



Airports Commission
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Sanctuary Buildings
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London
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Discussion Paper 02: Aviation Connectivity and the Economy

DHL welcomes the opportunity to comment on the Airports Commission's *Discussion Paper 02: Aviation Connectivity and the Economy*.

We believe aviation to be critical to the UK's economic prosperity and the work of the Commission will be crucial to helping the UK return to sustainable, long-term growth. Therefore we look forward to working collaboratively with the Commission over the coming months as the various strands of work are finalised and opinions formulated about the options available for maintaining the UK's status as an international hub for aviation.

About DHL

DHL is the global market leader in the logistics industry. We commit our expertise in international express, air and ocean freight, road and rail transportation, contract logistics and international mail services to our customers using a global network comprising of operations in more than 220 countries and territories and approximately 285,000 employees worldwide to offer our customers superior service quality and local knowledge to satisfy their supply chain requirements.

DHL is part of Deutsche Post DHL. [REDACTED]

In the UK there are two DHL business units which are heavy users of aviation:

- **DHL Express** uses aircraft to move time-critical and/or high-value parcels and packages (e.g. electrical components, medical samples, pharmaceuticals, or contract documents) predominantly from business to business, around the globe quickly, securely and efficiently.
- **DHL Global Forwarding** transports goods of any size, shape or weight anywhere in the world, offering different services from time sensitive leased flights through to more economical options including scheduled services and charters.

Both DHL Global Forwarding and DHL Express are market leaders in their respective freight sectors in the UK, playing a crucial role in the movement of materials in global supply chains by relying on UK aviation connectivity and capability. (See Annex 2 for more information)

The DHL Position

Over the following pages we have responded to the questions posed to the aviation industry and its stakeholders (See Annex 1). **However the salient points are:-**

1. Aviation is critical to the UK economy as it allows the rapid transport of people, goods, and services around the globe (relative to other modes of travel). This allows UK businesses to respond to the opportunities that the global economy presents.
2. Air freight (parcel, packages, and freight) and express services are becoming increasingly important for the UK economy as we look to boost our exports to emerging markets.



3. Additional aviation, air freight, express, and infrastructure capacity will be necessary in the South East to enable the UK to compete in the global aviation market. Based on growth expectations and targets, DHL will find it increasingly difficult to achieve the connectivity that we require to meet the demands of our customers to move freight and express shipments by air to key destinations including Brazil, Russia, India, and China (the BRICs), South Africa, Latin America, the Far East, Indonesia, and Australia. The UK must adapt its aviation capability to ensure that the needs of business to access these economics can be met.
4. The South East must retain the airport capacity that supports the provision of bellyhold space for freight and freighter aircraft which is vital for the movement of air freight and express shipments. In addition the South East must retain nightflight capability as these flights are a vital component of the express delivery cycle allowing the latest possible pickup from customers whilst enabling guaranteed next day delivery around the world.
5. The connectivity that Heathrow Airport provides us with is essential for DHL as it gives us access to routes and countries that are not directly served by DHL's own aircraft. Capacity constraints at Heathrow limit the frequency and diversity of destinations served and can impact on DHL's ability to move material around the world as quickly and efficiently as our customers require.
6. DHL flies material in the bellyhold of approximately [REDACTED] from Heathrow Airport as well as operating two dedicated freight flights per day from the airport. This operation complements the fleet of 23 dedicated DHL freighters that we operate out of East Midlands Airport.
7. [REDACTED]
8. As a member of the Association of International Courier and Express Services¹, DHL strongly endorses the AICES response to the Airports Commission's *Discussion Paper 02: Aviation Connectivity and the Economy*.

We trust that this information is useful. **The content of this letter and annexes must be treated as highly confidential and must not be disclosed in any way without the prior consent of DHL.**

If you or your officials require clarification of any of the points made in this documentation, then please contact Sharon Davies at [REDACTED] or Charlie Allen at [REDACTED] or call us on [REDACTED].

Alternatively, if the Commission would like to meet DHL or to tour our facilities at East Midlands Airport to better understand the important role that aviation plays in helping the UK achieve an export led recovery, then I would be pleased to organise this.

