

# OXFORD ECONOMICS

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## **Response to the Department for Transport's Night Flights consultation**

**April 2013**

**A report for the Association of  
International Courier & Express  
Services**



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ECONOMICS**

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# 1 Executive Summary

**Under a more restrictive night flying regime, the express industry is likely to struggle to meet increased demand when the economy recovers.**

- Demand for express services is very cyclical. Demand typically grows much more strongly than GDP during economic upswings, while it can fall precipitously when the economy slows.
- Using a regression model to measure the strength of this cyclicality at Stansted, we estimate that the demand for express services is likely to grow three times faster than real GDP once the economic recovery takes hold.
- Using the results of this model, together with Oxford Economics' published forecasts for GDP growth, we estimate that the current movement limits may become a constraint on growth at Stansted within the next two to four years. While our modelling has focused on Stansted, it seems reasonable to assume that similar conclusions would apply to night flying restrictions in force at other UK airports.
- We also consider the cost to the industry of having to re-optimize its fleet to comply with a more restrictive night flying regime. Our calculations illustrate the significant costs associated with bringing forward the replacement of aircraft.

**A more restrictive night flying regime is likely to impose significant costs on UK businesses that use express delivery services.**

- A recent survey demonstrates the extent that UK businesses rely on express services to support their sales and to enable them to streamline costs. The survey found that:
  - 43% of UK companies report that next-day delivery is an important factor in their decision to use express delivery services.
  - UK businesses rely on express services for 28% of their sales revenue
  - over 80% of UK businesses surveyed state that their businesses would be badly affected if international next-day delivery services were no longer available.
- Should next-day delivery services no longer be available in the UK, we estimate that this would reduce UK GDP by around £3 billion. Half this impact reflects the disruption to logistical networks, while the remainder mostly reflects its adverse effect on investment.

**Restricting night flights will have a negative employment impact**

- The express delivery industry supports 82,000 jobs in the UK. Restricting night flights is likely to have a negative employment impact that could persist for several years, harming employment tax revenues and the wider economy.

## 2 Introduction

This report addresses questions raised by the Department for Transport's Stage 1 Consultation concerning the Night Flying Restrictions at Heathrow, Gatwick and Stansted (January 2013).

The report is organised in three sections. Each section deals with a number of closely related questions raised in the consultation document, as set out below:

- Section 3 – Can movement limits and noise quotas be reduced without imposing costs on express delivery firms (Q20, Q21, Q22, Q23, Q31, Q37, Q40);
- Section 4 - How would you assess the costs to business from restricting express delivery firms (Q49, Q52, Q53, Q63).
- Section 5 – Will restricting night flights have an employment impact? (Q62, Q68)

### 3 Can movement limits and noise quotas be reduced without imposing costs on express delivery firms? (Q20, Q21, Q22, Q23, Q31, Q37, Q40)<sup>1</sup>

#### Key points

- 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 cyclicality, express services need to be able to expand rapidly to meet rising demand and sustain economic growth.
- 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. 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.
- Having undertaken recent new aircraft investments to meet the current restrictions, if the industry was again forced to re-optimize its fleet to comply with a more restrictive night flying regime, the additional costs would represent a significant burden.
- If the express industry is to meet increased demand when the economy recovers, it is very important that (1) the current movement limits and noise quotas are not reduced, or that (2) additional costs are not imposed on the industry, for example through higher landing fees and requirements for new aircraft.

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<sup>1</sup> Q20: Do you have any comments to make on the figures relating to movement limits and usage?

Q21: In the absence of any new restrictions, how do you expect demand for movements in the night quota period over the course of the next regime to change?

Q22: Do you have any comments to make on the figures relating to noise quota limits and usage?

Q23: Do you agree with our initial assessment of the scope for reducing the noise quota in the next regime without imposing additional costs?

Q31: What is the scope for introducing a respite period at Gatwick or Stansted? Please set out the associated costs and benefits.

Q37: Do you have any views on the extent to which landing fees can be used to incentivise the use of quieter aircraft during the night period?

Q40: Do you have any proposals for new or improved economic incentives that could be deployed to incentivise the use of quieter aircraft during the night period?

### 3.1 Introduction

Demand for next-day express delivery services is very cyclical. Demand typically grows at a much faster rate than GDP during upswings, while demand for express services can fall precipitously when the economy slows. This strong cyclical nature is a reflection of the express industry's importance as a facilitator of growth, with the demand for express services closely tied to the performance of the UK's export-orientated sectors. In this section we look at Stansted as a case study of how demand for next-day express delivery services is likely to evolve as the economy recovers, and we consider the implications of this for the use of night quotas at the airport.

