

Airports Commission Consultation on options For Additional Runway Capacity



Submission by the Freight Transport Association 3 February 2015

Freight Transport Association

1. The Freight Transport Association (FTA) is one of Britain's largest trade associations, and uniquely provides a voice for the whole of the UK's logistics sector. Its role, on behalf of over 14,500 members, is to enhance the safety, efficiency and sustainability of freight movement across the supply chain, regardless of transport mode. FTA members operate over 200,000 goods vehicles - almost half the UK fleet - and some one million liveried vans. In addition, they consign over 90 per cent of the freight moved by rail and over 70 per cent of sea and air freight. FTA works with its members to influence transport policy and decisions taken at local, national and European level to ensure they recognise the needs of industry's supply chains.

Introduction

2. As indicated above, the FTA represents a broad spectrum of UK logistics interests, but also significantly, the UK's major importers and exporters who as shippers of goods are responsible for consigning over 70 per cent of freight moved by sea and air. These interests are represented internally through FTA's British Shippers' Council. This response to the Airports Commission consultation on the three options identified by the Commission therefore provides a freight user perspective to the short-listed options. Moreover, this response does not distinguish between the two Heathrow options, but assesses the wider benefits of an overall Heathrow option alongside the Gatwick option.
3. FTA's earlier responses to the Airports Commission have primarily focused on the wider economic impacts on shippers of goods resulting from a failure to adequately invest in additional airport capacity in the UK, in particular the need for enhanced runway capacity at Heathrow Airport, the UK's primary hub for air cargo services. These submissions specifically focused on the Airports Commission consultations on Aviation Connectivity, Making Best Use of Existing Airport Capacity in the Short and Medium Term, and Long Term Options. The main focus of these submission's, however, centred on connectivity and the growing potential adverse impact of constrained demand on the UK's connectivity and international competitiveness, particularly with regard to new emerging overseas markets resulting from a failure to invest in the nation's main hub airport. Our submission highlighted the importance of air freight to the UK economy, noting that air freight accounted for about 40% of the UK's extra-UK trade by value and was a vital mode of transport for key sectors of the economy, including pharmaceuticals, retail, automobile and high-end manufacturing. The submission noted that these industries were reliant on Heathrow as one of the world's leading hub airports offering an unparalleled range of point-to-point international services.
4. FTA welcomed the Airports Commission Interim Report published in December 2013. We welcomed recognition of the need for additional capacity in London and the South East, and that in terms of connectivity, Heathrow is in a dominant position in comparison with other European hubs regarding established markets, but has not been able to establish a similar position with regard to emerging markets. While the Interim Report identified the significance of air freight (3.19 of the Report) we were however concerned that the Commission may have under-estimated its importance to UK economy, and therefore, its significance in terms of the Commission's evaluation of future airport capacity needs. We were equally concerned that importance of the hub concept for air freight may not have been fully appreciated and that future air freight demand could be otherwise met. In February 2013, FTA therefore published *Sky High Value, the importance of air freight to the UK economy* (see annex 1 attached) as an integral part of its response to the Interim Report. FTA has subsequently undertaken further research into the impacts and value of air freight and the results of this research are set out below in response to the questions posed by the Airports Commission consultation on the short listed options and appraisal of the overall approach taken by the Commission.

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Conclusions drawn from the short listed options

5. The FTA supports the main finding of the Interim Report that additional runway capacity is needed in the South East of England by 2030. We further agree with the Commission that additional capacity is needed to maintain the UK's connectivity and hub status as set out at 4 above and below. We concur with the Commission's assessment that the UK's capacity needs cannot be met by non-runway options, including taxation measures which would undermine the UK's connectivity and competitiveness in overseas import and export markets. This, in particular, is underlined by a report commissioned by FTA undertaken by York Aviation which forecasts estimates of higher global growth in international air freight in the region of 2.3% per annum to 2050 representing an additional 4.2 million tonnes of air cargo ¹ (see p18 of the York Aviation report at annex 2 attached). This further underlines the importance of the need for investment in runway capacity. However, this is a conservative estimate. For instance Boeing's 2012-2013 World Cargo Forecast predicts global growth of 5.2% for the next 20 years compared to 3.7% per year over the last 10 years.
6. In line with the Commission's strategic fit criteria related to the shortlisted options, in particular regarding maximising the economic impacts for the economy, jobs and competitiveness, the FTA commissioned York Aviation report highlighted above assesses the implications for the air freight sector of the different airport capacity options (See annex 2). The report findings indicate that air freight is a significant driver for the UK economy and that damaging its ability to function effectively in the longer term through a failure to deliver capacity improvements, or to develop the wrong options could have serious implications for the UK economy. There are consequently significant potential implications for air freight operations, with knock-on implications for the broader freight industry and ultimately freight users represented by FTA arising from a failure to expand capacity or in developing the wrong option.
7. In view of the implications for freight customers, FTA asked York Aviation to model potential runway capacity development scenarios up to 2050, potential air freight capacity in the London in system to 2050, and how the freight industry was likely to react to the shortlisted options. The report also examines the long term productivity of the UK and the economic impact for air freight. The key conclusions and findings are shown below.
8. FTA's report commissioned from York Aviation assesses the potential freight capacity in the London system and the extent to which this can meet future demand for air freight in London, see p17 and 19 of the York Aviation report. The report models various scenarios, ranging from no expansion, an unconstrained 4th runway hub and the Heathrow and Gatwick options identified by the Airports Commission. The report estimates that if no additional capacity is provided in London, there will be significant additional air freight trucking costs estimated to be around £41.6 million by 2050. The costs are however substantially reduced by nearly a half with a third runway at Heathrow to £23.5 million per annum but by much less resulting from a second runway at Gatwick at around £36.1 million. For the reasons further explained below, Gatwick is the least favourable option for shippers and freight operations as this will impose additional higher costs on freight operations reducing connectivity and competitiveness in international markets.

¹ Implications for the Air Freight Sector of Different Airport Capacity Options, Prepared for the Freight Transport Association and TfL Final Report January 2015.

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9. The above estimates are based on a growing freight market coinciding with growing capacity constraints at Heathrow and the inability of the Heathrow hub to grow in terms of air transport movements, see the air freight market in London in sections 1 and 2, p10-11 of the York Aviation report, and potential air freight capacity in the London system at p19-20 of the report. FTA supports the York Aviation analysis of how the air freight market is likely to react to the situation arising from a Gatwick option, see p22-23 of the report. In FTA's view, this is likely to result in either a continued focus on Heathrow because air freight is predominantly long haul, or carriers, over time, will split their hub operations between Heathrow and Gatwick. In either scenario, freight costs are likely to rise for shippers as freight capacity is constrained at Heathrow and rising air freight demand, or carriers split their operations between Heathrow and Gatwick. Under the latter scenario, this will lead to higher costs due to additional trucking and significant inefficiencies through duplication of operations. Overall, FTA and York Aviation estimates additional trucking costs in London to be in the region of £2 million per annum in addition to considerable increased utility costs resulting from delays and increased transit and cut off times, see 10 and 11 below.
10. A more detailed comparison between the Heathrow and Gatwick expansion options is set out at p31-32 of the York Aviation report. Here, six comparisons were made between Gatwick and Heathrow scenarios and the consequences of a 'no expansion' situation. Of these three options, Heathrow expansion provides the most significant economic benefits, in terms of cost reduction, job creation and minimisation of extra costs associated with increased freight transit times. For the six key freight comparisons the Heathrow expansion option is on average 43% more economically beneficial than 'no expansion', whereas Gatwick is only on average 15% more beneficial than the 'no expansion' scenario, see table in p31 of the York Aviation report. In addition, our analysis shows the costs of trucking would be substantially reduced (44% or £17.1 million) as a result of Heathrow expansion compared to saving of just 13% with Gatwick expansion. Moreover, 'Freight User Time Costs', i.e. the costs associated with increased transit times for goods would be reduced by 44% equating to a saving of £165 million for Heathrow compared with cost savings of 15% for Gatwick. Similarly, the knock-on reduction of Economic Gross Value Addition (GVA) is substantially reduced by Heathrow (44%) compared with 15% by Gatwick. Furthermore, the job creation benefits are considerably more beneficial as a result of the Heathrow option compared with Gatwick, see p32 of the York Aviation report.
11. Regarding trucking outside of the London system, the York Aviation report confirms FTA's concern that a significant amount of Heathrow bellyhold air freight capacity is likely to be trucked to the main continental hubs to take advantage of the extensive international long haul networks provided by Amsterdam, Frankfurt and Paris. Not only will this increase greenhouse gas emissions, the FTA believes this threatens some relocation of manufacturing to the mainland continent to minimise trucking and reduce extra lead times to cut transit times and costs, especially for time sensitive products.
12. The wider costs to the UK economy and the economic impact of air freight are further set out the York Aviation report commissioned by FTA. The York Aviation report, drawing on previous work undertaken by the UK Department for Transport and Steer Davies and Gleave, 2010, estimate 39,100 jobs (£2,004 million) are directly attributable to air cargo, most situated around Heathrow; 135,000 direct and indirect induced jobs (£7,339 million); and 282,400 jobs (£14,278 million) of total impact including impact on the wider economy in terms of GVA to the UK economy contributed by the air freight sector. York Aviation estimate that no expansion would result in lost GVA of around £978 million by 2050. Heathrow expansion would result in a reduced loss of £551 million and Gatwick by a loss of around £836 million respectively in GVA by 2050 to the UK economy, underlining FTA's strong preference for a Heathrow hub option to support air freight services for UK shippers and the wider UK economy.

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13. With regard to the surface access appraisal models for Gatwick and Heathrow options set out in the consultation document, FTA agrees that these provide highly realistic assessments of the road and rail infrastructure enhancements for air freight and wider needs of the economy resulting from the expansion options. With regard to freight however, in particular the potential for rail freight access, the Heathrow options provide some advantages over the Gatwick option, in particular the opportunities afforded by Crossrail and the potential option of an interchange with HS2 at Old Oak Common. Moreover, generally, motorway access via the M25, M4 and M40 provides advantages for Heathrow for freight movements. Freight moving by road would encounter longer journey times with regard to the Gatwick option, especially freight from destination and origin points North and West of London.



