Air Cargo World

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ALIBABA VS AMAZON

HOW E-COMMERCE IS REINVENTING FREIGHT FORWARDING

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STAFF

Air Cargo World

SENIOR EDITOR
David Harris
dharris@royalmedia.com

EDITOR
Randy Woods
rwoods@aircargoworld.com • (206)-801-8478

ASSOCIATE EDITOR
Linda Ball
lball@aircargoworld.com • (206)-237-0799

CONTRIBUTING EDITOR
Ian Putzger

COLUMNISTS
Doug Brittin
Brandon Fried

PUBLISHER
JJ Hornblass
hornblass@royalmedia.com

VP OPERATIONS
Molly Stewart

GRAPHIC DESIGNER
Manuel Sy

PROJECT COORDINATOR
Michael Patten

MARKETING
Breanna Punzone
bpunzone@royalmedia.com

CIRCULATION
circulation@royalmedia.com

AIR CARGO WORLD HEADQUARTERS
80 Broad St., Suite 1701, New York, NY 10004
(646) 837-5945 • Fax: (646) 304-7987

WORLDWIDE SALES
U.S. Sales & Emerging Markets
Sales Director
Tim Lord
tlord@aircargoworld.com • +1 678 775-3565

Europe, United Kingdom, Middle East
David Collison
dci.collison@btinternet.com • +44 192-381-7731

Hong Kong, Singapore, China, Malaysia, Australia, New Zealand, India
Michelle Li
michelle.li@publicitas.com • +852 2516 1510

Japan
Mikio Tsuchiya
mikio.tsuchiya@worldmedia.jp • +81 45-891-1852

Korea
Jung-Won Suh
sinsegi@igroupnet.co.kr • +82 2785-8222

Taiwan
Paula Liu
paulaliu99@gmail.com • +886 2-2523-8268

Thailand
Anchana Nararidh
anchana@worldmedia.co.th • +66 26-412-6938

Marketplace
Alyssa Stebbins
astebbins@royalmedia.com • +1 212 991-6735

Editor's Note

Forward thinking


Randy Woods

Just three months ago, it was my honor to speak with one of the pioneers of the air cargo industry, one who 40 years earlier had practically invented a whole new way of shipping packages – overnight, to practically anywhere in the country. That person was, of course, FedEx founder Fred Smith, one of our "Air Cargo Executives of the Year for 2015," who remains just as relevant and cutting edge as ever.

In this issue, *Air Cargo World* looks into the future, focusing on two other companies that may well reshape the *next* 40 years of the air cargo business, retail giants Alibaba of China and Amazon of the United States (in fact, Amazon's sprawling new three-skyscraper campus is taking shape right across the street from *Air Cargo World's* Seattle office).

These days, to limit Amazon and Alibaba to the label of mere "e-commerce retailers" is to sell both of them short. Each company has expanded exponentially beyond retail and into the realms of third-party logistics, shipping, IT management systems and cloud-computing services. In our cover story (page 22), we take an inside look at how both are attempting to create worldwide global logistics networks to provide access to virtually every village in the world and ship products to them in less than three days, yet they are choosing very different tactics.

At Alibaba, founder Jack Ma and CEO Daniel Zhang have focused on spearheading an open-source network, called Cainiao, which allows other logistics firms to take part and provide express services for Alibaba's customers. And at Amazon, founder Jeff Bezos has been experimenting with creating what might be an own-controlled air network in the U.S. and Europe to provide express services for his growing e-commerce empire. One Amazon subsidiary in China has even earned its NVOCC license to perform its own freight forwarding duties. Not only are they both taking on the FedEx/UPS/DHL integrators they have, up to now, considered clients, they may well be on their way to cutting out all middleman services and reinventing the freight forwarding world as we know it.

Meanwhile, the ground-handling sector has also endured a sea change of late, with increased liberalization in many formerly monopolistic airports, tempered by a series of game-changing mergers among the major players. The result has been a mixed bag for forwarders and shippers, who have seen some positive changes brought about by competitive forces, but also a decline in service in some areas due to outsourcing. In our article on page 26, we provide insight into the real-world effects of today's ground handling mergers and talk to some forwarders who may be getting the squeeze.

We also profile one of the fastest growing – and perhaps least known – carriers to take on the North American market in recent years: Turkish Cargo (see page 30). With its vast, long-haul passenger network and its Istanbul hub, ideally located on the margins of Europe, Asia, the Middle East and Africa, Turkish Cargo has designs on becoming one of the world's largest cargo carriers in a few years, and its North American strategy might be key to its future success.

Finally, this month we will be hosting our annual **Air Cargo Excellence Awards** in Berlin during IATA's World Cargo Symposium. We hope to see you there at the Intercontinental Hotel on **March 14** for our Gala Dinner as we honor the best and brightest cargo carriers and airport facilities in the world, based on survey responses from freight forwarders, airline employees, cargo agents and 3PLs. For more information, please visit **aceawards.aircargoworld.com.**

Randy Woods,
Editor, *Air Cargo World*
rwoods@aircargoworld.com

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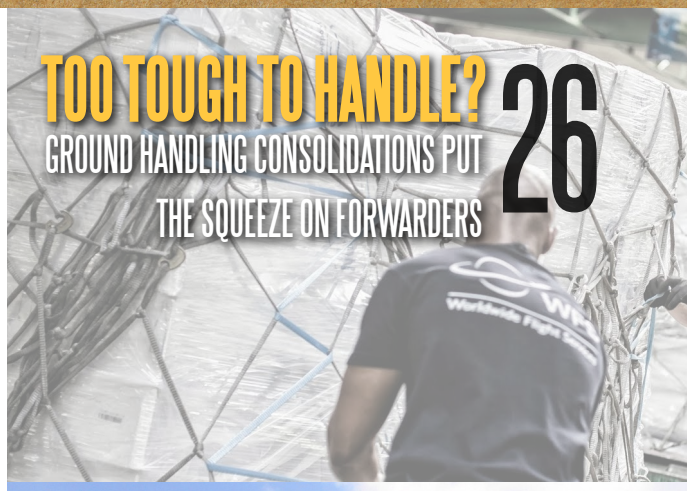

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Fastest pallet in the east

Nine teams competed in January for the coveted **"Pallet Building Championship"** and the "Forklift-Driving Safety Award" at Hong Kong Air Cargo Terminals, Ltd (Hactl). With some 300 spectators watching the event, Nippon Cargo was victorious in the ninth-annual pallet-building contest, while IAG Cargo won the forklift-driving safety award, as determined by the Hong Kong Association of Freight Forwarders and the Occupational Safety and Health Council. Other carrier competitors included AirBridgeCargo, Air Canada, Air China Cargo, Air France-KLM, China Eastern, China Southern Cargo and JAL. Another Gold medal was also bestowed to IAG for having the loudest cheerleaders.

Handled with care

Air France-KLM carried two shipments in January, which included 70 famous works by renowned Dutch painter Piet Mondrian, from the Gemeentemuseum Den Haag (the Hague's museum of modern art). The art works were transported on scheduled KLM 777 service from Amsterdam-Schiphol to São Paulo, Brazil, where they will be part of a 12-month touring exhibition. The transportation of fine art required highly protective packaging and constant temperature control. The exhibit will be shown in São Paulo, Brasilia, Belo Horizonte and Rio de Janeiro.

Romanian antiquities

Air Partner arranged to have 445 treasured Romanian antiquities from the National Museum of Romanian History delivered to China for the "Treasures of Romania" exhibition at the National Museum of China in Beijing. With logistics help from TNT, the shipment was flown from Bucharest's Otopeni Airport to Beijing Jan. 12 on a 777F, operated by Emirates Airways. Due to the delicate and valuable nature of the cargo, all flight clearances had to be secured through diplomatic channels. The exhibition opened in Beijing Jan. 28 and will continue until May 8, when it moves to Chengdu.

Red planet rendezvouz

ExoMars, the European planetary exploration program which hopes to discover any traces of life on Mars, will travel hundreds of millions of kilometers to reach its destination – but first it has to get to the launch site on Earth. That's were Volga-Dnepr and Bollore Logistics stepped in recently. Between Dec., 18 and 22, the carrier shipped the mission's"entry, descent and landing demonstration module" and the Trace Gas Orbiter satellite, from the Thales Alenia Space Italia facility in Turin to Kazakhstan's Baikonur Cosmodrome, by way of Moscow's Sheremetyevo Airport. In total, Volga-Dnepr transported twenty 20-foot containers, including two "hi-cube" containers, materials for the ExoMars project, loose cargo and a satellite container. ExoMars is scheduled to launch this month and is expected to reach Martian orbit in October, where it will study the Red Planet for a period of seven years.

Sheep shipped

Beginning Jan. 17, **LAN Cargo** transported 1,500 female and 507 male sheep from Punta Arenas, Chile, to Quito, Ecuador, in three cargo aircraft specially conditioned for the sheep. LAN Cargo has been working since last year on a sustainable livestock development program promoted by the Ecuadorian government. The female sheep weigh between 88 and 132 pounds and the males weigh anywhere from 132 pounds to 176 pounds. Twenty-eight pens were shipped per flight, with a maximum of 25 sheep in each one. But who's counting sheep?

Koalas fly home on Qantas

Four Australian koalas were flown back home to Brisbane, where they will once again reside at the Lone Pine Koala Sanctuary. The four – known as Paddle, Pellita, Chan and Idalia – had been on loan for 10 months to the Singapore Zoo from the Australian government to celebrate 50 years of diplomatic relations with Australia. Lone Pine Koala Sanctuary worked closely with both Qantas Freight and Singapore Zoo for their travel and stay overseas, providing twice-weekly shipments of food. Qantas crew member Beti Koltovski gave the koalas their "Joey Passport" and boarding pass prior to their departure from Singapore.


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George Kerchner

PRBA's Kerchner defends lithium battery transport in U.S. Congress

Safety rulings come and go regarding the transport of lithium batteries as air cargo, but the debate appears to never really end. After what seemed like a compromise was being reached in the middle of last year, a series of conflicting rulings from the fall of 2015 through the first two months of this year have muddied the waters and prevented consensus on this sensitive issue.

In October 2015, the International Civil Aviation Organization's (ICAO) Panel on Dangerous Goods voted 11-7 against an outright ban on passenger aircraft carrying lithium batteries as cargo. Then, in December, another ICAO panel on Aircraft Safety voted in favor of a passenger aircraft ban on the rechargeable batteries, a position that was supported by a United Nations advisory panel in January.

To confuse the issue further, in February, the Federal Aviation Administration (FAA) issued a safety alert urging all U.S. and foreign commercial passenger and cargo airlines to conduct new safety risk assessments to manage fire risks associated with lithium batteries. The National Transportation Safety Board (NTSB) went a step further by recommending that lithium batteries be physically separated from other flammable materials in cargo holds, and that new limits be placed on the maximum number of lithium batteries per aircraft.

Currently, a bill (H.R. 4441) is making its way through the U.S. Congress to reauthorize the FAA Modernization and Reform Act, which would regulate the transport of lithium batteries in the U.S. and harmonize the regulation language with rules to be decided by the ICAO. The day after a U.S. House committee voted in favor of this harmonization language, *Air Cargo World* spoke with George Kerchner, executive director of the Rechargeable Battery Association (PRBA), to make some sense of these conflicting safety proposals and discuss how they will affect forwarders.

How will the House bill help shippers and forwarders?

Basically, what H.R. 4441 will do is harmonize U.S. standards with the ICAO's performance-based standards the rest of the world follows. In 2010, there was a terribly written rule that would have set up different laws that were totally out of snych with the rest of the world. If that had passed, we estimated it would have had an impact of about $1 billion in lost time for shippers and forwarders, and placed them at a huge disadvantage for U.S.-based carriers and manufacturers. Harmonization ensures that there will be a consistent level of safety.

If they're so controversial, why can't these batteries get shipped by seafreight instead?

That's just it – we've tried to explain that to the committee members several times. Most lithium-ion batteries already *do* go by ocean. Those that are shipped in bulk or power things like appliances and power tools are sent by ship all the time. About 70 percent of all the lithium batteries around the world are sent this way. But for those batteries that power in-demand devices, such as the latest laptops, tablets or cell phones, they have to get to market faster, so the remaining 30 percent are sent by air. We'd like to send more on the ocean, because it's much cheaper, of course, but the market demands it.

Are there any new technological advances that can help reduce the risk of fire?