### 3.2 The noise quota can be reduced without imposing costs on express delivery services

**Once the economy picks up, the demand for express services is likely to grow very strongly. Based on Oxford Economics' published forecasts for GDP growth, the current night period movement limits may become a constraint on growth at Stansted within the next 2 to 4 years.**

Stansted provides crucial airport capacity that will be needed once the economy moves out of recession. Stansted's importance in accommodating growth is clear from its recent history. Prior to 2007, the UK had experienced 16 years of uninterrupted growth during which year-on-year growth of GDP averaged 3 per cent. This sustained economic growth put considerable strain on London's airports and Stansted played an important role in meeting this rising demand. While aircraft movements at London's major airports recorded average year-on-year growth of 3.1 per cent, at Stansted aircraft movements grew by 8.5 per cent. As a consequence of this exceptional growth, Stansted's share of aircraft movements at London's airports increased from 8 per cent in 1985 to 17 per cent in 2012.

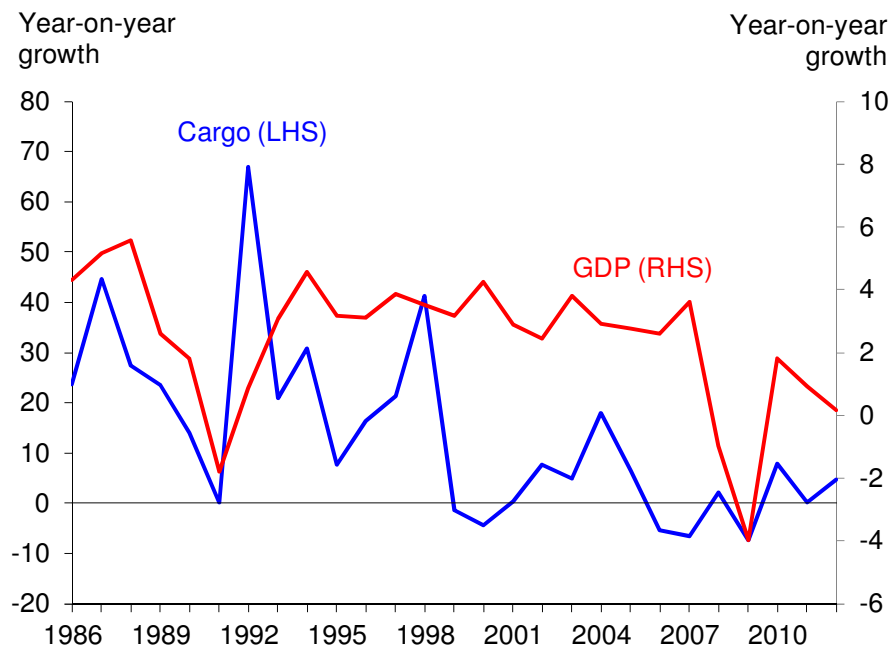
While Stansted has played an important role in providing the airport capacity to absorb strong demand, it has also suffered the brunt of the recession. Between 2007 and 2009, Stansted saw the sharpest fall in aircraft movements among London's major airports. (In 2013, movements were 31 per cent below their 2007 peak of 208,000.) Chart 1 shows the year-on-year growth rates of real GDP and cargo volume at Stansted.<sup>2</sup> The chart shows the strong cyclical nature of cargo volumes, with cargo exhibiting much more pronounced swings in its growth rate than GDP. The chart also suggests - confirmed by our modelling below - that cargo volumes are often an early signal of a change in the economic climate. Leading up to the recession of the early 1990s, for example, growth in cargo volumes fell from 40 per cent to 0 per cent in the space of four years. Cargo volumes then grew by over 60 per cent between 1991 and 1992 as the economy was only beginning to emerge from the recession. More recently, year-on-year growth in cargo fell from almost 18 per cent in 2004 to -7 per

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<sup>2</sup> We measure cargo volumes as the combined tonnage of freight and mail.

cent in 2009, compared with a 7.7 percentage point fall in the year-on-year growth rate in GDP between 2007 and 2009.<sup>3</sup>

**Chart 1: Real GDP and freight volumes at Stansted during the past two recessions**



Source : Oxford Economics

### 3.3 Modelling the demand for express services at Stansted

How quickly and strongly might demand pick up at Stansted once the economy turns the corner? To answer this question we have used a regression model to quantify the relationship between the year-on-year growth rates of GDP and the volume of air freight handled at Stansted. The model was designed specifically to examine whether the pattern evident in Chart 1 – that demand at Stansted is strongly cyclical – is supported using formal statistical methods. A 1 percentage point increase in the year-on-year growth rate of GDP goes hand-in-hand with a 3 percentage point increase in the year-on-year growth rate of freight volumes at Stansted. Moreover, the model, estimated over the 25 years between 1987 and 2012, finds that freight volumes at Stansted are a leading indicator for changes in the state of the economy, moving two years ahead of GDP.