Implications for the Air Freight Sector of Different Airport Capacity Options

Prepared for the Freight Transport Association
and Transport for London

Final Report

January 2015



York Aviation

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The York Aviation contacts associated with this report are:

[Redacted contact information]

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Key Points

Key Points (1)

- So far, the work undertaken by the Airports Commission has focussed strongly on the needs and requirements of the passenger market at London's airports. Issues around the freight market have largely been underestimated and there are also concerns in the freight industry that the Commission has little understanding of how the air freight market operates or its importance in supporting the UK economy.
- Air freight accounts for about 40% of UK imports and exports by value. It is an essential enabler for a wide range of industry sectors, handling high value goods, which require rapid, secure and reliable transport to destinations all over the globe.
- The UK air freight market is dominated by London and more specifically by Heathrow. In 2013, the main London airports handled around 1.8 million tonnes of freight, with Heathrow accounting for around 1.4 million tonnes.
- Air freight tonnage at the London airports has grown over the last 20 years. However, this disguises a worrying trend. The market grew rapidly until 2000, but since that time it has largely stagnated. This stagnation has coincided with growing capacity constraints at Heathrow and the inability of the London hub to grow in terms of Air Transport Movements (ATMs). The air freight market in London is already being constrained by the capacity issues at Heathrow. It also seems clear that to a significant degree other airports cannot step in to provide relief as they do not have the long haul networks to support bellyhold capacity. Only Stansted, with its significant spare runway capacity, has emerged as an alternative for pure freighter airlines.
- Air freight is a significant driver for the UK economy. Damaging its ability to function effectively in the longer term through the failure to deliver capacity improvements or the development of the wrong options could have serious implications for the UK economy.
- In 2010, Steer Davies Gleave (SDG), as part of their work for Department for Transport on Air Freight in the UK, estimated the total economic footprint of the sector (direct, indirect and induced effects) to be around £7.3 billion in Gross Value Added (GVA) and 135,300 jobs. The impact of the sector on the wider economy is difficult to quantify effectively. However, SDG estimated that the total value of air freight services including wider impacts to the UK economy was around £14.3 billion and 282,400 jobs.
- By 2050, the London system airports will be full if either no capacity is added or a third runway is added at Heathrow or a second runway is built at Gatwick. Only a 4 Runway Hub would provide some spare capacity at 2050. This has significant implications for the ability to service air freight demand from London. We would expect significant volumes to have to be trucked elsewhere by 2050 in constrained scenarios:
 - No Expansion – 2.1 million tonnes of freight or around half of total freight demand in 2050;
 - Heathrow Runway 3 – 1.2 million tonnes of freight or around 85% of the freight throughput of Heathrow now;
 - 2nd Runway at Gatwick – 1.7 million tonnes of freight.
- This will ultimately have significant negative impacts on the UK economy.
- If no additional capacity is provided in London (No Expansion), the additional trucking costs are estimated to be around £41.6 million per annum in 2050. With a 2nd Runway at Gatwick, these costs reduce to a total of around £36.1 million per annum. Heathrow Runway 3 results in additional costs of around £23.5 million per annum. These costs are likely to be passed through to users of freight services.

Key Points (2)

- There are also potentially significant impacts on freight users time costs from increased transit times. No Expansion of capacity will result in a loss of user time costs of around £378 million per annum. The addition of a second runway at Gatwick improves the situation but the costs are still ultimately significant at around £321 million per annum. Heathrow Runway 3 results in a loss of around £213 million per annum.
- The consequent impacts on long term GVA in the wider economy are again significant. No Expansion results in lost GVA of around £978 million per annum by 2050. Heathrow Runway 3 results in a GVA loss of around £551 million per annum by 2050. 2nd Runway at Gatwick results in a GVA loss of around £836 million per annum by 2050.
- In addition, the impact on the sector's economic footprint (direct, indirect and induced impacts) in 2050 could be :
 - No Expansion – around £637 million in GVA and 6,800 jobs;
 - Heathrow Runway 3 - £359 million in GVA and 3,800 jobs;
 - 2nd Runway at Gatwick - £544 million in GVA and around 5,800 jobs.
- Ultimately, our analysis demonstrates clearly the importance of the provision of sufficient concentrated airport hub capacity in London by 2050. Without this capacity the air freight industry will suffer, as, ultimately, will the end users in the UK economy.

Introduction

Introduction

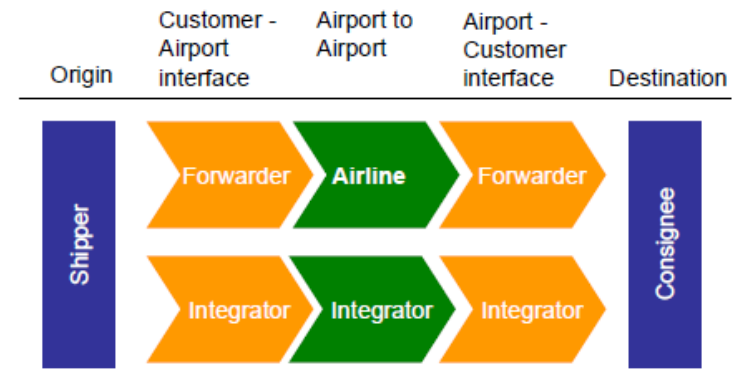
- In August 2014, York Aviation was commissioned by the Freight Transport Association and Transport for London, to consider the potential long term effects on the UK economy from changes in the air freight industry in the UK resulting from different potential development scenarios for runway capacity in London.
- So far, the work undertaken by the Airports Commission has focussed strongly on the needs and requirements of the passenger market at London's airports. The Commission has identified the need for one more runway in London by 2030 and has chosen to focus its work on considering where this additional runway should be located and is currently appraising options at Heathrow and Gatwick and up until September, it was considering the Mayor of London's proposal for a four runway hub in the inner Thames estuary. The Commission has recognised that further runway capacity, beyond the initial additional runway, is likely to be needed soon after 2030 and that certainly by 2050 as, even with one more runway in London, the London airports will be full.
- Clearly, the debate around the location of further runway capacity and, ultimately the amount of further capacity, will not just affect passengers and passenger airlines. There are significant potential implications for air freight operations, with knock-on implications for the broader freight industry and ultimately for freight users. However, to date, issues around the freight market have largely been underestimated in the Commission's publications and there are also concerns in the freight industry that the Commission has limited understanding of how the air freight market operates or its importance in supporting the UK economy.
- This short report seeks to address some of these issues, building on previous work undertaken by York Aviation and on a range of other publicly available information:
 - focussing on potential impacts in the longer term at 2050;
 - examining the implications for air freight capacity in London;
 - considering how the freight industry might react in different scenarios to service demand;
 - identifying and where possible quantifying the potential impacts on freight users.
- The analysis undertaken here necessarily adopts a range of simplifying assumptions given the timescales for the study, the limited availability of information on air freight operations and demand compared to the passenger market and the lack of information on air freight in the forecasting work undertaken by the Department for Transport in its 2013 UK Aviation Forecasts and latterly by the Airports Commission.
- This report is structured as follows:
 - in **Section 2** we set out some basic information on the air freight market in London and across the UK;
 - in **Section 3** we provide some background on the importance of air freight to the economy;
 - in **Section 4** we present our estimates of the impact on air freight capacity in London of the runway development scenarios;
 - in **Section 5** we discuss how the industry might react to these scenarios and present our estimates of the impact on the UK economy;
 - in **Section 6** we outline our conclusions.
- In addition, given the options now being considered by the Airports Commission, we have included an Appendix that specifically considers the relative merits of expansion at Heathrow and Gatwick using the evidence developed during this study.

The Air Freight Market in the UK

Air Freight in the UK

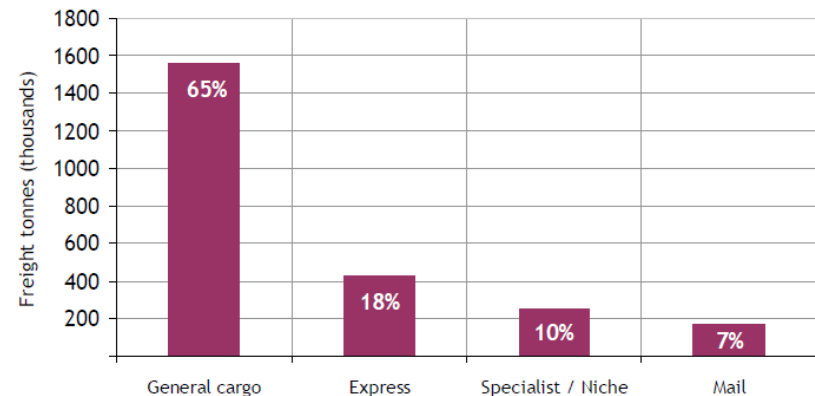
- Air freight accounts for about 40% of UK imports and exports by value. It is an essential enabler for a wide range of industry sectors, handling high value goods, which require rapid, secure and reliable transport to destinations all over the globe. Key users include high end manufacturing, engineering, pharmaceuticals, retailing, financial and business services and the automotive sector.
- Steer Davies Gleave (SDG), in its work for the Department of Transport on UK Air Freight in 2010, identified two broad business models operating in the UK:
 - General Cargo transported by passenger and freight airlines with collection and delivery organised by freight forwarders; and
 - The Integrator model, which tends to focus on smaller consignments, where collection and delivery, and often the air component of the journey are all managed by a single organisation.
- The integrator model, as operated by companies such as DHL, UPS, TNT and Federal Express, has been of growing in importance in the last two decades. This model focussed originally on express courier services but has broadened out substantially. As a consequence, the two models increasingly crossover.
- Broadly, SDG split the air freight market in to four product types. General air cargo, express freight, specialist / niche freight and mail (see figure opposite). Express freight is the fastest growing segment of the market and, while speed is a feature of all air freight, it is within this segment that time critical activities are most extreme.

FIGURE 1.4 SIMPLE DOOR TO DOOR AIR FREIGHT VALUE CHAIN



Source: SDG.

FIGURE 5.1 TOTAL FLOWN UK AIR FREIGHT BY MARKET TYPE 2008 (INBOUND AND OUTBOUND)

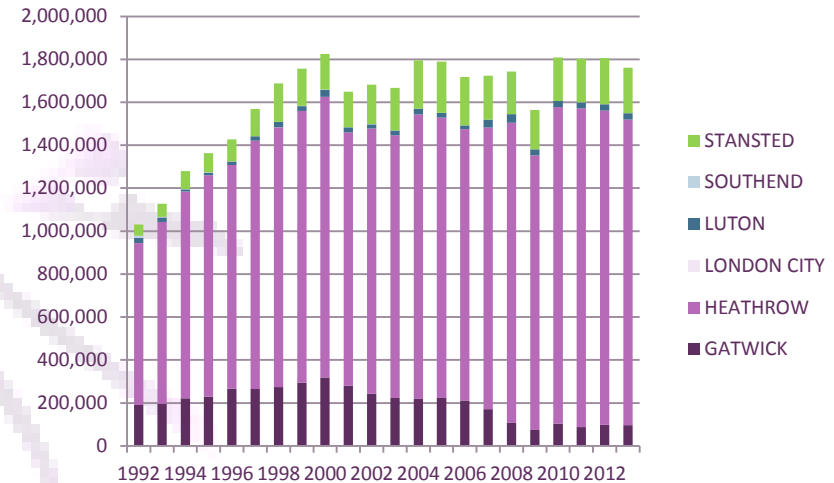


Source: SDG analysis of CAA and other sources.

