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CROSSING THE LINE

WILL CHINA'S CROSS-BORDER REGULATIONS TRIP UP ITS BOOMING TRADE?

Unchartered Waters 20
Surviving the treacherous charter market

Meeting the 'last-mile' demands of e-commerce 22

RoyalMedia

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Editor's Note

In the blink of a year


Randy Woods

Change is a constant force in the air cargo industry, but sometimes it takes place almost imperceptibly, until one day you no longer recognize your own environment.

Take the Chinese air cargo market, for example. For many years it had been the seemingly unstoppable force driving the world's economic engine, even when the economies of the United States and the European Union were in recession, China was reporting double digit growth – until one day last year when reality set in. For various reasons, the wild ride of China's economy began slowing to merely very good, single-digit growth rates and suddenly the Chinese machine seemed somehow stricken and vulnerable.

In our cover story this month (page 14), we look at China once again – this time focusing on its cross-border e-commerce market, which has been growing so fast in volume that, at the beginning of this year, it seemed as if nothing could stop it. Then, in the spring, the Chinese government decided to make some changes in how cross-border goods would be taxed and created a list of commodities allowed to be shipped.

The immediate response from the business community was so swift and negative that China's government relented and rescinded the changes – but only temporarily. The "positive list" of approved e-commerce goods, as it has become known, will return next spring, giving the Chinese cargo community less than a year to figure out how it will adapt. Almost overnight, Chinese e-commerce went from impregnable to imperiled. *Air Cargo World* spoke with local forwarders to discover how serious a threat this positive list will be to cross-border trade and whether some 3PLs may begin looking elsewhere in Asia to set up new warehouses.

We also turn to the shifting air charter world and delve into to some of the reasons why the ad hoc business seems to have dried up in the last year or so. Back in early 2015, when the U.S. West Coast port crisis was raging and charter rates doubled for shippers seeking to keep production lines on schedule, the charter business was in the midst of a three year run of good fortune. On page 20, we discuss with charter carriers why the bottom has dropped out so quickly and how today's charter companies can still find business in smaller, niche markets.

Finally, we look at the conundrum of the "last mile" of the supply chain (page 22) – the final journey of air cargo into the hands of the consignee, whether it's the consumer, a retailer or a factory waiting for critical feedstocks. While the industry is coming up with high-tech methods to reduce the operational costs of this closing link in the supply chain, such as unmanned drones and personalized van service, there are more-affordable methods involving APIs and route analysis to address last-mile problems earlier in the process and help 3PLs remain competitive with the likes of Amazon.

As we head into August and begin turning the corner toward the autumn trade show season, we want to remind readers that our first-ever **ELEVATE** conference will be coming up on **Oct. 10** in Miami. Be sure to visit ***elevateaircargo.com*** for details. October will be here before you even notice it.

Randy Woods,
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Terry Hartmann

Unisys' Hartmann sees 'cloud'-y skies ahead for e-commerce

Most air cargo logistics companies have long acknowledged that e-commerce eventually will be the dominant force behind trade around the world. But in an industry that still has a global adoption rate of less than 40 percent for paperless air waybill systems, many have had trouble finding ways to wean themselves off of their legacy IT systems and struggle to make their operations secure while also making them more flexible, transparent and responsive to the e-commerce demands of shippers.

Enter **Terry Hartmann**, vice president, travel and transportation, for Unisys' U.S. and Canada operations. For the last 30 years, he has helped companies protect themselves from identity theft and other security breaches, using techniques learned from Unisys' extensive experience providing border security between the U.S. and Mexico and Canada. Today, Unisys software helps secure and manage more than 20 percent of the world's cargo. In recent months, Unisys has added cloud-based IT services for MASkargo and Air Canada.

Air Cargo World spoke with Hartmann during the June Air Cargo 2016 conference in Phoenix and discussed some of the ways to balance the need for sharing digital information with clients in real time while maintaining the integrity of the data. Hartmann will also take part in the panel discussion, **"Shipping and the Digital Economy: Aligning Airfreight to E-Commerce,"** at *Air Cargo World*'s upcoming **ELEVATE 2016** Conference, to be held Oct. 10 in Miami. For more information about registering, please visit *elevateaircargo.com*.

Q: How can cloud-based IT systems help forwarders manage?

From a freight perspective, e-commerce is about transportation being part of the buying process. Customers have an expectation that goods will be delivered quickly, reliably and securely – and most of all that they can track them. Where freight forwarders get into e-commerce more is by providing distribution hubs, being able to deal with repairs, with returns and exchanges – all the things you have to provide as a retailer. From our perspective, it's about providing much more visibility and much more detail in tracking, about much more use of analytics, in terms of identifying the bottlenecks.

Q: How can you maintain security while increasing visibility?

When we start to talk about security, it's not just one monolithic security approach to your entire network. Once you start having airlines joining up with freight forwarders and with retailers, then you're linking a number of different areas. Since we want everyone to have the same level of access, you develop a "community of interest" in terms of cargo. We have a product, called Stealth, that encrypts the data securely, but also allows a community of interest to be set up in software. Only the people who have a need to know about the data can access it.

Q: What are some of the advantages to basing your IT in the cloud?

Say you have a data center where you're running your operation and, as you often are around the holiday times, you're running over capacity. We can use that same product – Stealth Extended Data Center – to send your operation into the cloud, with encryption and with full security around that. You can use that as a short-term oversupply, put your virtual machines into the cloud, run your operation, and when your volume ramps down, you can just head back to within your own data center. So it's providing you with complete virtual security and an advantage over someone who's providing point software solutions.

Q: How does your system assist with cross-border e-commerce?

About one-third of all e-commerce is cross-border. So, being plugged in, as we are, to the customs regulations faced by our high-volume carrier clients gives us an advantage. You're not queuing up at the borders to get your goods through. E-commerce brings in new ways of managing belly freight, so you have the ability to combine shipments and clear them for multiple consignments. If you reduce the end-to-end transit time, and you provide high-quality reliability and consistency, and then you're going to get clientele.

Q: How do you stay on top of changing customs regulations?

We work where our clients fly. If they go to a new region, then we work with the customs organizations to bring those regulations into our system. You have to deal with security issues and work with government. One of the problems with e-commerce at the moment is lithium batteries – you've got to have strong knowledge of the manifest and how the goods have been packaged and what you have to do to address security concerns. That all creates a database of expertise you can leverage.

Q: Where do you see the most growth in cloud-based systems?