Yes, one of the most effective has been ICAO's rule limiting shipped lithium ion batteries to a 30 percent state of charge, which also address the safety concerns the FAA raised in its recent safety alert. Rigorous testing has shown a 30 percent state of charge limit significantly reduces the risks of lithium ion batteries in transport.

What is your opinion on the NTSB's most recent recommendations?

The NTSB is talking about physically separating lithium batteries from other flammable hazardous materials. We haven't really seen that kind of proposal before. From what we can tell, this looks like it will be very difficult for carriers to implement.

What are some of the practical ways we can better enforce the current laws?

By stepping up enforcement, this doesn't mean there will be inspectors walking through your doors to check your cargo loads. This means putting more emphasis on non-compliance from battery shipments out of Asia, which often are knowingly mislabeled as something else. Or sometimes you'll see a label saying the batteries inside are rated at 99.9 watt-hours, since the limit is 100 watt-hours per battery, when in fact they're actually 320 or 340 watt-hours. Section 615 [in H.R. 4441] directs the Secretary of Transportation to increase U.S. pressure to see that all shippers, from anywhere in the world, either comply with the rules or are punished.

If this bill passes, do you think it will settle the issue?

Well, we still have a long way to go. We have to get it through the U.S. House and Senate, but it's hard to say what to expect, especially during an election year. But with the Committee's favorable action, we look forward to prompt action on the floor.

Note: As this issue went to press, the top-level ICAO council was scheduled to vote whether to approve a proposal of a battery ban in late February.

ASEAN single market taking slow route to integration

By Ian Putzger

As the world anticipated the arrival of Jan. 1, 2016, the 10 countries that make up the Association of South East Asian Nations (ASEAN) were poised for a New Year's Eve party with special global trade significance. From that date on, goods, services, capital and skilled labor are supposedly flowing freely between the borders of the community members – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam – which make up a combined market of 622 million people.

In 2014, ASEAN's GDP grew 4.4. percent, and the establishment of a single production and investment base was expected to unleash more potential. Logistics operators geared up for rising traffic volumes. Kuehne + Nagel opened a 50,000-square-meter logistics hub in Singapore in January, which the company described as part of its regional expansion plan to support its fast growing supply chain clientele operating within Singapore and the ASEAN countries. According to a study produced by the Australia and New Zealand Banking Group, ASEAN trade volume could exceed US$1 trillion by 2025.

Reality, however, has poured cold water on the party plans. No new freighter service linking two or more ASEAN countries has been launched since the start of 2016. Now that the single market has been established, forwarders within the ASEAN member countries are realizing that growth is unlikely to shoot through the roof. While this is an undisputed step forward, several obstacles still remain.

For instance, although 95 percent of tariff lines are at zero, non-tariff barriers on goods and services still hamper cross-border trade. Consumer laws, intellectual property rights and investment rules have yet to be harmonized, and ASEAN's traditional emphasis on consensus, coupled with an organization that has a tiny budget and virtually no teeth all but ensures that progress will be slow.

Without a doubt, market integration will help propel airfreight traffic forward within ASEAN members, but the emphasis is clearly on the surface. Last summer DHL rolled out an integrated LTL service that links Singapore, Penang, Bangkok, Hanoi and Shenzhen. According to the integrator, road freight is projected to grow in the Asia-Pacific region at a compound annual rate of 8.3 percent between 2014 and 2019.

Around the same time Agility introduced daily time-definite haulage services in the region, such as a four-day run between Bangkok and Hong Kong and a six-day operation linking Bangkok to Shanghai. In its comments on the launch, management noted that, particularly in the ASEAN region, trucking was increasingly regarded as an alternative to shipping by air or ocean carrier, despite some infrastructure and capacity issues.

The significant differential in GDP, trade volume and traffic flows between ASEAN member states also induces logistics operators, as well as their clients, to focus on individual markets and trade lanes rather than intra-ASEAN traffic as such. In 2013, Myanmar's trade amounted to US$23 billion, compared with Singapore's tally of $783 billion.

"We do see some DHL customers with an ASEAN strategy. Some of these are in response to the AEC [single market], while others have been calibrating their regional strategies for many years," said Jasmin Aladad Khan, executive vice president, commercial and managing director of emerging markets, for DHL Express Asia-Pacific. Some of these strategies, she said, are borne out of strong ASEAN economies that have a history of unilateral trade and investment policies established between individual member states, rather than any regional integration efforts. Vietnam and Cambodia, have drawn in new investment as well as airfreight capacity, some of which is carrying regional traffic, but much feeding longhaul departures to intercontinental markets.

One example is Cathay Pacific's freighter to Phnom Penh, which has been doing particularly well on the inbound side, according to Mark Sutch, the carrier's general manager of cargo sales and marketing. The key traffic there consists of garment production accessories, such as fabric rolls and textiles. Exports are dominated by finished garments headed to Japan, Hong Kong, the United States and Italy. Last year, Cathay's volume out of Cambodia climbed by 50 percent. "The long-term prospect is positive, as new factories are setting up for the production of electronic parts," Sutch remarks.

DHL Express is also preparing for stronger regional growth, as it ramps up capacity with the construction of an express facility at Singapore's Changi airport that is due to open later this year. The new facility will boost DHL's throughput threefold and increase processing speed by six times.

"Coupled with increasingly regional-

ized manufacturing footprints, growing affluence, changing consumer behavior and the rise of e-commerce, we believe there will be increasing need for timely and rapid delivery services, giving the logistics and express industry ample opportunities to grow in the region," Khan said. "We are continuously enhancing our infrastructure and capacities, such as the upcoming South Asia hub, to meet the anticipated growing demand in the region."

Khan added that she would like to see liberalization make further headway, such as in the creation of an open skies policy within ASEAN.

"Domestic legal regulations often constrain further liberalization, which hampers full integration and connectivity. This would help cargo operators like DHL Express to operate a more cost-efficient aviation network," she explained. "Our position is that if liberalization of passenger traffic is too sensitive, then a gradual approach to liberalize cargo flights first might be undertaken."

ACW

Cathay Pacific scales back for 2016

A labor dispute with the union representing its cockpit crew has been cited as the main reason Cathay Pacific is drastically cutting back its expansion plans this year, according to reports from the *South China Morning Post.* Among the plans that have been put on hold are the introduction of daily flights to Manchester in the U.K. and Boston in the U.S., now both delayed until 2017. New London-Gatwick service has been pushed back to September 2016.

The Hong Kong Aircrew Officers Association (HKAOA), representing 2,100 of Cathay's 2,900 pilots, claimed that the work roster is unfair, and that lack of sleep is putting them – and passengers – in danger. "Individuals are losing up to 10 nights' sleep every month," a pilot said. "They are unable to sleep when their body wants them to 10 times a month. Is this healthy or sustainable?"

In response, the pilots are taking part in a "work-to-rule" action, in which they perform the bare minimum duties as required by their contract, rather than volunteering to work on days off, as was the norm.

On the cargo side, Cathay Pacific Airways actually had a decent year in 2015 and seemed ready for expansion. December cargo traffic was up 2 percent, year-over-year, to US$952 million revenue tonne kilometers (RTKs), returning the carrier to its two-year trend of demand growth.

For the entire year, 2015 cargo traffic was up 5.4 percent to 10.6 billion RTKs, making it the largest air cargo carrier in Asia, by volume. However, excess capacity in the air cargo market made it difficult for carriers to get rates up to the level they expect during peak season.

In a general letter to the pilots, sent in December, the general manager of the air crew, Dominic Perret, called the labor stalemate a "lose-lose situation, frustrating for all of us." The pilots countered that the growing workload is a threat to flight safety.

– Linda Ball

E-commerce leads to rise in narrowbody connections

By Ian Putzger

When it comes to intercontinental flows of air cargo, the regional air networks in Europe have hardly played a role, as the bulk of this traffic that moves beyond the gateways is carried over the road to its final destination. However, as e-commerce demand booms in Europe, carriers have recently begun placing a greater emphasis on smaller, high-yield shipments – a strategy that appears to be driving an increase in the more efficient use of bellyholds in narrowbody fleets.

Many airlines are still at the early stages of formulating strategies to target the rising tide of e-commerce traffic. IAG Cargo, however, has been an early advocate of linking its longhaul flights with its European network. After an initial heavy push in 2014, the carrier added 2,000 more same-day connections to the roster last year.

The effort by IAG seems to be bearing fruit. "In 2015, we saw an increase in the number of shipments from North America and into Europe, with our consignment count 10 percent higher than the previous year," reports Daniel Johnson, manager of global products, adding that IAG has also registered a rise in narrowbody-to-narrowbody connections.

Rich Zablocki, vice president for global product development, North America, at CEVA Logistics, said he has seen benefits, too. The program, he said, has allowed forwarders to combine smaller shipments for multiple destinations into single consolidations and saved money by achieving higher weight breaks. "The service has been reliable and cost-effective for CEVA," he remarked. "We do find this a good way to minimize the number of what are called 'minimum shipments,' meaning we avoid the high cost of minimum fees while getting special attention for what otherwise could get lost in a sea of heavy freight."

A spokesman for Air France-KLM Cargo described the commodities that shift between the airline's longhaul and regional flights as "small, relatively urgent shipments" and also "mail and e-commerce types of freight."

E-commerce is set to play a larger role in Europe, said Anselm Eggert, head of e-commerce at Lufthansa Cargo, pointing to growth projections for B2C e-commerce volumes. He said he sees an advantage for airlines that can link longhaul routes to regional belly networks. For example, cargo arriving from Asia can be delivered to any destination across Europe within a day, he said.

"E-commerce needs air transportation to get to destinations faster than over the road," said Bob Imbriani, executive vice president, international, at forwarder Team Worldwide.

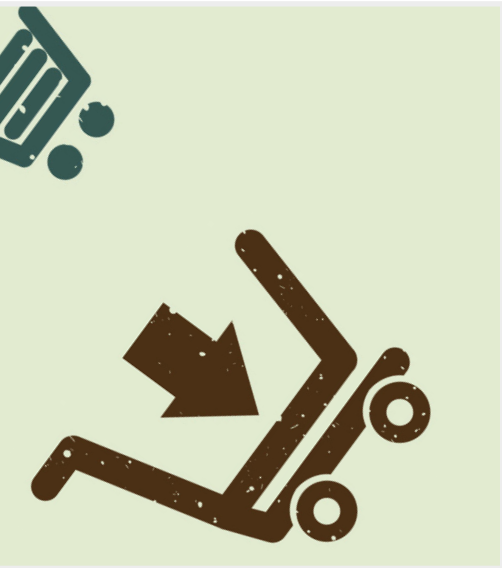
To make these connections work, however, requires investment and augmented service levels. IAG, for one, said it offers performance guarantees backed by online tracking in real time. Above all, handling processes need to be ramped up. This begins with pallet build-up at the origin station, including express labelling and "last in, first out" loading, a spokesman for Lufthansa Cargo noted.

The most concentrated efforts are made at the airline's hub, though, where special mobile squads recover such shipments, as Lufthansa does at Frankfurt. Also, IAG's Johnson pointed to the carrier's investment in better processes and infrastructure support, especially in the Premia facility at IAG's London hub. The carrier increased its capacity to handle loose cargo by over 50 percent, introduced new export and import offices to accelerate pick-up and delivery of small express freight, and enhanced operational procedures and optimized space, he said.

Through its express handling subsidiary, Sodexi, Air France-KLM Cargo developed a new express facility at Paris that opened last year, located near the passenger aircraft parking positions. "By doing this we are focusing towards the expectations of the growing e-commerce," the spokesman said.

Quick transfers are crucial to making e-commerce air shipments cost-effective. "Our intra-Europe delivery means that cargo can arrive within

> "Low-cost carriers have definitely become more of an option."
>
> –Bob Imbriani, Executive VP, Team Worldwide



24 hours and connection times can be as quick as three hours," Johnson remarked.

However, not all customers have embraced the fast connections, or the higher costs they incur. The Air France-KLM spokesman reports that many clients are prepared to lose one day in transit time for the sake of lower costs by trucking e-commerce cargo from the gateway to the final destination.

Team Worldwide, for example, is inclined to pick up its consolidated shipment at the gateway, break it down and tender individual shipments of high urgency or value for small package service on a regional narrowbody flight. This is obviously slower than having the airline perform the service, but it ends up with a lower price tag. Past experiences with airlines offering through service with connection over a gateway turned out very costly, with rates "quite high, almost like the integrators," Imbriani recalls.