Air Freight Market in London (1)

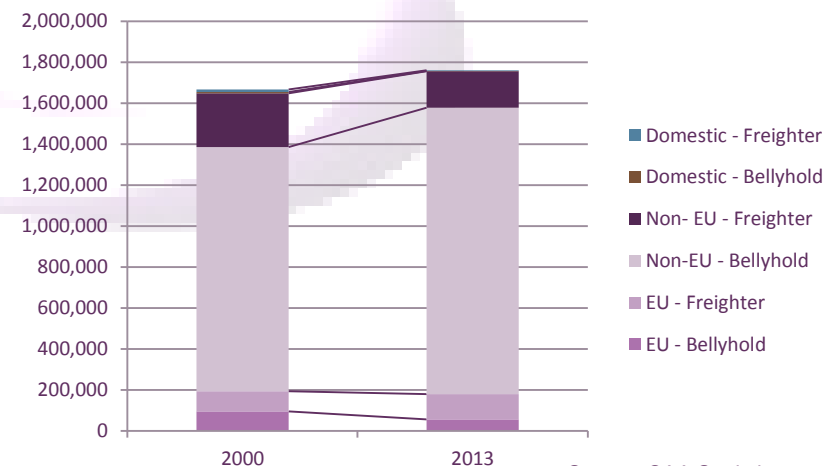
- The UK air freight market is dominated by London and more specifically by Heathrow. In 2013, the main London airports handled around 1.8 million tonnes of freight, with Heathrow accounting for around 1.4 million tonnes. The only other significant player in the London market was Stansted, which handled around 0.2 million tonnes, with Gatwick handling around 0.1 million tonnes. The market has been largely constant over the last 10 years following rapid growth in the 1990s.
- The air freight market is predominantly long haul and had become increasingly so over time. For domestic and short haul destinations in Europe, it is often cheaper, faster and more flexible to truck freight to its destination. It is difficult to precisely define where the tipping point lies between trucking and air freight in terms of distance. However, for overnight parcels it is believed to be around 500km but, for less urgent freight, it could be substantially further.
- Air freight is carried in both the bellyhold of passenger aircraft and in dedicated freighter aircraft. The existence of the former method helps to explain the dominance of Heathrow in the market in London. Heathrow, as a global hub airport, offers by far the largest range of long haul destinations of the London airports and by far the most aircraft capacity. Almost all of the 1.4 million tonnes of freight handled at Heathrow in 2013 was carried in the bellyhold of passenger aircraft. Increasingly, pure freighter operations have moved out of Heathrow as higher yielding passenger services have taken over their slots. The same is true of air freight operations at Gatwick
- Conversely, at Stansted Airport, the only other major player in the London market, the focus is on pure freighter aircraft, operated by a range of freight airlines. The Airport's passenger airlines focus on short haul travel using narrow body aircraft. Their business models do not fit well with carrying freight, particularly the low fares airlines.

Freight Tonnage at London Airports



Source: CAA Statistics.

Freight Tonnage at London Airports by Destination and Configuration

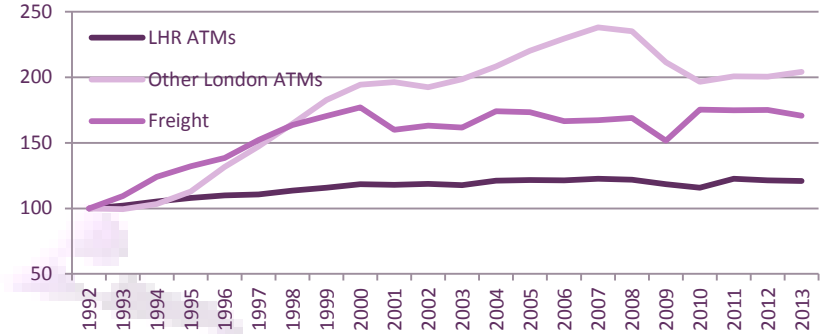


Source: CAA Statistics.

Air Freight Market in London (2)

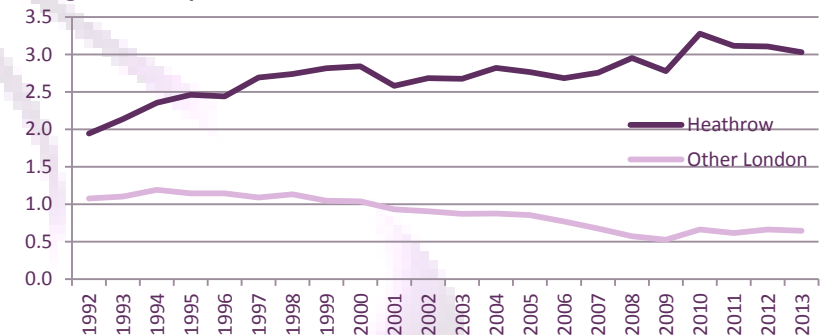
- Air freight tonnage at the London airports has grown over the last 20 years. However, this disguises a worrying trend. The market grew rapidly until 2000, but since that time it has largely stagnated. This stagnation has coincided with growing capacity constraints at Heathrow and the inability of the London hub to grow in terms of Air Transport Movements (ATMs).
- This is demonstrated in the chart opposite which shows freight tonnage tracking ATM growth at Heathrow. The growth in ATMs across the London system as a whole appears to have had no influence at all on air freight growth. This re-emphasises the importance of Heathrow in the air freight market as the primary provider of air freight capacity. The other airports, without Heathrow's long haul connections, simply do not provide an alternative. Only Stansted, with its significant spare runway capacity, has emerged as alternative for pure freighter airlines, albeit the range of destinations served by these aircraft is substantially smaller than is available using bellyhold capacity in passenger aircraft.
- The impact of constraint at Heathrow can also be seen in terms of the increasing freight loads per movement at the airport. Since 1992, the average amount of freight per movement has grown from around two tonnes to around three tonnes. At the same time, the average load at the other London airports has nearly halved, with airlines at the other London airports increasingly focussing on low cost, short haul travel.
- It is also interesting to compare Heathrow's performance to the other major European hub airports. In the last 10 years, both Paris and Frankfurt have outperformed Heathrow. Amsterdam was performing well prior to the global recession but experienced a more significant drop in freight throughput than the others and has still not recovered.
- Overall, it seems reasonable to suggest that the air freight market in London is already being constrained by the capacity issues at Heathrow. It is also seems clear that to a significant degree other airports cannot step in to provide relief as they do not have the long haul networks to support bellyhold capacity.

Freight Tonnage vs ATM Growth (Index: 1992 = 100)



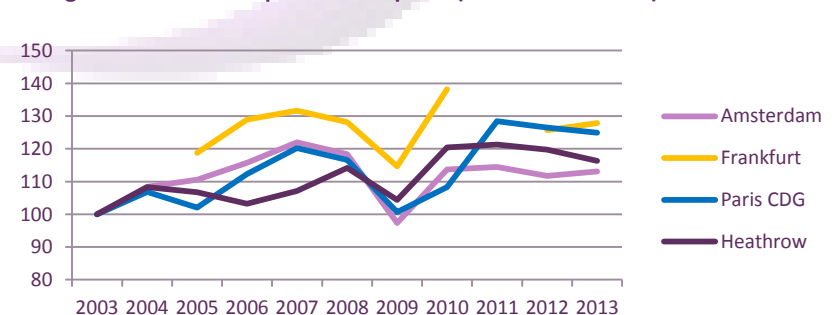
Source: CAA Statistics.

Freight Tonnes per Movement



Source: CAA Statistics.

Freight Tonnes at Europe's Hub Airports (Index: 2003 = 100)



Source: Eurostat.

Air Freight in the Rest of the UK

- Outside of London and the South East, there are only a limited number of UK airports with a significant air freight presence (the main London airports account for 77% of the market).
- East Midlands is by some margin the most significant freight airport outside London, with nearly 0.3 million tonned. It focuses on pure freighter operations and is the main UK base for DHL and a significant base for UPS and TNT.
- Manchester Airport is the largest bellyhold freight airport outside of London. The airport is also the largest long haul passenger gateway outside London, so this is not surprising. Birmingham Airport also has some bellyhold freight traffic, supported by the airport's long haul services, but is substantially smaller than Manchester.
- Manston Airport in Kent did, until recently, provide some additional freighter capacity for London. However, the airport closed in May 2014 following financial difficulties.
- Overall, this suggests that there is no 'ready made' solution to air freight capacity constraints in London immediately obvious in the UK regions.
- East Midlands clearly has the potential and capacity to be significant freighter only location but does not have a long haul passenger offer to support a bellyhold capability.
- Manchester has some potential to offer an alternative for bellyhold freight but is obviously a considerable distance from London and alternatives on the continent, such as Paris CDG or Amsterdam, offer a significantly greater long haul networks if freight needs to be trucked some distance.
- Birmingham may offer some options for bellyhold capacity but again will struggle to compete with the broader long haul networks at the continental hubs.

Air Freight Tonnes at UK Airports

	Tonnes	%
London - Bellyhold	1,455,725	64%
London - Freighter	304,965	13%
East Midlands - Bellyhold	16	0%
East Midlands - Freighter	266,952	12%
Manchester - Bellyhold	81,927	4%
Manchester - Freighter	14,446	1%
Manston - Bellyhold	9	0%
Manston - Freighter	29,297	1%
Belfast - Bellyhold	106	0%
Belfast - Freighter	29,181	1%
Birmingham - Bellyhold	15,269	1%
Birmingham - Freighter	5,797	0%
Other UK - Bellyhold	21,763	1%
Other UK - Freighter	42,356	2%
Total	2,267,811	100%

Source: CAA Statistics.

Current Economic Importance of Air Freight in the UK

The Economic Impact of Air Freight

GVA and Employment Impact of Air Freight on the UK Economy



- The importance of air freight to the UK economy can be demonstrated by its economic impact. It is not only important as an economic activity in its own right, providing jobs and supporting Gross Value Added (GVA), but, as we have described above, it also supports significant employment and Gross Value Added in the wider economy through the provision of its services to a range of industries in the UK economy.
- In 2010, SDG, as part of their work for Department for Transport on Air Freight in the UK, considered the economic impacts of the sector on the UK economy. It estimated that air freight services directly supported around £2 billion in GVA and around 39,100 jobs. In addition, through its supply chain (indirect effects) and through the expenditure of incomes earned in the direct and supply chain activities (induced effects), it supported significant GVA and employment. SDG estimated the total economic footprint of the sector (direct, indirect and induced effects) to be around £7.3 billion in GVA and 135,300 jobs.
- The impact of the sector on the wider economy is difficult to quantify effectively. However, using a multiplier analysis based on the UK input-output tables, SDG developed an estimate of what it termed forward linkage effects in the economy. Taking these impacts into account, SDG estimated that the total value of air freight services to the UK economy was around £14.3 billion and 282,400 jobs.
- Given the dominance of London in the air freight market in the UK, it is reasonable to assume that a significant proportion of these benefits accrue in the greater South East region and relate to activity at the London airports.
- This analysis also begins to demonstrate what is at stake in terms of the potential impact of different airport capacity development scenarios in London. Air freight is a significant driver for the UK economy. Damaging its ability to function effectively in the longer term through the failure to deliver capacity improvements or the development of the wrong options could have serious implications for the UK economy.

Economic Value of Air Freight to Users

- The value of air freight to users and, hence, ultimately its impact on the wider UK economy is driven by what it offers in terms of advantages over freight transport modes. SDG identified four key features and rated their importance to different users based on surveys and consultations.
- It shows that speed is important for all but, for some, it is a key feature of the service. This is potentially important in considering the potential impacts of different capacity scenarios for London, as, if demand cannot be met within the London system, freight will need to be trucked elsewhere, resulting in longer transit times or earlier final pick-up times for shipments. For some parts of the market, this could represent a critical loss of utility with significant impacts on their operations.
- The other key features are subordinate to speed but for some sectors they are valuable features, notably security for jewellery and art, and reach for aircraft parts.
- A number of quotes from the Freight Transport Association's Sky-High Value report, show the real world importance of air freight to example users. FTA members clearly demonstrate the importance of the existing Heathrow hub to their operations.

Ford's air freight needs can vary considerably, from a handful of parts to significant volumes. These can be sent by air in response to scheduling or engineering changes and Ford can also air-freight prototype parts, urgent replacement parts for customer vehicles, and occasionally complete vehicles for auto shows or short-notice testing under different conditions.

