

Sky-high value

The importance of air freight to the UK economy



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.

Ian Veitch
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

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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.



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.”



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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.





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.

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.

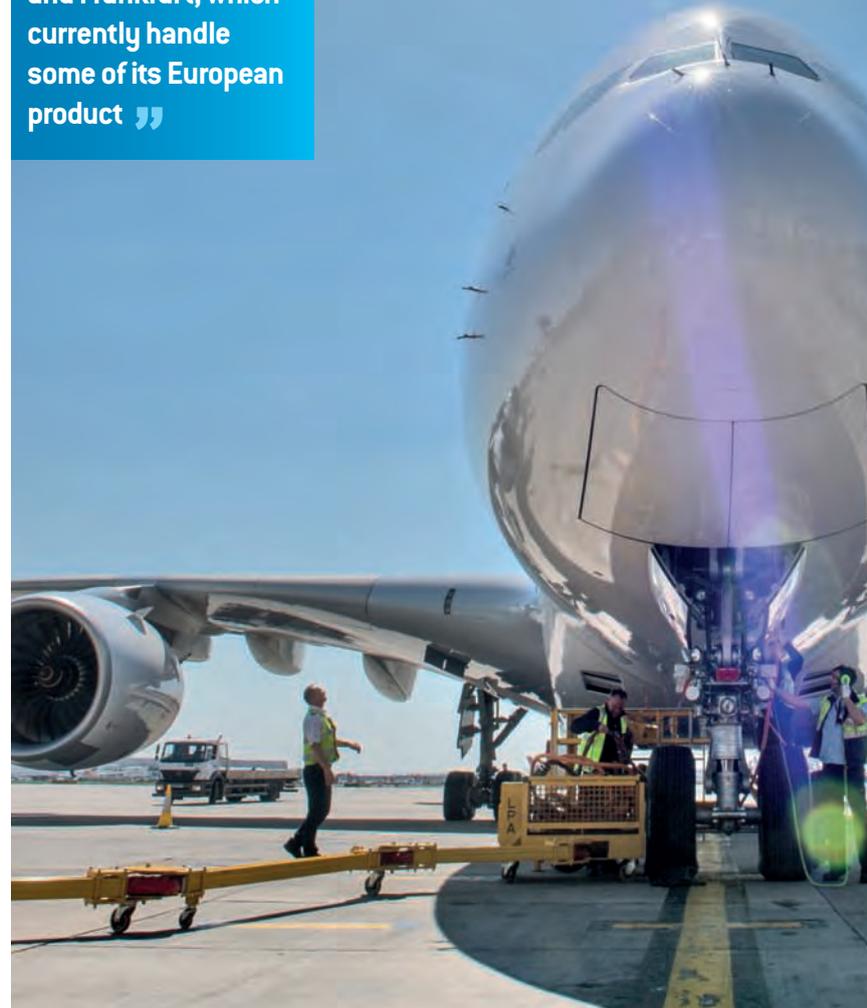
Ford has no particular loyalty to any airport but expects its logistics suppliers to use the hub with the most competitive and comprehensive services.

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

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 million 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.

For further details of either group, including membership, please contact: Chris Welsh, Director of Global and European Policy, Freight Transport Association on +44 (0)1892 552384.

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