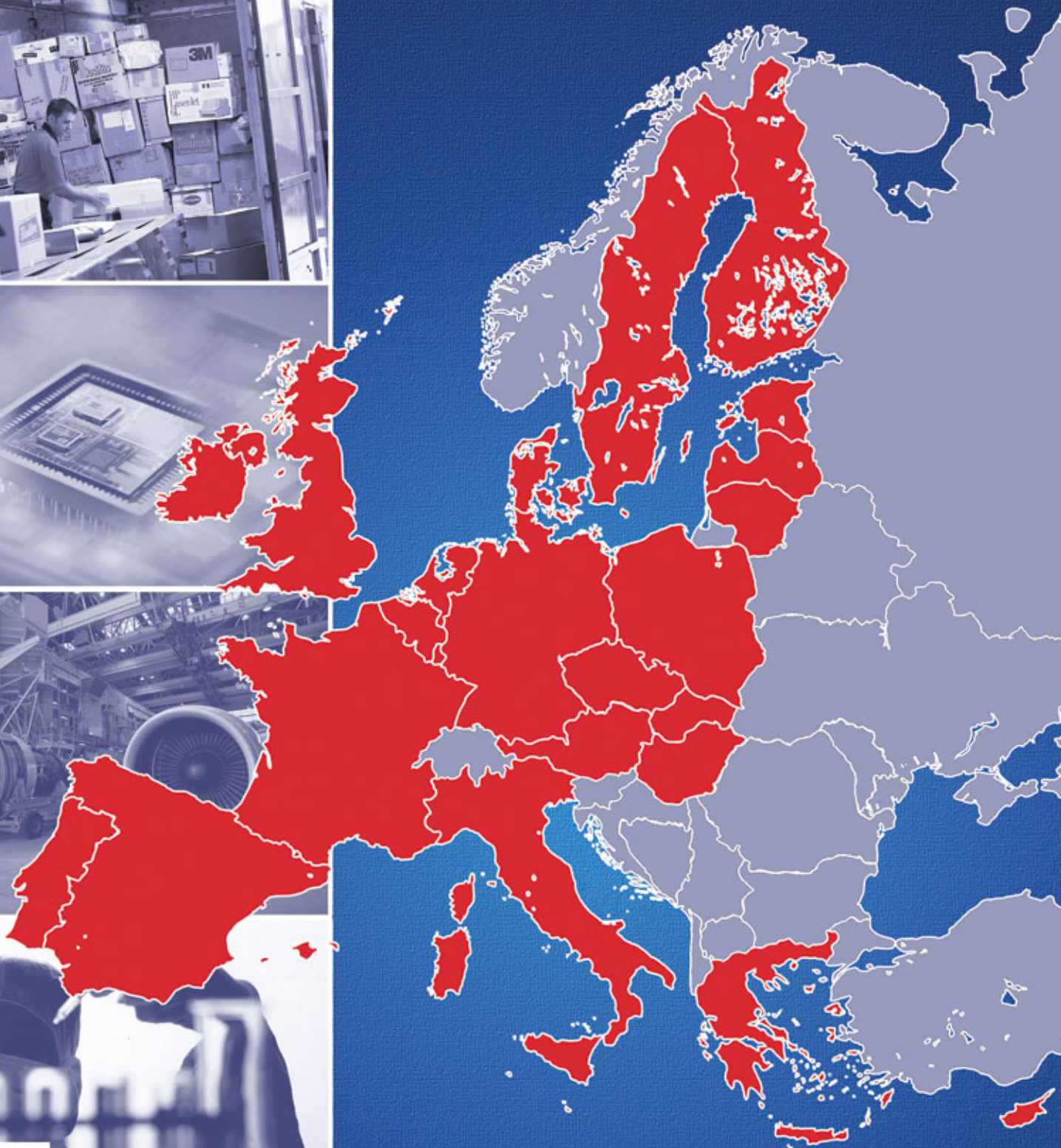
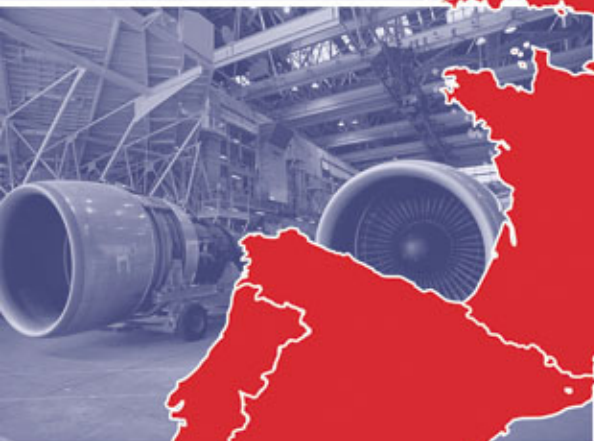




The Economic Impact of Express Carriers in Europe



THE ECONOMIC IMPACT OF EXPRESS CARRIERS IN EUROPE

A Report by

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Executive Summary

The Economic Impact of Express Carriers in Europe

The express industry – one of Europe’s growth sectors...

- Express operators provide guaranteed, fast, reliable, on demand, world-wide, integrated, door-to-door movement of shipments which are tracked and controlled throughout the journey. They are the “Business Class” of cargo services. In order to provide that premium service with guaranteed delivery, the express industry depends on overnight transport, by fully utilizing time outside normal working hours.
- The express industry simplifies and speeds the process of transporting goods. It organises collection, usually at the end of the business day, allows the sender access to information on the progress of shipments from pick-up to delivery and provides proof of delivery. Where shipments cross international borders, the express industry handles customs clearance as well as the payment of duties and taxes as required.

...supporting over 530,000 jobs in total today...

- The express industry makes a significant direct contribution to the EU economy:
 - Its direct contribution to EU GDP was over €10.5 billion in 2003, half of which is accounted for by the four ‘integrators’ - DHL, FedEx, TNT and UPS.
 - It directly supports 250,000 full-time equivalent employees, including over 12,000 in the 10 new EU member states.
 - The express industry helps to support at least 530,000 jobs in total, allowing for those people employed in companies supplying the express operators (eg in the automotive industry building delivery vehicles, in companies supplying IT support services etc) and for the jobs dependent on the spending of express industry workers.

...and over 1 million by 2013

- The express industry is one of Europe’s fastest-growing sectors – since 1998, its growth has been around six times faster than that of the European economy as a whole.
- It is expanding particularly rapidly in the new member states, with total turnover of about €0.5 billion in 2003, four times higher in real terms than in 1998.
- With demand for rapid, guaranteed delivery services growing strongly, direct employment in the express industry in the EU is expected to increase from 250,000 now to 500,000 by 2013, if it is unconstrained. The express industry is expected to support over 1 million jobs in the EU by 2013.

The express industry plays a critical role in Europe’s international trade...

- The most important role of the express industry is in facilitating the success of other parts of the European economy. EU companies are dependent on express services for around 3% of their sales on average – worth around €450 billion.
- Good access to markets is the most important factor influencing international location decisions: express services are an important element in ensuring that companies based in Europe have the best possible access to markets.

- Express delivery services are increasingly important to ensuring the continued competitiveness of European companies, and so to winning export markets and encouraging investment. They are likely to become even more important in future as the accession countries become increasingly integrated with the rest of the EU, and as trade grows rapidly with Asia and the US.
- Express services help to improve the competitiveness of almost all aspects of European companies' operations, including sales, logistics and storage, production and customer support functions.

...and in facilitating productivity and investment

- Express services enable European companies to maximise the efficiency of their operations – reducing production shutdowns and allowing the implementation of best international techniques such as build-to-order.
- Express services also allow companies to minimise their inventory costs. Nearly 40% of firms would possibly have to hold increased inventories to ensure that they could meet consumer demand if next-day delivery were no longer available. Others would have to hold higher stocks of raw material, sub-components and spare parts.
- The express industry enables small companies to utilise high quality, rapid delivery services which they could not provide themselves. This is particularly important in facilitating their participation in export markets.
- Express services also contribute to regional development by linking geographically peripheral areas to the EU's major centres.
- One area where express services are likely to be particularly critical to the EU's success is the knowledge-based sectors, such as pharmaceuticals/biotechnology, financial and business services, and research & development. These sectors are more-than-usually dependent on express services, reflecting the time-sensitive, high value products and services they provide.

1 The Size and Reach of the Express Industry

Introduction

- 1.1 This report sets out clearly the impact of express carriers on the EU economy. The most important contribution that the express industry makes is through its impact on the capabilities and competitiveness of other sectors of the economy. We describe in detail in this report how the express industry facilitates increased output, trade, investment and employment across European business.
- 1.2 But first we begin by explaining what the express industry is, how it initially developed and how it has grown globally over the last 25 years.
- 1.3 We then illustrate the size of the express industry within the EU economy, in terms of its contribution to GDP and employment.

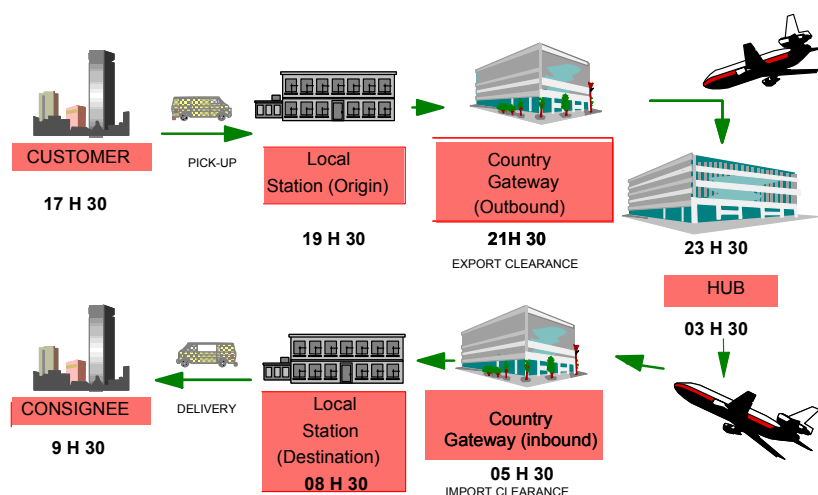
Key Findings:

- **The express industry is one of the fastest growing sectors in the European economy.**
- **It now employs around 250,000 people directly – similar to the office equipment and computers manufacturing sector - and supports over 530,000 jobs in total.**
- **It made a direct contribution to GDP of over €10.5 billion in 2003.**
- **A broad range of industries use express services. But the largest users are typically ‘high tech’ parts of manufacturing, pharmaceuticals and business & financial services.**
- **The greatest contribution made by the express industry is in enabling European companies to compete effectively in an increasingly global market.**

What is the express industry?