Ford

Air Freight Drivers by Importance to Key User Groups

	Security	Speed	Information	Reach
Machinery Parts	●	●●●	●●	●●
Electrical Components	●●	●	●	●
Aircraft Parts	●	●●●	●●	●●●
Jewellery	●●●	●	●●	●
Art	●●●	●	●●	●
High Street Fashion		●		
Pharmaceuticals	●●	●		●
Perishables		●●●		

Key: ● = Important ●● = Very Important ●●● = Key Feature

Source: SDG.

"It is no coincidence that suppliers to the music industry, as with other sectors such as motor sport, are clustered in the West London area. Heathrow's multiple daily departures for a huge number of international destinations are crucial to the company meeting the ever tightening time pressure on tour schedules."

Sound Moves, International Logistics for Bands and Artists

"Our products are used in scanning for, and treating, serious health conditions. However, our products decay continually, so it is essential that we can make and ship the product on the same day a clinician orders it, so that they receive a useable amount"

Pharmaceutical Manufacturer

Estimates of Air Freight Demand and Capacity in 2050

Potential Runway Capacity Development Scenarios

Forecast Movements and Movement Capacity in the London System in 2050 (000s)

	No Expansion	4 Runway Hub	Heathrow Runway 3	2 nd Runway at Gatwick
<i>Forecast Movements</i>				
Heathrow / Hub	480,000	903,000	740,000	480,000
Gatwick	280,000	280,000	280,000	540,000
Other London	592,000	592,000	592,000	592,000
<i>Movement Capacity</i>				
Heathrow / Hub	480,000	1,080,000	740,000	480,000
Gatwick	280,000	280,000	280,000	540,000
Other London	592,000	592,000	592,000	592,000
% ATM Capacity Used	100%	91%	100%	100%

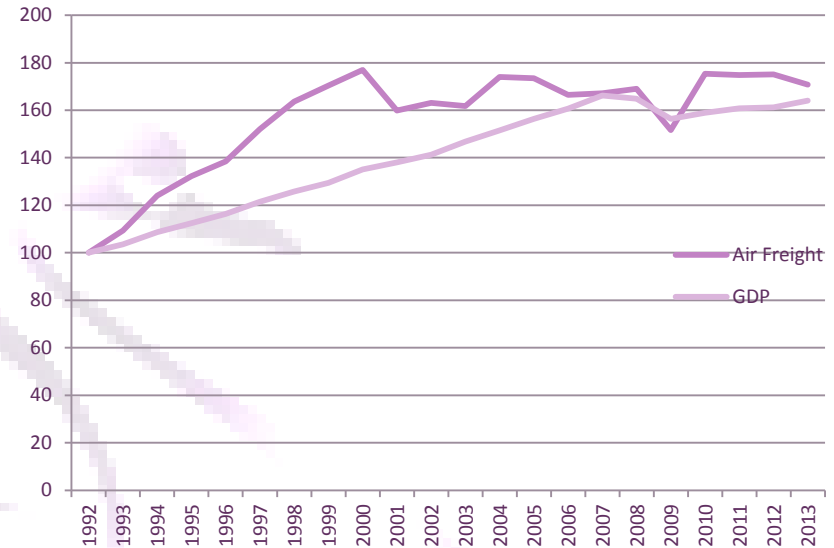
Source: York Aviation analysis of Airports Commission Interim Report, Heathrow and Gatwick submissions.

- In our analysis, we have considered four potential scenarios for runway capacity development in the London system by 2050:
- No Expansion – no additional runway capacity is built in London before 2050. Movements and movement capacity are as assumed in the Airports Commission Interim Report;
 - 4 Runway Hub – a non-location specific four runway hub airport is developed. This is the only scenario in which there is any spare capacity in the London system. Movements at the hub are assumed to be at a similar level to an unconstrained Heathrow from the Airports Commission Interim Report. Other airports are full and capacities are assumed to be as per the Airports Commission Interim Report. This is included to demonstrate the importance of developing adequate hub capacity in London beyond the 2030 scope of the Airports Commission's current deliberations;
 - Heathrow Runway 3 – a third runway is built at Heathrow, in line with Heathrow Airport Limited's plans as set out on its website. This runway is full before 2050. All other airports are also full and capacities are taken from the Airport's Commission Interim Report;
 - 2nd Runway at Gatwick – a second runway is built at Gatwick in line with Gatwick Airport Limited's published plans on its website. This runway is full before 2050. All other airports are also full and capacities are taken from the Airport's Commission Interim Report.
- These movement forecasts and airport capacities form the basis for our assessment of potential freight capacity in the London system and the extent to which this can meet future demand for air freight in London.

Estimates of Unconstrained Freight Demand at the London Airports in 2050

- Unlike for passenger demand, there are no current published forecasts for air freight demand in the UK. Neither the Department for Transport nor the Airports Commission have produced freight forecasts in any of their recent aviation forecasting work.
- Organisations such as Boeing and Airbus to produce global freight forecasts. However, these typically present an optimistic view of the market, which is not specific to the UK. For instance, Boeing's 2012-2013 World Cargo Forecast predicts global growth of around 5.2% per annum for the next 20 years compared to 3.7% per annum recorded growth over the last 10 years.
- We have, therefore, made a conservative assumption that unconstrained air freight demand in the UK will grow broadly in line with UK GDP through to 2050. The forecasts for GDP growth have been taken from the Office for Budgetary Responsibility's latest short and long term forecasts. These see average per annum growth to 2050 of around 2.3%.
- Given the increasing globalisation of the world economy and the fact that UK trade has tended to grow faster than GDP, we believe this is likely to be a conservative methodology.
- Ultimately, this suggests total unconstrained tonnage demand across the London system in 2050 of around 4.2 million tonnes on a conservative basis.

UK GDP vs. Air Freight at London Airports (Index: 1992 = 100)



Source: ONS and CAA.

Potential Air Freight Capacity in the London System in 2050 (1)

Potential Air Freight Capacity in the London System in 2050

	No Expansion	4 Runway Hub	Heathrow Runway 3	2 nd Runway at Gatwick
Total Freight Demand in Tonnes	4,221,831	4,221,831	4,221,831	4,221,831
Bellyhold Capacity				
Heathrow / 4 Runway Hub	1,724,544	3,139,644	2,601,497	1,724,544
Gatwick	127,430	124,775	124,775	465,915
Other London	20,134	19,913	19,913	19,692
Excess Tonnes after Bellyhold	2,349,723	937,499	1,475,646	2,011,680
Residual Freighter Capacity in Constrained Scenarios	240,653	n/a	286,932	286,932
Total Excess Tonnes	2,109,070	937,499	1,188,714	1,724,748
Freighter Movements Required	79,712	35,433	44,927	65,186
Available ATM Capacity	0	177,000	0	0
Accommodated within London with Freighters	0	35,433	0	0
Freight Tonnes to be Diverted Elsewhere	2,109,070	0	1,188,714	1,724,544

Source: York Aviation.

- Above, we have considered the potential air freight capacity that might exist in London under different the scenarios. In line with the structure of the market now, we have assumed that the majority of capacity will be provided via aircraft bellyhold freight. We have estimated this capacity based on the number of forecast international movements at the relevant airports in the London system multiplied by the expected average tonnage per international movement in 2050 at each airport. The latter has been derived by taking the tonnes per international movement now estimated from CAA Statistics and growing this by 0.5% per annum to 2050 to reflect increasing loads and larger aircraft. In relation to the 2nd Runway at Gatwick scenario, we have made a further adjustment to allow for the fact that we would expect the airport to attract more long haul services in such a scenario. We have assumed that that tonnage per movement in this scenario would increase significantly to be around double that observed at Gatwick in the other scenarios in 2050. This reflects the Gatwick Airport long term demand forecasts from its submissions to the Airports Commission, which suggest a doubling in the proportion of long haul traffic at the airport by 2050.

Potential Air Freight Capacity in the London System in 2050 (2)

- Within the London system, we have assumed that a hierarchy of preference will exist much as it does now. Heathrow or a 4 Runway Hub will be the first choice for the users of bellyhold freight capacity as they will offer the largest concentration of capacity via their long haul networks and this capacity will be used up first. Excess tonnage will then shift to Gatwick and then finally to other airports in the London system, most likely Stansted.
- For the purposes of this analysis, we have assumed that freighter aircraft primarily act as a means to supplement bellyhold capacity where insufficient bellyhold capacity is available. This is simplification as there are items that cannot be transported on passenger aircraft or for which freighter transport is preferable and destinations that are not served by passenger aircraft. Consequently, we have further assumed that a residual number of freighter movements will still be accommodated in London in capacity constrained scenarios at 2050, i.e. all scenarios other than the 4 Runway Hub.
- These freighter flights may use slots that are not suitable for passenger activities or may simply offer more value than some passenger leisure services and, hence, force such services out of the market. The percentage of total ATMs in the London system accounted for by these services is assumed to be equal to the percentage of pure freighter movements at Heathrow now under these constrained scenarios.
- To the extent that there remains excess tonnage that remains after these two elements of freight capacity have been considered, the scope to accommodate additional freighter aircraft movements within the London system will be dependent on the number of movements entailed and the number of available movements remaining at the airports. As stated above, it is only in the 4 Runway Hub scenario that there is any movement capacity left by 2050 and, hence, it is only in this scenario that any of the excess demand can be accommodated in London. In fact, the available ATM capacity is such all freight demand can be handled at the London airports in this scenario.
- In all the other scenarios, this demand must be satisfied elsewhere at other airports either in the UK or on the continent. By scenario, the excess demand to be accommodated elsewhere is as follows:
 - No Expansion – 2.1 million tonnes of freight or around half of total freight demand in 2050;
 - Heathrow Runway 3 – 1.2 million tonnes of freight or around 85% of the freight throughput of Heathrow now;
 - 2nd Runway at Gatwick – 1.7 million tonnes of freight.