Yours sincerely,

Sharon Davies
Senior Corporate Affairs Director
DHL UK & Ireland

¹ The Association of International Courier and Express Services (AICES) is the UK trade organisation for companies handling international express documents and package shipments. AICES members provide door-to-door transport and delivery of tracked next-day or time-definite shipments including documents, parcels and merchandise. AICES members include DHL, FedEx, TNT, and UPS.



ANNEX 1

AVIATION & THE ECONOMY

DHL welcomes the recognition throughout this Discussion Paper of the importance of aviation to the UK economy and in particular the acknowledgement that air freight is essential for the trading of goods and to achieving an export led recovery in the UK economy.

For DHL, aviation enables the time-definite next day delivery of parcels, packages and freight across the UK and around the world. The availability of nightflights from a country of origin is key to achieving this. These flights enable us to collect materials from our customers as late as 17:30 in the country of origin whilst still guaranteeing next day delivery of their shipments to destinations around the world. For example, we can collect goods at 17:30 in London and achieve guaranteed next day delivery before 09:00 to Bonn in Germany.

The only way to achieve this delivery is by flying the shipments over night. This approach is replicated both in DHL operations around the world and by the other major express and air freight carriers.

The movement of goods by air is a premium service and our customers, who operate across the sectors of the UK economy, (from financial and professional services to advanced manufacturers, retailers, and the service sector) tend to use our services only when strictly necessary. For example this could be when the cost of goods not being in place by a particular time out-weighs the cost of sending the goods.

Typically therefore DHL is handling time-critical or high-value goods for export, for example electronic components, medical samples, pharmaceuticals, or contract documents. Other services are available for non time critical deliveries.

DHL & AVIATION IN THE UK

The Airports Commission's Discussion Paper acknowledges the importance of East Midlands Airport (EMA) for the operation of freight only flights, with three of the four global integrators and the Royal Mail using EMA to link with parts of the UK and the rest of the world.

For DHL, East Midlands Airport is our Western European hub for time critical parcel, package and freight movements. DHL operates a purpose built 63 acre facility which handles over 100,000 shipments an hour and up to 100,000 of material every night, with the site operating 24 hours a day, 7 days a week, 365 days a year.

DHL Express operates 23 dedicated freight flights inbound and outbound per night at EMA with the majority of material being flown belonging to DHL Express customers although DHL Global Forwarding may also have material on board.

DHL's operation at EMA works as a system in conjunction with our operation at Heathrow Airport. For example export material may be flown from Scotland into EMA onboard a DHL flight and then driven by lorry to Heathrow to depart in the bellyhold of a passenger aircraft to its final destination in Indonesia. This approach is replicated for transshipments which could for example be flown on board a DHL aircraft into EMA from our global hub in Cincinnati to be driven to Heathrow to catch a passenger flight to a final destination in Mombasa.

The availability of bellyhold connections to and from destinations around the world makes Heathrow crucial to DHL Express and DHL Global Forwarding's operations. For example, DHL Express puts material on approximately 100 flights per week from Heathrow. For the year from March 2012 to April 2013 this equated to over 100,000 of inbound and outbound freight respectively.

In addition to bellyhold shipments, DHL Express is also the largest pure air freighter operator at Heathrow as measured by the number of rotations, with two freighters scheduled for departure to Leipzig (one of DHL's global air freight hubs) every day.

Currently DHL relies on Heathrow more heavily than other EU commercial airports, predominantly due to the global connectivity and relative ease of access that the airport is able to offer us. As a result, Heathrow has developed into a major operating centre for DHL in the UK. Across all DHL divisions, we have in excess of [REDACTED] staff, working at a variety of sites within a mile of Heathrow airport that all directly make use of the airports connections.

The presence of Heathrow as a major global airport hub, combined with the connectivity of other major UK airports, makes the UK a nodal point in the global movement of freight. However we acknowledge that capacity and infrastructure constraints are eroding Heathrow's position of dominance and threaten the UK's position as a key destination for air freight.

CONNECTIVITY, TRADE & AIR FREIGHT

One of the reasons for the UK's success in the global economy is the connectivity that exists between the UK and the rest of the world. Connectivity is recognised in the Discussion Paper as being a key benefit of a thriving aviation sector and DHL supports the assessment that is made of the UK's current connectivity.

For the air freight and express industries, connectivity in terms of reliable, direct flights departing and arriving at the right time of day that originate and terminate in appropriate destinations is vital.