We're doing it globally, but particularly in markets like China, which has the fastest growing e-commerce activity in the world. Alibaba, for example – the Amazon of China – is growing, but not only that, it's cross-border business is where it's growing hugely, and going both ways. You start to have hundreds of thousands of small to medium-sized enterprises that can deliver to a market beyond the village that they're in to a global market... India is going to follow, too. They're going to issue millions of national IDs to people, and those sorts of technologies will facilitate electronics. [E-commerce] has a compound annual growth rate of 15 percent, and this is going to drive the growth of global airfreight, in general.

U.K. carriers, airports search for Brexit signs

Last month's British vote to bow out of the European Union has unleashed political turmoil across the nation. In the logistics industry, responses to the "Brexit" have been less dramatic, but operators are bracing themselves for tough and uncertain times ahead.

Initial reactions showed consternation and confusion in the face of an outcome that had been unexpected and scarcely explored. Several airlines contacted by *Air Cargo World* had no comment other than expressing a need to wait and see how the situation will unfold. "I think most people are just waiting for some indicators to try and work out if it is going to impact them or not," remarked one airline spokesperson.

IAG, the carrier that will likely be most affected by Brexit, had no comment on cargo beyond a general statement that the airline released after the result of the referendum was announced: "The vote to leave the European Union will not have a long term material impact on [IAG's] business. In the short term, however, in the run up to the U.K. referendum during June, IAG experienced a weaker-than-expected trading environment. Following the outcome of the referendum, and given current market volatility, while IAG continues to expect a significant increase in operating profit this year, it no longer expects to generate an absolute operating profit increase similar to 2015."

The International Air Cargo Association (TIACA) said the referendum has heightened complications for the industry. "It is too early to speculate on what the actual implications of Brexit may be for our industry, but the fact is that the U.K. vote to exit the European Union stirs up the already muddy global picture," commented TIACA secretary general Doug Brittin.

IATA, which foresees negative impacts on both passenger and airfreight sectors, said it envisages prolonged uncertainty ahead, suggesting that it could take two years or longer to resolve issues arising from the Brexit decision. A paper on Brexit released by IATA predicted that the decision is going to have serious ramifications for the British economy as well as for travel, trade and in the regulatory sphere.

Predictions from a variety of sources show a negative impact on British GDP, ranging from 1.3 to 6.0 percent in 2018 and from 1.2 to 7.5 percent by 2030. They broadly pointed to the U.K. GDP ending up 2.5 to 3.5 percent lower, in level terms, by 2020, compared to the "no Brexit" baseline.

The repercussions for trade appear to be starker yet. The Organization for Economic Co-operation and Development reckoned that U.K. trade volumes could fall by as much as 20 percent.

Besides a decline in cargo volumes, the transportation sector is bracing itself for additional costs in the wake of the Brexit. The Freight Transport Association (FTA), warned that it will add to costs as well as bring more restrictions and bureaucratic hurdles for moving British goods in and out of Europe.

Much hinges on the terms of Britain's exit from the EU, ranging from a close alignment with Europe (such as developed by Norway, which is in the European Common Aviation Area) to a complete cut, which would base the relations on a WTO footing. Most observers reckon that the U.K., under leadership from the incoming Prime Minister Theresa May, will seek a closer alignment rather than abandon common frameworks like ECAA. The Airports Council International-Europe has called on the British government to strive for U.K. and EU aviation markets to remain integrated.

A complete exit would force the U.K. to renegotiate countless aviation and trade accords with other nations that have so far been covered by treaties wrought by the EU and ratified at national levels. This raises questions about a slew of arrangements, from duty benefits for garment imports from Cambodia, Myanmar and Bangladesh that were negotiated by the EU, to the U.S.-EU opens skies agreement. Brittin pointed out that Pre-Loading Advance Cargo Information regulations may require a new version as a result of Brexit.

These issues raise questions for U.K. airports, especially in London, that wish to function as gateways for European traffic. Could Brexit undermine Heathrow's hub status? Stan Wraight, executive director of Strategic Aviation Solutions International, said he doesn't think so. The documentation required for road-feeder services would not raise any hurdles, he said, adding that he expects the U.K. to remain closely aligned to the EU.

For its part, the management of London's premier airport does not foresee a drop in traffic, but presents Brexit as reinforcing the case for its stalled expansion plans, particularly the call for a third runway. "Only Heathrow can help Britain be the great trading nation, connecting all regions of the U.K. to the world," the airport said in a prepared statement. "It is the keystone that connects businesses of every size to markets across the world as the U.K.'s only global hub airport."

If the issue forces action on the third runway, perhaps the Brexit will become more evidence that when one door closes, the universe opens another.

—Ian Putzger

U.S.-Cuba relations thaw: Ten cities approved for air service

Tentative approval for scheduled airline service from ten cities in the United States to Cuba, plus service from one of the industry's largest integrators, willl most likely spark more air cargo interest between the two countries. The news comes after the U.S. Airforwarders Association (AfA) urged the U.S. Department of Transportation (DOT) to assign routes to U.S. carriers that offer cargo services.

Tentative awards have now been granted to Alaska Airlines, American Airlines, Delta Air Lines, Frontier Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines and United Airlines. Iin addition, the U.S. DOT has allowed FedEx to operate a five-times-weekly freighter service between Miami and the Cuban city of Matanzas. FedEx, which plans to begin service on Jan. 15, 2017, is the first American cargo carrier to earn this distinction.

For the passenger carriers, DOT proposed eight U.S. airlines to begin up to 20 scheduled flights per day, as early as the third quarter of 2016, between Havana and the following cities: Atlanta, Charlotte, Fort Lauderdale, Houston, Los Angeles, Miami, Newark, New York City, Orlando and Tampa.

U.S. Transportation Secretary Anthony Foxx said regular air service is integral to developing commercial opportunities for American businesses. In February, the U.S. and Cuba signed a memorandum of understanding to reestablish a broad spectrum of services between the two countries that had been halted for more than 50 years.

The arrangement to allow daily roundtrip flights between the U.S. and Havana also opens up Cuba's nine additional international airports to ten flights daily.

—Lewis King

Latin-Asia traffic still one way, despite Olympics

The route from Asia to South America is long, and it is getting lonelier. In late June, Korean Air announced that it will suspend its passenger flights to São Paulo in September. The carrier had been serving Brazil's economic hub three days a week from its home base via Los Angeles but decided to pull the plug on the destination after this month's Rio de Janeiro Olympic Games. According to Korean media reports, KAL has suffered US$21.5 million in annual losses on the route.