Economic Impacts of Air Freight Development Scenarios

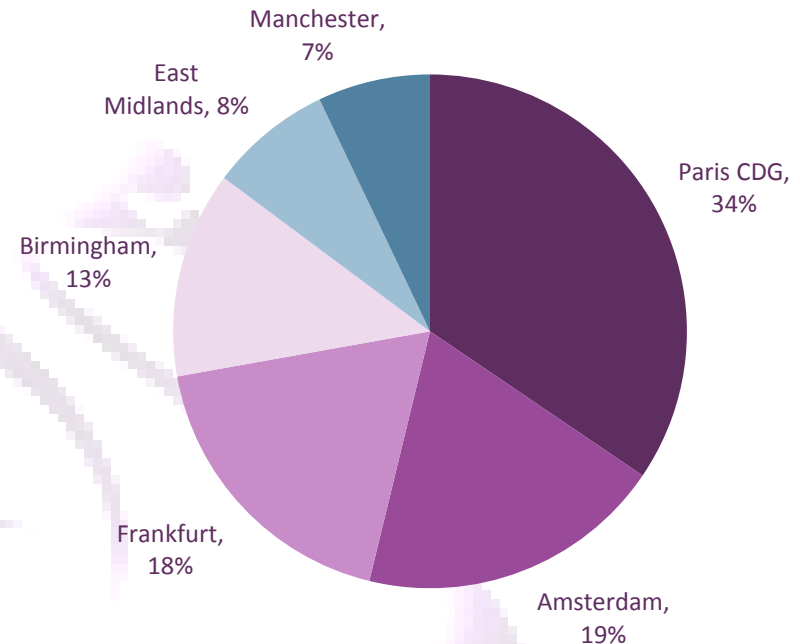
How Will the Freight Industry React

- Our analysis of the potential freight demand and capacity within London in 2050 suggests that the air freight industry is likely to face two issues depending on the runway capacity scenario assumed:
 - if a second runway is built at Gatwick and no additional capacity is developed elsewhere, this has the potential to create a second significant geographic node for bellyhold capacity in London. The industry will need to consider how it structures its operations to make best use of this capacity. It should be noted that, while all scenarios involve some use of bellyhold capacity at airports other than Heathrow or a 4 runway hub, it is only in the 2nd Runway at Gatwick scenario that this is likely to represent any more than a business as usual position;
 - where there is significant excess demand that cannot be accommodated within London, the industry will need to examine how it can meet this demand and, in some cases, if it will choose to meet this demand.
- In terms of the first issue, there are potentially three options for companies in the sector:
 - to effectively ignore the shift in the balance of capacity available towards Gatwick and to continue to focus operations on Heathrow, particularly as it is unlikely that Gatwick will offer a significant number of relevant long haul destinations that are not served from Heathrow in any event. This is certainly a possibility for some time. However, we would expect that freight rates at Heathrow would increase to reflect this, with the result that Gatwick would become more attractive for some operators and with the consequence that ultimately bellyhold capacity at both airports would be fully utilised;
 - to split consolidation operations between the two sites. This is perhaps ultimately the most extreme option and it seems unlikely that many would follow this path as it would likely introduce significant inefficiencies in to their operations through duplication of functions. It should, however, be noted that some functions will have to be duplicated for Gatwick to be used at all, for instance transit shed facilities. So, at a less extreme level, there will be an inefficiency cost to the industry. However, within the scope of this work we have not sought to estimate this;
 - The final option is ultimately the most likely. Operators will continue to focus their operations on the main hub but will truck freight to Gatwick to use bellyhold capacity as appropriate. This will impact on the costs faced by the industry, which, in a competitive market, we would ultimately expect to be passed on to freight users. We present estimates of the impact on these costs below. It should also be recognised that transshipment between the two airports increases the chance of service failures and delays, making the option less attractive to operators and impacting ultimately on users. We have not sought to estimate this latter effect in this work and hence impacts may be conservative.
- The options in relation to the excess demand that cannot be satisfied within the London system are subtly different. Again, some companies may simply choose to step back from the London market, either withdrawing or choosing not to seek to expand with demand. This may be particularly true for major global companies with the ability to shift the emphasis of their activity. However, this will ultimately leave unsatisfied demand in and around London and potentially market space for others to step in and seek to serve the market via a different business model. This is most likely to involve trucking freight from London to other airports either in the UK or on the continent that have the necessary capacity and / or long haul passenger networks to support the required levels of demand. This will, however, come at a cost in terms of both additional trucking costs and a loss of utility to users as these avenues will need more time to ship freight, which in an industry where speed is an essential feature is clearly potentially damaging. Again, there is also the potential for increased service failures and delays via this route.
- We consider potential patterns of distribution of this excess demand below.

Gravity Model of Distribution of Excess Demand

- In considering how excess air freight demand from the London system might be served by trucking to other airports in the UK and on the continent, we have developed a basic gravity model to estimate the distribution.
- The model includes three UK airports: the national freight hub at East Midlands and the two primary regional long haul passenger gateways at Manchester and Birmingham. It also includes the three main European hub airports, which all have a significant freight presence now and are likely to grow both bellyhold and freighter capacity in to the future.
- The attraction factor within this model is forecast workload units (a workload unit is one passenger or 100kg of freight) at each airport in 2050 based on the Airports Commission traffic forecasts in its Interim Report. Passenger numbers have been adjusted to reflect the proportion of long haul passengers. Freight is assumed to grow from current levels through to 2050 in line with passenger numbers.
- The distance decay factor within the model is the road haulage cost of transporting a truck load of freight to the relevant airport from London. Freight rates have been derived from data provided by the Freight Transport Association. Distances have been derived from the fastest road route to the destination airport from Google Maps.
- This demonstrates that we would anticipate that a significant proportion of the excess demand will be trucked overseas to the major continental hub airports to take advantage of their extensive long haul networks.
- UK regional airports, despite being substantially closer to London in most cases, cannot match the level of attractiveness offered by the continental hubs and their wider global networks. Consequently, other UK airports are only expected to handle around 28% of any excess demand.

Gravity Model of Distribution of Excess Freight Demand



Impacts on the Wider UK Economy

- Drawing on our analysis of the potential capacity implications and operational impacts of the four runway capacity development scenarios set out, we have considered the potential impacts of each scenario on the UK economy.
- We have examined a number of potential streams of impact:
 - the impact on freight costs from additional trucking, either within London in the case of the 2nd Runway at Gatwick scenario or to other UK regional and continental airports where demand has to be satisfied away from the London system;
 - the impact on users' utility from increased transit times / earlier cut-off times. As we have discussed, one of the key reasons users choose air freight as a means of transporting goods is speed and, for some parts of the market, speed and time is critical. Therefore, changes in the operating environment that affect speed of delivery or transit times will have an effect on the usefulness or usability (utility) of air freight for some users, which will represent a disbenefit to the economy;
 - the impact on long term productivity in the wider economy from constraints on air freight demand. Ultimately, rising freight costs from additional trucking and the implied rise in costs associated with lost utility to end users will result in reduced demand and impact on productivity in the wider economy, through changes in the ability to trade effectively or decisions around location and investment. This results in lower GVA in the long term;
 - the impact on the sector's economic footprint in the UK from constraints on air freight demand. As we have set out above, air freight services in themselves support significant employment and GVA through their economic footprint (their direct, indirect and induced impact on the economy). Reduced demand for air freight services will ultimately impact on the sector's ability to support this economy activity.

Impact on Freight Costs from Additional Trucking

The Impact on Freight Costs from Additional Trucking in 2050 (2014 Prices)

	No Expansion	4 Runway Hub	Heathrow Runway 3	2 nd Runway at Gatwick
Costs of Trucking within London ⁽¹⁾	£0.0	£0.0	£0.0	£2.0
Costs of Trucking to Other UK Airports	£7.5	£0.0	£4.2	£6.2
Costs of Trucking to Overseas Airports	£34.1	£0.0	£19.2	£27.9
Total Additional Costs	£41.6	£0.0	£23.5	£36.1

(1) All scenarios involve some trucking of freight from Heathrow or a new Hub to other airports. However, in most scenarios this is assumed to be 'business as usual', much as it is now. It is only in the second runway at Gatwick scenario that the development of a significant second centre of freight activity is assumed that would result in truly additional trucking costs.

Source: York Aviation.

- Failure to provide sufficient capacity at London's main hub airport or within the London system generally to support the air freight market is likely to result in additional costs to the industry, either from the need to move freight from facilities near to the main hub airport to another airport within London or from London to a range of other airports in the UK or on the continent.
- The costs of trucking in London apply primarily in relation to the scenario whereby a second runway is built at Gatwick and no additional capacity is provided at Heathrow. Using data provided by the Freight Transport Association, we have calculated the number of truck journeys that would be required to move the freight displaced from Heathrow to Gatwick assuming typical loads per truck in the industry and also the likely costs of these journeys based on freight rates. On this basis, we estimate that building a second runway at Gatwick would result in additional costs to the industry of around £2 million per annum from moving freight within London (2014 prices). Much greater costs are, however, incurred by the need to move freight out of the London system to other UK airports or to the continent to meet demand. Again, we have calculated the number of journeys that would be need to accommodate this excess freight tonnage and the associated costs of these journeys.
- If no additional capacity is provided in London (No Expansion) the additional trucking costs are estimated to be around £41.6 million per annum in 2050. With a 2nd Runway at Gatwick, these costs reduce to a total of around £36.1 million per annum. Heathrow Runway 3 results in costs of around £23.5 million. The difference between Heathrow Runway 3 and Second Runway at Gatwick stems primarily from the need to truck freight to Gatwick in the latter scenario.
- A 4 Runway hub provides sufficient capacity such that no additional trucking is required. Hence, there are no additional costs.

Impact on Users Utility from Increased Transit Times / Earlier Cut-off Times

Impact on Users Utility from Increased Transit Times / Earlier Cut Off Times

	No Expansion	4 Runway Hub	Heathrow Runway 3	2 nd Runway at Gatwick
Average Increase in Transit Times	158	0	90	136
Time Sensitive Proportion of the Market	30%	30%	30%	30%
Value of Time per Tonne (per hour)	£120.07	£120.07	£120.07	£120.07
Total Impact on Freight User Utility (£m)	£378	£0	£213	£321

Source: York Aviation.

- ➔ The need to truck freight around London or, more importantly, further afield will impose not only an additional trucking cost but also a utility cost on users that are time sensitive. Users are prepared to pay significant additional amounts for express delivery of air freight and increased transit times or earlier end of day cut off times will impact on these users as the quality of service they experience will be reduced. The value of this time is difficult to calculate and standard values are not available (as they are for passengers). We have, therefore, estimated the extent to which express freight users are willing to pay for an hour's faster delivery for express services using data published in the SDG report for DfT (see assumptions book for additional information). This suggests that value of saving an hour for a tonne of freight for time critical users is around £120.
- ➔ For the purposes of this analysis, we have assumed that the time critical portion of the market is approximately represented by the size of the express freight industry. Currently, this is stated by SDG to be around 18% of the market. However, this sector has been growing faster than general air cargo. We estimate that, by 2030 and thereafter, it will account for around 30% of the market.
- ➔ The impact on transit times is based on the weighted average of additional time required to truck freight to / from the airport at which it is shipped or received across the market as a whole. This includes freight which continues to travel via its preferred London airport, for which additional trucking time is assumed to be 0. Trucking costs for freight displaced from Heathrow to Gatwick are included.
- ➔ The results suggest that there are potentially significant impacts on freight user utility from increased transit times. No Expansion of capacity will result in a loss of user utility of around £378 million per annum. The addition of a second runway at Gatwick improves the situation but the costs are still ultimately significant at around £321 million per annum. Heathrow Runway 3 results in a loss of around £213 million per annum. Only a 4 Runway Hub, which provides sufficient capacity to avoid any additional trucking, does not result in a cost to users.

Impact on Long Term Productivity in the UK Economy (1)

Impact on Wider UK Economy from Lost UK Freight Demand

	No Expansion	4 Runway Hub	Heathrow Runway 3	2 nd Runway at Gatwick
Estimated Value of Unconstrained Air Freight Market in 2050 (£m at 2014 prices)	£4,508	£4,508	£4,508	£4,508
Increase in Costs from Trucking and Lost Utility	£419	£0	£236	£358
% Impact on Costs	9.3%	0.0%	5.2%	7.9%
Price Elasticity	-0.5	-0.5	-0.5	-0.5
Lost Tonnage	-196,301	0	-110,639	-167,679
GVA Impact on the Wider Economy (£m at 2014 prices)	-£978	£0	-£551	-£836

Source: York Aviation.