There may be an additional price benefit from competition on intra-European narrowbody routes. Some of the low-cost airlines have become better attuned to cargo, especially the small package segment. "Low-cost carriers have definitely become more of an option," Imbriani added.

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ASL to purchase TNT Airlines

Turns out the long-discussed rumors were true. Ireland-based ASL Aviation Group has indeed agreed to purchase airline operations currently owned by TNT Express and will continue to operate them on behalf of the merged FedEx-TNT entity, according to a *Reuters* report.

The deal was struck as part of the ongoing FedEx-TNT acquisition process, which is contingent upon the sale of TNT Express' two air carriers – TNT Airlines and Spain-based Pan Air Lineas Aereas – in order to conform with European restrictions on airline ownership. Under EU rules, foreign investors cannot own more than 49 percent of a European airline, and control of the company must remain in EU hands.

ASL is a global cargo, passenger and leasing company, which will continue to operate flights for TNT following its acquisition by FedEx under a multi-year service agreement. Its fleet will grow from 90 to 130 aircraft after the sale. ASL acquired Farnair last year, and rebranded all four of its carriers, which are now called ASL France, ASL Ireland, ASL Airlines Switzerland and ASL Hungary (formerly Farnair).

With a European market share of 17 percent, the combined FedEx-TNT will be Europe's second-biggest delivery services business, behind Deutsche Post's DHL, but ahead of UPS. The deal also strengthens FedEx's position as the world's number-three integrator.

FedEx and TNT Express have obtained unconditional approval from the European Commission, Brazil and the United States for their proposed merger, but are still waiting for China's blessing. The FedEx-TNT merger is expected to close by the middle of this year.

–Linda Ball

Deutsche Post considers shedding DHL Global Forwarding

The true costs of last year's failed experiment with DHL Global Forwarding's new IT system called "New Forwarding Environment" are starting to be felt nearly a year later as its parent company, Germany's Deutsche Post, said it is considering getting rid of the troubled forwarding arm altogether.

Because of the failed IT rollout, Deutsche Post endured a US$388 million write-down, which resulted in a 71 percent drop in third-quarter core earnings to $222 million. That bitter pill could result in Deutsche Post either spinning off the forwarding operation, which would allow it to focus on its express and mail business, selling it off to another entity or forming a partnership with a third party.

"The unit has had massive margin problems of late, among others, due to IT troubles, so it's natural that Deutsche Post is mulling ways to turn it around," an unnamed source told Reuters. One potential option is a sale to Japan Post, which purchased Australia's Toll Holdings last year, with ambitions to expand.

The freight forwarding unit lost $379 million in the third quarter of 2015; in the same period of 2014 it made a profit of $80 million. The forwarding arm's profit for the full year in 2014 fell 39 percent to $331 million on sales of $17 billion, which was nearly 27 percent of the group's sales.

–Linda Ball

Photo by Milad/Wikimedia

CargoLogicAir launches from U.K.

The new British all-cargo carrier, CargoLogicAir (CLA), which received its Air Operators Certificate in January, now says it aims to become a leader in the European air cargo market in both scheduled and charter flights by adding four more freighters over the next two years.

CargoLogicAir has taken delivery of its first 747-400 freighter from Air Castle and will add a second 747F to its fleet in July 2016, the startup carrier said. CLA also said it expects to have a fleet of five 747Fs by April 2018.

Dmitry Grishin, the newly appointed CEO of CargoLogicAir and former vice president sales at Ruslan International, said the all-cargo airline business model "has its place on the market," and that CLA will seek "sustainable growth by specializing in outsize and flexible solutions for our customers." He added that the new carrier is "open to cooperation with all who share the same passion for cargo as we do. We are also very grateful for the help we have received so far from partners such as Boeing, Stansted Airport and Aeropeople, who have supported us in building the company and its capabilities."

Grishin is joined in the executive ranks by Peter van de Pas in the role of chief operating officer and accounting manager, who previously held senior positions at KLM and Cargolux. Steve Harvey is CLA's chief commercial officer, having joined the airline from his previous post of regional charter sales manager EMEA of Atlas Air.

Comparing CLA to other U.K.-based all-cargo carriers, such as HeavyLift and AirFoyle, Harvey said the "time is right" to launch another cargo airline in the U.K., which he called the second largest air cargo market in the European Union. "Using our knowledge, we plan to make a strong contribution to putting the U.K. back on the map of global all-cargo leaders," he said. "We have been extremely encouraged by the level of interest from our customers and expect this to result in us attracting the level of business we need to support our growth strategy over the next three to five years."

-Linda Ball

Priority Freight's logistics director weighs in on Calais crisis

Paul Williams, the logistics director for U.K.-based logistics company Priority Freight, said the company experienced a 300 percent increase in airfreight bookings last year, moving goods that could have been delivered by road, were it not for the ongoing migrant crisis in Calais, France, which began last summer. The crossing to Dover, England, was backed up due to migrants attempting to jump on U.K.-bound trucks, which often resulted in contaminated cargo.

"While airfreight might cost more, [it] ultimately keeps goods moving [and] saves manufacturers money," Williams said in a January release to his customers. The blockages on the roadways have forced manufacturers to consolidate shipments from several key component suppliers, which increased the need for large aircraft charters by 600 percent just in July 2015.

Though it has been a financial boon to Priority Freight's charter business, Williams called the migrant crisis "a humanitarian disaster of historic proportions, the effect of which continues to be felt throughout Europe."

Williams cited the BSI Supply Chain Security Risk Index, which estimates that the crisis has caused £660 million worth of losses for the British economy in 2015, while the shared European financial drain amounts to about US$1 billion in shipping disruption.

"September 2015 saw Europe's highest number of border closures since the signing of the Schengen Agreement in 1995," he said, referring to the treaty that abolished many internal borders across the European Union. "The damage this European-wide emergency is causing to U.K. business has already been extreme."

Much of this chaos was the result of "Operation Stack," a procedure enacted by local police and the Port of Dover that parked hundreds of trucks along the M20 highway in Kent, necessitating the road's closure for 28 days last summer, Williams said. He called for "long-term vision" to ease the stress of freight travel through the area, which would include two new truck parking areas near the M20 to ensure that the highway stay open. The plan has also been endorsed by the Freight Transport Association.

Williams went on to say that while the new truck parking area would address some of the bottlenecking of freight in the coastal town of Dover, there's not much the logistics community can do about the political and human consequences of displacement on such a large scale.

In December, on one of 2015's busiest days for cross-channel freight traffic, the FTA reported unprecedented scenes in Calais, on the other side of the Channel Tunnel.

Chris Yarsley, from the FTA's Brussels office, said: "I am flabbergasted at what I have seen today; there were literally thousands of migrants benefitting from the queue of slow moving traffic on the roads around Calais. They were attacking vehicles; breaking the locks of trucks, slashing roofs of the lorries and climbing in the back of them."

–Linda Ball

Pharma traffic keeps Puerto Rico afloat

By Linda Ball

Puerto Rico seems like an island paradise, full of history, picturesque beaches and bright, sunny days. But for the past decade, this small Caribbean territory of the United States has seen its economy shrink by 14 percent, with employment dropping 12 percent over the same period, according to *The Economist*.

The economic decline began in 2006, when tax credits for companies that set up manufacturing on the island expired. Many younger workers left for the mainland, leaving an older, poorer population that strained the territory's social services. From a peak of 3.8 million in 2004, Puerto Rico's population fell to about 3.5 million in 2014, and the territory is now approximately US$72 billion in debt. In January, negotiations to restructure the Puerto Rico Electric Power Authority's $9 billion debt collapsed. Despite these problems, it is unlikely that the U.S. Congress will bail out Puerto Rico for fear of mainland states extending their hand as well.

It seems like a dire economic situation. Or does it?

Tom Vincent, vice-president of Prime Air Corp. – Puerto Rico, which is an agent and forwarder for island-based Stevens Global Logistics, said the situation is actually healthy, business-wise. The debt, due to mistakes by the territory's administration, is a government issue, he said, whereas the private sector is doing well.

"We're going through some interesting times," said Vincent, who is from the mainland, but has lived and worked in Puerto Rico for 50 years. "It's regretful that the negative news is out there."

Joselin Ramos, senior vice president at international freight forwarder and logistics provider CaribEx Worldwide, said the economy of Puerto Rico is growing – albeit slower than expected – thanks to the new taxes and all of the bad publicity about the government problems. "The private sector has many challenges but, as you know, we need to move fast and change to keep our business growing," Ramos said. "The private sector, like any other state in the nation, moves around demand for service/goods."

Since Puerto Rico is an island, Vincent said air and sea imports – including live animals, perishables, auto parts and electronics – account for 80 to 85 percent of Puerto Rican cargo value. But on the export side, the vast majority of cargo is bio-pharma and medical supplies. "Puerto Rico is sort of the pharmaceutical capital of the world," he said. Pfizer, Amgen, Merck, Bristol-Myers Squibb, Eli Lilly and more all have large manufacturing facilities on the island.

"That's why all the airfreight companies are here," Vincent said, as well as the three big integrators, Strategic Air Services, ABX Air and Amerijet. The island also exports goods for the industrial sector, beverage ingredients and of, course, the famous Puerto Rican rum, which goes by sea. "The air industry remains healthy," he said.

Ramos said that, in 2015, the airfreight industry suffered due to cuts by certain main carriers (which he did not name) between the United States and Puerto Rico. He said the island lost the majority of wide-body passenger planes carrying belly freight, and one major carrier consolidated its flights in Memphis. Additionally, Puerto Rican shippers have had to endure air rates increases not in line with taxes or volume. As a result, cargo demand is still down in some areas, due to the restrictions in passenger airplanes and the reduction in lift capacity. He added, however, that the low fuel cost has been a good thing for the industry.

Vincent said there is an active Puerto Rican manufacturing association,

All-cargo Rickenbacker has record year in 2015

Rickenbacker International Airport, an all-cargo facility based in the U.S. state of Ohio, finished 2015 with an operating surplus of US$1.67 million. This figure represented the airport's best year since its operations became part of the Columbus Regional Airport Authority in 2003. The airport and select off-airport businesses account for more than 20,000 jobs in the area and have an annual economic impact greater than $2 billion. The airport handled 482 all-cargo aircraft in 2015, up from 308 in 2014.

Rickenbacker saw many successes in 2015, including the launch of twice-weekly service by Emirates SkyCargo. Cathay Pacific also increased its frequency of service from three to four times a week to Hong Kong. Add Cargolux, which has served Rickenbacker with three weekly frequencies since 2013, and there are now nine international flights each week. In addition, Amazon is building a 1 million-square-foot fulfillment center nearby.

Some projects that began last year are expected to bear fruit this year, including a new 100,000-square-foot cargo terminal and other infrastructure upgrades, paid for through a public-private partnership. The terminal, which will facilitate better air cargo movement between aircraft and trucks, is scheduled to be ready for occupancy by this spring. Community collaboration in 2015 also led to another capital project – the construction of a new air traffic control tower to replace the original World War II-era tower. This project should also be operational in the spring of 2016.

"While we are very pleased with the 2015 operational performance, the capital costs to maintain an airport the size of Rickenbacker are significant," said Elaine Roberts, president and CEO of the Columbus Regional Airport Authority. "Continued partnerships and creative funding solutions will be critical to maintaining the thousands of jobs and growing economic impact to the area."

Also in 2015 the airport began operating as a port of embarkation for livestock, including goats, horses and more, and business increased at Rickenbacker Aviation, a subsidiary of the airport authority that provides services ranging from fueling planes to cargo handling. Rickenbacker Aviation saw its net operating income exceed $900,000, which reflects a 12 percent increase, year-over-year.

–Linda Ball

working to have a single voice for the private sector, making recommendations both on the island and in Washington, D.C., to foster open market approaches. Whatever happens with the debt, he said, there has to be an economic angle.

Pam Rollins, senior vice president of business development for Amerijet, said the airline has seven scheduled flights to San Juan Luis Munoz Marin International (SJU) weekly. "Some weeks, we operate as many as 11 flights, based on the needs of the market," she said. This year, she said, Amerijet is on track to move about 16,300 tonnes of air cargo into SJU and around 9,500 tonnes out of SJU. Last year the carrier moved about 22,680 tonnes total, she added.