A few days earlier, Singapore Airlines made public its decision to cancel its São Paulo flights in October. Poor passenger loads in recent months prompted the carrier's management to call an end to its three weekly Brazil flights, which are routed from Singapore to Barcelona and on to Brazil. This leaves Air China as the sole remaining Asian carrier that offers direct service to Brazil, flying twice weekly from Beijing to São Paulo via Madrid.

Four years ago the mood was starkly different. In September 2012, with Olympics hype beginning to mount, SIA began a weekly freighter service to São Paulo, describing Brazil as one of the world's fastest growing economies. Today no Asian or Latin American carrier shows any ambition to fly cargo aircraft between the two regions. The latest cancellations were driven by passenger demand, but cargo demand has been equally dismal.

"Overall demand into Latin America has been disappointing for quite an extended period already," said Mark Sutch, general manager of cargo sales and marketing at Cathay Pacific. The Hong Kong-based carrier serves the region via Miami through an interline arrangement with LATAM Cargo, which Sutch described as "seamless."

The withdrawal of SIA and KAL, however, have hardly made a dent in cargo load factors. "Despite these cancellations, overcapacity on Asia-Latin America persists, with growing capacity via Europe and Middle Eastern hubs," he said. Brazil has suffered the severest slump, but both carriers and forwarders report that economies in Latin America have also been hurt by the end of the commodities boom as well.

The picture is decidedly brighter in the westbound direction. Economic slowdown and currency depreciation may have stifled Latin American demand for electronics from Asia, but Asian consumers' growing appetite for fresh produce from Latin America has fuelled strong growth in airfreight shipments to Asia.

American Airlines Cargo has enjoyed more than 30 percent growth in this traffic in the last year, said Roger Samways, managing director of global accounts and sales strategy, and acting head of cargo sales. The airline has cultivated this traffic in recent years, and the recent surge has been brought about by the combination of a strong growing season and the rise of American's capacity, as it keeps adding widebody aircraft to its fleet at a rate of one per month. It is due to start Los Angeles-Hong Kong service in September, and has filed for traffic rights between Los Angeles and Beijing, aiming for a launch in December.

An additional factor has been the deployment of widebody planes between American's U.S. hubs, which has facilitated transfers of perishables from Latin America to longhaul flights, Samways said. To further develop these flows, the carrier recently built a 4,000-square-meter transit cooler at Dallas/Ft. Worth Airport.

Samways said he has seen strong growth in flowers moving to Japan and produce going to northern Asia and China. Chilean salmon has generated steady flows, especially to Korea, although volumes could have been higher were it not for a deadly algal bloom that decimated salmon stocks in Chile, he noted.

As Sutch indicated, Asian and U.S. carriers are facing stiff competition on the trans-Pacific from European and Middle Eastern carriers linking Latin American growers with markets in Asia. Air France-KLM-Martinair Cargo, for example, has also enjoyed booming demand on this trade lane, according to Pieter Fopma, AF-KLM's director of perishables. Hong Kong and China have been particularly strong markets for this traffic, he noted.

Fopma also agreed that there is promising potential for further growth. At this point, about 85 percent of the perishables that his company hauls out of Latin America are destined for Europe, while only some 10 percent goes on to Asia. "We could easily double that to 20 percent," Fopma added.

Unfortunately, yields from perishables alone cannot compensate for the weak demand going into Latin America. To make the round-trip viable, carriers need the yield of the hard freight going into the region, said Cristian Ureta, executive vice president of cargo at LATAM Airlines. He has all but buried earlier ambitions to fly freighters across the Pacific and remained downbeat on the prospect for links between the regions as long as the economic outlook for Latin America remains sombre.

–Ian Putzger

> "Asian consumers' growing appetite for fresh produce from Latin America has fuelled strong growth in airfreight shipments to Asia."


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African carriers outline fleet growth targets

Despite tough market conditions, outward expansion was a widely discussed topic at the recent Africa Air Cargo Summit, held in June. Both Ethiopian Airlines and Kenya-based Astral Aviation announced plans to add wide and narrowbody freighters for long-haul and intra-African routes. At present, foreign airlines carry nearly 90 percent of Africa's outbound cargo – something Ethiopian and Astral hope to change.

At Astral Aviation, CEO Sanjeev Gadhia said his company was looking to lease two 747Fs for operations outside of Africa, as well as six 737-400Fs for regional service. His tone during a panel discussion on intra-African networks implied that much of the growth in Africa's intra-regional air freight market is masked by incomplete data sets. IATA, for example, reported that FTKs flown by Africa-based airlines were down 1.3 percent, year-over-year, through April, yet many airlines in the region do not yet have full membership in the organization. If Gadhia's estimates are accurate, the intra-African market is growing in the low double digit range between 10 and 15 percent, annually.

At Ethiopian, the carrier's 2025 strategy is also shaping up to include a much larger freighter fleet. CEO Tewolde Gebremariam said he plans to more than double the carrier's maindeck capacity from the current eight freighters to 18. Ethiopian currently operates two 757Fs and six 777Fs. Progress is already under way to expand capacity at Addis Ababa's cargo hub to 1.2 million tonnes per year, up from its current capacity of around 400,000 tonnes.

Although this may be good news for the carrier's 2025 strategy, it may not be well received among the rest of the African cargo community. In its latest "Air Freight Market Analysis" report for May 2016, IATA specifically called out the growth of cargo capacity by Ehtiopian Airways as having a continent-wide effect on freight-load factors.

While international FTKs flown by African airlines in May 2016 rose slightly, by 0.2 percent, compared to the same month in 2015, IATA reported that, "as has been the trend since December 2015, international freight capacity growth far outstripped that of demand, driven by rapid long-haul expansion (particularly by Ethiopian Airlines)." The report went on to say that the "combination of rising capacity and falling demand pushed the African international freight-load factor down to just 26.5 percent in May 2016 – more than six percentage points lower than in May 2015 and less than half the level of Asia Pacific carriers."

—Charles Kauffman

An all-cargo airline for Tunisia?

A new cargo airline will soon be taking off from Enfidha's Hammamet International Airport, located 100 kilometers south of Tunisia's capital city, Tunis. Express Air Cargo's CEO, Anis Riahi, confirmed that his airline is preparing to commence operations in August, with an initial fleet consisting of two freighter-converted 737-300Fs.