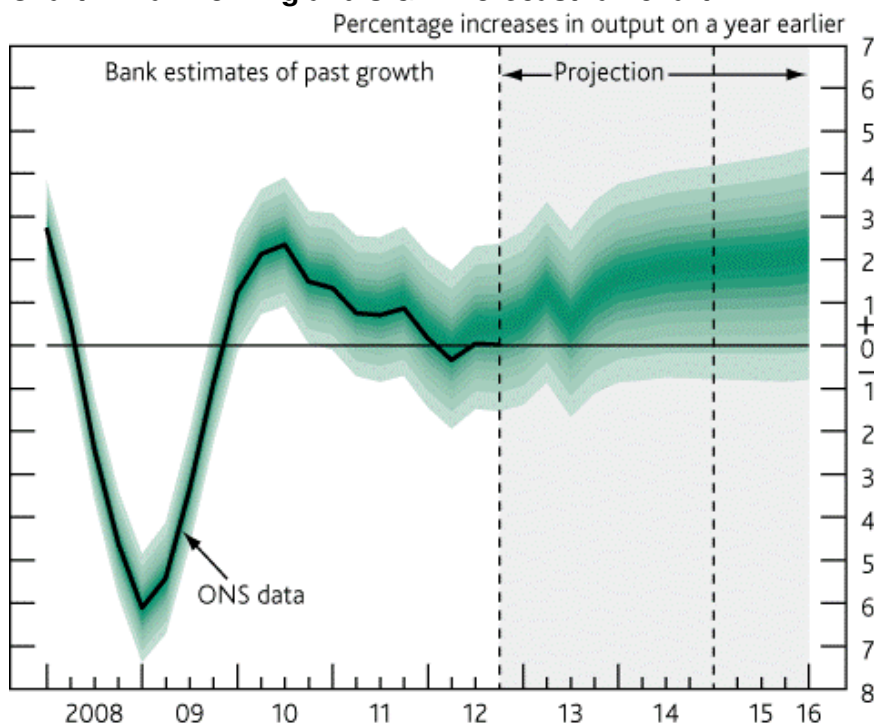
Formal tests find this relationship to be statistically significant and, moreover, the results are robust to different plausible specifications of the model. In particular, the strength of the relationship remains even if we use (1) UK trade (imports plus exports) in place of GDP, or (2) aircraft movements in place of freight volumes.

<sup>3</sup> It is worth noting here that while this was a very severe drop in GDP by historical standards, the magnitude of the change was still much smaller than its typically exhibited by cargo volumes over the course of the economic cycle.

The model allows us to forecast how demand at Stansted will grow once the economy begins to turn round. For this purpose we use forecasts published by Oxford Economics for the growth of GDP over the five years to 2017. In our central forecast, GDP growth accelerates from 0.9 per cent this year to 2.9 per cent by 2017, easing off thereafter.

There is a lot of uncertainty on either side of this central forecast, especially concerning the timing of the recovery. The uncertainty over the timing and strength of the recovery is illustrated in Chart 2 which shows the GDP “fan chart” published by the Bank of England in its February *Inflation Report*. The fan chart shows that while the Bank of England’s central forecast is for GDP growth to return to about 2 per cent over the next two to three years, the Bank also attaches some probability to both a much stronger recovery (a growth rate of 3 per cent to 4 per cent is well within the fan by 2016), and the possibility of a more prolonged recession.

**Chart 2: Bank of England’s GDP forecast fan chart**



Source: Bank of England

What does the outlook for GDP imply for the use of the night quota at Stansted? During the Winter 2011/12 and Summer 2012 seasons, there were 8,135 actual movements in the night quota period, compared with a movement limit of 12,000, an average utilisation rate of 68 per cent across the two seasons. This was a sharp reduction compared to the Winter 2006/07 and Summer 2007 seasons, when Stansted was at its busiest and the average utilisation rate was 92 per cent (during Summer season actual movements exceeded the limit by over 4 per cent). Based on our forecasts, how quickly would we get back to the high utilisation rates reached in 2007?

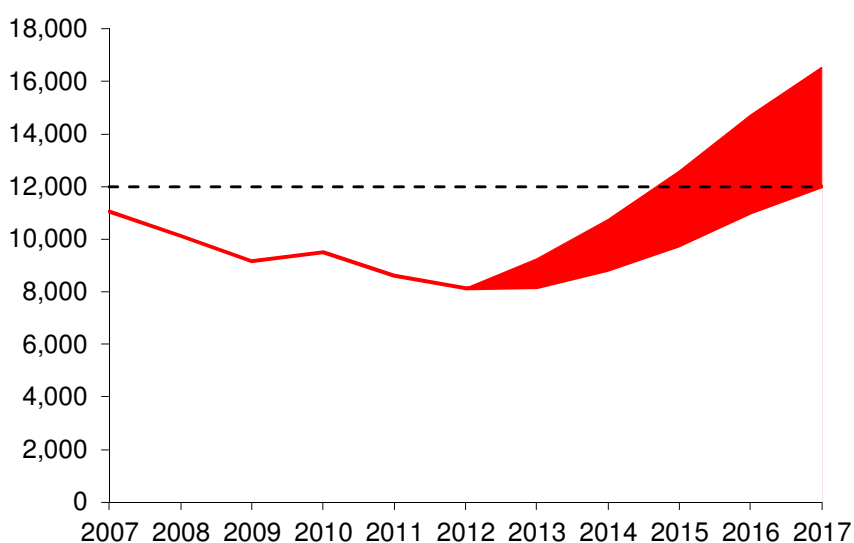


Chart 3 shows a fan chart for aircraft movements during the night quota period. Seasonal data are aggregated so that, for instance, the Winter 2006/07 and Summer 2007 seasons are shown as “2007” in the chart. A night quota limit of 12,000 aircraft movements applies to each 2-season “year”. The width of the night quota fan reflects a number of inputs and assumptions:

