

LIBERALIZE ALL-CARGO AIR SERVICES

TO PROVIDE NECESSARY FLEXIBILITY AND MEET CURRENT AND FUTURE DEMAND

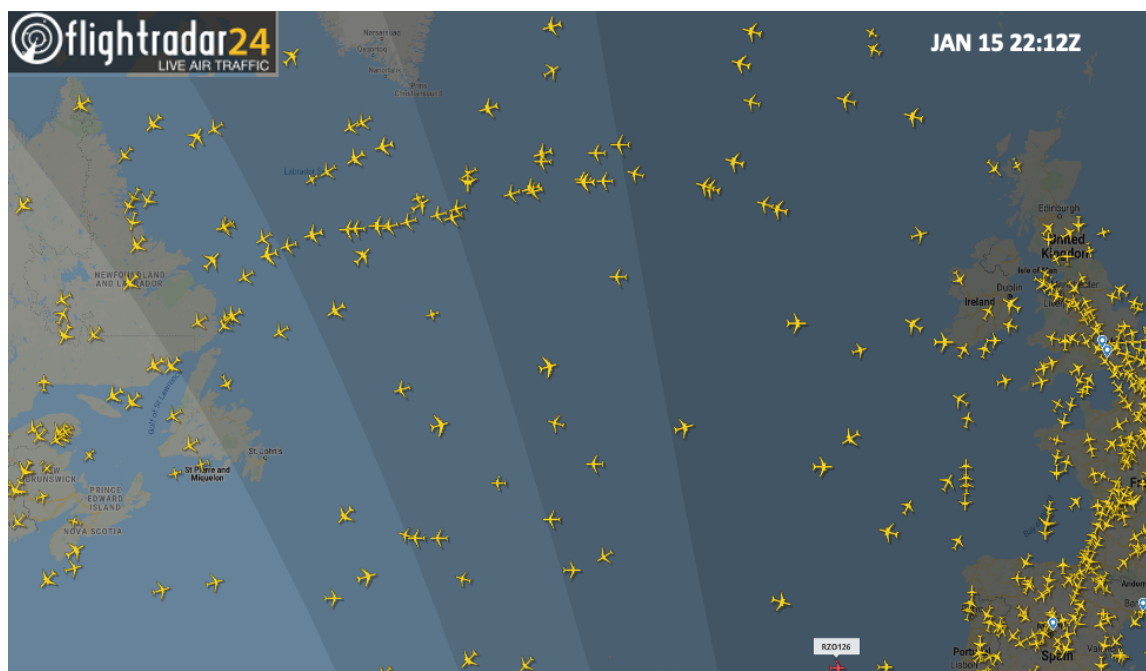
The COVID-19 pandemic has exposed the critical need for global all-cargo air services and the inefficiencies that still exist in air cargo networks. These inefficiencies are caused by outdated policies. Now is the time to address them.