The first of these two is a 737-300QC, formerly operated by Yangtze River Express, and recently repainted in Express Air Cargo livery, but not yet delivered to the Tunisian carrier. The source of the second freighter is not known, but candidates include two 737-300Fs that were recently ferried to Johannesburg (JNB) for maintenance. One is formerly owned by Donghai Airlines and the other was formerly operated by Air Work for Toll.

Express Air Cargo said it plans initially to connect North African markets with European destinations in Cologne, Marseille and Paris. Looking ahead, Riahi said the airline expects to add three turboprop freighters and a 737-400F to its fleet during the first half of 2017, to expand inter-regional operations in west and central Africa. Regarding the turboprops, originally Express Air Cargo planned to add Cessnas, but, according to Riahi, the carrier will likely opt for ATR 72s or ATP freighters instead, because of the additional capacity these platforms offer.

In the past, it was reported that UPS Airlines had partnered with Express Air Cargo's affiliate, Express Logistics, to launch the airline, and would assist with route planning, aircraft acquisition and maintenance. While this could make sense given the startup's planned service to UPS' Cologne hub, Riahi confirmed only that UPS is likely to be a major customer for the airline's "premium specialized and critical freight services."

—Charles Kauffman

THIRD PARTIES

GEODIS has appointed **Sushma Fulsunge**, as Regional Director - Western Region. Sushma previously held several positions at MNC in India. She has more than 20 years of diversified experience in the industry and comes with an in-depth knowledge of the local market.

Former DB Schenker executive **Hansjoerg Rodi** will join **Kuehne + Nagel** to lead the Central/Eastern Europe region. K+N's head of Middle East/Africa region, **Peder Winther** will also become regional manager for Western Europe. His current post will be filled by **Erwin Wittemaier**.


Markus Lingohr

Markus Lingohr is the new managing director for Central Europe for **Agility**. Lingohr joins from Hellmann Worldwide Logistics, where he was managing director for air and ocean Germany. He brings more than 25 years of experience in the logistics industry. Linghor has worked for Circle Freight (now CEVA Logistics), Thyssen Haniel Logistics (now DSV) and DB Schenker.

Jeff Dauz has joined **Aeronet Worldwide** as its new director of business development where he will focus on expanding the company's presence in the Greater San Diego area. **Kevin Mautino** has been promoted as Aeronet's director of marketing and product development following the retirement of vice president of marketing **Felipe Arjonilla**. Mautino previously joined Aeronet's management team in January of this year. **Lori Loverdi** has joined as a sales director, and **Nikki Edenfield** has joined as a business development manager.

B&H Worldwide has appointed **Reg Echeumuna** as vice president for the Americas. Echeumuna previously held senior positions with DHL, Caribbean Airlines and Pitney Bowes.

DHL Supply Chain has appointed **Oscar de Bok** as the new CEO for mainland Europe, the Middle East and Africa. He takes over from **Paul Graham**, who has left the company for personal reasons.


Claudio Onofrio

Claudio Onofrio has been appointed vice president of global business development at **Mallory Alexander International Logistics.** Previously, Onofrio was at U.S.-based freight forwarder Savino del Bene, which was preceded by a stint at U.K. forwarder SBS Worldwide.

AIRLINES

Cargolux's chief executive and president **Dirk Reich** has stepped down for personal reasons. He was appointed to the position in the spring of 2014, and had previously worked for Lufthansa as a route manager and forwarder Kuehne+Nagel. Reich will be replaced by **Richard Forson**, the carrier's current CFO. Forson had served as interim CEO prior to Reich's hiring in March 2014.

Pravin Singh has been promoted to regional commercial manager, Asia Pacific and India, for **IAG Cargo.** Singh is tasked with driving growth, ensuring that IAG Cargo continues to expand its footprint across existing and new markets. He has 12 years with IAG Cargo (formerly British Airways World Cargo), most recently as area commercial manager, South Asia encompassing India, Pakistan, Bangladesh, Sri Lanka and Maldives.

Steve Buckerfield is the new vice president sales at **Virgin Atlantic Cargo.** Buckerfield will lead the global sales team. He spent three years as managing director in the U.K. and Ireland, at Toll Global Forwarding prior to joining Virgin Atlantic. Buckerfield started out at Emery Worldwide in 1984, before transferring to American Airlines in 1990. In 2004, he was appointed managing director of Walker Freight Services and later C.H. Robinson Worldwide (U.K.).


Steve Buckerfield

Lawrence Rosen has retired from his position as chief financial officer at **Deutsche Post DHL Group**. He will be replaced by **Melanie Kreis**. Kreis has been member of the board for human resources since 2014, and will retain this responsibility on an interim basis. She started her career with McKinsey & Co. and joined Deutsche Post DHL in 2004 to focus on international merger and acquisition projects. Following the group's acquisition of Exel in 2005, Kreis lead the overall logistics integration effort.


Melanie Kreis

Kenya Airways has appointed **Jan de Vegt** as the carrier's new chief operating officer, effective this month. De Vegt joins the airline from Cobalt Ground Solutions, where he served as managing director. He has held several positions in cargo operations at the Air-France-KLM group, as well as serving as regional director operations Benelux, the U.K. and Ireland; regional director, South East Asia and Australia; and vice president, Asia, for Air France-KLM Cargo. He replaces **Yves Guibert**.

Brussels Airlines has appointed **Simon Lamkin** as its new CIO, responsible for technology and innovation. Lamkin has been a key member of the easyJet team since 2004.


Simon Lamkin

GROUND HANDLING

Worldwide Flight Services' (WFS) chief executive **Olivier Bijaoui** has left the company. WFS chief operating officer **Barry Nassberg** will assume the interim leadership responsibilities. While the company is not commenting, the split appears to be amicable.


Olivier Bijaoui

CROSSING THE LINE

WILL CHINA'S CROSS-BORDER REGULATIONS TRIP UP ITS BOOMING TRADE?

By Charles Kauffman

Powdered milk is a phenomenally popular product in China. Numerous scandals involving contaminated domestic milk, a shortage of dairy cows and a general admiration for imported products have made milk powder a commonly found commodity in the e-shopping carts of Chinese consumers. In fact, for one Australian milk cooperative, China has been seen as the antidote to sagging prices in an oversaturated domestic market. Last year, during China's free-for-all shopping holiday known as "Singles Day," which takes place on November 11 of each year, dairy producer Murray Goulburn sold 30 tonnes of its Devondale milk powder in just 36 minutes through web portal JD.com.

