

The role of international air couriers in the Italian economy

Luiss
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Executive

Summary

*The challenges
of the express world
between e-commerce,
SMEs, internationalizations
and sustainability*

AICAI Associazione
Italiana
Corrieri aerei
Internazionali

AICAI Presentation

The Italian Association of International Air Couriers (AICAI) was founded on 24 March 1987 and combines the main express air couriers operating in Italy. AICAI aims to be a reference point for the express delivery industry and a promoter of the interests of the entire sector towards a multiplicity of institutional and business entities. The Association operates through ad hoc working groups on the strategic issues of the sector: airports and air transport, road transport, customs, regulatory aspects. AICAI is a member of the EEA, the European Express Association, which protects and repre-

sents the interests of the sector at EU level and the Global Express Association, the association representing express couriers at international level.

AICAI member companies include: DHL, FedEx (also the owner of the TNT brand) and UPS.

Table 1. AICAI in short (year 2019)

Aggregated turnover	€ 3,089,600,000
Number of direct employees	7,500 (6,100 full time 1,400 part-time)
Number of induced employees	approx. 5,000
Shipments	
Number	133,469,450
Value	€ 1,929,670,983
National	70,112,109
International Inbound	28,804,743
International Outbound	34,551,998
Express	74,794,726
Deferred	39,506,624

Table 2. AICAI fleet (year 2019)

Air fleet	
World Fleet	1,250 total aircraft
Italian airports served	Malpensa (MXP), Fiumicino (FCO), Ciampino (CIA), Pisa (PSA), Venezia (VCE), Bologna (BLQ), Orio al serio Bergamo, Ancona, Napoli, Brescia Montichiari
Number of flights to/from Italian airports	50 daily flights, 300 flights per week
Last Mile Fleet	
Total number of vehicles	7,000
Vehicles EURO 6	5,600 (80% of the total)
Vehicles EURO 5	1,400 (20% of the total)
Electric vehicles	approx. 100 in trial
Methane vehicles	approx. 100
Vehicle distribution	30% of the total in metropolitan cities, 50% of the total in the regional capitals

Executive Summary

I) Premise

The study illustrates the fundamental characteristics of the international express couriers and their significant role in the country. This study outlines macroeconomic trends relevant to the sector, how international express air couriers operate and how they fit into the modern system of global value creation by supporting international trade. The contextualization of this analysis in the Italian production system highlighted some specificities and related policy implications that conclude the work.

The work was commissioned by the Italian Association of International Air Couriers (AICAI),

which actively participated in its development and provided much of the data and information processed to the Research Group. The findings therefore refer essentially to the economic-productive aggregate made up of the AICAI associates.

II) The international air couriers sector: operating model and main evidences

International air couriers connect more than 220 countries around the world through a perfectly standardized and integrated global transport network, thanks to the use of state-of-the-art

computer systems to implement the most appropriate intermodal combination of transport (ground and air) to deliver shipments as quickly as possible and with the lowest number of kilometres traveled. International express air couriers provide a range of option in order to balance speed, cost and environmental impact.

Express couriers in fact do not sell a mode of transport, but a precise transit time:

- Express services: Generally within 1-2 days. These services often include a time-definite window (i.e. pre 9 a.m., pre-12:00 or by end of the day with service performed in less than 24 hours) and are guaranteed in most national and European locations and in selected worldwide destinations
- Deferred: A service that within 48/72/96 hours ensures fast connections in more than 220 countries around the world.

International express air couriers provide significant logistics support for Italian businesses connecting them to their customers and suppliers in foreign markets. In order to support just-in-time supply chains, air couriers operate mainly at night in order to maximize efficiency for their customers. Critical goods can be picked up late in the day and flown overnight to reach customers the next day. In Italy, international air couriers operate out of the main national airports, connected with the large international terminals. In 2019, AICAI members handled 133.5 million shipments, of which 52% were domestic (origin and destination in Italy). Of the remaining international shipments 21% were import shipments coming into Italy, and 27% were exports leaving the country. Exports, which made up 27% of the total volume handled by AICAI members, accounted for 57% of the total in regards to value, highlighting the strategic role air couriers play in supporting high value exports. In terms of value, domestic shipments contribute 27% of the total (compared to 52% of volumes) and imports account for 16% of value (21% of volumes).