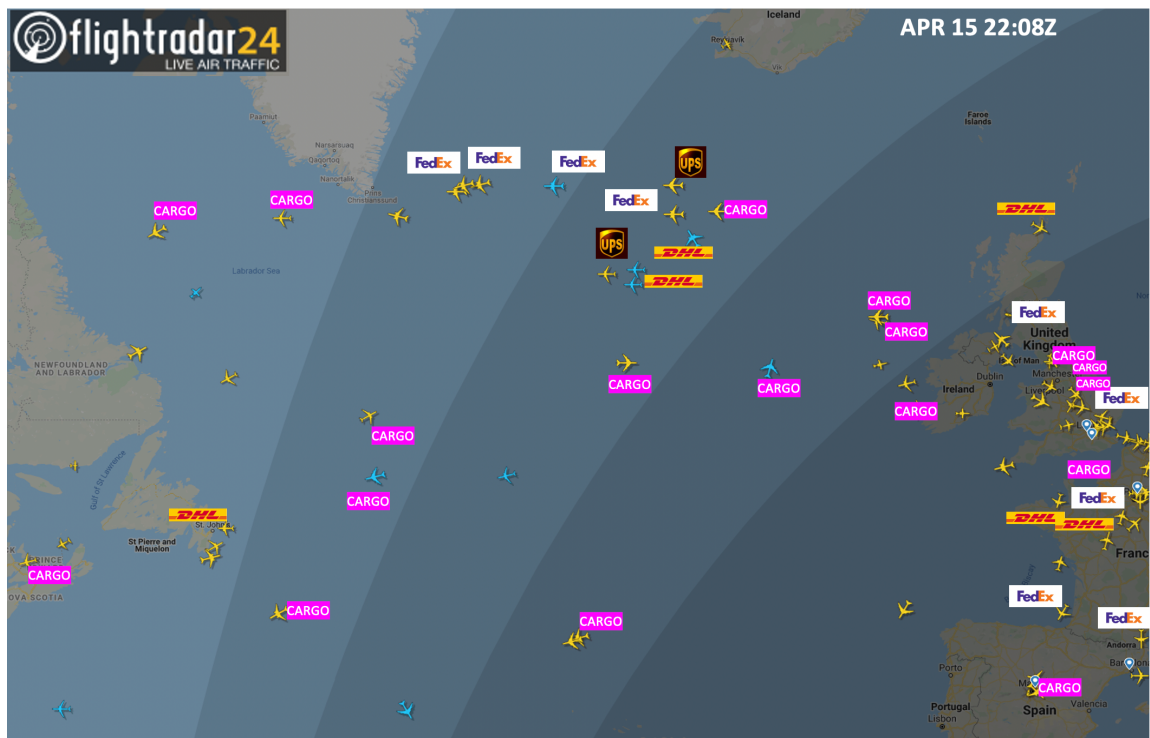
Introduction

In response to the COVID-19 pandemic, many governments undertook temporary and appropriate measures to facilitate, and even grow, their international air cargo markets. As discussed below, the Global Express Association (GEA) believes that governments should make permanent many of those measures and use the lessons learned during the response to further liberalize the treatment of international air cargo.

COVID-19 has drastically affected international aviation

These pictures speak for themselves.





They were taken from Flightradar24, a flight tracking app, and show the North Atlantic airspace around 22:00 UTC on 15 January (top) and then three months later, at the same time on 15 April 2020¹ (bottom), as the COVID-19 pandemic prompted governments to impose travel bans and quarantines. By April 2020, all-cargo and express airplanes were the only ones flying – or almost.

While governments were scrambling to close their international borders, they soon realised that air cargo operations would be vital to fight the pandemic. Air cargo was the only way to bring much-needed emergency supplies to hospitals around the globe, but also to keep business of all sizes in operation, and support exponential e-commerce growth.

Soon it became evident that quarantine and other health measures designed for passenger traffic were causing severe disruptions in cargo flows, to everyone’s detriment.

In her State Letter of 18 March 2020, ICAO’s Secretary General said:

I have been pleased to note that several States have implemented measures to prevent disruptions to such critical operations, by maintaining all cargo flights and excluding crew members of cargo flights from quarantine. There is an urgent need to ensure sustainability of the global air cargo supply chain and in maintaining the availability of medication, and equipment such as ventilators, masks and other health and hygiene-related goods, which are necessary to assist in reducing the public health risk of the spread of COVID-19.

¹ Tags added by GEA to the April 15 picture.



ICAO followed suit by issuing two electronic bulletins on 11 May and 17 June 2020 introducing a ‘public health corridor’ concept for cargo operations (ICAO EB 2020/30 and 2020/36). Then, on 29 July, the Group of 7 (G7) issued the *G7 High-Level Transportation Principles in Response to COVID-19* that outlined specific actions that governments should undertake to simultaneously support public health and continued economic activity during the current pandemic.