This is just one of thousands of products that make up China's vast and rapidly growing cross-border e-commerce (CBeC) empire. Between 2014 and 2015, the market nearly doubled, from US$30.07 billion to $57.13 billion, with estimates from eMarketer predicting the market will pass the $85 billion mark in 2016. This has undoubtedly bolstered demand for air cargo services between China and its trading partners.

But what if commodities such as milk powder were suddenly no longer accepted through e-commerce channels, or became dramatically more expensive? Chinese importers almost found out the hard way this spring, when a sudden overhaul of the tax structure on cross-border imports briefly went into effect on April 8, along with a crackdown on the types of goods permitted to move through bonded cross-border warehouses.

For a short time – until a near revolt by the Chinese business community halted the chaos after a few days – sales of Devondale milk products, and many other commodities were no long permitted through online portals such as Alibaba's T-mall. The government pulled back on these policies, but only temporarily. By next spring – May 11, 2017, to be exact – the restrictions will return, giving the Chinese logistics industry less than a year to prepare.

"Overall, the impact recent customs policy adjustments have, and will continue to have on the cross-border e-commerce market, is tremendous," China-based freight forwarder Sinoair, a subsidiary of Sinotrans, told *Air Cargo World*.

Today, the booming CBeC industry in China has been clouded by regulatory uncertainty, which threatens to not only influence the cost of foreign products purchased by Chinese consumers through web portals, but also to potentially alter the supply-chain path by which goods make their way into the country. With the airfreight industry betting heavily on cross-border e-commerce as a significant source of growth, these looming changes have freight forwarders and shippers on edge. Could the Chinese government be taking a step too far?

Penetrating the e-commerce market

To understand the impact of these coming e-commerce changes in China, one must understand the rise of the two main cross-border shipping options: the bonded warehouse model and the direct-shipping model.

Bonded warehouses grew in popularity beginning in 2012, when the Chinese government, motivated by its desire to boost domestic consumption, established pilot zones in five Chinese cities to facilitate expedited cross-border delivery. In September 2014, the program was expanded into seven additional cities. Under the model, goods are imported in-bond and registered electronically with Chinese customs. Applicable taxes are determined and customs cleared on-site after the goods are sold.

Shippers and retailers also often pursued the direct-shipping model. Packages traveling along this route either go through a formal business-to-consumer (B2C) import channel, or are shipped by an express delivery service. Direct imports require the shipper to upload order, shipment and payment data to Chinese customs at the time of purchase so that duties and taxes can be assessed prior to the parcel's release. Alternatively, an express delivery courier may be used to import the parcels from overseas warehouses and deliver them directly to Chinese consumers. In this case, as long as the purchase was valued at less than 1,000 renminbi (RMB) – roughly US$150 – the customer paid only parcel tax, and if under RMB50, no tax at all. Goods valued at more than RMB1,000 were treated as general trade items and assessed customs duties, including import tariffs, value-added tax (VAT) and, in some cases, a consumption tax.

From a cost perspective, this has meant that – at least prior to April 2016 – retailers importing products through a direct-import model would be assessed a higher tax rate than products moving through the cross-border channels, and that online purchases were highly competitive with domestic retail purchases.

For example, a PC imported from the United States retailing for RMB999 and shipping from Hong Kong to China under the general trade model (non-e-commerce channel) would be subject to an import tariff of 0 percent and a VAT of 17 percent:

Tax payable =
RMB999 + VAT (RMB170) = RMB170

Total: RMB1,169

Under the direct-shipping or bonded-warehouse model, the parcel would be subject only to a parcel tax, which, for electronics, is 10 percent:

Tax payable =
RMB999 + parcel tax (RMB100) =
RMB 100

Total: RMB1,099

Clearly, this provided a strong financial incentive, at the time, to purchase goods via e-commerce. Forwarders actively participating in Chinese CBeC business said that the bonded warehouse model, and e-commerce in general, have pushed their business models in new directions – usually toward integrated services and away from simple, point-to-point transportation.

Beyond just the "replenishment of fulfillment and distribution centers," with traditional airfreight forwarding, some forwarders now offer a full suite of services said Peter Szabados, Panalpina's global head of transit. "Our e-commerce platform comes in as an enabler, because we can offer much more than our core logistics and transportation services," Szabados said, including anything from "setting up and running the web shop, order management, payment and call center services."

Taiwan-based Dimerco, which launched bonded warehouse operations in 2013, and has warehouses in ten pilot cities, works with China's mega-players, Alibaba and JD.com, to deliver goods to warehouses. "Dimerco helps Alibaba pick up shipments from its global suppliers and transports them to airfreight terminals, handles customs brokerage, and delivers to five bonded warehouses located in Shanghai, Hangzhou, Guangzhou, Zhengzhou and Ningbo," said Dimerco vice president Andy Hsu.

Making the list

Smooth sailing for China's bonded warehouses hit turbulence in the spring of 2016 with the announcement of looming changes to the tax structure governing cross-border imports, as well as a new restrictive "positive list" aimed at regulating the types of commodities allowed in to the warehouses.

One of the most immediate threats to the status quo is the creation of the so-called "positive list," jointly circulated by eleven PRC government departments. This list outlines specific articles that would be allowed to move through bonded warehouses – in effect, placing arbitrary limits on what had seemed to be an unfettered marketplace.

In its first print, the "Cross Border E-commerce Imported Goods List," as it is officially known, contained 1,142 products within eight categories. Products on the list would be permitted to move through bonded warehouses without further inspection of their customs clearance certificates. Commodities absent from the list would require "Customs Clearance of Entry Commodities," which, to qualify for, would require a range of documents, such as an original invoice, a quarantine inspection report and a guarantee slip.

The original list included some notable omissions – in fact, some of the most popular commodities were absent from the list. Local media in Zhengzhou reported that as little as 3 percent of the goods in the Zhengzhou pilot zone complied with the positive list. What then would happen to products not on the list?

The news understandably upset stakeholders up and down the supply chain. Hsu recalls that "in April, when the new regulation was announced, a

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lot of CBeC companies' business volumes dropped more than 50 percent."

At first it was unclear what exactly it would mean for goods omitted from the positive list. The president of Sino-Australian JV, Rex Group, Richard Jun Zhang said that, for a brief period, "we had to cancel orders or delete commodities from orders containing goods absent from the positive list."

After the outcry from the business community, full implementation of the positives list was postponed until next May. Some tax laws however, were still subject to adjustment. In late March, three government bodies—the Ministry of Finance, General Administration of Customs, and State Administration of Taxation—jointly issued a circular that revised China's taxation policy governing cross-border, B2C e-commerce imports. Full implementation of these new policies was also shelved until May 2017.