Intra-EU trade is the main market served by AICAI members, accounting for 88% of imported shipments and 75% of exports. The majority of AICAI associates' shipments in that period were express (60% of the total).

AICAI members, together with others in the sec-

tor, were considered essential services during the Covid-19 emergency, demonstrating the resilience of air and ground networks in the face of a very significant economic and financial challenge. In the three months of peak pandemic in Italy (March, April, May 2020) shipments of non-EU imports of pharmaceuticals, medicines, medical and surgical equipment, prosthetics and PPE (Personal Protective Equipment) carried out by AICAI air carriers, were approximately 130,000 out of a total of about 800,000, or 16%.

III) The evolution of the national and international reference environment

AICAI associates occupy a key place in the national economic development model. The prevalence of small and medium-sized enterprises has always been a distinctive feature of Italian industry. Our country, in fact, has participated in global value chains without changing its structure which has been based on family and small businesses, which have been able to respond to global competition by positioning themselves in niche, high value markets. Manufacturing, in fact, remains the driving sector of Italian exports, with 82% of total exports. However, even in the leading sectors recognized "Made in Italy" branding, only 2.9% of Italian companies export abroad, with a marked correlation between business size and ability to compete on international markets. Only 1.8% of companies up to 9 employees trade in international markets, a percentage that grows with the number of employees. Companies with over 500 employees have 51.7% of the export market. In order to increase the country's export capacity, therefore, it is essential to actively involve SMEs, creating an institutional and regulatory environment that expands their international trade opportunities overcoming the obstacles that SMEs today perceive as export barriers: the identification of reliable trading partners, knowledge of foreign markets, regulatory and legislative issues and customs practices of the destination country. In this context, air couriers can act as facilitators of international trade for SMEs, providing knowledge, expertise and support and reducing the costs of developing international strategies or penetration of new markets.

Another opportunity for international growth and development for SMEs is represented by the e-commerce segment, which in recent years has shown strong growth in Italy, although the value of the sector today is far than in other developed countries. The ecommerce market has seen an increase of 15% in 2019 compared to 2018 equating to 36.1 billion euros making up 7.3% of the entire retail sector. Italian exports of goods purchased through digital channels in 2019 amounted to 11.8 billion euros (up 15% compared to 2018 and with an impact of 2.5% of total exports). These values are still marginal, but they are growing at a strong rate year by year, so the development of this new sales channel can be an important opportunity for small and medium-sized enterprises to tap into international markets in spite of their size. Express couriers can support these companies by providing access to their international networks, customs expertise and technology tools in order to help explore new markets and customers.

IV) The reasons for the strategic role of international air couriers

International express air couriers play a key role in creating added value for Italian companies as well as benefiting the wider economy through the provision of integrated transport services which are unique compared to other modes of transport including:

- **Speed (time sensitive deliveries):** management of international shipments with their efficient integrated network that is able to connect 220 countries in the world in 24-72 hours;
- **High-value-added services:** integrated visibility of the end to end delivery - including tracking of shipments throughout transport;
- **Customs advice:** AICAI air couriers provide customs and brokerage expertise ensuring correct paperwork is in place and reducing delays to the shipment.

V) Critical issues for the industry

The analysis of the operational aspects of air carriers highlighted the two main characteristics of their operation:

- **Standardization**
- **Pressure on times**

A fast service, with express delivery, can only be

provided by splitting the day into specific time windows and carrying out preset operations in these windows respecting implementation and completion times for each stage. International express delivery companies work on very tight timelines and integrated networks which are standardized around the world. It is also essential that the whole mechanism works with perfect synchronicity: pick-ups must be carried out in the same time slot, in all cities, in order to allow the correct management of the goods in the local delivery centres and the subsequent routing to the intermediate or final destination. The network and the planning of the carriers, in short, allow to optimize transport times and costs, as the management of a single international network allows each operator to minimize the costs incurred for transported goods, leveraging the economies of scale and efficiencies that the large size of the network can achieve.