A significant proportion of the UK's connectivity is a legacy of the UK's international trading past. This has led the UK to be better connected to some destinations than to others, for example to India. The legacy of international trade is reflected in aviation connectivity in other countries too. For example, relative to the UK, France has better aviation connections to French speaking parts of Africa and similarly Spain has better air links to Latin America as a direct result of their historical trading links with these regions.

However, the emergence of powerhouse economies such as the BRICs (Brazil, Russia, India, China) is resulting in a shift in the focus of the global economy. In response, the UK is refocusing its industrial strategy away from the traditional domestic, European, and US markets to target these emerging economies.

It is essential that UK aviation connectivity adapts to meet this growing demand from UK businesses as there is currently an imbalance between the lack of supply of flights to these countries from the UK and the raising demand for air freight to be sent there. Already, in order to mitigate the lack of frequency of flights to South America, DHL will fly air freight and express shipments [REDACTED] [REDACTED] we can readily access a supply of passenger flights and bellyhold heading to Latin America.

For DHL's own aircraft, there are certain key connections that the UK must maintain to remain competitive. These feed into one of our global hubs located in Cincinnati, Leipzig, Hong Kong, or into one of our 14 other regional hubs in Amsterdam, Bahrain, Bangkok, Bergamo, Brussels, Copenhagen, Dubai, Frankfurt, Lagos, Heathrow, Panama, Paris, Singapore, and Vitoria (Spain). It is essential that routes and access to these locations are maintained to ensure that UK businesses continue to benefit from accessing the spread of DHL operations in all 220 countries and territories worldwide.

IMPACT OF CAPACITY CONSTRAINTS

One of the guiding principles of operating a successful international supply chain is to be competitive across the "end to end" supply chain - from the point of sourcing for manufacture, inventory positioning and levels and transportation through to the point of final use or disposal. In its simplest form, competition in infrastructure and legislation between countries' supply chains helps to drive the overall competitiveness of the companies operating in those countries.

International supply chains must also be agile and responsive to the needs of the end customer to ensure that goods are fit for purpose. In transport terms this means having transport infrastructure that enables the quick and easy transfer of goods around the world.

Slow transport supply chains can result in increased business costs including excess inventory being held to mitigate slow resupply of goods and even potential obsolescence of products due to them no longer being fit for purpose by the time they reach the end customer.

In a globalised economy, aviation has become a critical part of the supply chain by enabling the efficient transfer of goods from country of origin to destination. By having restricted aviation capacity and subsequent knock-on effects to flight frequency and reliability, the speed of transportation within global supply chains slows. This affects the operators of the supply chain by reducing their ability to respond to changes in demand or production which affects their competitiveness.

For this reason, capacity constraints at South East airports are placing the UK's position as a global air freight and express hub under threat. As a global company, DHL sees competing national economies are keen to usurp the UK's position as a global hub.

FUTURE OF AIR FREIGHT IN THE SOUTH EAST

DHL believes that there is currently sufficient air freight and express services capacity spread across the UK to meet the current needs of our customers. However the UK Government has stated that it wants to see a return to pre-recession economic growth levels and to achieve £1trillion worth of exports by 2020.

To achieve this, DHL believes that additional aviation, air freight, express and infrastructure capacity will be necessary in the South East. Already we are finding it difficult to achieve the connectivity that we require to meet the demands of our customers to move freight by air to key destinations including the BRICs, South Africa, Latin America, the Far East, Indonesia, and Australia.



We are already seeing evidence of the impact of capacity constraints at Heathrow and increased competition from European airports to import and export materials. For example, 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 around the airport as well as broader economic spread effects in the service sector. 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 the South East and especially around Heathrow.

We are already aware of anecdotal evidence of freight forwarding operations leaving the Heathrow area because they cannot obtain the destinations and flight frequency that their customer-base requires, taking with them employment and economic value as they move to other European hubs. If airport capacity continues to be constrained in the South East then this situation is only likely to worsen.

OPTIMISING THE EXISTING INFRASTRUCTURE

One of the potential ways of optimising the use of the existing infrastructure at capacity constrained South East airports could be to encourage increased use of the A380 - the largest, wide-bodied aircraft available.

Greater use could certainly benefit passenger 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, but up to 18 canisters of freight whilst the A380 carries only 4 of the same size cans.