- The width of the fan reflects the risks embodied in Oxford Economics published forecasts, which are broadly consistent with the GDP fan chart published by the Bank of England (Chart 2).
- Since 2007 freight tonnage has increased while aircraft movements have fallen. This is a departure from past experience when the two grew more or less in line with one another. While our forecast assumes that the two move back in line with their historical relationship, the width of the fan takes into account the uncertainty concerning how this adjustment takes place.

**Chart 3: Night quota fan chart**

ATMs during the  
night quota period



Source : Oxford Economics

The night quota fan chart (Chart 3) clearly shows the value of retaining the current quota limit. Chart 3 shows that the 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 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.

### 3.4 To restrict night flights further or to impose additional costs on the industry, for example through higher landing fees, would impose considerable costs on the industry and its customers

The express industry has optimised its fleet mix to meet the current night flying restrictions:

- Almost all (94%) of night flights are by aircraft rated QC1 or below.
- Flights rated QC 3 or above fell by 15 per cent between 2010 and 2012.
- There was only 1 flight rated QC 4 in 2012, compared to 14 in 2010.

These improvements partly reflect the introduction of new aircraft. For example, new 747-800s (QC1 arrival and QC2 departure) are replacing the older 747-400s (QC2 arrival and QC4 departure).

Having undertaken these investments to meet the current restrictions, if the industry was again forced to re-optimize its fleet to comply with a more restrictive night flying regime, the additional costs would represent a significant burden in the current economic climate.

For example, consider the situation where an existing freighter (a 747-400 for example) is five years from retirement, when it will be replaced by a new 747-800.<sup>4</sup> The new 747-800 (QC1 arrival and QC2 departure) is quieter than the older 747-400, (QC2 arrival and QC4 departure). If it were necessary to replace the freighter now how much would this cost the airline? The current list price for a 747-800 is \$352 million (£220 million). Based on an independent estimate for the cost of capital,<sup>5</sup> and assuming the old 747 has a minimal scrap value, then to bring the replacement forward five years would cost the airline almost £58 million, with the cost increasing by a further £10 million for each year the replacement is brought forward.

The use of landing fees to incentivise quieter aircraft or to penalise companies which use night flights, does not take into account the disproportionate cost to the express industry as set out above; or the fact that express services have no option but to use night flights in order to achieve next-day deliveries. The introduction of respite periods also imposes additional costs by removing the operational flexibility required by express services; and could prevent important transshipment connections and multi-leg flights with next-day delivery requirements at each stop.

Given that the express flights need to operate overnight to provide a guaranteed international next-day delivery service, and that many of its customers have come to depend on this service, imposing additional costs of this magnitude and restrictions (such as a curfew/respite period) is likely to inflict serious harm on the industry, and sectors of the economy (such as manufacturing) that rely heavily on express services.

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<sup>4</sup> It is normal for cargo aircraft to stay in service longer than passenger aircraft. One reason for this is that dedicated cargo aircraft typically fly much shorter distances over the course of a year than passenger aircraft, because of fewer daily rotations.

<sup>5</sup> 6.3% real cost of capital, taken from '2010 Cost of Capital Study – Air Transport', Department of Revenue, Washington State.

### 3.5 Conclusion

In this section we have looked at how demand for next-day express delivery services is likely to evolve once the economy begins to recover. Our analysis suggests current quota limits at Stansted could be reached within two to four years. Given how quickly quotas might be used up, to cut quotas might prevent Stansted meeting rising demand during the early stages of an economic recovery. This would prove harmful to the express industry and to its customers who depend on its services for their competitiveness. 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.

The next Section discusses how UK businesses use express services and the importance that UK businesses place on having access to international guaranteed next-day delivery services.

## 4 How would you assess the costs to business from restricting express? (Q49, Q52, Q53, Q63)<sup>6</sup>

### Key points

- As demonstrated by a recent survey by NMS, an independent survey company, UK businesses rely heavily on express services to support their sales and to enable them to streamline costs. The survey, conducted by an independent survey company, asked 71 businesses about their use of express delivery services. The survey found that:
  - 43 per cent of UK companies report that next-day delivery is an important factor in their decision to use express delivery services.
  - UK businesses rely on express services for 28 per cent of their sales revenue.
  - Over 80 per cent of UK businesses surveyed state that their businesses would be badly affected if international next-day delivery services were no longer available.
- Not all cargo is carried by dedicated freight aircraft, a substantial volume of freight is also carried belly-hold by passenger flights. During the year 2010/11, Heathrow handled 228,500 tonnes of cargo during the Night Quota Period, of which 93% was carried belly-hold. For the freight market, belly-hold offers flexibility and a cost-effective means to carry shipments on routes that would not justify deploying a dedicated freight aircraft. For the passenger market, belly-hold provides useful – and sometimes essential – additional revenue.
- Restrictions on international next-day delivery services not only have an adverse impact on the efficiency of the express delivery firms. They also damage the competitiveness of companies across the whole economy and have a substantial economic cost.
- 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.