Ramos acknowledged that the government is awash in debt, but he said this has nothing to do with the private sector, with the exception of taxes, and the exodus of the islanders looking for work. Given the strength of the pharmaceutical and medical supply business and the people who live, work and love the island, one has to believe this is a resilient population that won't easily give up on their island paradise.

ACW

Atlas to buy Southern Air, but it's all about DHL

Atlas Air Worldwide Holdings (AAWW) signed a definitive agreement to acquire Southern Air Holdings, a privately held U.S. company with two airline subsidiaries – Southern Air and Florida West International Airways – for US$110 million.

Atlas said in January that it expected the acquisition to close "in the next few months," assuming regulatory approval by the U.S. Department of Transportation.

While the deal will increase Atlas' already-large freighter fleet, it is, in many ways, more about DHL Express than anything else. Not many years ago, AAWW was an ACMI and charter operator, with a somewhat troubled scheduled-service subsidiary, Polar Air Cargo. That changed in 2009, when DHL Express took a 49 percent equity stake in Polar and began using Polar to fly several 747-400Fs in support of its U.S. international business.

Since then, the Atlas/DHL partnership has considerably strengthened. AAWW now operates 23 of the 58 aircraft in its operating fleet – about 40 percent of the fleet – in service to DHL. In addition, AAWW's dry-leasing subsidiary, Titan Aviation Leasing, leases two 777Fs and one 757-200F to carriers operating for DHL. While DHL may be the number-one customer at Atlas, it is the *only* customer at Southern Air. So Atlas' description of Southern's operation as a "highly complementary business" is spot on.

As to Florida West International Airways (FWIA), while its operation is not particularly complementary, it is also not very big. Sister publication *Cargo Facts* estimated that FWIA leases one 767-300F from LAN Cargo, and operates that freighter for the carrier.

LAN Cargo has historically operated throughout Latin America and the Caribbean region from its base in Miami, but how Atlas plans to use FWIA's certificate remains to be seen.

–David Harris

Iran hungry for aviation after years in wilderness

By Randy Woods

After being forced out of the aviation arena for nearly four decades due to United Nations sanctions, Iran Air has made a bold statement with an order for 118 Airbus aircraft, now that sanctions have been lifted from the government of its home country.

Similar interest in aviation is awakening all across the Middle East as the formerly isolated country north of the Gulf region re-emerges in the global trade arena. Some press reports said Iranian carriers may be in need of as many as 500 new planes to replace its current aging fleet. According to *Reuters*, the Islamic Republic is planning to invest about US$27 billion in a fleet to rival its competitors, Emirates, Etihad and Qatar Airways, on the other end of the Gulf.

The U.N. trade embargo against Iran was lifted in the wake of a January 2016 report by the Atomic Energy Agency, saying that Iran's government had complied with the terms of the nuclear non-proliferation deal struck last summer between Iran and the United States.

The Airbus deal, one of the first major international aviation purchases from Iran since 1979, involves only aircraft in passenger configuration, but will include 73 widebody models, so most of the impact on cargo will be in the form of belly capacity. The purchase will include twenty-seven A330s, eighteen A330neos, sixteen A350-1000s and twelve A380s. There will also be forty-five narrowbody A320s and A320neos in the mix.

"Today's announcement is the start of re-establishing our civil aviation sector into the envy of the region," said Farhad Parvaresh, chairman and CEO of Iran Air. "Along with partners like Airbus, we'll ensure the highest world standards." Parvaresh also hinted that Iran Air may be seeking interline agreements with other carriers to help broaden its global reach.

In addition to the aircraft orders, the deal with Airbus will include training programs for pilots, maintenance crews and other support services. The new planes and improved expertise are likely to transform the carrier, which currently operates an aging fleet of 26 aircraft with an average age of more than 26 years old. Many of the current Iran Air aircraft – including a 27-year-old 747-200F and a 35-year-old A300B4F – are banned from traveling in the European Union for safety reasons.

So far, Iran Air has negotiated only with Airbus because the U.N. sanctions have been lifted for the European Union. Should Iran Air, or other Iranian carriers, consider purchasing aircraft from Boeing, which would provide more choices for freighters, the participants would need to negotiate a waiver from the U.S. government, which still has a ban in place against trading with Iran.

Iran's capital, Tehran, is being touted by government officials as a historical transit point between Asia, Europe and beyond to North America, much the way Dubai, Istanbul and Addis Ababa serve today. "Certainly this is our historical position," said Iran's Transport Minister Abbas Akhouni, in a *Reuters* interview. "We have always been a center for communications in the region."

In a report by *Transport Intelligence*, senior analyst Thomas Cullen said Iran has "suffered from chronic under investment across almost all of its economy, caused by a combination of lack of resources and access to supplies." One area in which the country is farthest behind is logistics, Cullen said, which will be needed to handle the expected influx of new aircraft and foreign carriers seeking to do business in Iran's oil and gas sector.

"The uncertainties in the Iranian market are substantial," he added. "The political situation is chronically unstable and there is no assurance that the sanctions will not return. But the up-side potential is such that it could change the dynamics of the logistics market in the Middle East."

Dubai cargo volume grows despite freighter shift

Even without freighters, Dubai International Airport (DXB) managed to see airfreight growth in 2015. According to Dubai Airports, cargo volume at DXB grew 3.4 percent to 2.5 million tonnes last year, despite the transfer of freighters to the new Dubai World Central Airport (DWC). In December 2015 freight volumes at DXB rose 5 percent, year-over-year, to more than 218,000 tonnes.

In May 2014, Dubai Airports, which runs both facilities, made the decision to transfer freighter operations from DXB to DWC. In the first half of 2015, freight traffic at DWC went up 42 percent, year-over-year, reflecting the shift. DXB, however, continues to handle a huge amount of belly cargo via passenger traffic, which grew 10.7 percent in 2015.

DXB remained the world's busiest for international passenger flights in 2015, boosted by the addition of new airlines and routes. Annual traffic last year rose from 70.5 million passengers in 2014 to 78 million.

The combined tonnage handled at DXB and DWC grew by 4.5 percent to reach just under 3.4 million tonnes of air cargo, according to Dubai Airports figures released in mid-February.

–Linda Ball

Third Parties

Kamaljit Hunjan has been appointed to the position of senior vice president, global healthcare operations, for **CEVA Logistics** in the London-Heathrow office. He joins CEVA from General Electric Healthcare in the U.S., where he was most recently global logistics general manager. Also, **Jérôme Lorrain** will be the chief operating officer of CEVA Logistics' new ground transportation division, working from the U.S. headquarters in Houston. Most recently he served as executive vice president, Balkans, Africa, Middle East and Central Asia. Meanwhile, **Nadia Ribeiro** has returned to CEVA Logistics to the position of executive vice-president and head of the South America cluster. Ribeiro previously worked for CEVA for 13 years but spent the last three years at Kuehne + Nagel as managing director for Brazil. Ribeiro succeeds **Richard Vieites,** who has moved to the company's North American operations to become executive vice president of contract logistics.

Carol Kijac has been appointed chief sales officer of **SEKO Logistics**. Kijac spent more than 17 years with Expeditors, ultimately as vice president, sales and marketing, for the Americas. Before joining Expeditors, she spent two years with UTi working in route development, regional sales and as a national accounts manager. **Olya Lebedyeva** has been appointed vice president, business development, at SEKO Logistics. Before joining SEKO, Lebedyeva worked in general managerial roles for Air Menzies International in the U.S. Both will be based at the company's headquarters in Chicago.


Carol Kijac

Rami Marom has been appointed the CEO of Israel-based **AVI-AD Logistics Services**, part of the Hellmann Worldwide Logistics network. He replaces **Avi Cohen**, who will become an active chairman of the board. Maron most recently served as the COO at CAL Cargo Air Lines and as a director and board member for Swissport, Israel, and in LACHS (Liège Air Cargo Handling Services).


Rami Marom

Ivo Aris has been promoted to vice president of **C.H. Robinson's** Europe Global Forwarding division. Previously, he had served as director of the division. Aris joined the company in 2013.

Achim Dünnwald assumed overall responsibility for the German and European parcel business of **Deutsche Post DHL Group** on Jan. 1, as the new CEO of DHL Parcel. In addition, he will remain responsible for the area of mobility, which comprises the Postbus and Post Reisen business segments. Dünnwald will also serve on the executive committee of PeP (Post - eCommerce – Parcel), the board department of Jürgen Gerdes.

Airlines

Fredrik Wildtgrube has been appointed **Finnair Cargo's** head of global sales, as of Jan. 11. Wildtgrube has vast experience in logistics and sales, having worked in multiple freight forwarding companies and most recently at Nokia and Microsoft mobile.

Jon Snook has been appointed chief operations officer for **Hawaiian Airlines**. He brings 29 years of commercial and operational experience in cargo, trucking, tour operating and ground handling industries. Prior to joining Hawaiian he was senior vice president of customer service at American Airlines.

Andre Rodrigues will head up the cargo division for **Air Charter Service** in the São Paulo office. Rodrigues brings more than 25 years of experience in aviation, having worked for numerous airlines, GSAs and charter companies in both passenger and cargo operations.


Alex Kaldschmidt

Axel Kaldschmidt has been appointed global director, aerospace, and **Fayçal Boumerkhoufa** is the new global director, oil and gas industry, for **Volga-Dnepr Airlines.** Also, **Colin Miller** has been appointed global director of humanitarian, government and defense programs for Volga-Dnepr, and will work with customers to ensure the timely and secure delivery of mobile hospitals, water purification equipment, food and other general cargo.

Organizations

Steve Parker has been appointed president of **CLECAT**, the Brussels-based European association for forwarding, transport, logistics and customs services. Parker is also the head of customs and brokerage, Europe, at DHL UK. He has 35 years experience in freight forwarding and logistics.

Kwang-Soo Lee has been appointed to the **TIACA** board of directors. After joining Seoul-Incheon International Airport in 1998, he is now the vice president of marketing for the airport. An expert in commercial airport facility operations, airport cargo and passenger marketing, Lee began his career in aviation with Northwest Airlines in 1990.

Chris Davies has been appointed technical manager at **Cargo 2000**, based at the organization's headquarters in Geneva. Davies has more than 14 years of experience in the airfreight IT sector. Before joining Cargo 2000, he worked with Descartes Systems Group in London.

Manufacturing

Brett Gerry has been named president of **Boeing Japan**, effective April 1. He succeeds **George Maffeo**, who is retiring from the company after nearly 40 years. Gerry, who will be based in Tokyo, will be responsible for expanding Boeing's local presence, managing business partnerships and government affairs, and pursuing new growth in Japan.

James Rigby has been appointed director of marketing and sales at **Cargo Composites**. Rigby has been in the air transport sector for more than 20 years. Previously, he had worked for a major ULD management company, and later served as cargo handling manager for Etihad Airways.

Therese Puetz has joined the **DuPont Tyvek Cargo Cover** team as an external consultant. Puetz will be responsible for developing partnerships with major shippers and logistics providers, and act as a sounding board for new product concepts. Puetz has 20 years in the airfreight and healthcare industries.


Therese Puetz

Alibaba vs. Amazon

How e-commerce giants are reinventing forwarding

By Randy Woods

Last September, Mike Maynard, an airport planner for Cincinnati-based engineering firm CDM Smith, was checking out the flight activity at nearby Wilmington Airpark (ILN) in Ohio, when he noticed something odd. As a former network analyst at DHL, Maynard had a habit of reviewing innovative routes, and this one, in particular, jumped out at him. U.S.-based aircraft lessor Air Transport Services Group (ATSG) had launched what it called a "trial ACMI express network" at ILN, leasing four 767 freighters to an unnamed client.

Intrigued, Maynard looked a little deeper and found that the trial was based out of ILN's 1.1 million-square-foot facility that used to house DHL's ill-fated express hub in the U.S., operating four flights a day to Allentown in Pennsylvania; Dallas/Fort Worth; Oakland and Ontario in California; and Tampa in Florida.

Clearly, some kind of test was taking place, but who leases that many 767s for a "trial" network? FedEx, UPS and DHL all denied involvement. ATSG wouldn't comment.

As aviation experts began analyzing the routes, a clear pattern emerged. Each of the airports the 767s flew into were remarkably close to distribution centers run by e-commerce giant Amazon.com. Insider press reports said the ILN network was known at only the upper echelons of Amazon as "Project Aerosmith."