- 1.4 The core business of the express industry is the provision of value-added, door-to-door transport and deliveries of next-day or time-definite shipments, including documents, parcels and merchandise goods. (Time-definite shipments normally incur a transit time of between 2 and 3 days.)
- 1.5 Four companies – DHL, FedEx, TNT and UPS, also referred to as ‘integrators’ – are the leaders of the global express industry, but there are many others in this highly competitive sector. The term ‘integrator’ refers to the ability of these companies to offer door-to-door, time-definite integrated services, where the company maintains control over all aspects of the distribution process – for instance, by offering the possibility of changing the destination and addressee in transit – and with each item being tracked at every step throughout its journey.

Figure 1.1: The key stages of a typical express delivery



Characteristics of the express industry

- 1.6 The express industry simplifies and speeds the process of transporting goods. It organises collection, usually at the end of the business day, allows the sender access to information on the progress of shipments from pick-up to delivery and provides proof of delivery. Where shipments cross international borders, the express industry handles customs clearance as well as the payment of duties and taxes as required. Figure 1.1 illustrates the key stages involved in a typical express delivery.
- 1.7 Other transport operators on their own cannot respond to the needs of European business as effectively as the express industry. In particular, they are not able to offer the same level of rapid, guaranteed delivery to as wide a range of destinations.
- 1.8 To meet the requirements of business in Europe, the express industry relies on overnight transport to use the 'dead time' from when a company hands over its shipment late in the working day to delivery to the recipient early the following day. Express transportation is achieved by using a variety of different transport modes; lorries, vans, trains, passenger aircraft and freight aircraft as well as on-foot delivery. Where possible, though, the express industry uses surface transport modes. Air express services are only used where there are no other options available to meet same day and next-day delivery requirements.
- 1.9 For some companies, members of the express industry organise all aspects of their distribution process.

Development of express services in Europe

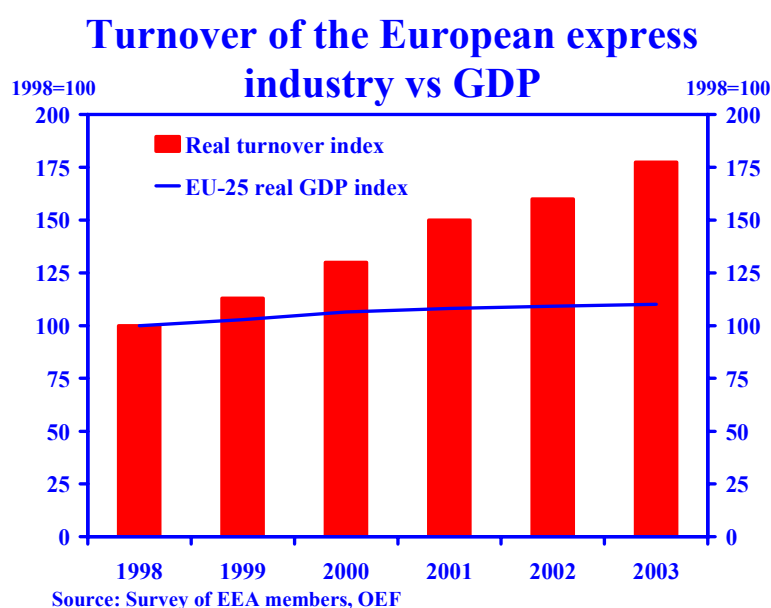
- 1.10 Express services were introduced to Europe in the mid-1980s, having initially developed in the USA. Unfortunately, the requirement of European companies for time-definite, guaranteed delivery could not be met by either postal services or freight forwarders.
- 1.11 The express industry has developed from the delivery of documents and parcels to specialist items such as high-tech products, semiconductors and general airfreight commodities. Typically, the types of goods transported by express services are high-value / low-weight items such as electronic components, designer fashions and pharmaceutical products. It is estimated by the OECD that goods transported by air account for 3% by weight of all goods

traded globally but about 40% by value. Express services represent a substantial proportion of this international trade.

Express delivery now a €35 billion business in Europe...

- 1.12 In 2003 the express industry generated total sales revenue (ie turnover) of over €35 billion across the 25 countries that are now members of the EU. While the express industry itself is a small part of the European economy, it has been growing very rapidly. Stripping out the effects of inflation, the express industry's turnover has risen by almost 80% in real terms since 1998 – ie at an average annualised rate of over 12% a year, around six times the rate of growth of the European economy as a whole.

Chart 1.1



- 1.13 The express industry is much more developed in the larger European economies than in the 10 countries that joined the EU on 1 May 2004. Turnover of the express industry in the EU-15 totalled around €35 billion in 2003, 75% higher in real terms than in 1998. But the express industry is expanding rapidly in the new member states, with total turnover of about €0.5 billion in 2003, four times higher in real terms than in 1998. We discuss the importance of express services to economic development in accession economies and their integration with the rest of the EU in detail later in this report.

...contributing €10.5 billion directly to GDP...

- 1.14 The express industry is not separately identified in the National Accounts produced by national statistical offices and Eurostat. As a result, the scale of the industry and its direct contribution to European GDP and employment are not well understood. We have therefore undertaken a survey of the four integrators who are members of EEA to quantify the size and reach of the industry. Together, these companies estimate that they account for around half of the European express industry. We have grossed up the results of our survey accordingly to estimate the size of the overall European express industry and its growth over the last five years.

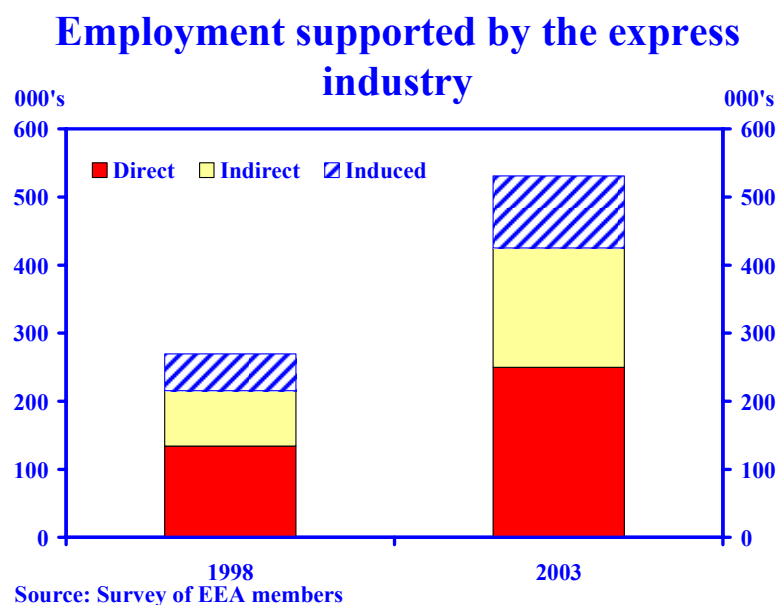
1.15 The direct contribution of the express industry to European GDP is measured by its so-called 'value-added'. We calculate this using information provided by the express operators on the value of their sales less the value of the intermediate purchases they buy from supplier industries (eg fuel, packaging materials etc). On this basis, we estimate that direct contribution of the express industry to GDP was over €10.5 billion in 2003. This means that the express industry makes a direct contribution to EU-25 GDP similar to the office equipment and computers manufacturing sector.

...directly creating 250,000 jobs...

1.16 The express industry supports 250,000 full-time equivalent employees. Employment in the express industry has increased by 86% since 1998 and it is now a larger employer than, for example, the EU domestic equipment manufacturing sector.

1.17 The express industry's employees are widely spread across Europe, including over 12,000 in the 10 new EU member states. Moreover, the express industry provides work for people with a wide range of skills, including sorting and delivery, administration and sales, as well as engineers/technicians and managers.

Chart 1.2



...and supporting over 530,000 jobs in total

1.18 The express industry helps to support other jobs in the EU, including:

- Employment in companies supplying goods and services to the express industry – so-called '**indirect employment**' – including those working in: commercial and cargo airlines employed by express operators; the aerospace industry building aircraft operated by express companies; the automotive industry building delivery vehicles; in companies supplying IT equipment and support services; in oil companies; accountants and lawyers; etc.

On the basis of information provided by the members of the EEA on their purchases from suppliers, and the input-output tables prepared by national statistical offices, we estimate

that the 250,000 direct jobs in the express industry generate an additional 175,000 indirect jobs in Europe through the supply-chain.

- Employees in the express industry (whether directly or indirectly) use their income to purchase goods and services for their own consumption, and this spending then helps to support jobs in other sectors. Estimates based on simulations conducted on the Oxford Economic Forecasting Global Macroeconomic Model suggest that this so-called '**induced employment**' may be around 105,000 (ie about 25% of direct and indirect employment in the express industry). This does not mean that these additional jobs would not exist without the express sector, but they are likely to do so only at somewhat lower real wages and living standards for those workers.