The international regulatory response to the COVID-19 pandemic highlights what the air cargo industry has long argued: *movement of air cargo fundamentally differs from the movement of people, and the carriers offering those services use fundamentally different business models.*

For all-cargo airlines and express carriers, flying cargo is their only business. Cargo flies one-way. And cargo carriers require flexibility to respond to surges in cargo demand. The pandemic triggered enormous demand fluctuations. For instance, the volume of international goods shipments (that is, excluding documents) in GEA members’ networks grew by 50% from March to June 2020².

At the same time, passenger services were grounded and the belly-hold capacity that would otherwise have been supplied by passenger airlines evaporated. Cargo traffic continued to move only thanks to all-cargo airlines and express carriers who continued to operate.

Furthermore, as the pandemic amply demonstrated, cargo traffic poses different health risks than passenger traffic – and provides different benefits to people, governments and economies. Logically, different business models call for different regulatory approaches.

The pandemic and subsequent economic crisis may cause many industries to consider changes to their supply chains in order to make them more resilient. This could include relocating and diversifying production centres, modifying distribution channels, and reevaluating the value-proposition of safe, fast, and efficient air cargo to their businesses. In response to their customers’ needs, cargo operators will need to adapt. For this, flexibility will be crucial.

Now is the time to draw lessons from this ongoing outbreak and revisit policy in this field. Liberalising air cargo traffic rights would allow industries of all sizes to re-shape their production and distribution channels as they see fit. It would make sure the necessary measures are in place to guarantee the continuity of essential air cargo services, should another health or humanitarian crisis hit.

² Source: GEA border hold statistics

Express delivery is essential to foreign trade

In normal times, too, express delivery has become one of the essential conveyor belts of international trade, indeed the fastest one. The three members of the GEA pick up, process, transport and deliver over 30 million³ packages daily. Typical delivery times range from same day to 72 hours. Their services are used by individuals, small and medium-sized companies and large multinationals that operate global value chains.

There is growing demand for express delivery services worldwide. Even after the 2008 financial crisis, express delivery continued to grow at approximately 7% a year⁴. Crises can cause spikes in demand: As stated above, demand for international express cargo on our networks grew by 50% between March and June 2020⁵.

To cater to this growing demand, the three members of the Global Express Association operate a fleet of about 1,700 aircraft.

Express delivery acts as a catalyst for economic activity

Express delivery services are typically used for delivering high-value-added, time sensitive shipments. Increasingly, too, express delivery conveys e-commerce shipments from business of all sizes that avail themselves of this new distribution channel to trade globally. The COVID-19 outbreak has proven e-commerce to be a fundamental alternative when traditional brick-and-mortar outlets become unavailable and stay operational by adapting their distribution channel.

Express operators offer their customers high quality transport links, both for bringing in materials, components and spare parts to their production facilities and for transporting finished products to market. In this way, express operators help their customers overcome both challenges of geography and weaknesses in the transport infrastructure.

A wide range of factors influence businesses' decisions about how much and where to invest. However, surveys of international investors suggest that ease of access to markets and transport links are particularly important. There is evidence⁶ showing that a majority of companies consider easy access to markets customers or clients as "absolutely essential" when deciding where to locate their business. Being able to respond quickly to customer demand is key to winning and

³ Source: GEA members' annual reports

⁴ Source: GEA border hold statistics

⁵ Source: GEA border hold statistics

⁶ See for instance *The Impact of the Global Express Industry on the Global Economy*, Oxford Economics, 2009



maintaining business in an increasingly competitive global economy, and express delivery services are vital for this.

Liberalisation has allowed express delivery – and the industries it serves – to thrive

Unlike most passengers, cargo – express or not – travels one way. Without the necessary traffic rights, express carrier airplanes risk travelling empty half the time, or at least their capacity would be underutilised, and resources would be wasted.

