

Call for action: What next for UK air freight in a post-Brexit world?

Summary of policy recommendations arising from a joint webinar conducted in February 2021, with Logistics UK and AIPUT.

Foreword

Air freight currently accounts for 40% of UK imports and exports by value and is vital for the UK economy. UK airport capacity is a limiting factor for UK importers and exporters, air freight operators and the wider economy. Logistics UK and the Airport Industrial Property Unit Trust (AIPUT) are working closely with Government, members of our Air Council and other stakeholders to support sustainable growth for air freight while promoting a balanced approach to environmental issues.

Logistics UK is one of the UK's leading business groups, representing logistics businesses that are vital to keeping the UK trading, and more than seven million people directly employed in the making, selling and moving of goods. With COVID-19, Brexit, new technology and other disruptive forces driving change in the way goods move across borders and through the supply chain, logistics has never been more important to UK plc. Logistics UK supports, shapes and stands up for safe and efficient logistics, and it is the only business group that represents the whole industry, with members from the road, rail, sea and air industries, as well as the buyers of freight services such as retailers and manufacturers whose businesses depend on the efficient movement of goods.

AIPUT is an award-winning, long-term investor specialising in industrial property on or near the UK's major airports. Managed by Aberdeen Standard Investments, AIPUT is the only specialist airport-focused industrial fund in the UK for institutional investors. It currently holds 19 assets, including 2.1m sq ft at Heathrow Airport, making AIPUT one of the largest landlords serving the UK's global air freight hub. AIPUT aims to deliver a positive Environmental, Social and Corporate Governance (ESG) performance impact throughout its portfolio, with a strategic target to achieve carbon neutrality by 2025. The fund has successfully achieved GRESB Green Star status in each of the last five years.

Introduction

Aviation is vital for new opportunities and growth post-Brexit, and to the UK's economic recovery from the COVID-19 pandemic. Our air links, not least those with our largest trading partners including the US, are not a frivolous luxury. They connect Britain with the world and link British products and expertise with billions of potential buyers overseas. Pre-pandemic, some 49% of the total value of UK exports outside of the EU travelled by air, across a combination of dedicated freighters and onboard passenger flights.

In February 2021, Logistics UK together with AIPUT hosted a policy roundtable to discuss the future of air freight with representatives from across the aviation industry, including the warehousing sector, airlines, ground handlers, shippers and airports. Expert panellists included Nick Smith (AIPUT), Elizabeth de Jong (Logistics UK), Peter O'Broin (International Air Transport Association) and Stephen Harvey (Manchester Airports Group).

Inevitably, recovery from the pandemic is just as important an issue as ensuring the industry is well-positioned to make the best of Brexit. Throughout the pandemic and since the end of the Brexit transition period, air freight has contributed invaluable support to the economy and lives of everyone across the UK, facilitating both the rise in e-commerce and the movements of vital pharmaceuticals.

Despite questions remaining over the future of night flight provision, decarbonisation and the growth of aviation, air freight remains a cornerstone of the UK economy. It is vital that the Government and industry commit to a long-term partnership to support both investment and green growth. This paper outlines the steps that need to be taken to ensure the future of air freight in a post-Brexit world.

Fact and figures

- Air freight services contribute £7.2 billion to the UK economy and support 151,000 jobs¹.
- Across all sectors of the economy, £87.3 billion of UK gross value added (GVA) is currently dependent on air freight exports, including a very significant proportion of the GVA of some key industries and their supply chains:
 - Pharmaceuticals - £13.9 billion – of all pharmaceutical products produced in the UK, 41% are exported, 30% are for the UK market and the remainder (28%) are substances that are used in the production of other pharmaceutical products².
 - Computer, electronic and optical - £8.3 billion.
 - Creative arts and entertainment - £5.3 billion.
- In 2017, air freight represented 49% of the UK's non-EU exports by value (£91.5 billion) and 35% of non-EU imports (£89.9 billion) – over 40% of total trade by value but under 1% by volume of goods shipped³.
- 60% of the UK's air freight travels via Heathrow, is the UK's hub airport.
- During the global pandemic, freight tonnage at Stansted was up by 30% year on year with East Midlands Airport seeing an increase of 18.7%⁴.
- Germany ships just 25% of its non-EU export value by air, and most other major EU economies ship between 20% and 40%. Only Ireland ships a greater share of its non-EU exports by air than the UK.
- 9% of GVA in the North West (worth £14.9bn) is dependent on air freight service. Figures are 8.6% in Wales, 7.6% in the East Midlands and 6.8% in the South West.