Beginning April 8, 2016, all goods moving through e-commerce channels were to be assessed a VAT and consumption tax. However, goods under RMB2,000 were taxed at a rate 30 percent lower than applicable taxes assessed to the same goods moving through general merchandise channels. Direct e-commerce shipments would continue to be taxed according to parcel tax rates, which were also increased.

Although during the transition period VAT and consumption taxes will not apply, the RMB2,000 ceiling for parcel tax, and an RMB20,000 annual spending limit on e-commerce transactions, will still apply.

This means that for the next year, parcels moving through e-commerce channels will still be assessed parcel taxes, albeit with slightly higher tax rates.

Where to house the warehouse?

Most freight-forwarders agree that the April adjustments to rates of taxation will have little impact on cross-border consumption. Despite the adjustments, most cross-border products are still cheaper than goods brought into China through the general import model ,regardless of whether they are entering China through a bonded warehouse or the direct shipping model. Moreover, by raising the tariff-free ceiling from RMB2,000 to RMB1,000, consumers are no longer incentivized by purchasing low-end goods, and may instead opt for higher-value goods, which have a higher utilization for airfreight.

On the other hand, the uncertainties regarding the positive list next year have diminished the allure of setting up bonded warehouses in pilot cities. Instead, forwarders are now taking a closer look at overseas warehouses as an alternative to bonded warehouses in China.

"Goods on the positive list, can go through the free trade zone," Zhang said. If not, forwarders can still move the products into China via the direct shipping model. Rex already has pick-and-pack capabilities in Australia, which are now at the center of it's future expansion plans.

Sinoair said it is also "actively exploring overseas warehouse models as a way to address the impact of tax reform and reduce customer costs." The company also said that it "plans to gradually add overseas warehouses and increase overseas shared warehouse space to better our CBeC position and to better serve global and domestic customers."

Expansion into overseas warehousing is not limited to freight forwarders. Alibaba's logistics affiliate, Cainiao, is also heading in that direction. With its recent US$1 billion acquisition of a controlling stake in Singapore-based Lazada, the 4PL platform that handles a staggering 70 percent of e-commerce-related parcels moving through China with virtually no infrastructure of its own, will soon move into the 3PL world with warehousing infrastructure throughout Southeast Asia.

Looking ahead, Hsu remained optimistic, noting that opportunities outweigh the uncertainties. "CBeC inbound business will be impacted by the government regulations, and there's some uncertainty of how the government will support this trade's development." Still, he noted, "considering the increasing buying power of Chinese consumers, and their appetite for everything, ranging from cosmetics to luxury goods," models will adapt and forwarders will continue their move towards providers of "one-stop-shop solutions."

In the long run, demand for Devondale's milk powder will still ensure it reaches China; it is just a matter of how it is taxed, and the path by which it travels from Australia to the home of its thirsty Chinese consumers.

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Unchartered Waters

How charter carriers can survive today's treacherous market

By Randy Woods

There's an old adage in the airfreight business that says if you have to ship something by air, you've probably made some kind of mistake. Why else would shippers pay exorbitant air cargo rates instead of putting it in a truck or on the water?

This is especially true in the ad hoc air charter business, which is founded on the inability of shippers to prepare for every contingency. Early last year, for example, when the "perfect storm" of a labor crisis on the U.S. West Coast occurred just before the ramp up to the Chinese New Year and in the middle one of the largest airbag recalls in automotive history, the air charter business had a field day, as shippers scrambled for every available cubic meter of charter capacity, sometimes paying double the normal rate to get their goods to end users on time.

This year, however, the roller-coaster of the charter industry declined at an alarming rate. The charter business has been so dead in 2016 that one ad hoc charter company attending the Air Cargo 2016 conference in Phoenix in June said he hadn't flown his largest aircraft, a DC-9, a single time in the first five months of the year, due to a lack of business.

"It's definitely nothing like the year before," said Mike Joseph, director of sales and marketing, at Michigan-based Kalitta Charters, which counts ad hoc charter as 65 to 70 percent of its business. "We're way, way, *way* down – easily 40 to 50 percent down this year over last year." In the previous three years, he said, charters were at "full throttle" until the market took a nosedive in 2016.

No real consensus has arisen about the cause for the current nosedive, but some charter providers say it's a combination of better planning on the part of shippers, a lack of major natural disasters that would have caused supply chain disruptions, and the continued cratering of the oil-and-gas industry – the bread-and-butter market for charters.

"Buyers became a little bit savvier, and have been able to manager their flows," said Mark Simone, general manager of AirNet II, an Ohio charter carrier affiliated with Kalitta. "Things are a little bit more strategic on the buyer's end of the equation. The events they need to solve require more of an X-Acto knife than a samurai sword."

Those companies that took a seat on the charter bandwagon are starting to feel the pinch now. "Everybody jumped in and was going to be ad hoc, because it was easy," said Joseph of the boom years from 2013 to 2015. "But now, when you've got to get real cutthroat and competitive on your prices, it's a different ballgame."

Smaller is bigger

As a result of the shifting market, many charter carriers are having trouble filling their larger aircraft and have had better luck seeking out alternative markets that require smaller loads – leaving their 767s and 727s on the ground while they focus more on ATR 72s, Falcons, Convairs, and Learjets to make shorter, more-frequent flights.

"There is a vast number of small loads that could be flown by Falcons or Convairs," said Peter D. Laub, vice president of business development for Alaska-based Northern Aviation Services, Inc. (NAS), which operates Northern Air Cargo and Aloha Air Cargo. Between the two carriers, NAS operates a fleet of 11 aircraft, including 737Fs, 767Fs and Saab 340Fs for scheduled and charter services. "While we predominantly operate the larger metal, we have experienced some loss of opportunities to the smaller-gauge aircraft," he added.

"The charter customers want to move things," said Derry Huff, senior director of strategic directives for Miami-based Amerijet International. "They don't want to wait for a big load coming off the line. As soon as they have a load that will keep the line running, they move it. That means that they do three flights instead of one. They don't want to wait 12 hours for a full plane, and they don't care if it's at 50 percent capacity."

Simone says AirNet II, which straddles the scheduled and ad hoc markets, tends to focus on the customers' end-of-schedule runs. "We're the most successful when we're keeping within the same region," he said. "We can respond very promptly – and those seem to be the ones we get the most right now." He added that the "Falcon-on-down market" has probably been busier for today's charter work.