- The increase in costs associated with additional trucking and the loss of utility to users will ultimately affect the level of air freight demand in and around London, which will in turn impact on economic activity as productivity will be reduced through channels such as the ability to trade being impaired or companies moving away from the area to a location with the services they need or through lost future investment.
- In previous work for Transport for London Oxford Economics has statistically estimated the link between the level of activity in the economy and a combined index of the level of business air travel and air freight. We have used this relationship to estimate a long term GVA impact of each of the scenarios. The change in the level of demand for air freight is assumed to reflect the percentage increase in total revenues from air freight in the UK caused by increased trucking costs and lost utility to users via a price elasticity relationship. The value of the unconstrained air freight market in 2050 is based on our estimate of air freight demand described above, an analysis of air freight turnover in the UK from the ONS Annual Business Survey and CAA Statistics. This assessment is also consistent with global freight rates as set out in the latest IATA Cargo eChartbook.
- The price elasticity of air freight demand is a poorly researched area. Consequently, we have had to assume an elasticity of around -0.5. This is broadly in line with available data for the price elasticity of business passenger air travel. We believe the figure to be potentially conservative but reasonable in the absence of more specific information.
- The resulting impact on freight tonnage demand in effected scenarios ranges between around 111,000 tonnes (Heathrow Runway 3) and 196,000 tonnes (No Expansion). As before, a 4 Runway Hub has sufficient capacity that the air freight market is not constrained and hence there is no loss.

Impact on Long Term Productivity in the UK Economy (2)

- The consequent impacts on GVA are again significant:
 - No Expansion results in lost GVA of around £978 million per annum by 2050;
 - Heathrow Runway 3 results in a GVA loss of around £551 million per annum by 2050;
 - 2nd Runway at Gatwick results in a GVA loss of around £836 million per annum by 2050.
- In 2013, Oxford Economics in its work for TfL estimated that the GVA loss from constrained business travel would be around £6.9 billion per annum in 2050. Considering the relative sizes of the passenger and freight markets at the London airports, this demonstrates that the impact from the impairment of freight services should be taken at least as seriously as that from passenger markets. The impacts are likely to be proportionately significant.

Impact on Air Freight's Economic 'Footprint'

GVA and Employment Impact on the Air Freight Services Sector Economic Footprint

	No Expansion	4 Runway Hub	Heathrow Runway 3	2 nd Runway at Gatwick
Direct Effect				
GVA Lost (£m at 2014 prices)	£174	£0	£98	£149
Employment Lost	2,000	0	1,100	1,700
Total Economic Footprint Effect				
GVA Lost (£m at 2014 prices)	£637	£0	£359	£544
Employment Lost	6,800	0	3,800	5,800

Source: York Aviation analysis of SDG.

- Finally, we have considered the impact of reduced freight demand in the UK on the sector's economic footprint. For the purposes of this analysis, we have assumed that the loss of demand is equal to that described above in relation to the long term impact on GVA in the wider economy. In other words, we have assumed that much of the processing and consolidation of freight will be retained within the UK before freight is ultimately trucked overseas. In this regard, this may mean that the estimates are conservative in terms of the losses demonstrated. However, we believe this to be the most prudent assumption.
- Based on the previous work undertaken by SDG on the economic impact of the sector, we estimate that the impacts of constraint in the London system will be as follows:
 - No Expansion – around £637 million in GVA and 6,800 jobs;
 - 4 Runway Hub – this an unconstrained scenario and hence there are no impacts;
 - Heathrow Runway 3 - £359 million in GVA and 3,800 jobs;
 - 2nd Runway at Gatwick - £544 million in GVA and around 5,800 jobs.

Summary Comparison Between Heathrow & Gatwick Expansion

Summary Comparison Between Heathrow & Gatwick Expansion (1)

- ➔ Given the Airports Commission's decision to focus on expansion options relating solely to Heathrow or Gatwick, we have in this Appendix provided some additional analysis of the evidence presented in the main body of the report to consider the relative merits of expansion at Heathrow and Gatwick compared to the No Expansion case.
- ➔ We have projected that by 2050, all airports servicing London will have reached full capacity even if either the Gatwick or Heathrow expansions go ahead, which will have significant impact on freight efficiency and the economy. Six key comparisons were made between the Gatwick and Heathrow expansion scenarios and 'No expansion', using the analysis above. These comparisons are presented in the Table below.
- ➔ Of the three options, the Heathrow expansion provides the most significant economic benefits, in terms of cost reduction, job creation and minimization of extra costs associated with increased freight transit times. For the six key freight comparisons the Heathrow expansion is on average 43% more economically beneficial than 'No expansion' whereas Gatwick is only on average 15% more beneficial than 'No expansion'. We consider this evidence in more detail overleaf.

Comparison of 'No expansion' to London airports with Gatwick 2nd runway and Heathrow 3rd runway

Projections to 2050	No Expansion	Gatwick 2nd runway	Heathrow 3rd runway	Gatwick 2nd runway % difference	Heathrow 3rd runway % difference
Truck elsewhere (m tonnes)*	2.1	1.7	1.2	19.1%	42.9%
Cost of trucking elsewhere (£m)	41.6	36.1	23.5	13.2%	43.5%
Freight user time costs (£m)	378	321	213	15.1%	43.7%
Lost GVA to wider economy (£m)	978	836	551	14.5%	43.7%
Lost GVA to sector's economy (£m)	637	544	359	14.6%	43.6%
Jobs Lost	6,800	5,800	3,800	14.7%	44.1%

Source: York Aviation

Summary Comparison Between Heathrow & Gatwick Expansion (2)

- The freight comparisons for **six key economic measures** are projections for the year 2050 comparing Gatwick and Heathrow expansions with 'No expansion':
 - **Truck elsewhere:** Significant volumes of freight will be trucked elsewhere to cover the shortfall in air freight capacity in the region. The amount diverted is however reduced if either Gatwick or Heathrow undergo expansion (as opposed to 'No expansion'). If Gatwick is expanded then the amount trucked elsewhere is reduced by almost 20%. Under the Heathrow expansion however, this reduction is more than doubled to 43%;
 - **Cost of Trucking elsewhere:** Heathrow expansion is a saving of nearly 44%, or £18.1 million. Gatwick expansion means the cost reduction is only 13%;
 - **Freight User Time Costs:** Trucking elsewhere also incurs extra costs associated with increased transit times for goods. The 'No expansion' scenario equates to an extra time cost of £378 million. The Gatwick expansion would see this cost lowered by 15% and expansion of Heathrow would result in a lowering of nearly 44% which equates to a saving of £165 million;
 - **Knock-on reduction of Economic Gross Value Addition (GVA):** There is an impact to the wider economy measured by a reduction in Gross Value Addition (GVA) arising from supporting goods and services associated with the air freight industry. The loss to the wider economy is estimated to be £978 million which is reduced by nearly 15% if the Gatwick expansion occurs and around 44% if the Heathrow expansion takes place;
 - **Loss of job creation:** Along with a loss of GVA, there is inevitably a reduction in job creation. With 'No expansion', a total of 6,800 extra jobs would not be created. This is reduced by 1,000 with the expansion of Gatwick and by 3,000 with the expansion of Heathrow.
- Of the three options, the Heathrow expansion provides the most significant economic benefits, in terms of cost reduction, job creation and minimization of extra costs associated with increased freight transit times.

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Assumptions Book

Bellyhold Capacity Assumptions

% International Passenger Movements by Scenario

	No Expansion	New 4 Runway Hub	Third Runway at LHR	2nd Runway at LGW
Hub	93%	90%	91%	93%
Gatwick	96%	94%	94%	91%
Other London	91%	90%	90%	89%

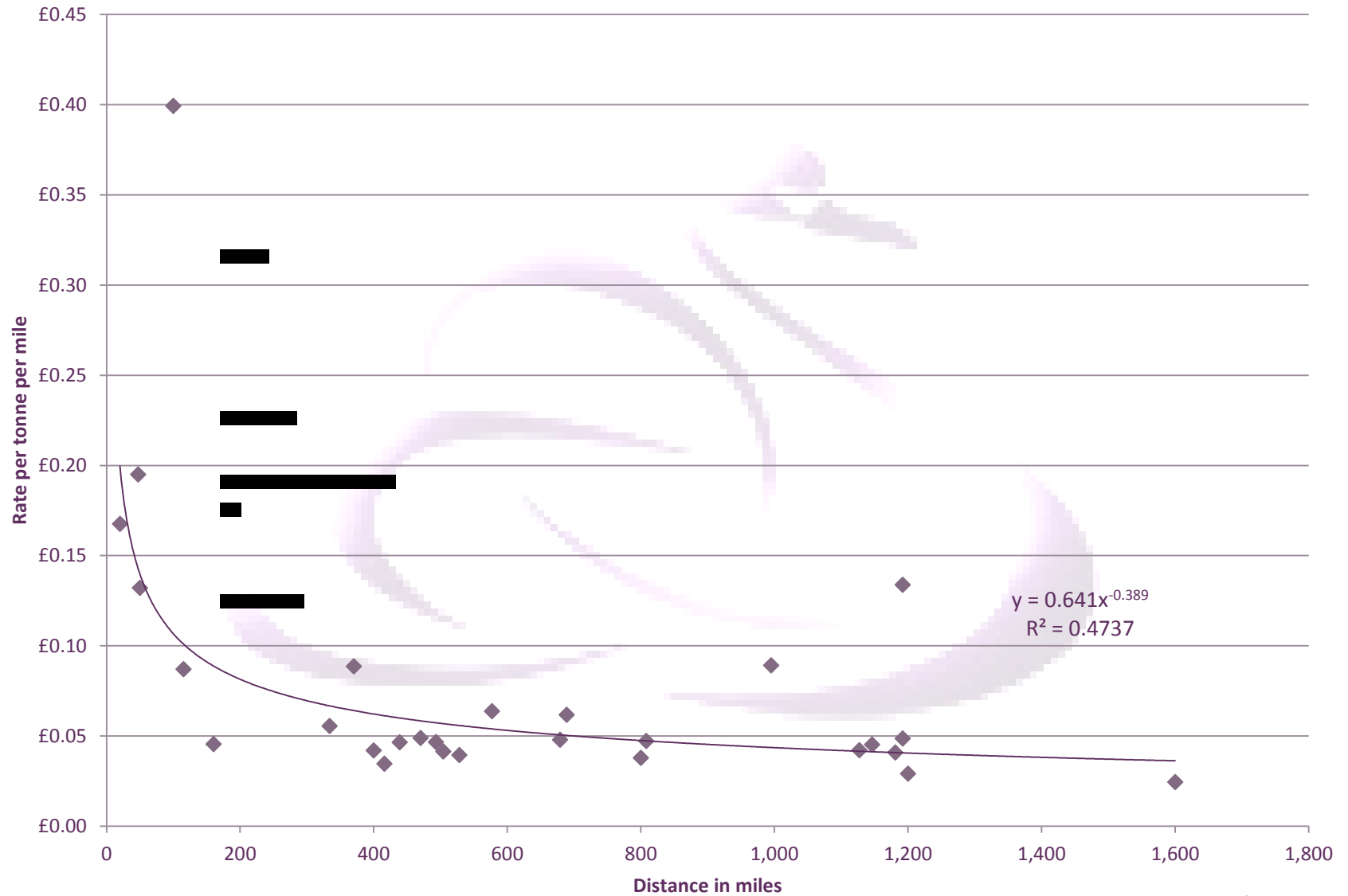
Source: York Aviation London Route Networks 2050 Model.

