the EU27.
- 38% of UK companies surveyed frequently send shipments to other EU27 countries. Out of a total of 59 million cross-border express shipments sent from the UK, 30 million are sent to other EU27 countries.

In addition, a survey by Healey & Baker shows that 61% of companies consider easy access to markets customers or clients as “absolutely essential”, when deciding where to locate their business.⁶ Good access to markets is of the upmost importance in influencing firms’ decisions on where to locate. For many firms, ‘good access’ to international markets includes the availability of next-day delivery. Companies that rely on next-day delivery to customers may locate near hubs for express delivery services so as to make the pick-up time for their deliveries as late as possible, providing them with maximum production flexibility.⁷ Those industries reporting that they are likely to relocate were there no next-day deliveries include electrical and optical, machinery and equipment, and retailers. These sectors also typically report that they would expect a significant loss of orders, as do wholesalers and business services sectors.⁸

5.6 Questions relating to what the UK’s objectives for the future aviation should be:

- **Connectivity depends on many factors, such as number and frequency of flights and time and cost of travelling to passengers. Do you consider any of these factors to be of particular relevance to facilitating any of (1)-(5)?**

As stated in response to the previous questions, Night flights are key to connectivity because of the need for UK businesses to have overnight deliveries in order to compete in the international marketplace. As the CBI state in their recent exports report:

‘Crucial to forging new trading links with high-growth markets is the ability to deliver goods and trade to the customer. Night flight capacity is particularly important for sectors where goods are time critical or of high value. It is therefore vital that the government works with industry to protect capacity for express freight links. ‘The Only Way is Exports’ CBI 2013

- **To what extent do you consider that the need for additional connectivity may support the argument that additional capacity may be required?**

⁶ Rossall, E. and Gorman (2010) European Cities Monitor 2010, Cushman and Wakefield.

⁷ Oxford Economics: The economic impact of express carriers in Europe (2011), p.17-19.

⁸ Oxford Economics: The economic impact of express carriers in Europe (2011), p.38.

As the economy grows there needs to be headroom for additional capacity in order to maintain connectivity, particularly in relation to night flights. AICES believes that additional restrictions on night flights potentially imposes significant costs on both express services and our customers with a resulting negative impact on the UK economy.

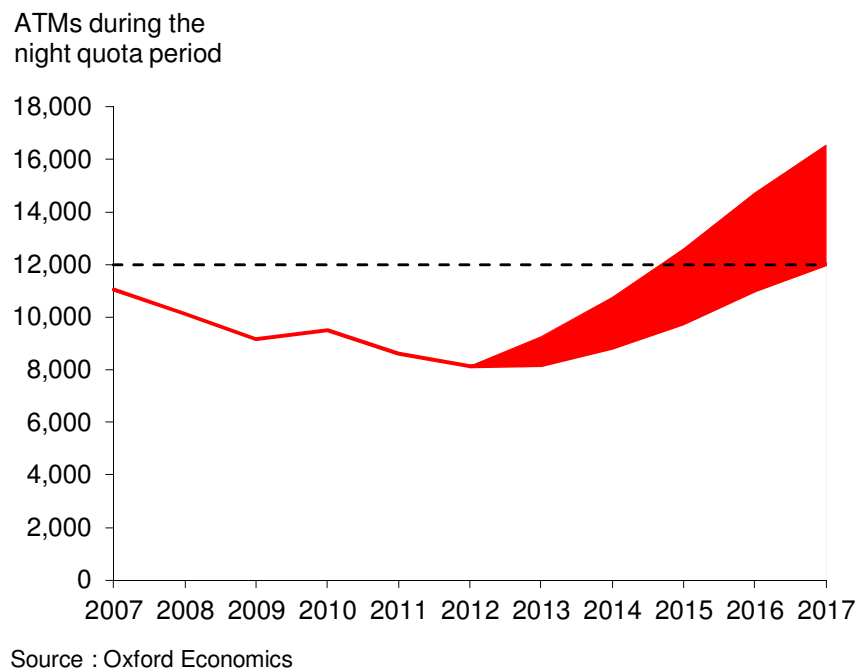
A 2006 study by Oxford Economic Forecasting and Mott MacDonald found that comparing the use of scarce runway slots, a slot used by a single express service contributes about £63,000 in overall economic benefits to the UK through productivity and competitiveness, while a scheduled passenger service contributes about £22,000. The same study found that the closure at night of specific UK airports, with a strategic express freight function, including EMA and Stansted, could reduce UK GDP by about £6 billion a year by 2024. Over a twenty year period, the cumulative cost in terms of forgone GDP would be over £35 billion.

AICES has commissioned independent research by Oxford Economics to examine the impact of restrictions on night flights in more detail. In this 2013 report⁹, Oxford Economics demonstrates that the use of express services is directly connected to economic growth. Oxford Economics demonstrate that demand for express services is very cyclical. During economic upswings the demand for express services typically grows much more strongly than GDP. On the other hand, demand can fall precipitously when the economy slows. Given this strong cyclicity, express services need to be able to expand rapidly to meet rising demand and sustain economic growth.

In the report, Oxford Economics has developed a regression model to predict when night period movement limits at Stansted will be fully utilised. The model predicts that the growth rate of freight volumes will be three times that of real GDP, once the recovery takes hold. The chart below shows a fan chart for aircraft movements during the night quota period.

Chart 3: Night quota fan chart

⁹ 'Response to the Department for Transport's Night Flights Consultation' Oxford Economics April 2013.



Based on the Oxford Economics model the chart shows that the Stansted 12,000 aircraft movements limit (the combined quota over a winter and summer season) is reached in two to five years hence, depending of the timing and strength of the UK's economic recovery. For instance, in the event of a strong recovery aircraft movements during the combined Winter 2013/14 and Summer 2014 seasons would approach 11,000. **To cut the existing quota would therefore increase the risk that Stansted might not have sufficient night time capacity to meet demand while the recovery is still in its early stages.**

As Oxford Economics state:

"Applying this prediction to Oxford Economics' published forecasts for future GDP growth indicates that the current movement limits will become a constraint on growth at the airport within the next two to four years."

Oxford Economics also state:

"While our modelling has focused on Stansted, it seems reasonable to assume that a similar relationship between GDP growth and the demand for next-day express delivery services exists for the UK express industry as a whole, and that similar conclusions would apply to night flying restrictions in force at other UK airports."