Scanning the horizon

Just as shippers have become more efficient with their airfreight logistics, the best charter companies are also getting better at finding new niches when the steady business – such as oil and gas – dries up.

"There's no question that the oil and gas business has dramatically affected the charter market," Huff said. "We're also in the scheduled service business, so we've seen it on both sides of the coin." Much of the problem, at least in the Western Hemisphere, he said, stems from the near total collapse of the Venezuelan economy, which relied almost exclusively on petrodollars and has fallen along with the price of oil.

"This year has not produced the number of charters from years past, and we attribute it to a combination of a slow economy and better logistical planning from the manufacturing sector," Laub said. However, the diversity of cargo handled by Northern Air Cargo in Alaska and Hawaii's Aloha Air Cargo, in vastly different climates, he added, "allows us to reposition our assets to accommodate market demand if one heats up while another cools down." Some other commodities carried by NAS when the petroleum business is slack include auto parts, aircraft parts, seafood, perishables or express packages.

Tony Bass, sales executive for Ohio-based broker Grand Aire Charter Services, said that flexibility is often the difference between the charter companies that survive and the "fly-by-night companies that are looking to make a buck" when the market is booming. His company operates a wide range of aircraft, including DC-9s, Falcons, Learjets, Metroliners, and Caravans.

Automotive parts are the main commodities sought in Grand Aire's charter business, which makes up about 65 percent of the company's revenue, Bass said. But when the auto market slows, as it has recently, Grand Aire is able to fall back on odd, time-sensitive commodities it has secured over the last 30 years, such as human organs, T-shirts and other apparel, trade show booth materials and pharmaceuticals.

At Kalitta, Joseph said the company is seeking out more of the express business via DHL. Kalitta has already dedicated a 727F to DHL and recently purchased two 737-400s for the same purpose. "So we're definitely looking into other areas," he said. "We've never really had all of our eggs in one basket. We do a lot of work for the government." For example, Kalitta's fleet of Learjets and Falcons are also used as air ambulances and also to take part in the U.S. Department of Defense's "Fallen Heroes" program that ferries the remains of soldiers killed in action to various military cemeteries around the country.

"You'll also get some other onesie-twosies, but you don't count on them," Joseph added. "We're doing a goat charter to the Bahamas next month. We flew dogs on a seven-two out of San Juan to New York for this rich guy that wants his pick of dogs. We do all kinds of stuff like that – we can move ocean animals. We can fly every single day."

Even in the middle of this oil-and-gas slump, when the "conga-line of airplanes flying in and out of North Dakota" has stopped, Simone of AirNet II said there is still a call for a very specific type of oil industry charter – one that moves pipeline inspection equipment that carries a nuclear isotope, which falls under the category of dangerous goods.

"We focus on things that need a little extra care in handling," Simone said. "These dangerous goods are anything from explosives to flammable liquids to radioactive material. We pretty much handle all the classes and divisions." For example, while the charter auto parts business is slumping, the airbags are a popular commodity because the small explosives they carry, known as squibs, classify the parts as dangerous materials that must be moved by a certified handler, such as AirNet II.

Most charter carriers and brokers that spoke with *Air Cargo World* have differing opinions on the causes of the current charter slump and disagreed on what needs to be done to survive these lean times. But one thing they all agreed on was that a turnaround will not happen anytime soon and that the market may need until 2017 to show signs of recovery.

"And then you have the election year," Joseph said, referring to the U.S. presidential contest. "It seems like every time we have an election, we have a year like this when everyone wants to sit and wait to see who their next president is before they make commitments."

Amerijet's Huff said it's important to remember how cyclical the business can be. "For every charter that's not being flown today, there's inventory sitting somewhere in Houston or in Miami," he said. "There's stuff waiting to fly. It's very much a feast-or-famine kind of business – right now, we're in the middle of a famine."

Huff added that there have been relatively few natural disasters lately. "A lot of the charter business is driven by natural disasters," he said. "All it takes is one world event." Well, there *is* that presidential election in November.

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First Steps to a Better Last Mile

How technology can help forwarders meet e-commerce demands

By Lewis King

The annual barbeque was only days away when Miriam looked out of the kitchen window of the two-story Duluth duplex she and her husband Mark lived in and realized that their lawn furniture had been ruined by last year's unusually severe Minnesota winter. Miriam flipped open her laptop and rushed to avert a seating crisis.

In minutes, she had settled on a lovely "Cabrillo Sand Dune 7-Piece Patio Dining Set" that she found on the e-commerce website of a major American retailer. It wasn't until she had added the set to her cart that she noticed that, even for a hefty fee, the earliest delivery date was eight days away, and after the event. Miriam closed out her browser, an online retailer forwent hundreds of dollars in revenue – and no one had a place to sit at the barbeque.

From the supply-chain perspective, business-to-consumer (B2C) home-furnishing disasters such as this hypothetical one could be avoided with the adoption of the right technology, improved customer service, better communication and a responsive last-mile system – all value-added services perfected years ago by the global integrators, such as FedEx, UPS and DHL. Increasingly, however, the solution to Mark and Miriam's crisis is coming not only from the traditional integrators but from online retail giants such as Alibaba, JD.com, Walmart.com, and – especially – Amazon, which is able to control the transaction from purchase to final delivery.

As e-commerce rises to become a significant form of global retail transaction, shippers' expectations regarding the performance of forwarders and other third-party logistics firms (3PLs) have never been higher, for both B2C and B2B transactions. Shippers want transparency in the supply chain and retailers want consistency of deliveries, both of which Amazon has perfected over the years.

"I think the retail world vastly underestimates how far ahead Amazon truly is," warned Steve Wilson of Tompkins International, a supply chain consulting and implementation firm. For Wilson and other industry observers, there is Amazon, and then there is everyone else. Whatever fighting chance these other businesses have lies in adopting the right technology and adapting to market realities, because Amazon is "a technology company that also does retail," he said, "and everyone else is a retail company that does technology on the side."

However, there are methods – some high-tech, some quaintly old-fashioned – for 3PLs to deploy to keep up with the last-mile advancements that are the hallmark of the Jeff Bezos empire. Time is running out, but it may still be possible for forward-thinking logistics firms to address last-mile problems earlier in the process and remain competitive.

There's an API for that

With last-mile delivery, physical impediments such as bad weather, downed power lines, damaged mailboxes and other problems that confound delivery come with the territory, costing the industry billions of dollars in lost time and expenses. Just ask any postal carrier.