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<sup>6</sup>Q49: Is there any other evidence or information that we should consider in assessing the impact on air freight service users of a change in the night flights regime?

Q52: Do you agree that there is merit in our applying a similar approach to that employed by Oxford Economics to estimate the economic value of night flights at Heathrow? If so, are you able to provide any evidence of how much freight is carried on nights at the designated airports? What factors should we consider in assessing the applicability of the available profits data to night flights at the designated airports?

Q53: Is there any other evidence we should consider in assessing the impacts of a change in the night flights regime on airlines and airports?

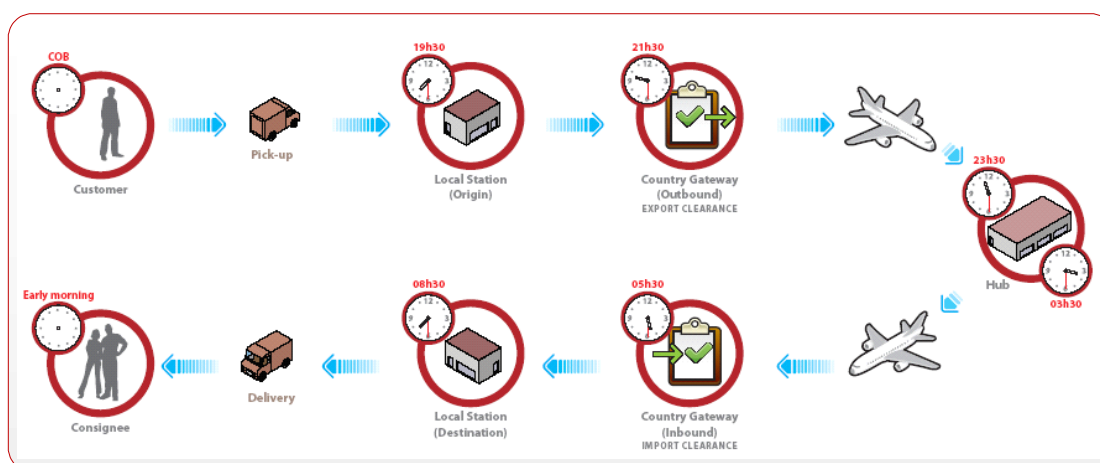
Q63: Is there any further evidence we should consider in attempting to assess the indirect impact of a change in the night flights regimes on indirect taxation revenue across the rest of the economy?

## 4.1 Introduction

In this section we draw on the findings of a survey of UK companies.<sup>7</sup> Conducted in June 2011 by an independent research group, NSM Research, the survey asked 71 UK companies about their use of express delivery services. Companies were drawn from all sections of the economy, and covered small, medium and large enterprises. Questions explored the extent to which UK companies rely on the express delivery industry to receive timely shipments of production inputs, deliver finished goods to their customers, and remain competitive with domestic and international markets.

The diagram below explains how international next-day delivery services depend on night flights.

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



## 4.2 The findings from the 2011 survey of UK business use of international express delivery services

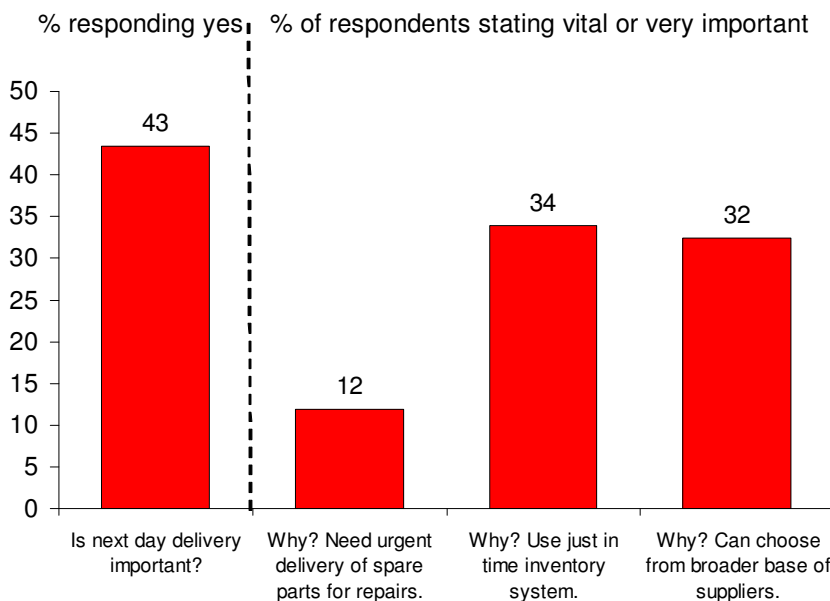
Of the 71 businesses covered by the survey, 43 per cent reported that next-day delivery is an important factor in their decision to use express delivery services.