Given that Heathrow is identified in the Discussion Paper as being *'by far the largest UK port in terms of exports by value to non-EU countries'* the UK we must retain sufficient medium sized, wide-bodied aircraft such as the A330 and A350 or the Boeing 787 and 777 on the medium and long haul routes to not reduce the supply of airfreight carrying capacity.

Other opportunities to optimise the use of existing airport capacity include the expansion of the existing nightflights regime. We are aware of the current Government consultation on the future of nightflights at the designated airports in the South East. DHL believes that the UK must retain night-flight capability in the North, Midlands, and somewhere in the South East to remain globally competitive. Retention should include having scope, under certain clearly defined circumstances, to increase night-flight numbers to respond to rising demand for economically valuable air freight services. DHL will be responding to this consultation in due course.

DIRECT VS INDIRECT FLIGHTS

Every time freight is handled it adds cost to the shipment (eg labour charges, operating costs, lead-times, and environmental impacts) which will either have to be absorbed by the business or will be passed on to the end customer through higher charges. Indirect flights are therefore viewed as being more costly than direct ones.

However indirect routes can often have a lower cost per kilo to move shipments. Just as airlines often reduce ticket prices to encourage passengers to fly on indirect routes, so they will lower the cost per kilo for air freight to attract freight and fill the belly of the aircraft, boosting the revenue potential of these flights.

This contrasts with direct flights which in the South East can be constrained in frequency. The higher demand for these flights against the limited availability means that both passenger fares and freight costs per kilo are increased.

For DHL Express customers, they are not involved in the routing of their materials because their motivation for using DHL is usually speed and cost of delivery. As a result, these shipments can make greater use of indirect flights so long as the journey is completed within the requisite timeframe to enable delivery to the end customer.

This contrasts with air freight forwarders such as DHL Global Forwarding, whose routes are often more controlled by the customers as the end customer will often require details of flights so that materials can be collected from gateway airports. This gives customers greater involvement in the shipping process and potentially greater say in the routing of their goods. They may therefore favour direct routes which may have reduced overall costs (eg lower handling charges, reduced risk of damage to goods, etc).

OTHER POINTS

Chapter 3 of the Discussion Paper provides a quantification of the value of the goods that are transported by air. DHL believe however that the figure is underestimated as it fails to take into account 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 China may be required the next day to fix broken drilling equipment on a North Sea oil rig where every day of lost production costs £200,000. The value-add of the widget not only to the oil 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 DHL and other freight and express carriers 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.

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 and express 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.



ANNEX 2 (Commercially sensitive information)

DHL in the UK (February 2013)

- Express Parcel courier services using ground and air transport for companies and private customers.
- Widest reach in the industry, with own network covering more than 220 countries and territories worldwide.

LOCATIONS: [REDACTED]
VEHICLES: [REDACTED]
EMPLOYEES: [REDACTED]

- Mailroom output for SMEs.
- Worldwide B to C package services for e-Commerce.
- Environmentally friendly Hybrid Mail options.
- A unique range of B2B & B2C mail and parcel solutions to Germany.

LOCATIONS: [REDACTED]
VEHICLES: n/a
EMPLOYEES: [REDACTED]

- End-to-end supply chain services spanning all industries including most of the UK's best known brands.
- Manages NHS Supply Chain contract – 600,000 products for 1000 healthcare organisations.

LOCATIONS: [REDACTED]
VEHICLES: [REDACTED]
EMPLOYEES: [REDACTED]

- Intercontinental transportation by air & sea.
- Tailored solutions for a wide range of sectors including life sciences, perishables, aerospace, motorsport, fashion, & publishing.

LOCATIONS: [REDACTED]
VEHICLES: [REDACTED]
EMPLOYEES: [REDACTED]

- Domestic and European transport of goods via road, with next-day delivery of pallets and freight to mainland UK and daily departures to Europe.

LOCATIONS: [REDACTED]
VEHICLES: [REDACTED]
EMPLOYEES: [REDACTED]

LOCATION: [REDACTED]
VEHICLES (excl trailers): [REDACTED]
VEHICLES (incl trailers): [REDACTED]
EMPLOYEES: [REDACTED]

About DHL Express

DHL Express uses aircraft to move time-critical and/or high-value parcels and packages (eg electrical components, medical samples, pharmaceuticals, or contract documents) door-to-door, around the globe quickly and efficiently.