"We also gleaned some interesting routes in the West," Maynard said. Alaska-based carrier Northern Air Cargo had begun operating a Boeing Field in Seattle-Boise-San Bernardino-Boeing Field route – not exactly a common trade corridor, but one that is small enough to go unnoticed and also close enough to several Amazon distribution centers to be of use.

"Rumor is this West Coast network is called 'Project Alpha,'" Maynard added. "Another rumor is there are other Amazon secretive networks and routes – all named after rock bands." While the rock-band-name rumor may not have borne fruit, at least one more Amazon air express trial route was found in Europe in November, with aircraft flying five times a week from Wroclaw, Poland, to Luton or Doncaster in the U.K., and Kassel, Germany.

So what's with all the cloak and dagger secrecy? Part of the answer is that the main player is Amazon, which in infamous for revealing nothing about itself. But the real reason is the enormity of the stakes Amazon is playing for: Supremacy in the relatively new arena of global e-commerce logistics.

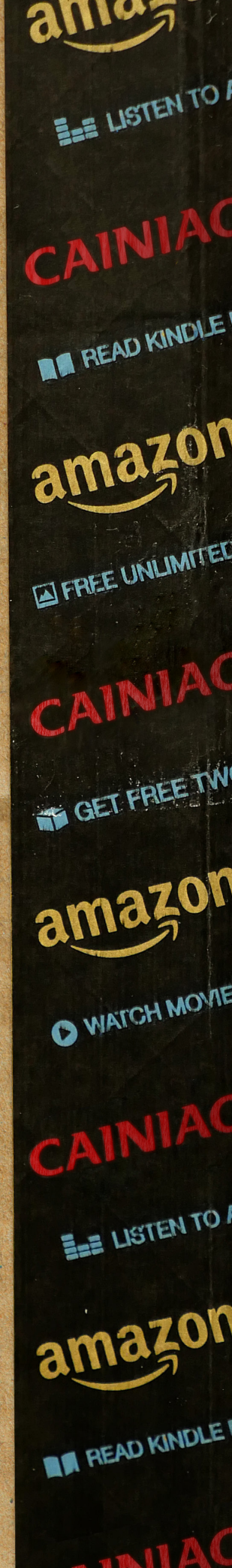
From China, the Asian counterpart to Amazon – Alibaba – has been more forthcoming about its plans to dominate the logistics industry on a global scale, much as it has already done to Chinese domestic e-commerce. Its logistics arm, called Cainiao, was only formed in 2013 and just two years later, during the 2015 "Singles Day" promotion in China, helped Alibaba rake in a staggering US$14.3 billion in a 24-hour period.

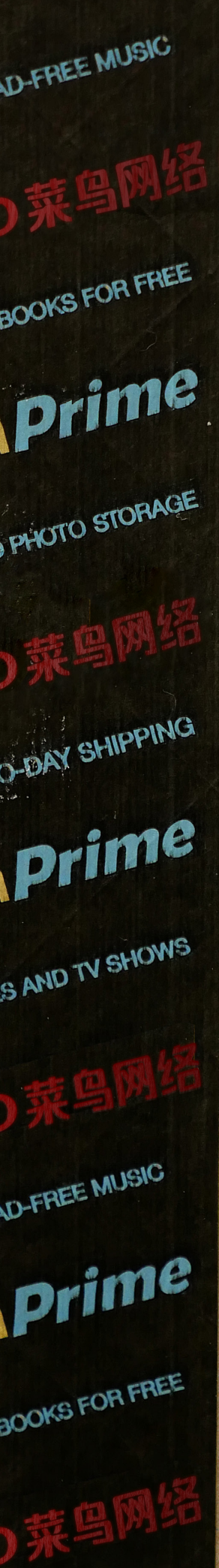
The winner of this battle for market share between e-commerce titans not only will rewrite the rules of express freight, turning former clients UPS, FedEx and DHL into competitors. It may also reinvent the freight forwarding industry as we know it.

The power of an open network

This coy cat-and-mouse game Alibaba and Amazon are playing belies the massive scope of what they are trying to accomplish. Essentially, they are striving to become the ultimate integrators, providing not only the post-sale logistics, shipping and last-mile delivery of goods, but also the distribution of the same goods from the factory to the warehouse and the selling of the merchandise online.

With the explosion of B2C and C2C e-commerce, the Alibaba Group was one of the first online mega-retailers to realize, back





in 2011, that the intense demand from its customers would far outstrip the ability of the express firms to deliver merchandise on time. China still doesn't have the equivalent of a FedEx or a UPS that could blanket the entire country to provide overnight service to everyone. So Alibaba's founder Jack Ma decided that instead of building his own huge warehousing and logistics operation, like the major integrators did, he would lead the development of a vast "open logistics platform," that all express players could access.

The result is the China Smart Logistics Network, run by Cainiao Network Technology Co., Ltd., a consortium in which Alibaba is a leading player. Included in this network are some of China's top express firms – SF Express, Shentong Express, Zhongtong Courier, Yuantong Express and Shanghai Yunda Express – as well as retailers Yintai Group and Fosun International. Launched in 2013, Cainiao (which means "rookie" in Mandarin) today operates in 12 cities across China, plus 1,200 village-based service centers and more than 100,000 delivery stations that reach far into rural areas. More than 30 million packages ordered through Alibaba's online portals, such as Taobao, Tmall, and 1688.com, are easily handled by the Cainiao network every day.

Ma said that he wanted Cainiao, eventually, to deliver online orders to any address in China, no matter how remote, in eight hours or less. As of the end of 2015, that goal, dubbed by Ma as "the virtual urbanization of every village across China," is still some way off (there are a lot of remote villages in China), but Cainiao has made great progress. However, as ambitious as that goal is, it turns out only to be the beginning of Alibaba's grand vision.

Global ambitions

If the first two years of Cainiao's domestic e-commerce growth could be considered "Phase I" of its business strategy, "Phase II" began roughly at the mid-way point last year, when Daniel Zhang took over the CEO spot at Alibaba (Jack Ma is still chairman). Soon after taking the job, Zhang said globalization was the new goal – to replicate what Cainiao achieved in China and spread it worldwide.

Rather than just focusing on same-day delivery in China, Alibaba now wants to open global distribution centers so that any package can be sent anywhere in the world in just three days, regardless of distance. A June 2015 study by Accenture estimated that this kind of cross-border e-commerce trade will be worth about $1 trillion by 2020, serving 900 million shoppers.

According to a report from *China Money Network*, Cainiao Logistics is considering a new round of fundraising to raise up to US$6 billion to supplement its original plans to invest $16 billion into a global network over the next five to eight years. Aside from that, there are few details available about Alibaba's specific plans to follow through on its grand scheme.

Amazon, too, is rumored to have similar ideas about dominating the global e-commerce, but because of its unwillingness to comment on its strategy, much of its vision has come out piecemeal. For instance, after *Air Cargo World's* sister publication, *Cargo Facts,* reported on the express air trials in the U.S. and Europe, and later broke the news about Amazon's plans to launch its own-controlled U.S. domestic express operation, beginning with the acquisition of a fleet of twenty 767-300 freighters, Amazon refused to confirm or deny any involvement.

In early February, however, all pretense of innocence on Amazon's part was shattered by a report in *Bloomberg News,* which leaked excerpts from Amazon documents dating as far back as 2013, indicating the online giant's apparent interest in creating a global logistics network to throttle Alibaba, as well as its erstwhile shipping partners, FedEx and UPS.

With a name that may or may not be a nod to its China-based competition, Amazon dubbed its global strategy the "Dragon Boat" project. The plan was to begin a rapid expansion of its Fulfillment by Amazon (FBA) service, which provides storage, packing and shipping services for merchants that sell goods on Amazon's website. The documents also describe a plan to take control of the entire supply chain, from transporting goods from factories in India and China to delivering parcels on customers' doorsteps on the other side of the world.

The documents also said that, possibly as soon as this year, Amazon would launch a "Global Supply Chain by Amazon" service that would work directly with thousands of merchants around the world to arrange air, road and ocean space on trucks, planes and ships at reduced rates – all via mobile devices.

"Sellers will no longer book with DHL, UPS or Fedex but will book directly with Amazon," the leaked 2013 report said. After working with third-party logistics firms and carriers to build its network, Amazon would then be able to price out

everyone else by its sheer volume and ability to book cheaper cargo space.

FedEx founder Fred Smith said in these pages last December that he considered Amazon a "partner" in his express empire. But when the long-range plans of Amazon and Alibaba are taken into consideration, it becomes clear that integrators such as FedEx and UPS will become adversaries.

Forwarders' fears

If the Dragon Boat project made the industry sit up and take notice of Amazon's ambitions, another revelation in January struck fear in the hearts of logistics firms everywhere. A San Francisco-based logistics company called Flex-port posted on its blog that a Chinese subsidiary, called Amazon China, had registered in the U.S. as a non-vessel operating common carrier (NVOCC), which enabled the company to provide ocean freight services between China and the U.S. and offer it to other companies. In other words, it turned Amazon into a freight forwarder.

While the designation was specifically for seafreight forwarding via the Federal Maritime Commission, the NVOCC may also allow Amazon China – officially known as Beijing Century JOYO Courier Service Co. Ltd – to purchase and sell air cargo space to other companies as well.

Ryan Petersen, the Flexport CEO who broke the story, said the NVOCC was a "smart and long-overdue move for the company," which will make it easier for its customers to move goods into the company's logistics network and FBA warehouses. It will also provide Chinese merchants access to Amazon's huge American customer base.

The same, however, would not be true for U.S.-based shippers. "American companies will simply not be willing to turn over sensitive supply chain data to a major competitor and channel partner," Petersen said. "Amazon's reputation for ruthless competition and its desire to dominate every market on planet earth will make it difficult to convince U.S. companies to move their international freight onto this new platform when it launches."

Petersen also pointed out that, as the freight forwarder, Amazon would be privy to the name of the supplier and the wholesale price paid by the importer – data that are far too sensitive to entrust with a company that is both a competitor and a primary distribution channel. "It would be too easy for Amazon to use that data against them, either as an anchor in price negotiations, or worse, to purchase directly from the supplier, cutting the U.S. merchant out altogether," he added.

But Amazon is hardly unique on this front. Aytac Akgul, a business development manager with MTS Logistics in New York, noted that Walmart has been doing the same thing for years. "However, Walmart didn't start their business through e-commerce first," he said. "In that sense, Amazon's move in the shipping industry will be an example to its competitors."

Amazon wanted to change its delivery strategy, Akgul said. "They are dealing with the local warehouses here in U.S.," which are still a significant cost in the shipping industry. Amazon is trying to cut down more on complex arrangements between warehouses, buyers and shipping companies, by taking control of the freight under its contracts. "They also want to ship the cargo from China under Amazon's bill of lading," he added.

Also, Amazon can require the consumer product companies to ship their goods through its website, so that their volumes appear under Amazon's contract, thereby adding to Amazon's volumes. "This is how Walmart has built up its ocean volumes and obtained the lowest ocean freight costs."

Amazon Airlines?

And what about those twenty 767-300 freighters that Amazon is rumored to be taking under its wing? While Alibaba has made it clear that it doesn't want to operate aircraft, no one yet knows whether Amazon will create its own airline or have another carrier, such as ATSG's subsidiary airlines ABX and ATI, operate the aircraft.

By becoming its own airline, Amazon can take more control of its delivery process from end-to-end, and eliminate transaction costs from having to deal with an outside vendor, Petersen said. By some estimates, Amazon spends about $5 billion per year on logistics -- about $1 billion of which is on UPS alone – so it might make sense to build out its logistics and transportation network and bring it all in-house.

However, a research report published in January by finance and investment group, Barclays Equity Research, questioned Amazon's interest in running its own air network. "With only limited financial returns and plenty of existing air capacity during non-peak periods in the incumbent package networks, we question the need for Amazon to devote the significant capital required to operate a standalone, time-definite air network," the report said.

Amazon would be better off continuing the build-out of its fulfillment network, which is traditionally one of the retailer's key pillars, the report stated. By the end of this year, Amazon is likely to operate in excess of 100 fulfilment centers in the U.S. alone – a number that will give "meaningful scope and enable inventory placement," closer to more consumers in the big cities. "We genuinely believe the intention of Amazon is not necessarily to replace FedEx or UPS but rather drive faster and lower cost package delivery to consumers, albeit potentially with other carriers," the study said.