Companies gave a number of reasons for why next-day delivery is so important for them (Chart 5). 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).

<sup>7</sup> 'The Economic Impact of Express Carriers in Europe', 2011, Oxford Economics.

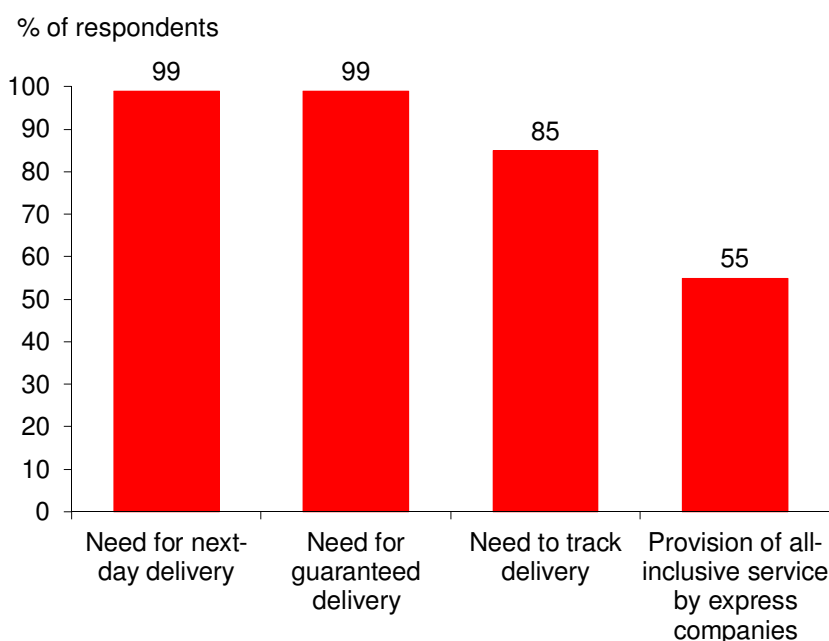
**Chart 5: Reason why next day delivery is important to its business users**



Source : Oxford Economics, NMS survey

Nearly all the UK businesses surveyed reported they use express services because they offer guaranteed next-day delivery (Chart 6). 55 per cent of respondents said they used express delivery because it offers an all-inclusive service that handles customs clearance for cross-border shipments.

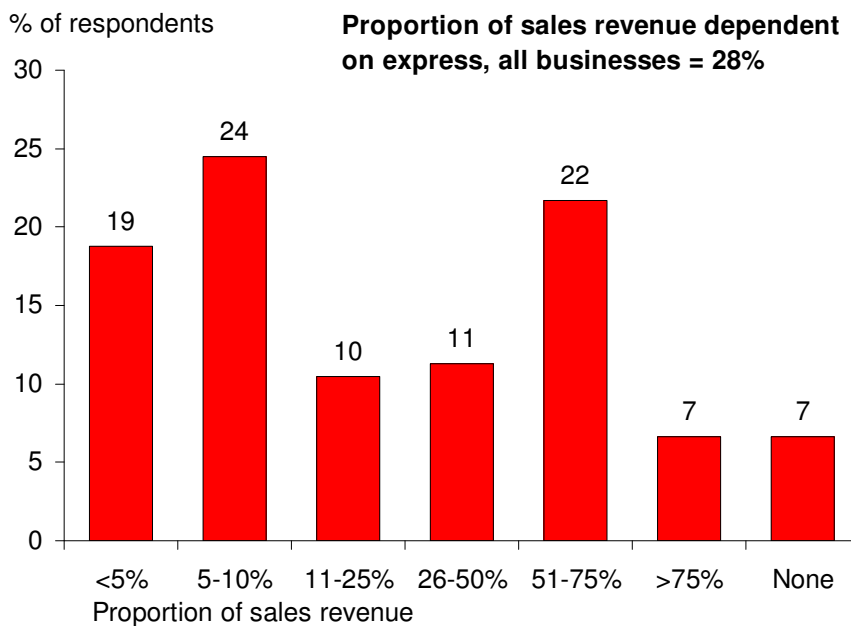
**Chart 6: Reasons for using express delivery services**



Source : Oxford Economics, NMS survey

Across all businesses, 28 per cent of sales revenue depends on express delivery (Chart 7). A significant minority of UK businesses surveyed (29 per cent) rely on express services for over 50% of their sales revenue.