Freight Tonnes per ATM in 2050

	No Expansion	New 4 Runway Hub	Third Runway at LHR	2nd Runway at LGW
Hub				
Tonnes per Freighter	35.6	35.6	35.6	35.6
Tonnes per Bellyhold Movement	3.9	3.9	3.9	3.9
Gatwick				
Tonnes per Freighter	24.6	24.6	24.6	24.6
Tonnes per Bellyhold Movement	0.5	0.5	0.5	0.9
Other London				
Tonnes per Freighter	24.6	24.6	24.6	24.6
Tonnes per Bellyhold Movement	0.0	0.0	0.0	0.0
London Average				
Tonnes per Freighter	26.5	26.5	26.5	26.5
Tonnes per Bellyhold Movement	2.0	2.0	2.0	2.0

Source: York Aviation analysis of CAA Statistics.

Estimated Road Haulage Rates

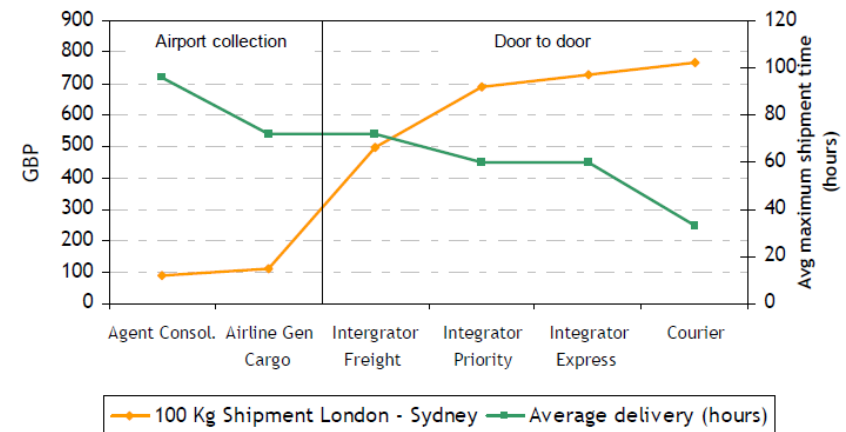


Source: York Aviation analysis of FTA data

Estimate of Value of Time per Hour per Tonne

- A value of time per hour per tonne for time sensitive air freight has been calculated based on the data collected by SDG as part of their work for DfT on Air Freight in 2010.
- The original data has been plotted as an S-curve in the chart below.
- The value of time per hour is assumed to be equal to the average additional amount that would be charged to save an hour on the delivery of a package using an express type service (Integrator Priority, Integrator Express or Courier).
- This has then been converted to a figure for a tonne by multiplying by 10.
- On this basis, the value of time per hour per tonne is around £120.07.

FIGURE 5.3 RELATIONSHIP BETWEEN PRODUCT, SERVICE PROVIDER AND PRICE



Source: Combined tariff from AMI / integrators.

Source: SDG for DfT 2010.

Cost of 100kg Package to Sydney by Delivery Time



Sky-high value

The importance of air freight to the UK economy



Foreword

Air freight accounts for about 40% of UK imports and exports by value. It is an essential mode of transport for many industry sectors, ranging from high end manufacturing, engineering, pharmaceuticals, retailing and the automotive sectors.


Unfortunately, the importance of air freight to the UK economy is often overlooked. The focus is almost exclusively on passenger and business travel, which so far has been the dominant theme of the current inquiry by Sir Howard Davies into airport capacity.

This document shows why continued investment in airport capacity is essential to the growth and success of the UK economy. It shows why it is smart for our nation to invest in order to support growth and lasting prosperity through enhanced competitiveness of UK businesses trading with the rest of the world.

It is imperative that we recognise the inherent advantages Heathrow has as a world-class, global air-freight hub and the unique benefits this brings, not just to the South East of England but to Britain as a whole, through enhanced connectivity to our key overseas markets.

This study shows what is at stake for some of the UK's leading importers and exporters if we fail to invest in vital transport infrastructure, which is essential for economic growth. Such a failure would impair Britain's international competitiveness and inhibit the future success of our economy.

We will continue to champion the 'sky-high' value of air freight and its vital importance to UK plc.


President, Freight Transport Association



Sky-high value

Freight is a direct representation of the health of the UK economy and, while air freight may be a tiny proportion of all freight by tonnage, it nonetheless represents more than one third of the value of our total imports and exports. The highest value goods, most essential shipments and most sensitive commercial documents are flown across the world, for safety, security and essential speed. Global shippers pay the UK air-freight industry over £3bn to carry two million tonnes of goods a year.

The huge range of passenger services through Heathrow is one of the principal reasons for its success as a freight hub. Indeed while, according to Oxford Economics, it handles 30% of the passenger traffic, it dominates the UK air cargo market.

A Steer Davies Gleave report for the Department of Transport in 2010 understood that Heathrow is the lynchpin to all air-freight movements in the UK, saying: "Since belly-hold capacity on long haul passenger flights is a key driver of air freight and since 86% of UK belly-hold air freight passes through Heathrow, the volume of air-freight capacity through the UK is therefore directly linked to the quantity of long-haul aircraft movements at Heathrow."

The case for increases in connectivity leading to GDP growth has already been made elsewhere. It is essential for the ongoing health of the UK economy that we preserve and nurture the connectivity of Heathrow, so that we can maintain the high-value trade links supported by air freight and continue to allow UK businesses to access developing international markets.

Air freight also provides approximately 39,000 jobs in the UK, the majority of which

“ Air freight represents about 40% by value of UK imports and exports, and 30% of UK trade to non-EU countries is heavily dependent upon it ”

are dependent upon or are clustered around Heathrow, as the predominant air-freight hub.

91% of all jewellery shipments by value are made using air freight; 88% of aircraft and parts; 76% of medical instruments; and 62% of pharmaceuticals. For these and other high-value sectors Heathrow is the principal gateway, not only to their existing markets but to new ones. Air freight represents about 40% by value of UK imports and exports, and furthermore, 30% of UK trade with non-EU countries is heavily dependent upon air freight.

This is currently the same as saying industry is heavily dependent upon Heathrow. Reports, shippers, logisticians and UK businesses all say the same: Existing UK trade and attempts to foster growth in trade rely on Heathrow maintaining the attractiveness, breadth of service and reliability associated with the most prestigious freight hub in the world.



Pharmaceutical

A Home Counties-based manufacturer of diagnostic and therapeutic medical products relies upon Heathrow to ship goods to hospitals all over the world on the day they are made.

The strategic logistics manager explains: “Our products are used in scanning for, and treating, serious health conditions. However, our products decay continually, so it is essential that we can make and ship the product on the same day a clinician orders it, so that they receive a useable amount. Any delay can impact the healthcare of up to hundreds of patients at a critical time.”

The company sends out up to 20 shipments a day through Heathrow, or 3,600 shipments and 16,000 packages a year to 64 destinations in 54 countries. Although it can ship in greater quantity with freighters, the number of these services available at Heathrow has contracted, and it increasingly relies upon the flexibility and frequent scheduling of passenger planes. These, however, have more stringent restrictions for hazardous materials.

Heathrow is an essential hub for this pharmaceutical company as nowhere else can offer the range of direct flights and airlines, with minimal transportation by road. If the product must be transhipped from one plane to another mid-route, its usability can be compromised. These medical products could be seen as the ultimate in just-in-time deliveries.

“We need Heathrow and we need it to be a primary hub. It is essential that it receives investment for a new runway because we will start to lose airlines and services to other countries where the hub airports are getting investment and slots are not under so much pressure,” says the strategic logistics manager. “If we fail to invest, Heathrow will stop being a key hub for global aviation.”

“Like many companies, we are seeing new markets in the developing world and we need to be able to reach them. We can ship through other hubs but it adds risk, complexity and, above all, time, and we do not have that time to spare.”



“ We need Heathrow and we need it to be a primary hub. It is essential that it receives investment for a new runway... If we fail to invest, it will stop being a key hub for global aviation ”

Pharmaceuticals manufacturer

What we need:

- Expansion to preserve freighter services and Heathrow's range of worldwide direct flights.



Sound Moves is a specialist international logistics operation supporting bands and artists on global tours. It ensures that essential equipment for artists, such as Beyoncé, U2, the Rolling Stones and Katy Perry, once dismantled after each show arrives at the next venue on time, even if the journey spans continents. It puts 70 movements a week through Heathrow, usually in consignments of 1,200 to 1,400kg, travelling on passenger flights.

"Heathrow is essential to our business," says tour principal John Corr. "It is no coincidence that suppliers to the music industry, as with other sectors such as motor sport, are clustered in the West London area. Heathrow's multiple daily departures for a huge number of international destinations are crucial to the company meeting the ever tightening time pressure on tour schedules."

Although there are dedicated cargo planes flying out of East Midlands Airport which can serve some of Corr's needs, the frequency, destination list and distance from the airport all limit their usefulness. Gatwick handles very little freight in comparison to Heathrow, and Stansted is located too far away and doesn't have wide-body aircraft passenger flights on which the majority of Sound Moves shipments fly.

"There are European airports which can offer a similar service to Heathrow and, if Heathrow does not receive the continued investment it needs to maintain capacity and frequency of flights, artists and their suppliers will relocate to Amsterdam, Frankfurt or Paris," says Corr.

Sound Moves has an annual turnover of approximately £16m, and Corr stresses that this is a fraction of the economic weight of the sector.

“ Heathrow is a successful airport. We need to maintain that because it is naive to think we could easily or quickly replicate it elsewhere ”

John Corr, tour principal,
Sound Moves

What we need:

- We support another runway at Heathrow because currently any temporary loss of runway capacity hits European passenger flights and therefore our business.

"The specialist trucking firms used by tours, the suppliers to the music industry and the other logistics co-ordinators such as ourselves add huge economic value to the region and we rely upon Heathrow's strength," he says. "The industry demands an array of next-day services, because the distances are too great for trucks and the timescale far too short for shipping by sea."

Sound Moves is currently organising Beyoncé's world tour, which will see the star's equipment shipped out of Heathrow to Philadelphia and onto Brazil, Venezuela, Columbia, Mexico, Puerto Rico, Sydney, Auckland, Melbourne and finally Vancouver.





Ford sends as much freight across its international production network by road and sea as it can. However, should contingencies arise, such as increased or short-notice demand, parts often need to be sent urgently by air.

Ford's air forwarder partners will use whichever airport is most convenient for the products, taking into account the timescale, destination and price. However, as most UK air freight, and almost all for long-haul destinations such as the US, China, South America, Canada or Asia, goes through Heathrow, the airport's capabilities are essential to Ford's service schedules.

Ford has no particular loyalty to any airport but expects its logistics suppliers to use the hub with the most competitive and comprehensive services.

Should Heathrow fail to provide the best value and service going forward, Ford's freight would be re-routed via other hubs such as Cologne and

Frankfurt, which currently handle some of its European product.

Ford's air freight needs can vary considerably, from a handful of parts to significant volumes. These can be sent by air in response to scheduling or engineering changes and Ford can also air-freight prototype parts, urgent replacement parts for customer vehicles, and occasionally complete vehicles for auto shows or short-notice testing under different conditions.