Coming battles in 2016

With the recent revelations about the Dragon Boat project and Cainiao's head-spinning performance during Singles Day 2015, it appears that 2016 will have a lot more exciting news about the growth of these two e-commerce powerhouses – and not all of it may be about cargo. Amazon, in particular, has become quite an IT services and data-mining firm.

In the United States, Alibaba opened an office in Seattle last year – pointedly in Amazon's backyard – and has also opened a cloud-computing data center in Silicon Valley, which is considered to be a serious rival to Amazon's wildly successful cloud-computing operation. Alibaba also operates 11 Main, an online fashion shopping platform that caters to Americans.

Cainiao, perhaps in anticipation of greater network opportunities in the Americas, said it reached an agreement with the U.S. Postal Service to "collaborate on the development of enhanced shipping solutions for cross-border e-commerce. In addition to helping provide more efficient shipping channels into the U.S. for Chinese merchants and manufacturers, selling on Alibaba's AliExpress Global Shopping website, the USPS will also work with Cainiao to expand its worldwide shipping capabilities, especially in South America."

As the world watches to see how Alibaba vs. Amazon will turn out, both companies can take their time – years in fact – to perfect their delivery networks until they feel the need to launch them with the public, said Petersen at Flexport. Meanwhile, he said, FedEx and UPS know they'll be losing a customer "worth as much as 10 percent of their total revenue, and potentially gaining as fearsome an adversary as we've seen in modern American business," he added.

Rich Duprey, a financial analyst writing for the Motley Fool, said one of Amazon's key advantages over the integrators is the deep reservoir of data on its customers and its ability to crunch those numbers to help drive down costs, which has allowed it to diversify. "To date, Amazon has announced its intention to add thousands of vehicles to its fleet of delivery trucks, dabbled in drone delivery, acquired a stake in a U.K. delivery service, acquired a French shipping service, and launched its air cargo network," he wrote. "Now it's taking to the seas."

In some ways, Duprey added, Amazon is beginning to resemble old-fashioned conglomerates like General Electric. "Jeff Bezos may be biting off more than he can chew by registering to become a freight forwarder and setting up its own shipping and package handling business," he wrote. "Number-crunching is one thing; running a massive, global shipping network in the air and on the seas is quite another."

Whatever decision Amazon makes regarding its air network, Petersen urged the integrators to get serious. "UPS and FedEx need to go into full-on war-time mode," he said. "Make no mistake, Jeff Bezos will one-day use this fleet of jets to launch a direct frontal assault on their core parcel delivery business." When that does happen, he added, Amazon will "focus relentlessly" on becoming the lowest-cost provider with the best customer experience.

"I can imagine few images scarier than Jeff Bezos coming after your market with a fleet of jets," Petersen added. "It will be fun to watch."

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Cainiao, by the numbers

Just about every number associated with Alibaba's Cainiao network is staggering. Here are just a few of the eye-poppers:

217
Countries expected to be involved in its e-commerce cross-border network

1,800
Distribution centers across China

3,000
Foreign and domestic logistics partners in China Smart Logistics network

176,000
Cainiao delivery stations across China

300,000
Cainiao "pickup stations," where customers can take delivery of online goods

1.5 million
Delivery personnel in China

30 million
Average number of packages handled daily, as of mid-2015

467 million
Delivery orders in 24-hour period of Singles Day 2015

Too tough to handle?

Ground handling consolidations put the squeeze on forwarders

By Linda Ball

A pallet of unprotected cargo on an airport tarmac with an outside temperature of 21°C can quickly reach temperatures above 55° C. At that point, an egg can fry in about 20 minutes. Now just imagine if that pallet contained temperature-sensitive pharmaceutical goods, or some other high-value perishable. Costs incurred by the top ten pharmaceutical companies due to temperature excursions are in the billions, according to pharma logistics firm CargoSense. It's easy to see that a delay of even a few minutes can quickly spell disaster and strike a severe blow to a shipper's bottom line.

Because of the increasingly important role they play in the transfer of high-value cargo, ground handlers are no longer considered the bottom-feeders of the air transport sector. The Center for Aviation reported that, at the end of 2014, the global airport ground handling business is valued at US$80 to $100 billion per year. This business, however, is being run be fewer companies each year.

Several years ago, most cargo carriers ran their own ground handling facilities, built and broke down pallets, and loaded and unloaded their own planes. But after the recession following 9/11, when many airlines were seeking ways to cut costs, they outsourced much of this work to outside agents and contractors, which served multiple carriers in one facility. There are still a number of small, long-established independent family firms that have secured their reputations at one airport or a small number of airports worldwide, but the trend of mergers and acquisitions continues unabated today.

For instance, in the past year, Worldwide Flight Services (WFS), said to be perhaps the largest ground handler in the world, was acquired by Los Angeles-based Platinum Equity in the spring of 2015. Then, in November 2015, Fraport sold 51 percent of Fraport Cargo Services at Frankfurt Airport to WFS, which was then renamed Frankfurt Cargo Services. Today, WFS is in the process of acquiring Consolidated Aviation Services (CAS), which is the largest cargo handler in the United States, serving more than 250 carriers. It's clear to see that WFS is moving toward ground handling domination.

Other top cargo ground handling firms include Swissport – now in 48 countries, handling roughly 4 million tonnes of cargo each year – and Dubai-based dnata, which now handles all the cargo at Amsterdam-Schiphol Airport, and about 103 other hubs worldwide.

For today's large ground handlers, these deals and partnerships are necessary to increase economies of scale for ground handling operations and increase the industry's slim profit margins. But according to some forwarders, the rash of mega-mergers in the industry is beginning to affect performance.

Darren Walton, the branch manager for forwarder EMO Trans at Chicago O'Hare Airport, said consolidation is generally not good for the industry. Forwarders, he said, need to know that their shipments are being handled by competent hands and that tendered cargo will not be damaged or contaminated along the journey. In this climate, that's not so easy.

"Competition is good, it keeps people on their toes and drives a free market," Walton said. But the small ground handlers "need to speak up" to make sure their voices are heard. "If these companies are being bought by private equity firms, the focus is on the shareholder not the customer."

Consolidations are a fact of life in the ground handling industry, but the jury is still out on whether they have helped or hindered business for the forwarding community. Are these mergers adding value to cargo operations or sacrificing service for profits?

Two-way street

When it comes to freight forwarding, one way to ensure success is proper documentation. A common concern voiced by two airlines is that they have to reject about 40 to 50 percent of hazardous cargo they see due to improper documentation, sloppy checks or a lack of any checklist at all attached to the cargo. In many cases, too many hands are touching the cargo, which leads to nothing but wasted time, Walton said. This drives up the cost for ground handlers, because then they have to re-load the cargo to a truck, and take it back to where it came from until the proper documentation can be attached.

Another issue is that forwarders dispatch trucks to pick up imported goods before the goods have been customs-cleared, or before terminal fees were collected. "Checking paperwork takes time," Walton said. "All these things add to the problem."

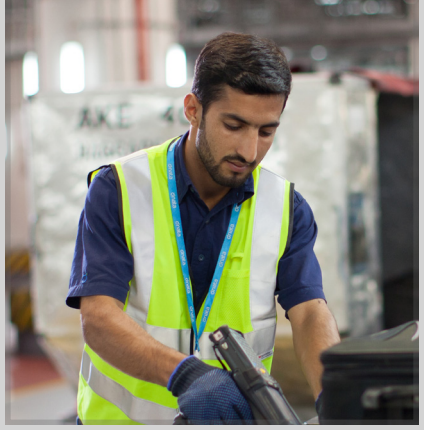
Olivier Bijaoui, the executive chairman, president and CEO of WFS, said WFS is focusing on helping to ease these bottlenecks because the company has been investing heavily in its core business, which is cargo handling. "We are reinforcing our position as the leading market provider in all of our markets," he said. "For example, we are the number-one cargo handler in France, Germany and the U.K." WFS employs about 14,000 staff and is present at more than 145 major airports in more than 22 countries on five continents, handling more than 4 million tonnes of cargo each year for 300 airlines.

Bjiaoui said ground handling is a strictly-controlled and regulated environment, and meeting these demands requires a high level of quality and professionalism. "We have grown since 1971 by making sure we provide the highest level of service for our customers," he said. "Cargo handlers play a vital role in terms of safety and security."

He added that it is wrong to assume that customers will just accept service levels they're not happy with. "We have very good working relationships with our customers."

While forwarders have lodged complaints about outsourced ground handlers paying less attention to the integrity of the air cargo on the tarmac, some handlers say the blame for delays can also be shared by the forwarders themselves, who often schedule pickups without warning. Sometimes this results in trucks arriving at the same time for pickups and causing traffic jams.

WFS is now owned by Platinum Equity, but the focus on quality has never waned, Bijaoui said. "Our former owner, and now Platinum, recognize the importance of WFS continuing to build a strong business that works to the



highest standards," he added. "I think our new owners ... are very supportive of our strategy."

Since aviation services and ground handling firm dnata, a sister company of Emirates Airlines, is owned by the government of the United Arab Emirates, it doesn't have the concern of answering to a private equity firm, said Bernd Leo Struck, dnata's senior vice president for UAE cargo. The company – which serves both Dubai International and Dubai World Central and many other airports worldwide – prefers to adhere strictly to industry standards and certifications to demonstrate its quality.

At the end of 2015, for example, dnata's Sydney station received certification for IATA's Safety Audit for Ground Operations, the seventh station in its ground-handling operations to receive this certification. Dnata began the rigorous process of ISAGO certification in 2008, with an aim to have all of its stations ISAGO-registered eventually. Under the "dnata one safety" program, damaged containers or damaged equipment is no longer loaded onto any aircraft; all freight is now 100 percent X-rayed; and dangerous goods, pharmaceuticals and perishables are all handled in dedicated warehouses, where staff is trained for each type of cargo.

Struck said a larger firm like dnata can offer more than one service. In Dubai, for example, dnata offers "the whole value chain" to its customers, providing not only warehouse handling, but also the ground handling, GSA representation and IT infrastructure to do business electronically with freight forwarders. "Basically an airline could be fully active in the UAE without having a single ground staff [worker] employed," Struck said. "Dnata will take care of everything."

For airlines, dnata can offer worldwide contracting, which would be a service-level contract for many stations. By integrating its IT infrastructure into the airline's system, dnata can provide real-time tracking of all freight movements at each station. "A multi-station pricing structure obviously helps the airline customer to control costs," Struck explained. "With both aspects, the airline has full control over the product its sells to its customers, and individual airline requirements can be fulfilled on station or global level."

Labor relations

Beyond the discussion of standards and paperwork is the problem of maintaining an adequate ground-handling labor force. Walton, of EMO Trans, said that improperly trained employees at O'Hare are a chronic problem, which he said he blames on shippers. "I'm surprised the airlines haven't charged a convenience fee," Walton said.

On average, it takes eight to nine weeks to train and properly vet a ground handler for security. "Once they get clearance, they're a valuable commodity," Walton said, meaning they're free to work for another ground handling firm that may offer more money or better hours. Because ramp work is a physically demanding job, there is always a high turnover rate – a problem that is exacerbated by ground crews with the mobility of a certification.

In addition, the industry often needs to react quickly to market conditions, such as last year's U.S. West Coast port crisis or the annual run-up of cargo shipments before the Chinese New Year. Because of the time it takes to train extra staff, these spikes in demand can lead to more ground delays.

WFS's Bijaoui, however, said high staff turnover is not a particularly acute problem in Europe. The company's employees, he said, "see the benefit of being part of a company that is growing and will therefore create more opportunities."

He added that, in the U.S., staff turnover might be greater because the country has a much larger domestic employment market, which makes it easier for people to change jobs.

Dialog for a better future

Some complaints made by ground handlers and forwarders have no easy solution, but recent events at Chicago O'Hare are giving forwarders hope.

Walton, for one, said that the first few months of 2016 had been much smoother than 2015 – "like night and day." With the port crisis over and most of last year's road construction projects completed, congestion has been less of an issue. Later this year, a new cargo area with warehousing and additional stands will open on the north side of the airport, which will free up even more space.

One positive development that came out of the chaos of 2015 was the "Chicago Air Cargo Congestion Working Group," a collection of ground handlers, carriers, forwarders and truckers that meets monthly to discuss potential problems.

So far the group has created a "Don't Dispatch that Truck Yet" campaign, which makes sure the trucking firms ask three questions first: 1) is it customs-cleared? 2) are charges paid? and 3) is the freight available? Another campaign, aimed at hazardous goods, "Check it Before you Send It," asks shippers and forwarders to complete the IATA dangerous goods checklist, double-check all shipping documents and confirm that hazardous material shipping labels are properly affixed.