Case study

A supplier of diagnostic and therapeutic medical products relies on air freight for their vital operations.

As a leading supplier of pharmaceutical products in the UK, a supplier of diagnostic and therapeutic medical products are heavily reliant on air freight operations and a comprehensive network of air routes from multiple origin points in Europe into the UK in order to service their customers across Great Britain and Northern Ireland.

They receive around 18,000 orders per annum from customers in the UK for short-lived pharmaceutical products which are used in the diagnosis of disease and treatments for patients. In many cases, owing to the short life of the products, delivery is required to hospitals in the UK on a next-day basis, with delays or longer transit times rendering them unusable and leaving clinicians frustrated and patients distressed. Many patients will have had long-standing courses of treatment suspended pending administration of the shipper's products, and failure to deliver within the prescribed time merely serves to cause added distress to the patients and create increased costs for the hospitals.

It is therefore essential that, for reasons of both timescale and capacity, adequate flights and connectivity into East Midlands, Birmingham and Belfast airports, remain unhindered and unrestricted. Without these services, it would be impossible to service the c.700 patients per day (175,000 per annum) in the UK, with a significant potential impact on healthcare across the UK as a result.

¹ 'Assessment of the value of air freight services to the UK economy', October 2018

² 'The UK Pharmaceutical Sector, an overview', December 2019

³ 'Assessment of the value of air freight services to the UK economy', October 2018

⁴ Manchester Airports Group, May 2021

Priorities

1. Positive perception of aviation

Air freight and aviation is a key driver of economic growth, both in terms of financial contribution and employment. The Government needs to give a clearer signal that it is supportive of and values air freight as a sector of national strategic importance. It is important the narrative surrounding the industry is positive and supported by Government at every juncture. Aviation is critical to the Government's 'Global Britain' objectives – in 2019, 65% of UK trade with Australia travelled through Heathrow. Aviation has a strong reputation for innovation and has supported the UK throughout the COVID-19 pandemic – now is the time to consider it as a crucial component of a Global Britain.

2. Joined-up approach – passenger and freight

It is widely known that passenger and freight operations work in tandem: prior to the pandemic, 95% of cargo at Heathrow was carried in the belly hold of passenger planes. Capacity in the air freight network is key, with freighter operations working alongside and complementing capacity provided by passenger services. Any assistance and support from Government needs to be targeted at aviation in general, without emphasising help for passenger services above freight, or vice versa; both rise and fall together.

3. Infrastructure

The UK needs to facilitate the timely delivery of the highest quality transport and real estate infrastructure serving its leading airports in order to underpin the future growth of a vibrant, sustainable and globally competitive aviation and air freight sector able to make its fullest contribution to the success of UK plc.

4. Funding

Air Passenger Duty (APD) and business rate holidays would be welcomed by the sector both to reinforce its recovery and signal Government support for the sector as strategically important for UK plc.

5. Brexit

The industry is calling for accelerated negotiations with the EU on improving traffic rights to open key markets and routes following the UK's departure from the EU. This will build on the solid foundations laid out in the Trade and Cooperation Agreement (TCA) and help ensure that air cargo can continue moving and operating efficiently.

We are seeking two priority changes. First, UK carriers are not currently operating on a level playing field owing to the Department for Transport (DfT) and Civil Aviation Authority's (CAA) liberal view on approval of traffic rights for EU operators which are not currently reciprocated. We call on the EU to grant equivalent rights to UK operators.