The current express delivery network, which supports so many manufacturing and services industries world-wide, is to a great extent the product of air transport liberalisation policies embraced by a growing group of governments over the last twenty years. In short, without policies that open air cargo markets and allow (and indeed stimulate) free competition amongst carriers, the ability to ship cargo urgently from one side of the planet to the other in a secure, time-definite way would probably not exist, or at least not the way we know it today.

Lock-in existing liberalisation. Go further.

Where countries have adopted a more liberal policy, express delivery carriers have thrived as a result – and they have, in turn, helped generate valuable activity, jobs and other benefits for the many businesses that they serve. However, there remain many countries that still follow a more restrictive approach in permitting market access to all-cargo air services. The current situation, globally, presents a very mixed landscape for all-cargo operators.

Therefore, governments around the world should not only lock-in the degree of market opening achieved so far. Further liberalisation of market access and investment should inspire their air transport policies at global, regional or bilateral level, especially with regard to air cargo.

Over the last few years, ICAO's Air Transport Regulatory Panel (ATRP) looked into a multilateral protocol for liberalising air cargo traffic rights. Momentum at ICAO has slowed in part because some interests continue to work to protect the cargo business model of passenger airlines. Now is the time to urge the ATRP to redouble its efforts to create opportunities for like-minded ICAO members to liberalize cargo air transportation options.

As the COVID-19 pandemic has shown, the specific needs of all-cargo services need to be recognized. All-cargo air services should benefit from further liberalization, beyond the liberalization of passenger and combination services.

Free market access is an essential element of such policies. This includes the whole range of traffic rights, including fifth and seventh freedoms, so as to allow express delivery carriers (and other all-cargo operators) the ability to optimise the use of their fleets by picking up cargo where

and when there is demand for the service and transporting it to where and when the client requests it, with their dedicated fleet, through the most efficient routing.

Express delivery is a global activity. To meet their customers' demands, the networks of the express delivery providers span the globe. In order to do so, express delivery networks depend on a multiple hub-and-spoke structure, with hubs in several countries around the world. Air transport policies should make it possible for an express delivery provider (and its carriers) to:

- Establish its own hubs wherever it considers it most efficient, by granting traffic rights up to fifth and seventh freedoms.
- Make efficient business decisions by allowing:
 - Change of gauge
 - Online transfers to multiple destinations
 - Interline transfers on multiple carriers
 - Comingling of traffic regardless of destination
- Handle its dedicated fleet (e.g. loading, unloading...)

Such policies, in practice, support both all-cargo and passenger carriers.

And don't forget the other bits

Indeed, the operation of an efficient, global express delivery network requires the freedom to provide other services, which span beyond the realm of traditional Air Services Agreements, including:

- The ability to own or operate facilities (warehouses, for example, or airport terminals, or indeed airports)
- Run its own local ground transport network
- Run cross border trucking services, etc.

Liberalising all-cargo air services is thus an essential element for the efficient provision of express delivery services, but not the only one.

The digitalization of cross-border processes in international trade, in particular that of customs/border clearance, is not new. The introduction of electronic data interchange (EDI) and digital signatures in recent years has brought about significant improvements in the clearance of goods crossing international borders by increasing efficiency, improving data quality and reducing cost. For these supply chains to handle high volumes of shipments fast and securely, solid global customs and security standards are required, and they need to be implemented consistently. At the same time, an air cargo customs and security regime should be based on risk,



and designed to manage specific threats. And it should focus on outcomes not on prescriptive measures, so as to give contracting States a degree of flexibility.

In conclusion

All-cargo airline operations differ from those of passenger airlines. They should be treated differently. For airlines, one size does not fit all. This has been clearly demonstrated by the COVID-19 pandemic. All-cargo air services have been crucial during this period. Looking ahead, the crisis will trigger changes for supply chains. Cargo will need to adapt. And in the most immediate future, the global distribution of a vaccine will pose a major logistical challenge. Ideally, a framework should be developed tailored to needs of air cargo – a framework that provides for improved market access and operational flexibility essential for all-cargo air services and for the industries they serve.

Geneva, September 2020