

Report to Partnership Meeting 15 June 2012

RESEARCH AND STRATEGY DEVELOPMENT

Highlands and Islands Air Freight Study

Purpose of Report

To report to Members on the findings of Highlands and Islands Air Freight Study which was jointly commissioned by HITRANS and Highlands and Islands Airports Limited (HIAL).

Background

Within the 2011/12 work programme HITRANS commissioned Northpoint Aviation to undertake a review of the issues, constraints and opportunities associated with air freight services to, from and within the Highlands and Islands. This work was designed to increase the knowledge and understanding of the Partnership and industry representatives in how air freight could be developed in the short, medium and long term support economic development throughout the Highlands and Islands.

The study focussed on the following areas:

- Identify the air freight market currently being served.
- Identify potential unmet demand.
- Identify constraints to the development of air freight.
- Make recommendations on how the air freight market could develop in the future.

The value of this commission was £10,000 with the costs shared equally between HITRANS and HIAL.

Summary of Study Findings

The Executive summary of the study findings is reproduced below. The full report will be uploaded to the HITRANS website where it will be available to download at <http://www.hitrans.org.uk/Corporate/Research/Air>

EXECUTIVE SUMMARY

INTRODUCTION

HITRANS and HIAL commissioned *Northpoint* to:

- Review general air freight trends.
- Assess the current status of the Highlands & Islands air freight market.
- Identify constraints and opportunities for air freight development.
- Provide a top level action plan for taking forward specific opportunities.

The research was undertaken between January and April 2012. It largely comprised:

- A desk-based review of statistics and reports.
- Consultations with those involved in air freight and a range of other stakeholders.

AIR FREIGHT TRENDS

Air freight growth rates are seen as closely related to GDP. Volumes in some parts of the world fell during the economic downturn that began in 2008. They recovered in 2010 but now seem to have, at best, stalled. Despite this, longer term growth is forecast to be strong. This is particularly the case for traffic to/from developing economies.

Since the 1990s express traffic has grown at a rate well above other segments of the air freight market. A small number of integrators dominate the express market. Increasingly important players in the UK, they carry growing amounts of air freight other than their traditional parcels and documents.

UK airport freight volumes were, in total, largely unchanged between 2000 and 2010. This is in contrast to quite strong growth in passenger numbers. While freight traffic grew at the major hub of Heathrow, it declined across other UK airports. This decrease also occurred at Scotland's airports.

Across all UK airports, most (two-thirds) of air freight by volume is carried in the bellyholds of passenger aircraft. However, if Heathrow is excluded then the bellyhold share falls to around one quarter.

THE AIR FREIGHT MARKET IN THE HIGHLANDS & ISLANDS

The dedicated air freight services within the Highlands & Islands are mail flights to the Outer Hebrides, Shetland and Orkney, plus a newspaper flight to Stornoway. Some of these flights are empty on the return leg to the mainland.

There are also mail flights between Inverness and both Edinburgh and East Midlands. All mail flights within or to/from the region are operated on contract to Royal Mail.

Scheduled passenger services in the Highlands & Islands have only limited freight capacity. Cross-border passenger services from Inverness have greater freight capacity than the intra-regional flights - but it is still modest in absolute terms.

It was also reported that there are a number of freight charter flights each year out of Kirkwall. These fly lobsters to Scandinavia when prices peak.

There is a lack of reliable statistics for freight volumes through Highlands & Islands airports. However, it appears that they are very slight, with only around 120 tonnes per annum at Inverness. The passenger flights to Amsterdam and Gatwick presently carry very little freight.

Freight volumes at Inverness have declined over the last decade. The downward trend reflects the loss of the BA Connect link with Gatwick and its seamlessness with BA World Cargo. It is also due to the operation of smaller cross-border passenger planes with less bellyhold capacity than their predecessors.

Volumes have also declined over a longer period. This was particularly after Inverness lost its passenger flights to Heathrow in the late 1990s and thus fell out of the world's hub and spoke system.

Highlands & Islands freight can and does travel on flights from other Scottish airports. Glasgow, Edinburgh and Aberdeen all have integrator services to/from England. Prestwick has freight services connecting with mainland Europe and the United States.

Freight can also travel bellyhold on these airports' passenger services. These include flights to major European hubs like Heathrow, Amsterdam and Paris, and intercontinental services to the United States and Dubai.

Despite these options total air freight from Scottish airports outside the Highlands & Islands remains modest in relative terms. Edinburgh has the highest volumes, but is ranked only eighth among UK airports in terms of freight traffic.