Second, we are seeking additional traffic rights beyond the first four freedoms of the air agreed in the TCA. The fifth freedom is vital for air cargo, as it enables a plane to take off in the UK, land in an EU member state, unload cargo and continue its journey onto a second country with additional cargo. We ask for a long-term sustainable plan for traffic rights.

6. Consumer behaviour

A healthy air freight sector is an essential part of the new digital economy. The UK is one of the top three online shopping nations. Consumer behaviour over the course of the pandemic and recent years has led to an increase in e-commerce. Just-in-time and next day deliveries are no longer an ambition but an expectation. Express freight airlines operate a significant number of services which support e-commerce – such as moving goods between working days (overnight), which accounts for £4 billion to the economy and just under 6,000

jobs⁵. We must continue to innovate, supporting flexible freight movements throughout the day and, where possible, at night to support this vital sector and growing market.

7. Innovation

Air cargo is a driver of innovation in logistics. Innovation can be seen in all aspects of the air cargo supply chain, from ground operations and aircraft technology, to warehousing solutions and security. The new generation of cargo warehouses, aircraft and equipment need to be fit for purpose, promoting safety and security, and designed to be as carbon neutral as possible, as well as future-proofed through the enabling of automation and digitisation. A long-term commitment to innovative solutions is the foundation of private investment and strategic planning for years to come. For its part, the industry must continue to drive innovation, strive to demonstrate its commitment to carbon reduction and its overall Environmental, Social and Governance (ESG) performance and enhance its 'licence to operate' with the communities it serves.

8. Freeports

While the industry has welcomed the Government's Freeport proposals, they need to deliver enhanced new opportunities for the air freight sector, as well as the maritime sector, in a post-Brexit world. Freeports must be structured in a way that will attract inward investment and job creation. They represent a once-in-a-lifetime opportunity for airports, maritime and inland ports, and other transport modes to work together. Freeports should also aim to play a major role in driving wider regeneration and spreading those benefits across the UK, while realising enhanced global trade routes and growth prospects.

9. Regulatory relaxations

For the air freight sector to succeed, the industry calls for targeted and appropriate regulatory relaxations in planning. Planning regulations are significant when planning for ambitious supply chains and connectivity. Appropriate planning flexibility at ports, for warehousing and connectivity infrastructure, will allow for continued investment and reactive supply chains in air freight. Specifically, we call for support for sustainable expansion at Heathrow and other regional airports where required.

10. Decarbonisation

There is a strong willingness from the air freight and wider aviation sector to meet decarbonisation targets. Many businesses are taking necessary measures to decarbonise as quickly as possible. This is the case across aviation, from warehouses and aircraft to ground operations. Carbon is the enemy, not flying, and low carbon Sustainable Aviation Fuel (SAF) will be key to decarbonisation. In addition, we call for a commitment from Government to support research and development in aviation, leading to new technologies for electric and hydrogen aircraft that are fit for the future and cargo handling.

11. Air freight growth

Alongside Government support, we need to put our vision into practice – leveraging our creative ideas, energy and innovation. Air Cargo should be a catalyst for growth. We need to be brave and more progressive, working with our competitors and working together rather than in silos. The trajectory of progress needs to accelerate and be driven by the challenges and opportunities we face. Air freight is a growing industry and will recover from the impacts of COVID-19 and Brexit, contributing millions to the UK economy and its position as a trading nation. However, the industry needs to know now more than ever that the Government is fully behind the sustainable growth of UK air freight.

Conclusion

Logistics UK and AIPUT would welcome the Government's commitment to the eleven priorities listed in this paper while working together with industry to realise the potential for UK air freight. New opportunities from Brexit, and recovery from COVID-19, present an unmistakable opportunity to consider the next steps for air

⁵ Figures are for goods moved during the night-time Noise Quota Period. Source: 'The Economic Impact of Air Cargo – Night Flying', December 2016

freight. It is vital that a long-term partnership with the industry is developed and strengthened over time as we consider how best to enhance the UK's position as a global trading partner.