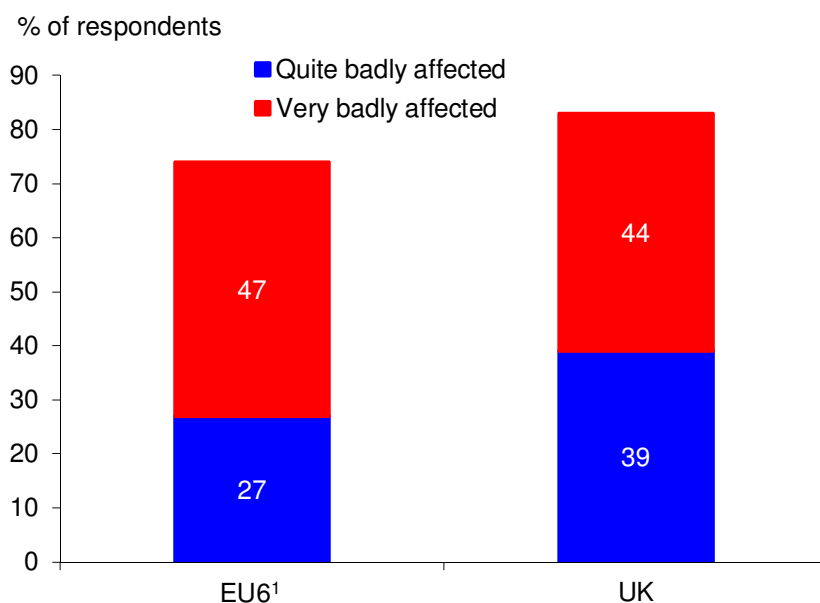
**Chart 7: Proportion of UK company sales revenue dependent on express delivery services**



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 (Chart 8). UK-based businesses are more dependent on express services than businesses based in continental Europe. One possible explanation for this is the UK's success at attracting inward investment, with many leading international manufacturing firms choosing to base their European operations here. Such companies have international supply chains and often operate just-in-time inventory systems that rely heavily on express services.

**Chart 8: Impact if international next-day delivery services were no longer available**



Source : Oxford Economics, NMS survey

<sup>1</sup> EU6 comprises of Germany, France, Italy, Netherlands, Poland and the UK.

Restrictions on international next-day delivery services not only have an adverse impact on the efficiency of the express delivery companies. They also damage the competitiveness of companies across the whole economy and have a substantial economic cost. Respondents believe their companies would be seriously affected if government regulations were to mean that international next-day delivery services were no longer available. Over half of companies in the UK would expect their sales revenues to fall by around 15%, and another 55% of firms reported that they would have to hold increased levels of inventories to meet customer demand, and hence experiencing higher costs of doing business.

Not all cargo is carried by dedicated freight aircraft, a substantial volume of freight is also carried belly-hold by passenger flights. Belly-hold is especially important at Heathrow. During the year 2010/11, Heathrow handled 228,500 tonnes of cargo during the Night Quota Period,<sup>8</sup> of which 93% was carried belly-hold and 98% was carried on long haul flights. For the freight market, belly-hold offers flexibility and a cost-effective means to carry shipments on routes that would not justify deploying a dedicated freight aircraft. For the passenger market, belly-hold provides useful – and sometimes essential – additional revenue. Industry sources indicate that the viability of some passenger flights depend on the revenue earned by carrying cargo belly-hold.

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<sup>8</sup> This represented 15% of the total cargo handled at Heathrow.



### 4.3 What are economic costs of restricting next-day delivery services?

Oxford Economics' 2011 report on the European express industry 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. In particular:

- some firms – particularly in sectors that rely heavily on express services – would choose to relocate out of the UK. The evidence from our survey suggests that around 5 per cent of firms might relocate some operations abroad where international next-day express services not available. The loss of these firms to the UK would mean the workers they currently employ would be likely to move into lower productivity jobs, resulting in lower average productivity across the UK as a whole; and
- the absence of express services would mean that the UK lost out on the beneficial 'catalytic' effects of the express delivery industry, which improve productivity in other sectors across the UK, e.g., through increased use of just-in-time inventory systems.

The catalytic impact can be calculated in one of two ways, by calculating: (1) reductions in transport costs that express enables or (2) estimating the increased cost of holding inventory. The two approaches essentially measure the same thing, because optimised logistics would equate these two costs at the margin. Below we consider each of these methods in turn.

#### 4.3.1 Express driven reductions in transport costs

A common approach in the economic assessment of transport projects is to estimate the value of logistical improvements (and disruptions) using a concept called "value of freight time".<sup>9,10</sup> The value of freight time captures the full cost of longer freight transit times. In this approach, the cost to businesses were they to cease to have access to international express services, is calculated by multiplying the volume of consignments (in tonnes), the additional time in transit if there were not next-day deliveries (days), and the "value of freight time" for express freight (£/tonne/day). The volume of consignments is estimated from industry data that suggest over 125,000 tonnes of express shipments were delivered to businesses in the UK in 2010. The additional transit time depends on the distance consignments are shipped. Industry data on the origin and destination of UK express shipments indicate the additional transit time might average 1.8 days. The "value of time" reflects the overall cost of transporting

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<sup>9</sup> 'Facts and Furbies in Benefit-Cost Analysis: Transport', 2001, Department of Transport and Regional Services, Australis.