Any disruptions or delay at any point in the chain risks compromising the continuity of service-causing a negative impact not only on the profitability of the carrier, but most importantly for the customer, resulting in the Italian company incurring additional costs or being less competitive compared to international competition.

The main issues and constraints relating to the operation of international air couriers in Italy emerged in the study are the following:

- **Access to urban centres (ZTL and traffic restrictions in general)**

In order to guarantee time sensitive deliveries, carriers must operate in specific time slots, a need that clashes with the different, and ever changing, restrictions on access to the city historic centers imposed by the competent municipal administrations.

- **Night operations at airports and operating costs**

In order to be able to connect to 220 countries around the world in 24-72h for couriers, night operations at airports are essential, so restrictions on night flights, the introduction of noise and high airport charges can reduce their operational capacity and efficiencies

- **Failure to implement the one-stop shop customs model**

When shipping internationally, there can be a

variety of checks that are needed to clear a goods, especially if sanitary and phytosanitary. This can cause delays to shipments depending on how different official departments operate at Italian airports.

- **National regulation of international express air couriers and related charges**

Although it does not have any of the characteristics of the sectors to be regulated, in Italy the air express sector is subject to a much wider regulatory burden than in other European countries, especially in reference to the contribution requested by the Communications Regulatory Authority (AGCOM).

- **Labor issues**

The standardization of the processing times of couriers is put to the test by episodes of atypical or unregulated strikes in sorting centers and the absence of guarantee mechanisms makes the entire courier network particularly vulnerable.

VI) The policy proposals that emerged from the study

The set of dynamics analysed led to the identification of some policy implications, which conclude the study. Regulatory hurdles that limit the action of air couriers can in effect be seen as barriers to the growth and access to international opportunities for Italian businesses. The consequent policy implications of this reasoning can thus be summarized:

- Plan in sustainable terms to transition to vehicles with less environmental impact, involving all stakeholders, manufacturers, users and public administrations;
- Create a common framework for logistics operators to access urban areas subject to restrictive measures to improve air quality and reduce traffic congestion;
- Establish a uniform rule environment for night flights, to generate the basic conditions that allow couriers to plan their infrastructure investments in national airport hubs;
- Overcome the current overlap between transport regulator (ART) schemes and ENAC (National Civil Aviation Authority) programme contracts for the definition of airport rights and give due

importance to the air cargo, which is still too penalised by fare determination mechanisms;

- Effectively implement the “single customs counter”, in order to improve the overall efficiency of customs clearance procedures where there are interactions between multiple offices and public bodies;
- Review, at the legislative level, the burden, particularly high in Italy compared to other European countries, of the contribution to the Regulatory Authorities (AGCOM, ART) and simplifying the overall regulation of the sector;
- Regulating more effectively the right to strike, without compressing the rights guaranteed by the Constitution, but by adopting the appropriate tools that guarantee couriers minimum levels of operation to ensure time sensitive service.

In conclusion, the study shows how the strengthening of air carriers, which can be pursued through the aforementioned policy measures that facilitate their operational action, could trigger a virtuous circle for national economic growth. In recent years, in a macroeconomic environment characterised by stagnant domestic demand, exports have been the only sector to support the country's economic growth, so promoting the internationalisation of businesses remains a priority policy objective. It should not be forgotten that only 2.9% of domestic companies export and that the ability to export is inversely related to the size of the business. In order to grow GDP, it will be necessary to focus on accessing global opportunities. SMEs specifically need to be supported to access the opportunities of foreign markets and new customers. In order to do this it will be necessary to remove some regulatory obstacles present today, such as the issues highlighted by the Customs Capability Index.

In this context, air couriers act as facilitators of foreign trade for companies, especially small ones that do not have sufficient resources to navigate international business opportunities and the subsequent regulatory and administrative burdens on their own. By removing some of the barriers couriers face, ultimately means supporting growth of SMEs, increasing their contribution to domestic exports and boosting GDP growth through the foreign channel, with immediate effects also on tax revenues linked to the better functioning of customs.