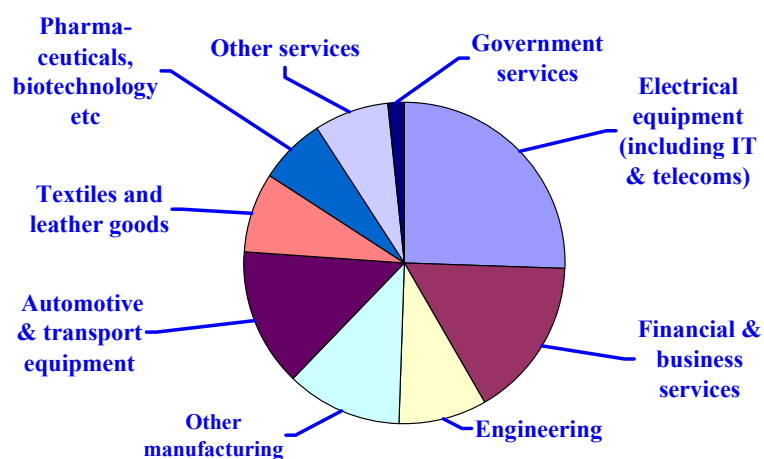
1.19 Putting these different elements together implies that the express industry now helps to support at least 530,000 jobs in the EU-25, a virtual doubling since 1998. In addition, the express industry also helps to generate employment elsewhere in the economy by, for example, facilitating trade and investment in Europe and improving the efficiency of its client companies, as discussed later in this report. These wider effects reflect the so-called 'catalytic' impact of the express industry and are discussed in detail in the rest of this report.

Express particularly important to high-tech and knowledge-based sectors

1.20 The services provided by the express industry are used by companies across the spectrum of European business. The most important client sectors include high-tech and other leading 'growth' sectors, such as IT, pharmaceuticals, electronics and financial & business services. But the express industry is also used extensively by firms in other sectors, including textiles, automotives and engineering.

Figure 1.2

The express industry's main client sectors



Source: Survey of EEA members, % of express revenues by client sector

Conclusion

1.21 The express industry is one of Europe's fastest-growing sectors, and now supports over 530,000 jobs. But the most important role of the express industry is in facilitating the success of other parts of the European economy, which is the subject of the remainder of this report.

2 The Role of the Express Industry in Facilitating Trade and Competitiveness

Introduction

- 2.1 In this Chapter, we begin our analysis of the contribution that the express industry makes to the long-term growth potential of the European economy by considering its role in international trade and the delivery of time-sensitive goods.

Key Findings:

- **Express delivery services are increasingly important to ensuring the continued competitiveness of European companies, and so to winning export markets and encouraging investment.**
- **Express services help to improve the competitiveness of almost all aspects of European companies' operations, including sales, logistics and storage, production and customer support functions.**
- **Express services are being used to transport a growing share of Europe's trade, as companies demand rapid, guaranteed delivery.**
- **Express services are likely to become even more important in future as the accession countries become increasingly integrated with the rest of the EU, and as trade grows rapidly with Asia and the US.**
- **Express carriers are facilitating this trade by investing in new delivery routes and services.**
- **Express services are particularly important for many companies based in the economies at the geographical periphery of Europe. Notably, this includes many of the accession countries.**

Express industry plays a critical role in Europe's international trade...

- 2.2 Trade and the free movement of goods, people and capital are core to the European Union. As Chart 2.1 shows, almost all of the members of the EU are very dependent on external trade. Exports account for over 25% of GDP in all countries except Greece. And in several – for example, the Czech Republic, Slovakia, Hungary, Belgium and Ireland – exports represent more than 70% of GDP. The new member states, in particular, are significantly export-oriented.
- 2.3 Moreover, the European economies have become increasingly dependent on trade in recent years. As Chart 2.2 shows, both exports and imports have risen significantly faster than GDP in both the EU-15 economies and the accession countries over the last decade.
- 2.4 Rapid growth in international trade is by no means a phenomenon of only recent years, nor is it confined to Europe. For example, world trade in manufactured goods increased eight-fold

between 1950 and 1973. But the absolute volume increase in world trade since the mid 1970s has been over four times that over the previous 25 years, driven by:

- The gradual **removal of barriers to international trade** - including the creation of the European Single Market and the widening influence of the World Trade Organisation.
- **Globalisation** – as new markets have opened up and more companies have established international operations and foreign subsidiaries.
- **Increased specialisation** – encouraging countries to focus on the activities in which they have a comparative advantage, and trade with other countries that have an advantage in the production of other goods and services.
- **Global communications** – enabling companies to market their products around the world, and liaise with customers and suppliers in other countries.
- **More favourable political background** – allowing increased trade with former communist countries – a number of whom are now members of the EU – and China.

Chart 2.1

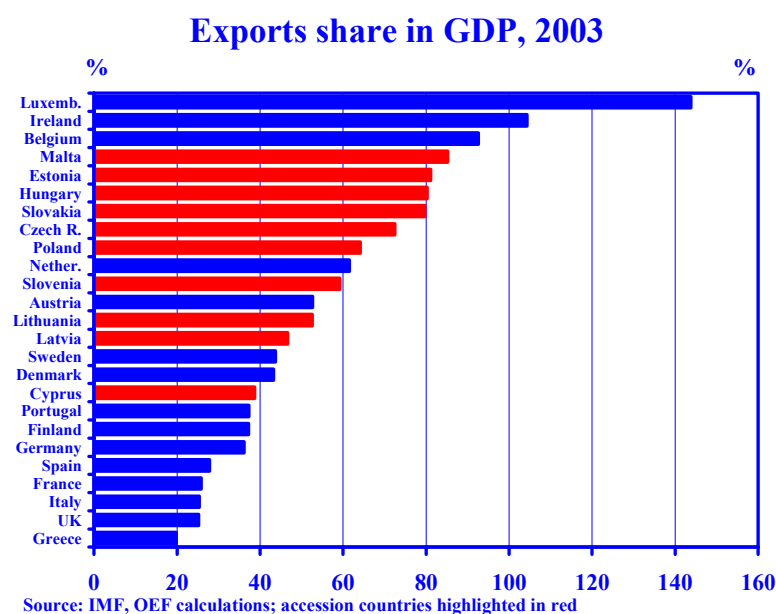
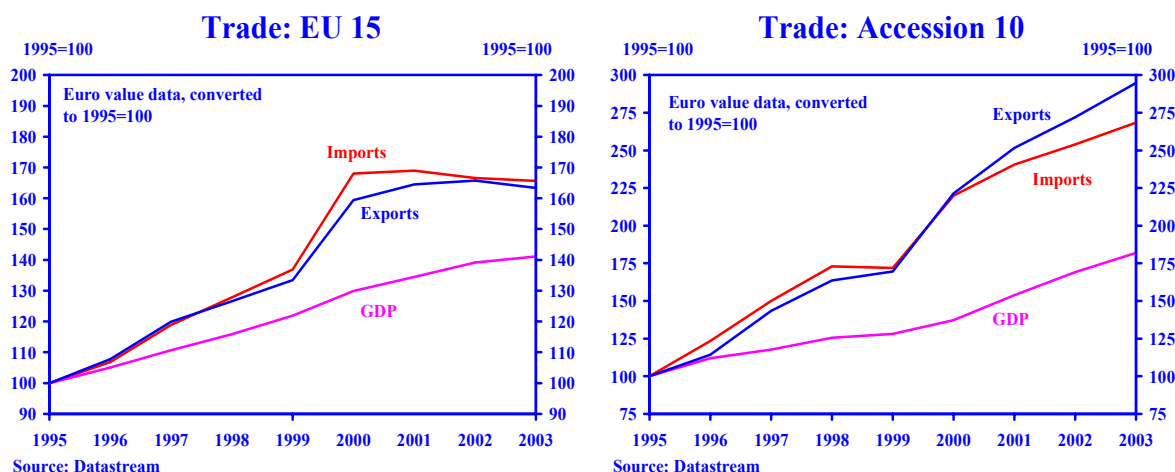
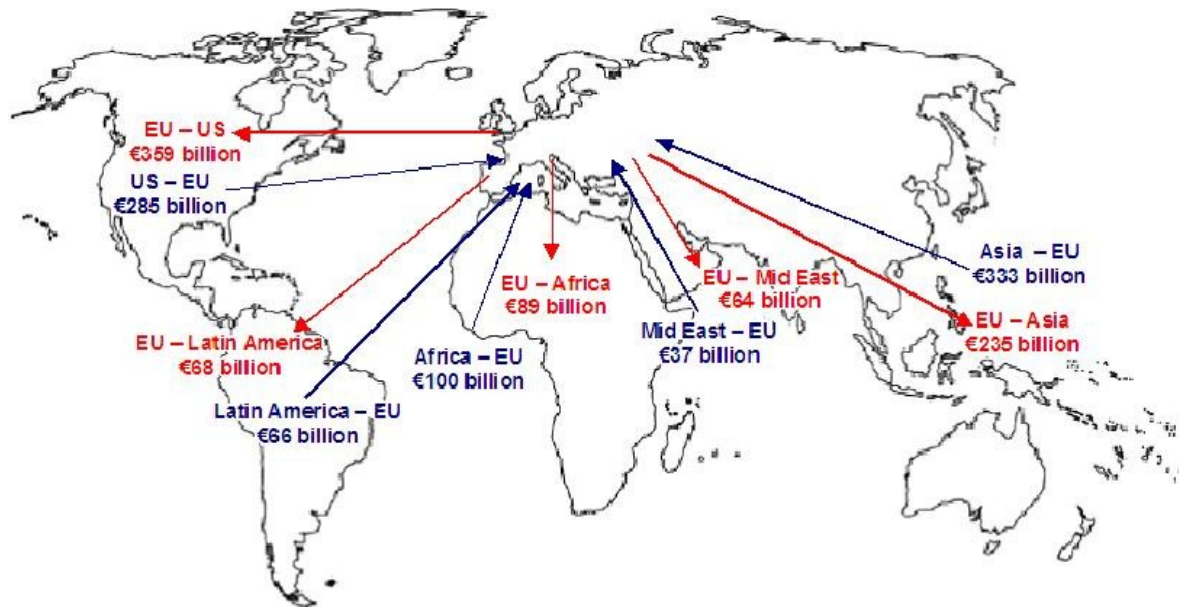


Chart 2.2



2.5 Figure 2.1 shows the pattern of Europe's international trade. The US remains the EU's biggest external trading partner. But trade with Asia is growing particularly rapidly. In addition, trade between countries in the EU is also increasing.