<sup>10</sup> 'Cost-Benefit Analysis: Concepts and Practice', 2006, by Boardman, Greenberg, Vining, Weimer, Pearson Prentice Hall.

goods. Recent studies of freight transport costs<sup>11</sup> suggest that the value of time for overnight express consignments is around £5 per kilogram per 24 hours. Together these estimates suggest that the cost to businesses of losing next-day delivery express services might be between £1 billion and £1.5 billion a year.

#### 4.3.2 Express driven reductions in inventory costs

Without guaranteed next-day express delivery, businesses that rely on express services which require night flights for just-in-time inventory management would instead have to carry larger stocks of finished goods and parts to ensure that either stock-outages or production shut downs do not occur while new supplies are delivered by traditional delivery methods.<sup>12</sup> This approach has several steps:

- estimate the value of goods carried by express for the purpose of just-in-time inventory management, which is based on the value reported by customers and survey evidence on the proportion of consignments for just-in-time inventory management (14%);
- from this we estimate how much additional inventory would be needed to cover this flow if firms could not rely on a next-day express delivery, which we calculate from the number of times the stock of inventory is replenished each year. National Accounts data suggest that inventory stocks are on average replenished around five times a year;
- add the cost of storage, insurance, and the cost of capital (the total cost is assumed to be 15 per cent p.a.) covering the extra time needed to deliver new supplies using deferred delivery services<sup>13</sup>; and
- deduct the cost premium of express over non-express delivery.

Based on this inventory cost approach, the disruption to just-in-time inventory management processes would increase business costs by around £1.3 billion a year – broadly the same as the estimate based on the value of freight time.

These estimates are in line with the findings of Oxford Economics' previous research on the express industry, which found that the disruption to logistical networks accounts for about half the total impact on GDP (estimated to be £3 billion in 2011).<sup>14</sup> One reason why the disruption to logistical networks would be so large is that express delivery services are often crucial to firms operating just-in-time inventory management systems.

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<sup>11</sup> Several recent studies have published estimates for the value of freight time, for example, 'Freight User Benefits Survey, Stages 3 and 4 report', 2004, Booz Allen Hamilton, and 'Economic Evaluation of Road Investment Proposal: Valuing Travel Time Savings for Freight', 2003, Austroads.

<sup>12</sup> 'Investment under Uncertainty', 1994, Dixit, Pindyck, Princeton University Press.

<sup>13</sup> Deferred deliveries are time-definite shipments that normally incur a transit time of between 2 and 5 days for international services outside the EU, depending on distance. Deferred deliveries will usually be the next fastest alternative to express delivery.

<sup>14</sup> The total impact of £3 billion is reported in 'The Economic Impact of Express Carriers in Europe', 2011, Oxford Economics. The share of logistical disruption in this total is discussed in 'The Economic Impact of Express Carriers for UK plc', 2006, Oxford Economic Forecasting and Mott MacDonald.

## 5 Will restricting night flights have an employment impact? (Q62, Q68)<sup>15</sup>

### Key points

- The express delivery industry supports 82,000 jobs in the UK. Of this total, 38,000 people are directly employed by express delivery firms, while the industry supports a further 43,000 jobs in other sectors of the economy.
- Restricting night flights is likely to have a negative employment impact that could persist for several years, harming employment tax revenues and the wider economy.

The express industry makes an important contribution to the UK economy. A recent study shows that the express industry supported 82,000 full-time equivalent jobs in 2010. Of this total, 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.

The Consultation Document, argues that a change in the night flights regime might have a minimal impact on employment across the UK as a whole. As described in paragraph 6.85 of the Document, the justification for disregarding employment impacts is that in a “well functioning” labour market, job losses in one part of the economy ought to be entirely offset by job creation in other parts of the economy.

At the best of times, we believe this to be over-simplistic. Today, with the unemployment rate close to its 15 year high, we believe the proposed approach is not a sound basis on which to base the appraisal. Over the past 3 years ILO unemployment rate has remained close to its current level of 7.8 per cent, over 2 percentage points higher than its average over the preceding twelve years.

Given this very difficult economic climate, many of those who do lose their jobs as a result of a change in the night flights regime are unlikely to find alternative employment quickly. Moreover, it is inevitable that the time they take to find jobs will depend on how quickly the economy picks up. Given the uncertainty about the timing and speed of the economic recovery (see Section 3), it seems very likely that the negative employment impact from further restricting night flights could persist for several years, with serious consequences for those who lose their jobs, as well as harming employment tax revenues and the wider economy.

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<sup>15</sup> Q62: Do you agree that the impact of any change in the night flights regime is unlikely to have a significant impact on employment, and therefore any impact on employment taxes will be minimal?  
Q68: Do you agree with our proposed approach to considering the potential impact of a change in the night flights regime on UK employment? If not, why not, and what would you suggest as an alternative?

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