Accurate information is not available on the volume of Highlands & Islands freight flown to/from airports outside the region. However, this leakage is likely to be substantial, given the apparently very low volumes at Highlands & Islands airports. Commodities include:

- Seafood.
- Integrator traffic.
- Other high value products (e.g. electronics).

A lot of Scottish (and thus Highlands & Islands) seafood exports to intercontinental markets are roaded to Heathrow and then flown worldwide from there. The main market is by far the United States, followed by China. Seafood that is flown directly from Scottish airports appears to go largely from either Glasgow or Prestwick and almost all to Hong Kong or Singapore.

Air freight is much less able to compete with surface transport in moving goods to customers in the south of England and near mainland Europe. Surface consignments include seafood to:

- The London area and south coast, by road.
- London, on the Inverness-London sleeper train.
- Spain, by vivier lorry.

The most significant unmet demand for air freight direct to/from the region is:

- High value seafood exports to longer haul markets, where distances mean that air is not prone to competition from surface transport.
- Inbound parcel traffic.

CONSTRAINTS

The most important constraints on development of air freight at Highlands & Islands airports are:

- Limited range of suitable products and their dispersal across the Highlands & Islands.
- No strong appetite for change among transport providers or their customers.
- The cost of air freight, which can appear prohibitive for goods currently moving by surface transport.
- The existing range of services operating from airports outside the region.
- Different timing requirements for different goods, which can limit the ability to optimise use of both directions of an aircraft rotation.
- Potential customers being unwilling to co-operate and co-ordinate loads.
- Limited bellyhold capacity on Highlands & Islands passenger aircraft.
- Seasonality and potentially low volumes of outbound food products for movement by air.
- Airport security procedures and practices.

OPPORTUNITIES

- Express parcels traffic from the Midlands to Inverness.
- Southbound express parcel traffic from Inverness to the Midlands and seafood to world markets via EMA.
- Empty freight aircraft off the islands as a ready source of freight capacity at marginal cost.
- Freight charter flight potential.
- The relatively new Inverness-Amsterdam passenger service.

Two opportunities were explored in detailed. First, a *scheduled Inverness-East Midlands air freight service*. This would be based on the identified unmet demand from parcels (mostly inbound to the region) and seafood exports.

Parcels would be the main traffic component. However, the service would most likely require some seafood traffic on the southbound leg to make it viable.

The service would need to be timed to meet the extensive international flight connections at East Midlands. The main attraction of the service would be reduced overall international transit times compared to existing routes. The viability of the service would be enhanced if it can receive onward traffic from the islands.

Second, *utilisation of existing spare capacity*-principally empty scheduled airfreight service capacity within the Highlands & Islands. These flights could be used primarily for seafood exports. Their viability appears to depend on their being able to feed into the aforementioned Inverness - East Midlands service and thus onwards to longer haul markets.

These opportunities could produce a number of benefits:

- Allowing main users (parcel carriers and seafood producers) to charge a premium for their products and/or increase their market share.
- Seafood exports by air from the Highlands & Islands to world markets would both piggyback on, and contribute to, growing Scottish food and drink exports and Scottish Government's internationalisation agenda.
- An East Midlands service putting Inverness back in the substantial global airfreight hub and spoke system, while introducing integrator flights to the Highlands & Islands for the first time.
- Allow inhabitants and businesses in the region to enjoy comparable despatch and receipt times for express parcels with other regions of the UK.
- Additional operating revenues for HIAL.

ACTION PLAN

The plan identifies actions that HIAL could undertake to develop air freight business. These are grouped under the following five strands:

1. Effort to foster a new air freight service between Inverness and the Midlands.
2. Encourage use of dead-leg capacity from the islands.
3. Maximise bellyhold activity on Inverness cross-border flights.
4. Encourage freight charters.
5. Maintain an open dialogue with Royal Mail.

Recommendation

1. Members are asked to note the report.
2. Members are asked to approve ongoing Officer engagement with HIAL aimed at delivering the steps identified in the Action Plan output from the study.

Risk	Impact	Comment
RTS delivery	√	This research supports RTS objectives.
Policy	√	This research supports development of our policy in the aviation field.
Financial	√	This research was accommodated within the Research and Development programme budget and attracted 50% partner funding.
Equality	-	No impact on Equalities issues.

Report by: Ranald Robertson
Designation: Partnership Manager
Date: 30th May 2012