Figure 2.1: The pattern of EU trade with the rest of the world



Source: Datastream and Eurostat; data are for trade in goods and services, 2002

2.6 OEF's global forecast shows these trends continuing, with world trade increasing by over 90% over the next decade (Chart 2.3). The accession of the central European countries to the EU in May 2004 should stimulate increased trade within Europe, as it encourages increased investment in these countries. As a result, there are likely to be increased flows of investment and intermediate goods from the EU-15 to the accession countries, and increased flows of finished manufactured products from the accession countries to the EU-15 countries.

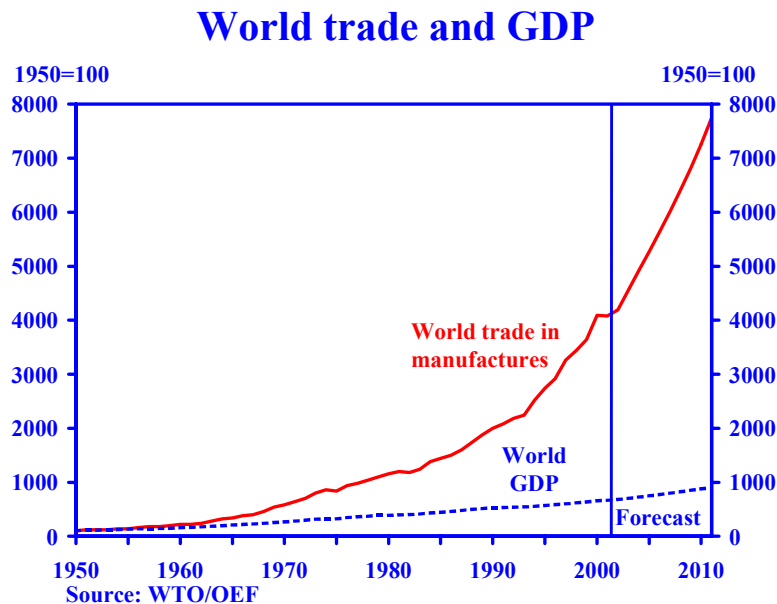
...with rapid, guaranteed delivery increasingly key to competitiveness...

2.7 The European economy's increasing reliance on trade means that it is also increasingly dependent on efficient and competitive means of both delivering its exports to their destinations and bringing in imports from other countries. There are a number of aspects to such services that are important:

- **Speed:** For some organisations speed to market is even more important than cost in determining their competitiveness. This is obviously vital for perishable goods, such as pharmaceutical test materials. But it is also important, for example, for firms meeting orders to strict delivery dates or having to respond immediately to customer demand (ie the so-called 'Day+1 economy').
- **Reliability:** The reputation of European exporters can be undermined if their deliveries fail to arrive with customers on time or are lost in transit.

- **Destinations served:** With trade growing most rapidly in the so-called emerging economies, particularly in Asia, the ability to ship products to and from an increasing number of countries cost-effectively and quickly – ie ‘connectivity’ - is also important.

Chart 2.3



Case Study: Belgian retailer of industrial machinery and machine accessories

This company sells industrial machinery and machine accessories, with outlets throughout Europe but its main production centre is in the US. Every order is delivered within 24 hours to approximately 20,000 addresses in Europe. Its customer portfolio includes SMEs as well as big firms. 95% of express deliveries are 3 kg packs of accessories. But 5% of the firms' sales of entire machines is also delivered by express carriers. The company believes that its competitiveness would suffer if it did not have access to express services.

...and express carriers investing in new routes to fast-growing markets

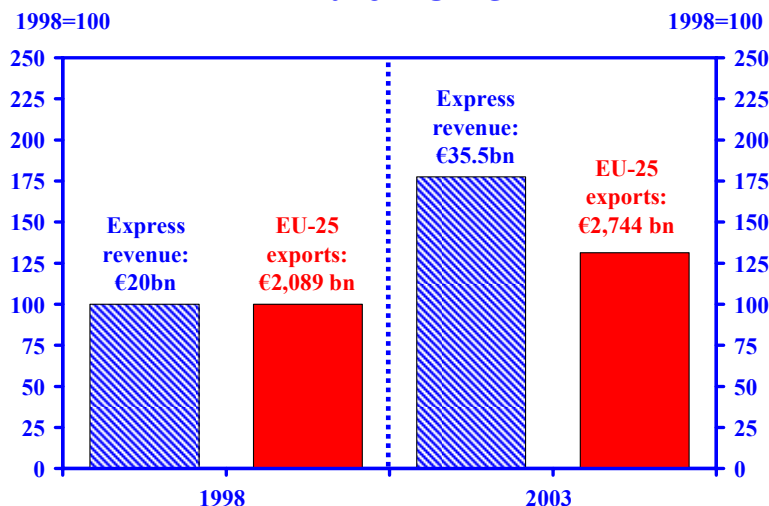
- 2.8 European companies use a variety of means to transport goods to and from abroad, including road/rail and ferry, sea-freight and airfreight. But express delivery services – which represent the ‘business class’ of the freight transport market, focused on providing fast, highly reliable delivery – are becoming increasingly important. The express carriers are able to connect 90% of world GDP within 24-48 hours. Not surprisingly, given the distances involved, express services are used disproportionately for exports to countries outside the EU.
- 2.9 Express carriers are responding to the growth in Europe's trade by investing in new delivery routes and services to ensure that they can meet the growing demand for rapid, guaranteed international delivery. Moreover, they are increasingly working with their clients to provide support with distribution and logistics services.
- 2.10 Express services are typically used for delivering relatively high-value/low-weight products. For example, in Italy air transport is used to carry just 0.4% of exports by weight but 10.7% of

exports by value, with the express industry accounting for more than half of these exports by value. A similar pattern holds in other EU countries.

- 2.11 The benefits that express delivery offers to European trade have resulted in the revenues of the express operators rising 2½ times more quickly than the value of European exports since 1998, as express services carry an increasing proportion of Europe's trade (Chart 2.4).

Chart 2.4

Express industry revenues and exports in the EU-25



Case Study: Italian On-Line Fashion Outlet

This company buys designer clothing, footwear and accessories from retailers and fashion companies at the end of the sales – summer and winter – and then sells them on-line. Its main markets are Italy (over 40% of turnover), Germany, UK, France, Spain and, since mid-2002, the US.

This company relies on express services for all its deliveries and has developed a strong relationship with a leading express company. Fast, guaranteed delivery is important to ensuring customer satisfaction and to providing a competitive advantage over its rivals. The company's clients particularly value being able to track their orders in transit over the internet.

Case Study: French airline

This airline company is specialised in business trips and employs around 1,000 people. Non-operational planes cost €40,000 a day, so it is essential for the company to send spare parts quickly to its various European branches for maintenance purposes. 40% of these accessories are now sent via express carriers. According to the company, delivery delays would result in an immediate increase in its costs, as the company would probably have to increase significantly its inventories and to use taxis for urgent deliveries at on average five times the cost of express services.

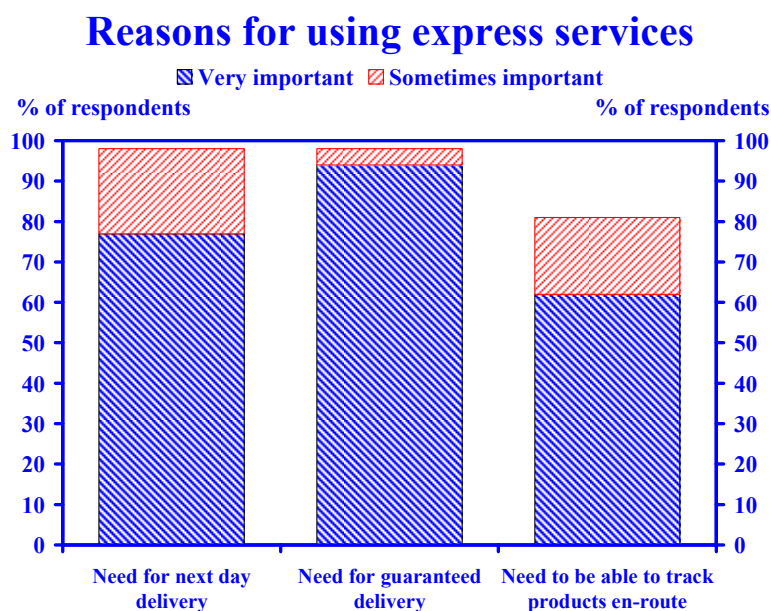
Business surveys confirm importance of express services to companies...

- 2.12 The importance of the express industry in European trade is highlighted by the results of business surveys in a number of countries. As explained in the Annex to this report, these

surveys, conducted by independent researchers, asked a range of companies across all sectors of the economy in six EU countries about their use of express delivery services.

- 2.13 These surveys show that around a third of European companies frequently use express delivery for sending products to customers, while over half do so at least occasionally. And a third of firms either frequently or occasionally use express delivery for sending sub-components to other production facilities. In addition, many companies use express services for sending legal documents and distributing reports within the company. But as noted in Chapter 1, general shipments now account for over 80% of total express shipments in the EU.
- 2.14 The surveys shed light on the reasons why companies use express services rather than alternative means of delivery. As Chart 2.5 shows, almost all respondents consider both guaranteed delivery and the availability of next-day delivery to be very important. And most firms also value the ability to track the location of products en-route – a particular specialisation of express operators.

Chart 2.5



Case Study: Belgium Consultancy

This global consultancy (115,000 consultants in the 160 countries) has five offices in Belgium: Brussels, Anvers, Gand, Hasselt, Namur. Its clients come from both the public and the private sectors. The company uses express services to send its proposals to clients. It particularly values the guarantee of delivery on time, the confirmation of deliveries with the time of arrival, and the reduction in administration, which frees up staff to undertake other projects.

...with an increasing amount of trade in time-sensitive goods...