Bjiaoui, of WFS, said ground-handling consolidations will likely continue because smaller companies will decide to sell or because some large players may no longer consider cargo to be their core business. But if the changes at O'Hare are any indication, perhaps all that is needed to lower temperatures between forwarders and ground handlers is a healthy dose of communication – which is a good thing, because fried eggs have no place in air cargo ULDs.

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Turks Take on America

By Linda Ball

Rising Turkish Cargo sets sights on the U.S. market

Toward the end of this year's Super Bowl, after many of the most expensive TV advertisements of the year had aired, viewers may have noticed an odd brand tie-in for the upcoming "Batman vs. Superman" movie, premiering at the end of this month: Turkish Airlines. In the ad, actors from the film, Ben Affleck and Jesse Eisenberg, extol the virtues of Turkish's new passenger service to Gotham City, home town of Batman, and Metropolis, Superman's adopted stomping ground. What better way to show how fast the carrier has grown than to depict it serving even *fictional* U.S. cities?

While Turkish Airlines continues its media blitz on the American market, its airfreight division, Turkish Cargo,is making similar moves into an increasing number of U.S. destinations. Turkish has served such cities as Boston, Washington, D.C., Los Angeles and San Francisco for many years, but it entered the North American freighter market only last spring with scheduled cargo flights to Chicago. Soon it followed up with freighter service to Atlanta and New York's JFK with weekly freighter service. By October, widebody passenger service was offered by Turkish seven times a week to Miami. This spring, passenger flights to Atlanta will be added, with both of these routes opening up increased capacity for belly-hold cargo.

The expansion is especially notable, considering that many large carriers saw little to no growth in their air cargo business in 2015. Turkish Cargo, however, has bucked that trend for more than a decade, gaining momentum with each passing year. In 2005, the carrier lifted 100,000 tonnes, doubling that figure to 200,000 tonnes by 2009. A year later it was up to 300,000 per year, then 400,000 in 2012, and 500,000 in 2013. Last year, its total tonnage was up 8.4 percent over 2014, to 720,000 tonnes. And this year, Turkish has set an ambitious target of 815,000 tonnes of cargo throughput.

Adam Rod of the Chicago Department of Aviation, which oversees O'Hare International Airport, said the growth of Turkish Airlines over the past decade has been extraordinary. O'Hare has seen annual cargo volumes for the last few years of about 1.7 million tonnes, 75 percent of which is international airfreight. Of that total, Turkish is carrying "somewhere around 1 to 2 percent of our international imports and exports," he said, with a value of about US$500 million. For a carrier with essentially only one 777 passenger flight per day at a global hub airport, plus weekly A330 freighter service that began last spring, those figures are "pretty impressive," Rod said.

Halit Anlatan, vice president, sales and marketing, for Turkish Cargo, said that, as a strategy, the airline focused on high-yield and high-value cargo last year more than previous years. "This helped us to handle yield pressure, which is the problem in the industry in general," he said. But one of the crucial reasons for the recent successes at Turkish Cargo, he added, has been leveraging the carrier's large long-haul network to serve the strong North America to Asia-Pacific corridor. With many routes to Asia already secured, the carrier turned its focus to the West and shows no signs of slowing down in its pursuit of American cargo.

Cargo, American-style

Turkish first dipped its toe into North American waters in the 1990s, first by operating charter flights to the continent. "This enabled us to observe the market before the start of our scheduled flights," Anlatan said. "Therefore, we did not face any problems when we got into the North American markets," he added.

Much of this success can also be attributed to geography. Like many of the carriers based in the Persian Gulf, Turkish is well positioned to serve as a connecting point between Asia, Europe and Africa via its Istanbul Airport hub. But Istanbul, on the far eastern edge of Europe, is actually closer to New York and Atlanta than it is to Shanghai or Hong Kong, so routes to the U.S. are a natural fit.

To increase its global reach, Turkish also interlines, or has a special prorate agreement (SPA) with about 75 different carriers. As a member of the Star Alliance, Turkish has these SPA agreements for destinations such as Melbourne, Perth, Sydney, Auckland and several capital cities in Latin America and Africa.

There is also a strong economic incentive to focusing on the U.S. market, Anlatan said, namely the devaluation of the Euro against the U.S. dollar. "Our dynamic strategy is able to balance the economic fluctuations which have an effect on the cargo business," he said. "Because our sales in Europe [are] a very high percentage in total sales revenue, in order to cope with this uneasy situation, we concentrated more on having a share in the air cargo market ex-U.S. Moreover, we decided to begin to set prices in U.S. dollars for our domestic market."

In addition to the U.S., Turkish continues to focus on "niche African destinations, like Maputo, Kinshasa and Libreville," Anlatan said."The contribution of our growing network's influence to the success of penetrating such niche markets cannot be ignored. As in previous years, we will continue to leave a fingerprint on such emerging markets for air cargo." Turkish is also building up a presence in Dakar, Lahore, Addis Ababa and the Democratic Republic of the Congo. Nor is the focus just on Africa. A good example of a developing market, he said, is Hanoi, where Turkish recently began weekly freighter service.

Friendly face for forwarders

The global reach of Turkish Airlines is, indeed, vast, serving more than 280 destinations – including 55 freighter destinations – in 110 countries, giving credence the carrier's claim to be the airline flying to the highest number of nations in the world. Such a wide footprint has made Turkish Cargo a familiar and generally reliable option for the world's freight forwarders.

For instance, Esther Kabugi, the station manager for the Kenyan branch of logistics firm DSV, said Turkish Cargo has had a positive impact on DSV Air and Sea. "As a global partner airline, Turkish is on the list of our priority airlines, as it's an airline that flies to many global destinations," she said. The variety of destinations served by the carrier is crucial to DSV, which ships Kenyan roses (highly in demand due to their extended vase-life) to consignees

The Political Question

Turkey's geographic location makes it an ideal crossroads for the world's air traffic, but this location has a dark side, too. Straddling two continents and bordering some of the world's most war-torn regions, Turkey is also vulnerable to political conflicts around nearly every national border, which could have dire consequences on its ability to trade.

Recent events, for example, have strained the country's relationships with several of its neighbors, and Turkey's president, Recep Tayyip Erdogan, has made some controversial statements that have raised eyebrows – such as citing Hitler in response to a question about whether a strong executive presidency was possible in Turkey. He later said this answer was misinterpreted, but the question remains: Can Turkish Cargo stay out of the fray and stick to the business at hand?

For example, to the east, Baghdad banned imports of Turkish goods to the city as of Dec. 9, 2015, after Turkey deployed 150 troops and 25 tanks to a camp in the Bashiqa region of Northern Iraq, according to the Rudaw news agency. Iraq is the second largest importer of Turkish goods, totaling close to US$11 billion in 2014, according to TurkStat figures. Other Iraqi cities have also banned imports from Turkey.

To the south, the downing of a Russian Su-24 fighter jet in November 2015 resulted in strained relations with Russia. Turkey claimed the fighter was in its airspace, but Russia has since imposed sanctions against Turkey in retaliation, including a ban on imports of fruit, vegetables and poultry, plus a halt to energy projects that were to be undertaken jointly by the two countries.

Turkey's Deputy Prime Minister Mehmet Simsek said the worst-case scenario, which would be zero relations with Russia, would cost Turkey about $9 billion per year and would likely reduce Turkey's annual exports by 0.4 percent. Russia was the seventh largest destination for Turkish exports in 2014, with value close to $6 billion. Russia's sanctions may reduce Turkey's economic growth by 0.3 to 0.7 percent this year, while the impact to Russia will be limited.

Egypt is also at odds with Turkey following the ousting of former Egyptian president, Mohamed Morsi, who was a member of the Islamist Muslim Brotherhood, with which Turkey's ruling party is ideologically aligned. As a result, Egypt will not renew a three-year transit-trade agreement with Turkey and has banned the passage of Turkish trucks through its territory. Consequently, Turkish exports to Egypt fell to around $3.3 billion in 2014 from $6.09 billion in 2013.

Turkish Cargo declined to comment when asked about some of these potential political barriers to its business.

spanning the globe. "That means a friendly face locally and abroad at our destinations, with local and Turkish manpower at hand," to provide cargo tracking, e-services and strict temperature controls, she said.

However, with Turkish's high-quality service at a competitive price, Kabugi said demand for its services is so high that the carrier doesn't always have the capacity to handle cargo volumes during peak periods. In the U.S., many forwarders had similar positive comments about the impressive breadth of Turkish Cargo's network, but also expressed concern about the level of service they were able to provide. Hing "Sotha" Buon, imports manager at Air Schott, a freight forwarder based at Dulles Airport outside Washington, D.C., said Turkish is reliable, timely and moves freight fast, with no damage claims on the daily passenger flight that Turkish operates through Dulles. But Buon's colleague, export manager Carlos Balta, said Turkish Cargo has had a few incidences of damaged belly cargo and has had a history of spotty communication with its clients. He said he gets quicker answers from his overseas agents. Another problem, Balta pointed out, is that the carrier doesn't update its IT system regularly.

Cavalier Logistics, another Dulles-based forwarder that works with Turkish mainly on the export side, has had similar experiences with the carrier, but has also seen improvement in customer service. Robbie Neilson, director of Cavalier's global logistics, agreed with Buon and Balta about the network, saying "they've dramatically improved over the past 12 months." He said the carrier is "acceptable" for being on time, and he hasn't had many claims.

Turkish has also been valuable for handling certain types of cargo not every carrier accepts. "Most of the time we deal with firearms for sporting and military," Balta said. "Many airlines won't deal with firearms, and you don't need a transit permit to ship firearms through Istanbul." He said 90 percent of the exports Air Schott transports with Turkish Cargo are firearms; the balance is personal effects and technology. Neilson, at Cavalier, said he uses Turkish's network to get freight to remote places, such as North Africa, Nepal and what he referred to as "the Stans," for example Kazakhstan or Uzbekistan. Most of Cavalier's exports are general and diplomatic cargo for the U.S. government.

Building for the future

While some political aspects of the future are uncertain for Turkish Cargo (see sidebar), the carrier has made a strong commitment to follow through on infrastructure improvements.

One year ago, Turkish Cargo opened its new cargo facility at the Istanbul Airport, with export rack capacity 250 percent larger than the original terminal. With 233,000 square feet of space airside, the new facility has an annual capacity of 1.2 million tonnes of cargo. There are also 141,000 square feet of closed warehouse space, and 39 separate special cargo rooms, that can maintain four different room temperatures for nine types of perishable cargo, including pharmaceuticals, live animals, dangerous goods, vulnerable goods, valuable cargo and radioactive cargo. Inbound-outbound ULD capacity has been increased by 5.5 times to accommodate 1,200 units. Outside, there is 36,000 square feet of space for vehicles to maneuver, and 56,000 square feet of airside available for ramp operations.

But even with these expansions, the new facility may not be enough. Turkish has set a goal to move 3 million tonnes of cargo annually by 2023, more than double the capacity of the latest terminal. And this growth is only expected to increase, mostly in the form of belly capacity in its passenger fleet. In addition to the seven A330 freighters it now operates, Turkish has three more on order, two of which will be delivered in 2016 and one in 2017. Overall, Turkish plans to grow its fleet from just under 300 aircraft now to more than 450 by 2023.

Istanbul's Ataturk Airport is holding up its end of the bargain, too. It overtook Frankfurt to become one of the top three European hubs in 2015 as Turkish continues its rapid expansion. Ataturk Airport hosted approximately 61.32 million passengers last year, compared with 61.04 million in Frankfurt. But a new airport 20 miles north of Ataturk Istanbul is in the works, with a lofty goal of 150 million passenger capacity annually and also the ability to handle an astonishing six million tonnes of cargo. The new airport, which will replace Ataturk Airport, is forecast to be ready by 2018, with an initial 90 million passenger capacity and three runways. The capacity will be raised by 2023.

If any cargo carrier can be accused of giving the "Big 3" Gulf carriers a run for their money, it's Turkish Cargo. So, the next time you're in Gotham City or Metropolis and people on the street shout out, "Look, up in the sky! It's a bird! It's a plane," don't be surprised if the aircraft in question features a Turkish Cargo logo.