Some shipments, such as airbags or engines, can contain hazardous material and a variety of air services will be used, including freighters and charters, where belly-hold space would not be viable.

Generally the automotive industry will use the most competitive air-freight services, which offer the best solutions in terms of price, capacity and destinations. If the best service is not found in the UK, then Ford will expect its logistics supplier to go elsewhere and will move freight by road to other European airports if necessary.

What we need:

- Ford requires Heathrow to provide quick and efficient handling and customs clearance, frequent flights to major Ford destinations, such as Detroit or Brazil, and competitive arrangements between Ford's air forwarder partners and the airlines using Heathrow.

“ Should Heathrow fail to provide the best value and service going forward, Ford's freight would be re-routed via other hubs such as Cologne and Frankfurt, which currently handle some of its European product ”





Asda prioritises environmentally-friendly freight movements and cost-effectiveness, so air freight is usually a contingency measure in response to unexpectedly high demand for product or supplier delays. The only exceptions to this are flowers, and some fresh produce which originates in Africa. Clothing typically comes from the Indian sub-continent and general merchandise from China.

Although Asda uses northern airports as a point of UK entry wherever this will prove more economical in term of final-leg delivery or cost, supply chain manager for imports Lee Hodgkin says: "Ultimately Heathrow capacity does affect us. We use it on a regular basis."

Its choice of airport is determined by final destination and the services available. As Asda aims to move as much freight by sea as

“ It is important to us that the inbound capacity and service levels from our key points of origin are maintained ”

Lee Hodgkin, supply chain manager for imports, Asda

What we need:

- Maintained air-freight capacity levels in Heathrow to ensure a full range of services from Africa, China and the Indian sub-continent.

possible, or by sea-air combination, it rarely uses freighter services and consigns urgent material in the belly hold of passenger services. Its aim overall is to restock UK store shelves as efficiently and quickly as possible.

Key points of origin for Asda goods are Hong Kong, Bangladesh and Sri Lanka. "Modern retailers use air freight in different ways," says Hodgkin. "Some choose it as a strategic transport method and their price structure allows that. However, Asda uses air freight primarily when there is no other option. It is still important to us though that the inbound capacity and service levels from our key destinations are maintained at Heathrow.

"If capacity or investment levels at Heathrow fall, we would have to examine the impact of that on our business very carefully," he says.

Couriers

DHL uses all major modes of freight transport across its global network and operates in more than 220 countries and territories.

DHL's Global Forwarding and Express divisions are particularly reliant upon aviation to move freight internationally. DHL Express, for example, moves time-critical or high-value parcels and packages (including products such as IT, telecoms, and aerospace components, pharmaceuticals, and contract documents) predominantly from business to business, securely and efficiently. DHL sees the forwarding and express freight markets as vital to the health and growth of the UK economy.

DHL Express alone flies material on over 1,500 aircraft per week at Heathrow, as well as being the largest pure air freight operator based on the number of rotations. For the year ending April 2013, its Heathrow belly-hold air freight alone equated to in excess of 17million kilos inbound and 24million kilos outbound.

"We support airlines in wanting additional aviation and air-freight capacity at Heathrow to allow UK businesses to compete globally. Without this, DHL may potentially face challenges in achieving the connectivity needed to meet customer demand for key destinations including Brazil, Russia, India, China, South Africa, Latin America, the Far East, Indonesia, and Australia," says Danny Pedri, MD, DHL Express Hubs and Gateways, UK & Nordics.

DHL says that capacity at Heathrow should be increased to meet growing demand for freight services. DHL supports the continuation of existing inbound night-time passenger flights that also carry business critical air freight for the UK from the growing economic trading regions of the Far East and India.

DHL Express also operates a fleet of 24 inbound and outbound freighters per night at East Midlands Airport. Nonetheless, "Heathrow gives us access to countries that are not directly served by our own aircraft. Capacity constraints at Heathrow could impact on DHL's ability to move material around the world as quickly and efficiently as our customers require," says Pedri.

"We are already seeing some impact of capacity constraints at Heathrow and increased competition from European airports. These constraints are eroding Heathrow's dominance [as a freight hub] and threaten the UK's position as a key destination for air freight," says Pedri. "This poses a potential threat to the long-term viability of operations around the South East."

What we need:

- Increased capacity at Heathrow and continued operation of night flights to facilitate express transport. In particular we require more flights to Latin America, China and India.



“ Capacity constraints are eroding Heathrow's position of dominance and threaten the UK's position as a key destination for air freight ”

Danny Pedri, MD, DHL Express Hubs and Gateways, UK & Nordics



The Global Shippers' Forum (GSF) is the international body for global shippers established by the Freight Transport Association (FTA) and over 20 national shippers' organisations world-wide. It fosters best practice and lobbies international policy-makers across the globe.

In 2010 GSF joined with the global airline organisation IATA, the international federation of freight forwarders, FIATA and The International Air Cargo Association, (TIACA) to set up the Global Air Cargo Advisory Group (GACAG) to promote the sustainable and efficient air cargo services essential to international trade. Today, GACAG is campaigning on measures to lower the carbon footprint of air cargo, such as efforts to develop

alternative fuels, more efficient and quieter engines, carbon offsetting and a methodology for measuring air cargo's carbon footprint.

It is working with national and international government organisations on developing cargo security regimes and harmonising international security arrangements. GACAG is supporting the development of an e-commerce initiative, to find acceptable electronic protocols for cargo information, which will benefit the industry's commercial sustainability and security.

Underpinning all the high level policy discussion and best practice work is the need for continued investment in major Hub resources. Capacity constraints, delays and limitation of services

“ Capacity constraints, delays and limitation of services cause a loss of global connectivity, drive up costs and carbon and inhibit world trade ”

The Global Shippers Forum

cause a loss of global connectivity, drive up costs and carbon and inhibit world trade. A lack of investment in the world's major Hub airports would threaten their continuing efficiency and the efficiency of the supply chains which rely upon them.

What we need:

- Continued investment in air freight infrastructure so that sustainability, security and efficiency are enhanced, and global trade facilitated.



At the centre of connectivity

Heathrow is an essential hub of connectivity for passengers and freight, bringing together huge resource, expertise and opportunity in one place. Chris Welsh of the FTA explains its importance to air freight

Heathrow is an essential freight hub and its position at the heart of the international supply chain must be nurtured and developed, says Chris Welsh, director of global and European policy at the Freight Transport Association, lest we lose this vital asset for business and global shippers, and the revenue, expertise and jobs it generates.

In 2012, 1.5 million tonnes of freight passed through Heathrow, carried by half a million services to and from 191 destinations. It is the broad array of carriers and countries served which makes it so essential a centre for freight shipment, according to Welsh. When we consider that 95% of freight travels not on dedicated freighters, but in the holds of passenger jets, it is clear that the strongest airport for passenger services will also be the most cost-effective and attractive for international shippers of cargo.

“Freight and passenger services have a strong synergy at Heathrow,” says Welsh. “It is the wide diversity of destinations and services which makes it such an attractive proposition for those shipping cargo. Airlines accepting freight into the belly hold of passenger planes can often make the difference between services being profitable and not.”

On the surface air freight seems an expensive and environmentally challenging way to ship goods, but for many high-value and high-end

manufactured goods it is either the only, or the best way to transport them, says Welsh. “It can take a month to take goods to the Far East by ship, it takes a day by air. Once the figures are finalised, air freight is not only the safest and most secure form of freight transport, at low risk of damage or theft, but it is also the most cost-effective. Companies can save thirty days of inventory and supply chain costs, insurance costs and realise the goods’ value far quicker.

“There are, of course, time-sensitive goods, such as medicines and documents which can’t realistically travel any other way,” he adds.

The role of the dedicated freighter has diminished to some extent but such flights are still an important part of the supply chain as they can take a range of goods which are prohibited from passenger flights or where quantities are strictly controlled. “Heathrow runs at 98% capacity and so when there is any kind of disruption, it is freight which is squeezed. This is even worse for freighters, which often leave shortly before midnight, because any delay pushes them into a no-fly period and the freight is then delayed 24 hours,” he says. “Dedicated freighters are under constant pressure.”

Heathrow’s evolution as a hub has included developing a regional community of logistics firms, freight forwarders, manufacturers,

Essential Heathrow statistics

Tonnage handled (2012)	1.5 m tonnes
Number of destinations served	191
Number of cargo-carrying flights a year	500,000
Proportion of all UK belly-hold cargo handled	86%
Proportion of all UK passenger flights handled	30%
Proportion of runway capacity in use	98%
Number of potential continental competitors	at least 3

“Air freight is not only the safest and most secure form of freight transport but, for some companies, it is also the most cost-effective”





science parks and other specialist expertise. Welsh says this community both depends upon and enhances Heathrow but, without continued investment, the jobs, expertise, revenue and, indeed, the business of global shippers will be lost to rivals such as Schiphol, Charles de Gaulle and Frankfurt.

“Once, the Port of London was the biggest port in the world. When it lost its attractiveness to international shippers, its prowess disappeared in a generation,” says Welsh. “We need to build upon the achievements of Heathrow as a hub airport so that it does not become unreliable and lose that attractiveness.”

This is not to say that the air-freight sector would not equally welcome investment in the UK’s regional airports or new sites, says Welsh, but these must go hand in hand with continued investment in Heathrow. “We cannot dictate which venue global shippers want to use for their goods. Heathrow has developed through market preference. If we now try to determine where an airport should be, the market may well ignore us, and its choice may not then be within the UK,” says Welsh.

“Heathrow is a national asset, underpinning a large proportion of our imports and exports by value and is a key gateway to new markets. UK

“ We cannot dictate which venue global shippers want to use for their goods. Heathrow has developed through market preference ”

shippers are keen to access Latin America, India, China, Mexico and other emerging economies. Heathrow is ideally placed to deliver this, if it has the investment to expand its services.”

Despite the global recession having suppressed air-freight figures for a time, Welsh is confident the role and value of air freight will continue to increase. “UBS Investment Research figures forecast 3.5% growth in air freight. We expect growth in all regions, and a steady increase across Europe. As our economy improves, it is more important than ever that we have our greatest freight asset primed and ready for action, and not hampered by constraints.”

FTA special interest groups for air freight

The British Shippers' Council is a long established group in FTA and is the national forum for members with an interest in importing to or exporting from the UK by sea, air, or European road and rail services. Current members include major UK high street retailers, as well as manufacturers from a diverse range of industrial sectors including automotive, beverages, chemicals, foodstuffs and pharmaceuticals. The group is open to buyers of freight transport services and those with an interest in international supply chains. Members of the British Shippers' Council influence FTA policy and lobby for the benefit of their businesses.

The Global Shippers' Forum (GSF) is an international organisation for shippers administered by the FTA. It was created in 2006

as the successor to the Tripartite Shippers' Group, first organised in 1994. The GSF represents the interests of various national and regional shippers' organisations in Asia, Europe, North and South America, and Africa: its work is focused on the impact of commercial developments in the international freight transportation industry and the policy decisions of governments and international organisations which affect shippers and receivers of freight. The GSF was formally incorporated and registered as a non-governmental organisation in the UK in June 2011.



Freight Transport Association Limited
Hermes House, St John's Road,
Tunbridge Wells, Kent, TN4 9UZ

Telephone: 01892 526171
Fax: 01892 534989
Website: www.fta.co.uk

Registered in England Number 391957
@FTA 02.14/LC

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