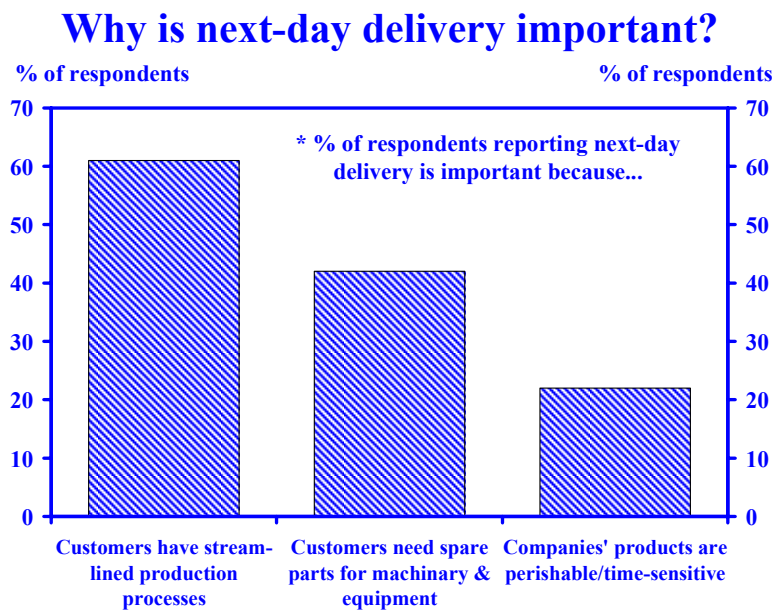
- 2.15 Many European companies rely on express services because their company's products are perishable/time-sensitive (Chart 2.6). This includes companies in the pharmaceuticals, electrical engineering and business services sectors. Nearly two-thirds of firms consider next-day delivery to be very important at times because their customers are using streamlined production processes. And almost half have customers who need next-day delivery of spare parts for machinery and equipment.
- 2.16 Researchers have also undertaken a number of detailed case study interviews with companies who use express services to transport time-sensitive products. These highlight that a very large proportion of European business is time-sensitive – not just companies making perishable products, but many who will lose orders or fail to close important negotiations if their products or contracts arrive late. Particular examples include:
- Firms in the electronics and motor vehicle sectors who use express delivery to send spare parts when products need to be repaired. High quality, rapid after-sales service is essential to maintaining their reputation with customers.
 - A distributor of music CDs whose success depends on getting releases into US stores ahead of its rivals.
 - Companies in the pharmaceutical sector who use express services for transporting materials to be tested quickly and safely to laboratories.
- 2.17 Moreover, express services allow companies to centre their operations in a particular European country while still serving a global market in perishable materials.

Case Studies: UK Service Sector Companies

Two service sector companies were interviewed as part of our case studies: the first is a music media company involved in procuring and distributing CDs and other music-related products, while the second is a provider of customer care management solutions. The key points arising from those interviews were:

- **Both firms emphasised the importance of guaranteed next-day delivery of their products.** For the music media firm in particular, the need for next-day delivery reflects the fact that their products are highly time-critical: if new releases of CDs were not available in stores around the world the day after their release, then sales would immediately be lost to other stores.
- **Both firms said that the ability to guarantee next-day delivery was critical to their strategy of running a global business out of the UK.** For the customer care company in particular, an entirely UK-based operation would be impossible without express services: regional or national sites would have to be developed. For the music media company, the option of holding large stocks of their products abroad is not realistic, because product dating is so rapid. But it is nevertheless essential to get new releases into US stores quickly, and express services are vital in doing so.
- **For the music media company, since London is the centre of the music industry, the Stansted link gives their operation a useful time advantage** in deliveries abroad, particularly to the US.
- For both companies, their use of express services has grown in line with their business, and is likely to continue to do so. The music media company also reported that e-commerce is likely to be a significant factor driving their use of express services in coming years, as web sales are increasing and require speedy delivery to maintain their growth.

Chart 2.6



Case Studies: UK Pharmaceutical / Biotechnology Companies

Three pharmaceutical / biotechnology companies rely on express services in the following ways:

- **Shipment of samples for clinical trials.** These trials involve transporting highly perishable and delicate materials (blood, urine, tissue samples, etc) to laboratories, and the results of the trials back to the source. In both directions, urgency is required, with same day or next-day delivery often the norm. Clinical testing of samples needs to be done under very rigorous conditions and using one site only keeps differences caused by equipment variance to a minimum, so the materials and results have to be transported globally into and out of the UK. For the operation to work, transport has to be very quick, efficient and available to a high degree of reliability and timekeeping on a worldwide basis.
- **High-level paperwork,** including legal documents and patent applications. Here security and tracking are priorities.
- **Shipments of drugs to hospitals etc.** Frequently, the speed and reliability of these deliveries are matters of life and death. Without express services, hospitals would have to hold much larger stocks of (often perishable) drugs on site, which would require costly security arrangements.
- **Inward shipment of spare parts for machinery in laboratories.** Express services mean that firms do not need to hold inventory of spare parts, helping in their just-in-time stock management practices. Holding stocks would be very costly, since many of these products have a limited shelf-life.

Without express services, much of these firms' global operations out of the UK would be impossible. Clinical trials are not possible if the safe and timely arrival of the samples cannot be guaranteed. Hospitals will not use drugs suppliers unless they are able to deliver drugs quickly and reliably on demand.

...but express services also enable firms to reduce their costs

2.18 Providing rapid and reliable delivery is clearly one critical way in which the express industry contributes to the Europe's success in international trade and is therefore vital to its competitiveness. Express services are particularly important to the competitiveness of countries at the geographical periphery of Europe – without the speed of delivery and global reach provided by the express operators, many companies based in these countries would be limited to serving their local market. This includes many of the accession economies, where the use of express services is growing very rapidly as these economies increasingly export to the rest of the EU and beyond (see Chapter 1).

2.19 But there are a number of other ways in which express services and their operators contribute to Europe's competitiveness:

- Enabling firms to **reduce purchasing costs**, by increasing the area from which inputs can be sourced and facilitating sourcing from cheaper suppliers.
- Facilitating **cost-savings on inventories** by enabling better concentration, rationalisation and location of warehouses.
- Providing extensive **logistics support services** to companies, enabling them to delegate responsibility to professionals in the sector who seek the most cost-effective way of transporting goods and paperwork on their behalf. This both relieves companies of the burden of running their own transport departments and vehicles, and allows managers to focus on their core business.
- Improving companies' **handling of returns and complaints** – for example, by allowing next-day delivery of replacement equipment to customers or quick turnaround of repairs.
- Improving the **effectiveness of companies' R&D** activities, by facilitating their decentralization. For example, 80% of survey respondents in Germany reported that this helps to reduce the time-to-market of new product developments by enabling R&D centres to be based in locations which provide maximum participation in leading research associations.
- Facilitating **improved stock-management and production techniques**, reducing firms' storage costs, losses due to stock-outages and disruption caused by failure of machinery on production lines (see Chapter 3 for more details).

2.20 Again, express services are likely to be of particular benefit to companies in the accession countries, allowing them to adopt best international practice in transport and logistics without having to make a major investment in their own warehouses or fleet of vehicles. Moreover, express services help to facilitate foreign direct investment in the accession countries, overcoming weaknesses in their transport infrastructures and allowing efficient networking with multinationals' operations in other parts of Europe (again, see Chapter 3 for more details).

Conclusion

2.21 Express services are vital to delivering a competitive Europe. Being able to respond quickly to customer demand – for new products, spare parts, contracts etc – is essential to winning and maintaining business in an increasingly competitive global economy.

3 The Role of the Express Industry in Facilitating Productivity and Investment

Introduction

- 3.1 In this Chapter, we continue our analysis of the contribution that the express industry makes to the European economy through the impact it has on the performance of companies in other sectors by considering its role in determining productivity and investment. We also discuss the importance of express services to Europe's Small and Medium-Size Enterprises, regional development and foreign direct investment.

Key Findings:

- **Express services enable European companies to maximise the efficiency of their production activities – reducing production shutdowns and allowing the implementation of best international techniques such as build-to-order.**
- **Express services also allow companies to minimise their inventory costs.**
- **The express industry enables small companies to utilise high quality, rapid delivery services which they could not provide themselves. This is particularly important in facilitating their participation in export markets.**
- **Express services contribute to regional development by linking geographically peripheral areas to the EU's major centres.**
- **Good access to markets is the most important factor influencing international location decisions. Without international next-day delivery a significant proportion of companies would possibly have to relocate some operations to countries that provide next-day services.**

Express services enable firms to organise production efficiently...

- 3.2 As well as using express services to deliver products to their customers, many companies in Europe also rely on express services in order to organise their production operations as efficiently as possible. Surveys of European companies suggest that around 60% of firms either frequently or occasionally require their suppliers to deliver spare parts by express services, while almost as many use express services for delivery of sub-components to their production facilities.
- 3.3 The efficiencies companies derive from using express services are demonstrated by the survey of German companies. This found that:
- Two-thirds of companies are or have been able to achieve **cost-savings** from working with express carriers.
 - Around one-third of firms using express services are able to reduce their production costs. The main advantage here is considered to come from **cutting idle periods and production shutdowns**, as express carriers are able to ensure rapid delivery of materials and spare parts.

- Two-thirds of respondents believe that express services facilitate the **adoption of international best practice in production**, which increase companies' flexibility and ability to adapt to changes in demand. For example, many companies use express services to permit 'build-to-order', since time savings on delivery can be used to allow customisation to match particular client requirements (eg for computers).

...helping to avoid costly production shutdowns...

- 3.4 The key role express services play in helping companies avoid interruptions to the production process is also illustrated by the survey of Italian companies. For example, respondents expect that, without next-day delivery, production would on average be interrupted on more than 3 days per year because spare parts for equipment could not be delivered next-day when needed. Some firms believe that their production might even be seriously affected on more than 20 days a year.
- 3.5 Our case studies provide a number of examples illustrating how firms rely on express services to maximise their efficiency. And they show it is not only companies in the manufacturing sector that rely on express services; they are key to efficient operations for many firms in the service sector too.

Case Study: French car manufacturer

Express services are core to the after-sale service of this car manufacturer. Since the quality and speed of repairs are key to client satisfaction, it is strategically vital that its network of distributors can get the necessary spare parts very quickly. Because distributors do not have the financial resources to be able to keep the entire range of spares, which can be up to tens of thousands of parts, the manufacturer has implemented a distribution process based on express delivery. As a consequence, around 17,000 tonnes of spares are sent via express carriers every year to more than 800 outlets.