To deliver these goods, we use a combination of our own aircraft flying at night and the belly-hold of commercial passenger aircraft to transport items around the world.

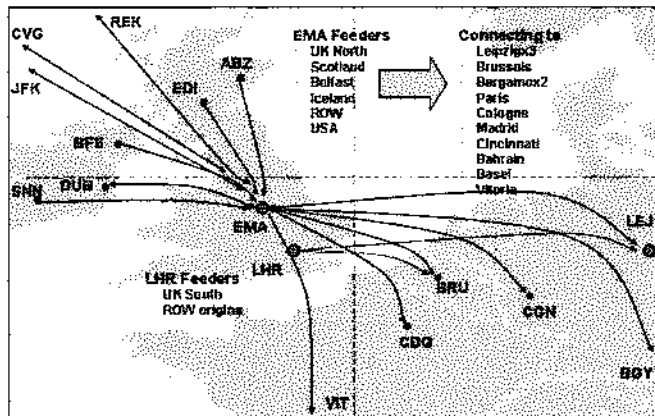
Using belly-hold supplements our own capacity and expands the breadth of destinations that we are able to reach. It also improves the economic efficiency of commercial aircraft, reducing the carbon footprint of every item and passenger onboard. This air cargo (time-critical parcels, packages, and freight) is an important contributor to the profitability of passenger airlines, particularly on long haul.

Due to the cost of flying our own aircraft and a need to keep operating costs as low as possible, DHL flies its own aircraft only when strictly necessary, for example within Europe when we cannot find a scheduled operator, or on intercontinental routes where we have sufficient volume to fill a plane.

The five busiest trade lanes/international destinations for DHL Express by volume are:

	Point of Origin into UK		Destination from UK
#1 destination for import	[REDACTED]	#1 destination for export	[REDACTED]
#2 destination for import	[REDACTED]	#2 destination for export	[REDACTED]
#3 destination for import	[REDACTED]	#3 destination for export	[REDACTED]
#4 destination for import	[REDACTED]	#4 destination for export	[REDACTED]
#5 destination for import	[REDACTED]	#5 destination for export	[REDACTED]

Map of key domestic and international connections used by DHL Express for daily operations.



East Midlands Airport (EMA) is the location of the DHL Western Europe Hub for DHL cargo freighters carrying time critical and high-value parcels, packages and freight. London Heathrow is used to transport similar goods on-board commercial passenger aircraft and a small proportion of DHL cargo freighters.

The DHL Hub is a purpose built [REDACTED] 63 acre facility, handling over [REDACTED] shipments an hour and up to [REDACTED] of material every night. The site operates 24 hours a day, 7 days a week, 365 days a year.

Aberdeen (ABZ), Edinburgh (EDI), and Belfast (BFS) Airports all supply feeder flights to East Midlands so that parcels and packages from the UK regions can be consolidated for onward distribution in the UK (by road) and overseas (by air).

In 2010, DHL Express in the UK moved [REDACTED] individual shipments around the UK, from point of entry/origin to destination.

In 2013 the number of commercial passenger flights used by DHL Express to its parcels and packages (including leased flights) were:

- Inbound to Heathrow (per day) [REDACTED]
- Outbound out of Heathrow (per day) [REDACTED]

About DHL Global Forwarding (DGF)

- DGF transports goods of any size, shape or weight anywhere in the world offering different services from time sensitive leased flights, through to more economical options including scheduled services and charters. Globally DGF carries 12% of the total worldwide air freight, more than twice as much as our nearest competitor.
- In 2012, DGF flew in excess of [REDACTED] of freight in to and out of the UK [REDACTED] reflecting the impact of the global economic downturn).
- The five busiest trade lanes/international destinations for DGF (includes air and sea freight) are:

	Point of Origin into UK		Destination from UK
#1 destination for import	[REDACTED]	#1 destination for export	[REDACTED]
#2 destination for import	[REDACTED]	#2 destination for export	[REDACTED]
#3 destination for import	[REDACTED]	#3 destination for export	[REDACTED]
#4 destination for import	[REDACTED]	#4 destination for export	[REDACTED]
#5 destination for impo	[REDACTED]	#5 destination for export	[REDACTED]