



AICES Response: Airports Commission Discussion Paper 04: Airport Operational Models

The Association of International Courier and Express Services (AICES) welcomes this opportunity to respond to the Airports Commission Discussion Paper 04: Airport Operational Models. 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 freight hubs and night flights.

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

Questions Chapter 3, Paragraph 3.36

3.36 What are the impacts on airlines and passengers of the fact that the wave system at Heathrow operates under capacity constraints?

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.

Heathrow provides express services with 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 because of capacity constraints would make the UK less competitive.

Would expanding UK hub capacity (wherever located) bring materially different advantages and disadvantages from expanding non-hub capacity? You may wish to consider economic, social and environmental impacts of different airport operational models.

For express services, hub freight airports need to have 24 hour and 7 day operation to allow express operators to satisfy customer demands for overnight deliveries and to enable transshipment activity.

Express services need a hub operation in the South East in order to ensure overnight deliveries to UK business. It is vital that capacity constraints at Heathrow do not end in restrictions on belly hold or negatively impact the UK's connectivity. Equally, express operators depend on having an airport in the South East – currently Stansted – which allows for 24 hour operations, 7 days a week. If restrictions on night flights were introduced at Stansted, its role as a hub could be compromised and there would be a severe and detrimental impact on express companies' ability to service their customer's needs for overnight deliveries which in turn impacts on the UK's competitiveness.

A hub airport in the South East with both long haul and short haul flights is important in order to ensure connectivity which is crucial to express services. Loss of connectivity would require express operators to utilise more stopovers and therefore more short haul flights to reach the same destinations in the UK. More stop overs increases costs and environmental impact.

When considering the Heathrow hub model, AICES believes that consideration needs to be given to the significant number of express customers that have located their businesses around Heathrow in order to be in close proximity to our members' services and take advantage of the latest possible collection times in the working day. The Commission also needs to consider all the businesses that service those businesses close to Heathrow eg catering and cleaners.

To what extent do transfer passengers benefit UK airports and the UK economy?

AICES does not believe that the issue of transfer passengers should be considered without also looking at the economic significance of 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 two key hub transshipment airports in the UK are Stansted and East Midlands (EMA).

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

Transshipments, like transfer passengers, 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. 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.

Chapter 4 – The Structure and Operation of the UK aviation sector

AICES welcomes the acknowledgement in paragraph 4.5, page 34 that airports are important in respect of freight transport and the limitations on freight-only flights as a result of the capacity constraints at Heathrow. As stated above, belly hold at Heathrow is a crucial part of UK express operations. At Heathrow there could also be major consequences if express customers could not receive traffic off the current 16 early morning arrivals. This could 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.

Night flights

AICES further welcomes the recognition in Box 4, page 47 of the role of night flights in the UK economy. Night flights are crucial to express services.

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

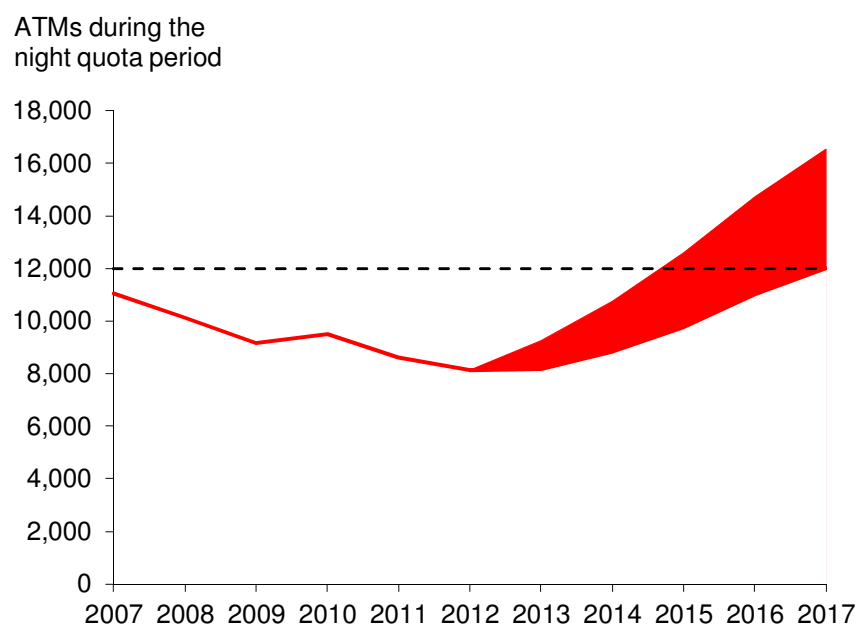
delivery process to take place during the night. Generally, this overnight delivery is only achievable if the goods are transported by air, although goods will always be trucked if timely delivery can be assured for cost and environmental reasons. Night flights will therefore always be vital to express services.

AICES welcomes the Commission's acknowledgement that responses to the Government's night flights consultation pointed to the need to take into account future operational demands at Stansted.

AICES has commissioned independent research by Oxford Economics to examine the impact of restrictions on night flights in more detail. In this 2013 report¹, 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 cyclical, 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



Source : Oxford Economics

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

¹ 'Response to the Department for Transport's Night Flights Consultation' Oxford Economics April 2013.

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.”

AICES believes that any future strategy for airport operational models needs to consider the impact of economic growth on demand for express services and therefore night flights. We are also concerned that transshipments as well as transfer passengers need to be taken into account when considering operational models given the value of express services to the UK economy.