...and reducing companies' inventory costs

- 3.6 50% of all firms surveyed report that there are aspects of their production process for which next-day delivery of sub-components from their suppliers or elsewhere in their companies is very important (Chart 3.1). Of these firms, around 40% report that next-day delivery of sub-components is important because they operate a just-in-time inventory system, while the large majority require urgent delivery of spare parts for machinery in case of breakdown. Other reasons for needing sub-components on a next-day basis mentioned by respondents include getting samples to be approved before production processes can begin at their sites.

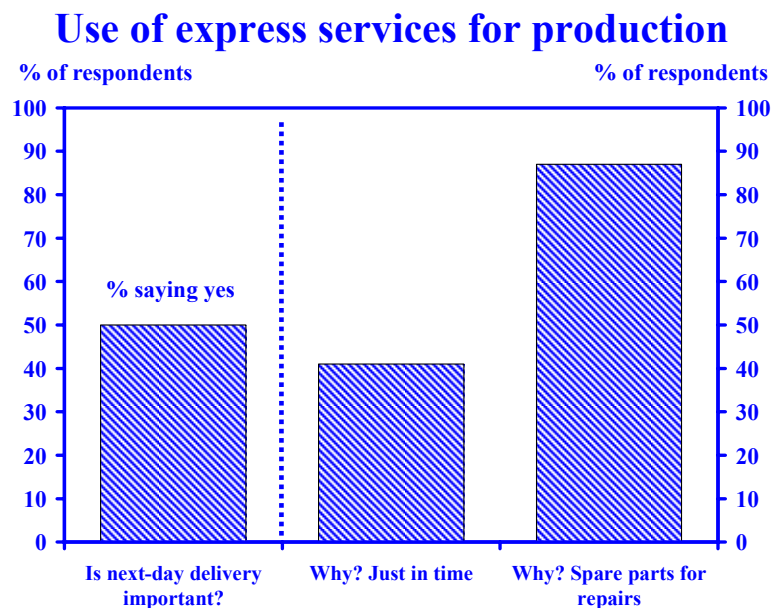
Case Study: Italian Data Communications and Network Integration Group

This international company aims to be a one-stop service partner, solution provider and manufacturer for fixed and mobile networks.

The company has to be able to respond rapidly when there is a fault in its networks. For this, it relies on same day express delivery of spare parts coordinated by one of the leading express companies, which also provides logistics and warehousing services. Next-day delivery services are then used to replenish stocks at the warehouse. The company considers this to be a cheaper and more efficient solution than operating its own warehousing and transportation operation given its current size and the logistics expertise on which it can draw, which helps to reduce its inventory costs.

3.7 It is clear from the surveys and case studies that just-in-time inventory controls are now increasingly important in European industry, and that these have created strong demand for express delivery services. Under just-in-time, an increasing number of firms hold only very limited 'buffer' inventories in case they run short of critical sub-components or spare parts. Instead, they require their suppliers (which may be other parts of their business) to deliver to a strict timetable to fit in with the production runs. It is estimated, for example, that this system has contributed to a reduction of over 20% in the inventory-output ratio in the UK over the last 20 years, saving UK companies over €10 billion a year. Comparable savings are likely to have been achieved in other European economies.

Chart 3.1



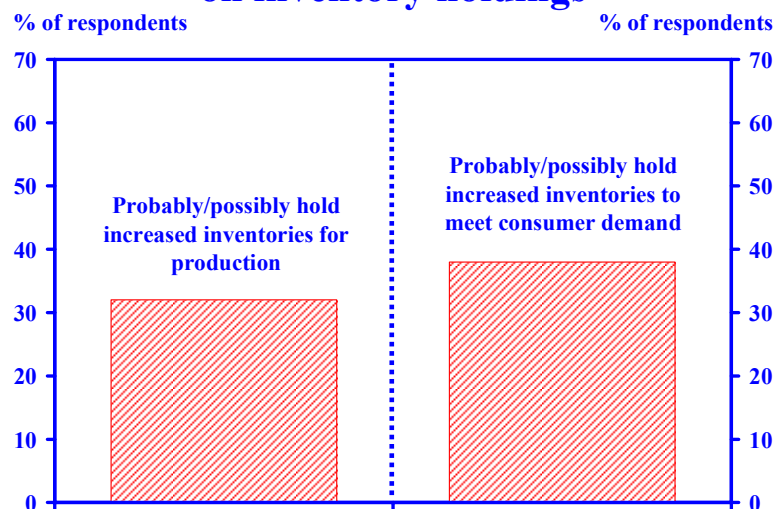
3.8 In order to illustrate the role of the express industry in helping firms to minimise their inventory costs, firms were asked how they would react if next-day delivery services to or from their countries to foreign locations were no longer available. As Chart 3.2 shows, a third reported that they might have to hold increased inventory at their home production site in order to meet the requirements of their production process, while nearly 40% reported that they might have to hold increased inventory to meet customer demand.

3.9 The importance of express services to efficient inventory management is further illustrated by the survey of Italian companies. This found that, if international next-day deliveries were withdrawn, firms would, on average, have to increase by 3.4% their inventories of intermediate goods to meet the requirements of the production process. And Italian companies' inventories of finished goods would have to increase by 5% on average to ensure that consumer demand could be promptly met.

3.10 Similarly, the survey in France found that, if there were no next-day international delivery services, 10% of companies would expect their costs for materials, inventories and transport to rise by around 10%. And in Germany, around half of survey respondents report that they have achieved inventory cost-savings through the use of express services: without them, their costs would be almost 3% higher.

Chart 3.2

Impact of losing next-day express delivery on inventory holdings



Case Studies: UK Musical Equipment Manufacturer and Distributor

The recent experience of a musical equipment manufacturer and distributor illustrates the role that express services can play in helping other companies to rationalise their global operations, achieving increased efficiency and improved service to their customers.

- The company manufactures and distributes musical percussion equipment to retailers worldwide. The business is 40% manufacture, 60% distribution – they take finished and partially finished products from suppliers and distribute those, as well as manufacturing their own products.
- The company employs 80 people in the UK and has a turnover of £12 million per annum.
- Rapid reliable delivery is important because the equipment is valuable and neither they nor their customers want to hold large stocks. But, in today's market, their customers (musical equipment retailers) would lose sales if they could not rely on fast delivery of new stock.
- Express services played a key role in the recent decision to close their US warehouse. In the past, fast efficient delivery to customers involved having local warehouses all over the world, particularly the US. The express service that was available meant that these warehouses could be closed, while delivery times to local customers actually improved.
- Delivery deadlines have come down by as much as two weeks as a result of shifting to this new system. The overall cost of delivery (including warehousing) is 5% higher with the new system. But the time and reliability gains outweigh that increased cost. Customers for high-end products like these are more interested in quick, reliable delivery than in price – they have passed most of the 5% higher cost on to the customer, without losing sales. They feel that they are able to charge a premium price for the premium service that they now deliver.
- Without express services, it would not have been possible to close down the US warehouse and consolidate their operations in the UK.
- If express services were withdrawn, the company would continue to operate out of the UK, but would revert to the old system, with longer and less reliable deadlines and increased warehousing costs, which would probably result in lower sales and lower employment in the UK.

Case Study: The importance of express services in Portugal

“Our group of companies consider next-day delivery services of vital importance and, furthermore, any constraints placed upon those services would put us at a comparative disadvantage relative to our European competitors.”

Textiles company

“The global reach of the automotive industry in all phases of its production process demands flexibility and speed in urgent shipments, irrespective of where activities are located. Express services and next-day deliveries are the guarantee for this.”

Moulds/automotive company

“Constraints on express services would be a great blow to the ambitions of companies to excel in their activities and would put them in an even more distant position in the global economic context.”

Cork/real estate/tourism company

Express services help SMEs serve global markets...

- 3.11 The vast majority of European firms are Small and Medium-Size Enterprises (SMEs – ie firms with less than 250 employees). The majority of these are one-person organisations, but even so SMEs account for two-thirds of total EU employment. SMEs are particularly important in countries such as Italy, where, according to some estimates, SMEs account for almost 60% of exports.
- 3.12 The business surveys confirm that SMEs are substantial users of express delivery services. For example:
- Companies responding to the survey in Belgium highlighted the importance of express services to SMEs’ ability to participate in international markets.
 - The Italian survey found that over half of SMEs frequently send packages by express delivery. Without next-day international express delivery, 80% of Italian SMEs report that they would probably lose some export orders.
 - Similarly, the UK survey found that a third of SMEs believe that, without next-day international delivery, they would probably lose orders.
- 3.13 Express delivery services are important to SMEs because they typically do not have the same transport delivery infrastructure that large companies have in place. While the scale of large manufacturers, such as the motor vehicle producers, makes it economic either for them to run their own transport fleet or buy-in dedicated services from a contractor, this would be uneconomic for most SMEs making relatively few and irregular deliveries. SMEs therefore frequently rely on transport services where a central provider delivers on behalf of a large number of customers.
- 3.14 The express industry enables SMEs to take advantage of the economies of scale its large-scale transport operations generate, while at the same time providing the same high quality of service – speed, reliability, tracking – provided to large companies. Moreover, the express industry allows the many small firms that are part of a network (eg owned by a single entrepreneur) to transport products between operations quickly and efficiently.

...and support regional development...

- 3.15 We noted in Chapter 1 that the employees of the express industry are widely spread around Europe. But the express industry contributes to regional development in a number of other ways as well:
- It enables businesses dependent on fast delivery to customers to locate in regions that are not necessarily close to their market. This includes both countries at the geographical perimeter of the EU (eg Portugal, Finland and a number of the new accession states) and regions such as the Mezzogiorno in Italy.
 - Companies that rely on next-day delivery to customers may locate near hubs for express services so as to make the last pick-up time for their deliveries as late as possible, providing them with maximum production flexibility. The box describes such clustering around the major express hubs in the US and continental Europe.

Express hubs as a spur to regional economic development

(i) Liege

Liege Airport has been TNT's European operating hub since 1998. As express and air cargo traffic has grown, so a number of distribution and logistics companies have established in the close vicinity of the airport. These companies are located within the Liege Logistics platform: Liege Logistics now employs over 500 people. Around 845 acres have been designated on and bordering the current airport site to enable Liege Airport's economic growth through to 2020.