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PET SHIPPER/PET MOVERS

CARGO RESTRAINTS

IATA: Total Freight Growth by Region

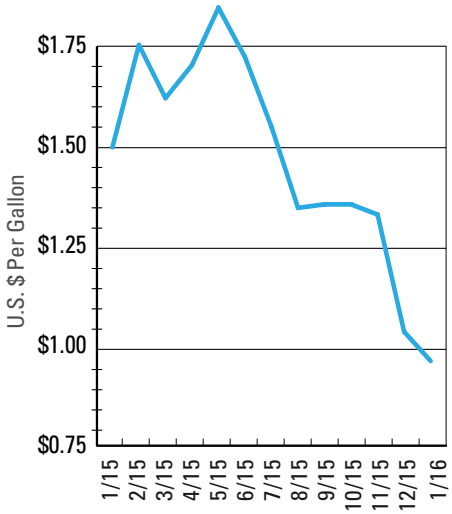
Region	% Growth YoY in FTK	
	Dec-15	2014 vs. 2015
Africa	-8.4%	1.2%
Asia/Pacific	0.1%	2.3%
Europe	1.2%	-0.1%
Latin America	-6.2%	-6.0%
Middle East	4.0%	11.3%
North America	1.4%	0.1%
Industry	0.8%	2.2%

Source: IATA

December 2015 airfreight volumes, measured in freight tonne kilometers (FTK), were flat, growing an average of 0.8 percent, reflecting a "fitful year," according to IATA. Meanwhile, the industry's freight load factor fell to 43.2 percent, the lowest it's been since May 2009. The Middle East region's FTKs grew at the highest rate (11.3 percent) for the year, while Latin America's shrank again, this time by 6 percent.

USEIA: Jet Fuel - Spot Price, YTD

U.S. Gulf Coast, kerosene-type (wholesale price) over the last 12 months



Source: U.S. Energy Information Administration

The plunge continued into 2016, with jet fuel prices for January falling another 15 cents to just 93 cents -- the first time the spot price has fallen below a U.S. dollar since April 2004.

AAPA: Asia-Pacific Carrier Traffic December 2015 & YTD

Source: Association of Asia Pacific Airlines

		FTK (mil.)	FATK (mil.)	Freight Load Factor
Monthly	Dec. 2014	5,612	8,597	65.4%
	Dec. 2015	5,593	8,768	63.8%
	YoY % Change	-0.3%	2.1%	-1.6 points
YTD	2014	63,917	98,401	65.0%
	2015	64,925	101,863	63.7%
	YoY % Change	1.6%	3.5%	-1.3 points

For the full calendar year of 2015, international air cargo demand among the Asia-Pacific carriers, measured in FTKs, rose by a "marginal" 1.6 percent, reflecting the global slowdown in trade, said Andrew Herdman, AAPA's director general. Meanwhile, offered freight capacity rose 3.5 percent for the year, leading to a 1.3 percent dip in the average freight load factor.

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The CNS Partnership Conference is renowned for its endless networking and prospective client opportunities. CNS continues to provide excellent forums for addressing relevant issues faced in the air cargo industry. Our Conference program will offer solutions, new insights and perspectives. Agenda topics include customer expectations, freight forwarder issues, e-commerce opportunities, modal shifts, perishable trends, air cargo security, optimization capabilities, new technologies, supply chain structures, and more.

Over 600 air cargo decision-makers are expected to attend the 2016 CNS Partnership Conference. This event will bring the entire air cargo supply chain together with the goals of fostering cooperation and building consensus. Today's CNS members represent the best and most innovative people in the industry.

This year's CNS Partnership Conference will be held at the Gaylord Opryland Resort & Convention Center in Nashville, Tennessee. Our delegates will be minutes away from the Grand Ole Opry and Downtown Nashville. This 4-star resort offers premium amenities including an 18-hole golf course designed by Larry Nelson.

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Events

MARCH 12-16

World Cargo Alliance Worldwide Conference – Abu Dhabi, UAE: This eighth annual event, to be held at the Abu Dhabi National Exhibition Center, is expected to attract 1,800 members of the air cargo community. For more information, visit *wcaworld.com/eng/con_event.asp*

MARCH 14

Air Cargo Excellence Awards – Berlin, Germany: Held in conjunction with IATA's World Cargo Symposium, the ACE Awards, based on *Air Cargo World*'s Air Cargo Excellence Survey, offers an unparalleled opportunity to network with industry leaders from the world's top airports and airlines. For more information, visit *aceawards.aircargoworld.com*

MARCH 15-17

World Cargo Symposium – Berlin, Germany: Held at the InterContinental Berlin Hotel, WCS is IATA's largest and most prestigious event of the year. *Air Cargo World* will also publish on-site Daily Reports throughout the three-day conference. For more information, visit *iata.org/events/wcs/Pages/index.aspx*

MARCH 30-31

International Civil Aviation Organization Air Transport Symposium – Montreal, Canada: The theme this year is "Addressing Competition Issues: Toward a Better Operating Environment." This symposium will focus on competition issues amongst policy makers, air transport regulators, industry representatives, aviation professionals and others. For more information, visit *icao.int/meetings.*

APRIL 5-7

Intermodal South America – São Paulo, Brazil: This three-day conference will include presentations from the main suppliers in all transport modals. The event promotes businesses and partnerships, and works as a platform for sales and networking. For more information, visit *intermodal.com.br/en*

APRIL 10-12

26th CNS Partnership Conference – Nashville, U.S.: Each year IATA subsidiary Cargo Network Services Corp. brings together close to 600 air cargo professionals from the U.S. and around the world. Air Cargo World will also publish on-site Daily Reports during the conference. For more information, visit *cnsc.net/events/Pages/cns-partnership-conference.aspx*

APRIL 19-20

Cargo Facts Asia – Hong Kong: Produced by *Air Cargo World*'s sister publication, *Cargo Facts*, and the Air Cargo Management Group, this conference has become the center of Asian airfreight opportunity, bringing together the world's aviation community for meaningful networking and strategy sessions. For more information, visit *cargofactsasia.com*

MAY 15-18

29th IGHC Ground Handling Conference – Toronto, Canada: Calin Rovinescu, Air Canada CEO, invites the ground operations industry to converge on Toronto for this conference, to be held at the Westin Harbor Castle. For questions, e-mail *ighc@iata.org*

MAY 18-19

3PL Value Creation Summit – Hong Kong: Armstrong and Associates, along with the Global Supply Chain Council, will bring together third-party logistics providers and industry investors to network, learn, discuss trends and share ideas. For details, e-mail *ighc@iata.org*

JUNE 8-10

AirCargo 2016 – Phoenix, U.S.: This will be the twelfth annual conference and exhibition presented by the Air & Expedited Motor Carriers Association, the Express Delivery & Logistics Association, Airports Council International-North America, and the Airforwarders Association. For more information, visit *aircargoconference.com/aircargo2016*

JUNE 12-15

Air Cargo Summit – Shanghai, China: This new event is jointly organized by the TFS and AirCargoPlus. Enjoy three days of networking with freight forwarders, carriers, GSAs, consolidators and more. The event will be held at the Hyatt on Bund. For more information, visit *aircargosummit.com.*

JUNE 14-16

Air Cargo China – Shanghai, China: Build closer contacts, pave the way for new business and find out about all the latest trends in the air cargo sector at this Transport Logistic China event in one of Asia's largest cargo hubs. For more information, visit *aircargochina.com*

OCT. 3-8

FIATA 2016 World Congress – Dublin, Ireland: The event will be held at the Convention Centre Dublin, with the theme of Ireland: "Where networking comes naturally." The conference program is still in development. To register, visit *fiata2016.org*

OCT. 10-12

Cargo Facts Symposium – Miami, U.S.: The Cargo Facts Symposium is where the air cargo aviation community gathers to network and shape the future of the industry. Presented by Air Cargo Management Group, *Air Cargo World's* sister company, the symposium promises the latest industry information and thought-provoking interactive discussions. For more information, visit *cargofactssymposium.com*

OCT. 26-28

TIACA's Air Cargo Forum and Exposition 2016 – Paris, France: TIACA's biennial event brings together thousands of air cargo industry leaders, customers and more than 200 exhibitors from approximately 100 countries. For more information, visit *tiaca.org* or send an email to *kgibson@tiaca.org.*

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Brandon Fried is the executive director of the U.S. Airforwarders Association

Weighty issues looming on the high seas

by Brandon Fried

The regulations for container ships, in most cases, have little to do with the business of air cargo. But the fate of at least one vessel, the *MOL Comfort*, one of the largest container ships ever lost at sea, could have implications on air cargo handlers, especially this summer, when new rules will kick in requiring that stated container weights must be verified.

According to big-container-ship design standards, the *MOL Comfort* was built to withstand even the most punishing seas under the harshest weather conditions. But in June 2013, the 9,100-TEU-capacity ship, with only about 4,500 containers aboard, broke in two during a storm in the Arabian Sea while sailing from Singapore to Jeddah. Fortunately, the 26-member crew was rescued and brought to safety before the rest of the ship broke apart and sank while being towed to salvage.

After the loss of the *Comfort*, investigators began to examine similar past maritime accidents involving cargo ships, with a particular emphasis on the weights of the containers themselves. While most of the evidence from the *Comfort* vanished at sea, cargo boxes from the *MSC Napoli*, an earlier wreck that beached itself off the cost of England in 2007, were partially saved. Of the more than 600 dry containers recovered, 20 percent differed from the declared weight, for a total in excess of 312 tonnes more than what the manifest showed.

Despite accommodating large loads of cargo and fuel, modern container vessels are designed to flex while in transit to withstand harsh sea conditions. Still, each has inherent limitations that improperly balanced cargo – coupled with adverse wind and sea conditions – might exceed, causing structural failure and disaster.

The International Maritime Organization, or IMO, the United Nations' special agency that develops and maintains a comprehensive regulatory framework for shipping across the world, is responding to false container weight declarations as the culprit for these and other past maritime mishaps. The entity has made amendments to its Safety of Life at Sea (SOLAS) regulations that will make it mandatory for containers to have their stated weight otherwise verified. This regulation is set to be in force at the beginning of July of this year.

Despite shipper and forwarder concerns about the requirement, experts continue to argue, but most agree that undeclared container weights may have played a role in past vessel disasters. But placing the blame solely on under-declared weights could be a costly mistake. As the world economic situation creates increased competition between vessel operators, port operators could be pressured to offload and reload ships faster than ever. Rushing creates an environment where load planning errors result in dangerously unbalanced placement of containers that could test a ship's resistance to moving forces. In other words, the containers themselves may be only part of the problem.

Regardless of the reason, it's fair to say that the requirement will stay and, despite only half of the shipping and forwarding community being in various states of readiness, July will be here before we know it.

Two weighing methods will be acceptable, including using a scale to weigh the container, subtracting the truck, driver, chassis and fuel, or adding the weighed contents to the tare weight of the container. Unanswered questions remain about how the mandate affects them, what the responsibilities are for each party, the definition of the required certification and who will complete the overall task of reporting the verified gross mass of containers to the vessel operator.

Not addressing these important questions while imposing the rule under unclear circumstances could create time-consuming port delays as shipper and trucker uncertainty over the new regulation causes congestion. As we saw last year, during the U.S. West Coast port labor slowdown, such interruptions can have profound adverse implications for all ports and the overall economy.

Air cargo interests, responding to this lack of clarity, are beginning to see the uncertainty as an opportunity, similar to the harbor congestion that created more than 200 ad hoc air charters and full airline plane bellies of cargo last year. This could be wishful thinking, perhaps, as the surge came from backlogs of import and export containers, both in and out of U.S. ports. Some experts say that such container-weight-related congestion may not occur outside of Asia, where export activity is most prevalent, due to trade imbalances.

As forwarders, we should take a page from the recent air cargo screening mandate by encouraging a balanced, multi-tiered approach to addressing the requirement. We should work with the maritime shipping community in combining resources to get the container weights verified.

For instance, terminal operators could provide weighing services, both at and away from the port, as an alternative. Drayage firms could join forces with independent companies, offering weighing services to meet the mandate before the container arrives at the dock. Or forwarders and non-vessel operating common carrier (NVOCCs) could invest in pallet weighing equipment to verify shipper weights before container loading. Clearly, there are many other innovative solutions that can be applied to address the issue.

Forwarders are used to meeting the challenge of shifting markets and requirements to meet our customers' changing supply chain needs. It may also be an opportunity to prove our resourcefulness and added value to them as well.

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