(ii) Brussels

In 1985, DHL established the Brussels hub as a sorting facility in the corner of a hangar at Brussels National Airport. Within a few years it became DHL Brussels Hub, the largest express hub outside the USA. Through its Express Logistic Centre (ELC), the hub acts as a central distribution point for a number of major companies based in the surrounding areas of the Brussels National Airport. DHL is not only the biggest customer of Belgocontrol (providing about 25% of their income) but also contributes almost 50% of the profit before taxes of the airport owner BIAC. According to a report issued in September 2003 by the Vlerick Leuven Management School and K U Leuven Universite Libre de Brussels and ECORYS Transport Rotterdam, the presence of DHL's major hub at Brussels National Airport contributes €394 million of value-added to the Belgian economy.

(iii) Memphis

Memphis International Airport - Federal Express' world headquarters and Superhub - is the world's largest cargo airport. In addition to the jobs and direct economic benefits it provides, FedEx is a magnet for attracting distribution centre development to Memphis. According to SRI International more than 130 foreign-owned firms from 22 countries employing 17,250 workers have been drawn to Memphis since the early 1980s, largely due to the presence of FedEx. Examples of customers that relocated to Memphis metro area include Williams-Sonoma (distribution & data centre); Submitorder.com (Internet fulfilment centre); Hewlett Packard (Distribution) and Ingram Micro (Distribution / assembly / repair).

(ii) Louisville

Louisville Airport is home to the international airfreight hub of UPS. Many companies have located in or near Louisville because of the extensive logistics and distribution opportunities there. According to Greater Louisville Inc. The Metro Chamber of Commerce, the estimated annual impact of UPS' Hub 2000 expansion was 13,965 new jobs (direct and indirect) and \$478 million new payroll (direct and indirect). Companies doing e-commerce fulfilment in Greater Louisville include Nike and Gateway Computers, while companies doing traditional transportation fulfilment include GE and Ford.

Case Study: German manufacturer of building machines and tools

This company repairs 250,000 PCs, notebook and electronic components a year, undertaken by its 160 employees. It uses an express courier to collect broken equipment from around 95 regional partners. This allows it to pick up a defective device within four hours and bring it to the repair centre.

Orders are logged on an internet-based system, which allows them to be tracked by the service provider and other service partners. Once an order has been placed, the express service provider is committed to delivering the repaired item within 24 hours. The main benefits include a more efficient way of dealing with spare parts, reduction of shipment sizes and a shortening of delivery times.

Case Study: Hungary featuring KLM Royal Dutch Airlines

When KLM decided in favor of Hungary for its Central European headquarters, the availability of express delivery services was very important. KLM depends on express carriers to deliver aircraft spare parts, airline tickets, marketing communications materials and business documents to its affiliates all over Europe and in the East European member countries of the Commonwealth of Independent States.

Express services made the centralisation of KLM's main business processes possible at a location where labour skills were available at competitive rates but which is not in the centre of Europe. With express services, KLM did not have to compromise low labour cost or advantageous transport costs and fast delivery. With the help of the express carriers, all material that is vital to its daily business can be distributed effectively, as if the company was located in the heart of Europe. Moreover, the company can capitalise on greater cost savings than its competitors located in the centre of Europe.

...and helps facilitate foreign direct investment

- 3.16 Foreign direct investment is critical to the development of many EU members, particularly in the accession states. Express operators offer multinational investors 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 investors overcome both problems of geography and weaknesses in the transport infrastructure in the accession countries.
- 3.17 A wide range of factors influence firms' 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. For example, a survey by Healey & Baker shows that 58% of companies consider easy access to markets, customers or clients, as "absolutely essential" when deciding where to locate their business, making it the most important influence on company location decisions.
- 3.18 Express services are an important element in ensuring that companies based in Europe have the best possible access to markets. The business surveys show that investment would be vulnerable if next-day delivery were no longer available:
- 35% of Portuguese companies report that they would possibly have to relocate some operations from Portugal to another country.

- Over 15% of UK companies and 10% of Italian firms report they would possibly have to relocate abroad.
- 30% of French companies and 10% of Belgian firms would seriously consider outsourcing production.

Conclusion

- 3.19 Express services are now integral to business operations in Europe, helping to reduce firms' operating and inventory costs, and facilitating the use of latest production techniques. Without them, Europe's competitiveness – and so investment - would be significantly undermined.

4 Prospects for the Express Industry and its Impact on European Growth

Introduction

- 4.1 In this Chapter, we consider the future prospects for the express industry and calculate its likely direct contribution to EU GDP and employment in ten years' time
- 4.2 But, as the previous Chapters have demonstrated, the most important contribution the express industry makes to the European economy is through its impact on the capabilities and competitiveness of other sectors of the economy. In this Chapter, we highlight the dependence of EU companies' sales on express services – in the next Chapter we discuss the implications that restrictions on the availability of express services would have for EU GDP and employment.

Key Findings:

- **The growth of express services is expected to average 9% a year over the next ten years, around four times as fast as GDP, providing there are no further constraints on its growth.**
- **That out-performance mainly reflects the continued expansion of international trade and the increasing need for rapid, guaranteed delivery. There is little sign that new technologies, such as e-mail, will prevent the express industry from growing much faster than the economy generally.**
- **The express industry is likely to expand particularly rapidly in the accession countries, as their economies develop and they become more integrated with the rest of the EU.**
- **As a result, employment in the express industry in the EU is expected to increase from 250,000 now to almost 500,000 by 2013, if it is allowed to grow unconstrained.**
- **If express services were constrained to grow in line with GDP, then employment in the express industry would be around 230,000 lower than these forecasts by 2013.**
- **EU companies are dependent on express services for around 3% of their sales on average – worth around €450 billion. By 2013, over 5% of EU sales are expected to be dependent on express services.**
- **Europe's success in the fast-growing knowledge-based sectors will be facilitated by the express industry.**

Express services to continue to grow strongly...

- 4.3 Over the last five years the express industry has been one of the fastest growing sectors of the EU economy, with turnover rising on average by 12% a year, six times faster than growth in EU GDP.

...as need for rapid, guaranteed delivery intensifies...

- 4.4 The express industry is likely to remain one of Europe's fastest-growing sectors. The requirement for rapid delivery is likely to intensify further among existing users of the express industry and spread to other sectors of the economy as, for example, more businesses use the internet for purchasing and supply management, and the demand for logistics services increases. Moreover, international trade is expected to continue to grow rapidly – OEF forecasts it to increase by over 90% over the next decade compared with a rise of almost 40% in world GDP. Trade within Europe is likely to grow rapidly as the accession countries develop and become more integrated with the rest of the EU. And it is widely expected that airfreight traffic between Europe and Asia will grow more rapidly than between other regions, as companies seek to capitalise on the rapid growth expected in the emerging economies.
- 4.5 European companies generally do not expect that new technological developments and distribution methods (for example, transferring information, data or contracts by secure electronic means such as secure web-based products and broadband data transmission) will reduce their use of express services. Over 85% of Belgian firms and about half of the firms surveyed in France, the UK, Italy and Portugal expect their use of express services to grow further over the next five years.

... with output expected to rise by 9% a year over the next decade...

- 4.6 We expect the express industry to grow by an average of 9% a year in real terms between 2003 and 2013. This is a little faster than the growth we expect in world trade (exports and imports). And it is around four times faster than our forecast of 2½% a year real growth for the EU economy as a whole over the next decade.

Table 4.1: Prospects for the express industry over the next decade		
	Per annum growth 1998-2003	Per annum growth 2003-2013
World trade	6	7
Express industry output	12	9
EU25 real GDP	2	2½

...boosting direct employment to almost 500,000...

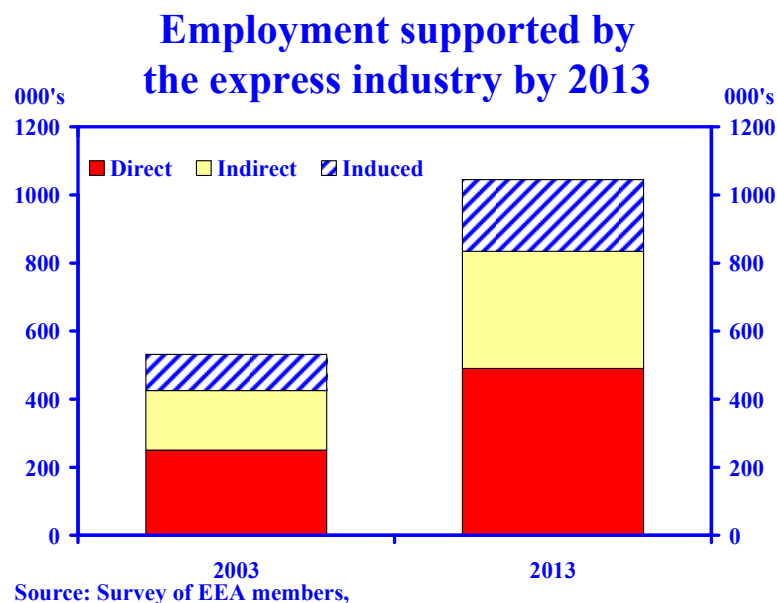
- 4.7 The direct contribution of the express industry to EU GDP is set to more than double by 2013 to about €25 billion in today's prices. This rate of growth will result in overall GDP being about €12 billion higher by 2013 than if the express industry grew merely in line with our GDP growth forecast of 2½% per annum. (And note that this is only the direct impact of the express industry's growth: it does not include the indirect or wider 'catalytic' impacts of strong growth in the express industry on other sectors of the economy.)
- 4.8 There will also be benefits to total EU employment from the express industry's continued fast growth. Between 1998 and 2003 employment in the express industry is estimated to have increased from 134,000 to 250,000, broadly in line with output. Looking forward, we assume that productivity growth in the sector will rise at 2% per annum. On this basis, we expect

employment in the express industry to reach almost 500,000 by 2013. If express services were constrained to grow in line with GDP, then employment in the express industry would be around 230,000 lower than these forecasts by 2013.

...and over 1 million jobs supported by the express industry

4.9 The expansion of the express industry will support growth in jobs both in its supply chain (indirect employment) and as its employees purchase goods and services from other sectors (induced employment). The total EU employment supported by the express industry is forecast to increase to well over 1 million by 2013. Of these jobs, around 100,000 are expected to be in the 10 new member states – four times current levels.

Chart 4.1



Case Study: Italian Telecommunications Company

This mobile telephony company relies on express services to feed its network of shops and distribution outlets in Italy. Express services are also used to provide assistance to customers whose handsets are faulty or damaged.

The company considers express services to be critical to meeting rapidly expanding demand without keeping large stocks of expensive items. Similarly, its dealers appreciate having access to reliable supply without the costs involved in holding stocks. Customers expect their orders to be met within 24 hours, even at very busy times of the year (eg Christmas), and express delivery is essential in meeting this requirement.

As a result, the company has developed a very close relationship with an express carrier, on which it relies for its logistics and transportation. It particularly values both the high security standards that the express company has put in place for its operations, and the ability to track orders in transit.

3% of EU companies' sales are dependent on express services...

4.10 EU companies are likely to become increasingly dependent on express services over the next decade – hence the rapid growth we expect in the industry's output and employment. In particular, express services are likely to become increasingly important for EU companies' sales, especially in the fastest-growing export markets.

4.11 The business surveys suggest that express services are key for:

- one-third of deliveries in Germany (with firms in the electrical engineering and retail & wholesale trades using express for around half of deliveries).
- 5% of sales in France (ie 25% of sales for 20% of companies)
- 1% of sales in Belgium
- 15% of sales in Portugal

Moreover, about half of firms in the UK, and one-third in Italy, believe that they would possibly lose some sales without international next-day express delivery because of longer delivery times.

Case Study: French company specialised in e-commerce

Created in 1997, this company sells and distributes via the internet a large range of fresh goods, notably in the US. With a turnover of €400,000, the company uses express services for all of its 15,000 annual deliveries, 90% of which are delivered within 24 hours without breaking the "cold chain".

...with 5% of sales dependent on express services by 2013...

4.12 Given these survey responses, we estimate that about 3% of EU companies' total sales are currently dependent on express services. Our forecasts suggest that this is set to increase to over 5% of total sales by 2013.

4.13 In addition, express services are likely to become even more important to EU companies' business operations, investment plans and productivity, as discussed in Chapter 3.

...as knowledge-based sectors expand

4.14 One area where express services are likely to be particularly critical to the EU's success is the knowledge-based sectors, such as pharmaceuticals/biotechnology, financial and business services, research & development, and the 'high-tech' industries (eg information technology equipment and services, internet business).

4.15 The business surveys and case studies suggest that firms in the knowledge-based sectors are more-than-usually dependent on express services, reflecting the kind of products and services they provide, such as:

- High-value items, for which low stocks are essential (electronic components etc).
- Perishable items (such as tissue or blood samples for clinical trials).

- Failed items, such as personal computers, for which rapid repair and return is essential.
- Items purchased on-line, where rapid delivery to the customer is essential.

4.16 The implication is that if the European economy is successful in these key sectors – and we expect these to be among the fastest-growing industries over the next 10-20 years – it will become increasingly reliant on the services of the express industry.

Cast Studies: UK High-Tech Manufacturing Companies

These three high-tech manufacturing companies rely on express services in the following ways:

- **Just-in-time stock management.** By allowing rapid (often same-day), reliable delivery, both of sub-components and spare parts on the one hand, and products to customers on the other, express services are a vital ingredient in keeping stock levels low. That is particularly important for these firms, whose products are typically high in value and have a relatively fast depreciation rate. Holding inventory of such products is very costly.
- **Concentration in UK location.** Two interviewees reported recent closure of branches in other countries and consolidation in the UK that would not have been possible without express services. One firm reported that, without express services, the US part of their business would probably disappear.
- **Shipment of time-sensitive goods.** Customers often require replacement parts for failed items the day after the breakdown occurs, and express delivery allows the high-tech companies to guarantee this. Rapid, reliable delivery is essential to the reputation of these firms, and they are able to charge a premium price for this premium service.
- **Global sourcing / global reach.** Express services allow high-tech firms to take advantage of the benefits of global sourcing, and to access markets for their products all over the world – still guaranteeing next-day delivery in most cases. For some firms, the majority of their business (up to 85% in one case) is outside the UK. And, in at least one case, same or next-day delivery out of the UK has to be guaranteed as far afield as Africa and the Middle East.

Conclusion

4.17 The express industry is a fast-growing sector in its own right and key to the success of other growth sectors in Europe. The express industry will support over 1 million jobs in the EU by 2013.

5 The Impact of No Next-Day International Delivery Services

Introduction

5.1 The previous Chapters have explained the important contribution made by the express industry to the European economy. In this Chapter we illustrate this further by asking what the impact would be if there were no next-day international express delivery services.

Key Findings:

- **Many EU businesses believe that they would be badly affected by the cessation of next-day international express delivery services.**
- **More than 10% of firms would probably relocate some operations if next-day deliveries were not guaranteed.**
- **The loss of express services would reduce GDP across the EU as a whole by more than €11 billion a year. Over a 20-year period, the cumulative cost in terms of foregone GDP would be almost €280 billion.**

Next-day international delivery is vital for European companies...

5.2 Respondents to the European business surveys believe that their companies would be seriously affected if international next-day delivery services were no longer available:

- Over half of German companies expect that they would lose sales. It is estimated that sales would fall by 2.6% in retail & wholesale trades and by 1.7% in manufacturing. Moreover, two-thirds of German firms expect that their costs would increase, by almost 3% on average.
- 20% of French companies would expect their sales to fall by between 5% and 25%, while 10% would expect their costs to increase. Moreover, 30% would consider shifting some of their operations to a location where international next-day delivery services were available.
- 56% of UK firms report that that they would be very badly affected and a further 39% would be inconvenienced. As a result, 16% would consider relocating operations.
- Italian firms expect that they would lose around 4.5% of their orders, which could prompt about 10% of companies to consider relocating some of their operations.
- 40% of Portuguese firms report that that they would be very badly affected, with 60% reporting that their international competitiveness would be affected. In part, this would reflect higher costs. But it would also reflect reduced market access and lost contact with clients. 18% of firms would therefore consider relocating operations.
- 10% of Belgian companies would also consider relocating production.

- 5.3 The sectors reporting that they would most likely have to relocate if there were no next-day delivery include computers & office equipment, electrical engineering, textiles & footwear and chemicals. These sectors also typically report a significant likely loss of orders, as do the motor vehicles and other transport equipment sectors.

...worth €11 billion a year to EU GDP

- 5.4 Taking into account the impact on European companies' sales, costs, investment plans and investment decisions, independent researchers have estimated that restrictions that led to international next-day delivery services no longer being available in Europe could cut GDP each year by:

- €2 billion in France
- €2 billion in the UK
- €800 million in Italy
- €250 million in Portugal¹

If these figures are indicative of Europe as a whole, we estimate that the loss of express services would reduce GDP across the EU by more than €11 billion a year. Over a 20-year period, the cumulative cost in terms of foregone GDP would be almost €280 billion.

- 5.5 In addition, many of the jobs supported by the express industry would be jeopardised. While these employees might eventually find jobs in other sectors, there would be a substantial transition cost.
- 5.6 The absence of next-day international delivery would hit accession countries particularly hard. That is where we expect to see the fastest growth in employment by companies in the express industry. But, more importantly, the absence of rapid, guaranteed delivery would undermine investment in central Europe by multinational companies and would limit the ability of central European firms to compete effectively in other EU markets.

Conclusion

- 5.7 The express industry makes a substantial contribution to the European economy. Losing next-day international delivery services would reduce trade, productivity and investment in the other sectors such that EU GDP would be reduced by €11 billion a year, or €280 billion over 20 years.

¹ These estimates assume that people working in the express industry would find jobs in other sectors, so reflect only the 'catalytic' impacts that express services have on the trade, productivity and investment of other sectors of the economy. KE-CONSULT, using a different methodology, estimated that ending international next-day delivery would reduce German GDP by €21 billion, including direct, indirect and induced impacts on employment.

Annex: Research Sources

The information in this report is drawn primarily from three sources:

- **A survey of the four leading express companies that are members of the European Express Association (EEA)** – DHL, FedEx, UPS and TNT – to identify the turnover and value-added of their operations, and their staffing levels in the EU. These companies estimate that they account for around half of the market for express services.
- **Surveys of companies** in Germany, France, the UK, Italy, Belgium and Portugal, conducted by a number of independent research groups and published in the following reports:
 - **Germany:** “*Produktivitäts- und Wachstumseffekte der Kurier-, Express- und Paketdienste für die arbeitsteilige Wirtschaft*”, by Institut für Verkehrswissenschaft, Universitäts zu Köln, KE-CONSULT Wirtschafts- und Verehrberatung (published February 2004)
 - **France:** “*L’impact du secteur du transport Express sur l’économie française*”, by Deloitte Consulting (published January 2003)
 - **UK:** “*The economic impact of express carriers for UK plc*”, by Oxford Economic Forecasting and Aviation & Travel Consultancy (published June 2002)
 - **Italy:** “*The impact of express carriers for Italy’s economy and competitiveness*”, by Oxford Economic Forecasting and Centro Studi Confindustria (published January 2004)
 - **Belgium:** “*Étude d’impact économique du secteur belge du courrier et du transport express*”, by KPMG Business Advisory Services (published April 2003)
 - **Portugal:** “*The economic impact of express industry in Portugal*”, by GTE Consultores (published in January 2004).

The business surveys conducted as part of the research for these studies asked companies about the importance of express services to their businesses, and how their activities would be affected if there were restrictions on the availability of next-day international express deliveries. We have combined results from these different surveys to provide estimated responses for the EU as a whole.

- **A series of in-depth case study interviews** with companies who use express services. These interviews explore in more depth the way these companies rely on express services and how the use of express services affects the organisation of their production and distribution operations.

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