Another common pitfall that is less apparent occurs much earlier in the supply chain process: the transfer of inaccurate or outdated information. Jett McCandless, co-founder of Project44, a logistics platform that uses cloud-based freight data to connect shippers and 3PLs to available freight capacity, explained that much of the air cargo industry still uses electronic data interchanges (EDIs), a technology first developed in 1948, to share data transmission in batches at pre-determined intervals. As with many fax machines, information in EDIs is stored and sent without confirmation, which can delay freight transactions up to hours.

Many non-Amazon e-commerce retailers lack the technology to match the destination ZIP code with the

shipping ZIP code to accurately estimate transit time, McCandless explained. Instead, they "hard-code the worst case scenario" – or the most time-consuming option – in order to avoid a "negative customer experience." This leads to shopping cart abandonment, as well as a vast discrepancy in delivery times.

The incompatibility of EDIs with modern technology is killing business, McCandless lamented. "Because we use EDIs in trucking," he said, "the issues can't be resolved until the communication layer is fixed."

The answer is the use of application program interfaces (APIs), which are a set of routines, protocols, and tools for building software applications. While many individual companies along the delivery chain lack the footprint to cover shipping, warehousing and final delivery, proper integration can allow them to make fast and efficient deliveries.

Unlike EDIs, APIs are instantaneous, allowing e-retailers to offer accurate shipping information to customers in real time by interfacing, through platforms like Project44, with the rest of the delivery chain. With APIs, shipping data, such as rates, dispatching, tracking and more, are automatically triggered and updated.

The human element: Do not touch

Today's small- to medium-sized enterprises (SMEs) need to enhance communication with all parties along the delivery chain, so that stakeholders can establish when the package arrives and how it gets to the final destination. What's interesting about last-mile solutions, however, is that, for now, no matter how advanced the technology and communication methods, there remains a critical human element. This can be in the form of delivery drivers with an intimate knowledge of the neighborhood, or it can be customers opting to accept shipments at lockers. Until the robots take over, someone is always walking.

uShip is an online shipping exchange that connects customers – ranging from freight brokers to shippers to consumers – with transportation service providers that engage in either fixed-price, spot-market or auction-based transactions. Their approach, in theory, promotes the most competent delivery company through user reviews. It's a sort of social Darwinism for the shipping industry. If a delivery company excels at a certain type of delivery, or in a specific area, their ratings rise and senders can choose their services.

This system is similar to platforms like Yelp.com, driving customers to restaurants that consistently win high ratings. "it's a way to differentiate on not only price, but on service as well," explained Dick Metzler, chief marketing officer for uShip.

"Brown glove" deliveries, which are B2C packages that are not taken into houses or installed, constitute around 90 percent of the market place. The remaining 10 percent are called "white glove" deliveries, which can cost hundreds of dollars more to deliver and often require customized service.

The challenge with brown-glove deliveries is that residential deliveries are not something that large shippers "want to do, or that they are great at doing. They end up being risky with large trucks in small neighborhoods – think power lines and mailboxes, and tearing up somebody's yard. Then there are all the bad things that can happen inside somebody's home," Dick explains.

Companies such as uShip are helping the market respond by pairing up less-than-truckload (LTL) carriers with local providers that specialize and have the right equipment for such jobs. "That is where the market is going," Metzler said.

Will O'Shea, chief sales and marketing officer at XPO Logistics, prescribed a healthy dose of technology to ameliorate final-mile complications like these. "Scheduling, communication and scale are absolutely critical. That takes sophisticated technology."

XPO's technology provides real-time updates throughout the delivery process, "because the customer has to be home and the carrier is meeting a specific window of time." O'Shea also points out that many customers want their deliveries on a Saturday or at a certain time, which requires large-scale resources. Barring that, such deliveries require sophisticated cooperation and scheduling between multiple parties.

Another critical aspect is contracting with qualified and experienced carriers. Unlike uShip, which uses democracy to determine the best provider, XPO vets its last mile network carriers to ensure that they meet strict qualifications.

"They have to have the prerequisite skill sets to make the delivery," O'Shea added.

Let *them* walk that last mile

With so much being spent on the final delivery to multiple specific addresses, some companies have decided to let the customers themselves walk or drive that last mile on their own.

These so-called "click-and-drop" companies are developing simple lockers and parcel collection locations, much like post-office boxes, where goods can be dropped off and picked up by customers at their discretion. Not surprisingly, Amazon has already found success in this arena, with its Amazon lockers program, but the same method is proving to be an increasingly viable, low-tech link for other startups in the last-mile process.

Strict delivery regulations in the U.K. make it an interesting case study in providing alternatives to Amazon's well developed last-mile delivery offerings, and several startups have arisen as a result. In most cases, deliverers in the U.K. require couriers to obtain the receiver's signature, unlike some countries such as the U.S., where packages in some instances can be left on a doorstep or in the hallway if no one is at the office or residence location.

CornerDrop, for example, touts its flexibility and convenience. The startup, which bills itself as a "carrier agnostic" company, has tapped into Britain's love affair with the after-work pint to get more e-commerce deliveries into customer's hands. "The difficulty with Amazon lockers," explained the company's co-founder, Andrew Lasota, "is you only get access to them if you buy from that website, or use the carrier to deliver to that locker."

CornerDrop, on the other hand, empowers businesses, such as pubs and corner shops, to accept deliveries from all carriers and retailers. All businesses need is a smartphone and some space to accept deliveries, which can then be handed off to customers who enter a PIN from CornerDrop. Now in its third year, the company has already signed up 11,000 businesses where customers can pick up their purchases.

From the last-mile perspective, strategies such as providing lockers or contracting businesses to receive and hand off deliveries to customers represent a low-tech and almost failsafe options to deliveries. Such methods also open up e-commerce to customers that would otherwise not make purchases. They drive foot traffic into businesses, as well, allowing customers to down a pint, grab a sandwich or take care of other shopping requirements at the same time.

UPS provides a similar service with its UPS Access Point locations, currently numbering more than 24,000 worldwide, including 8,000 in the U.S. Another initiative that is just being rolled out in the U.S. is its self-service "smart locker" program. The latter was a response to customers who "would start out with UPS directed volume," who then migrated from that to "taking it into their own hands to direct volume to the locker," explained Kalin Robinson, director of new product development at UPS.

Robinson and his team soon found that, "there are fewer unsuccessful deliveries, and there are less stops, so there are benefits for UPS, but also less traffic and less miles driven." In just five years, UPS' My Choice network has attracted 25 million customers.

Two groups of customers that stand to benefit the most from these services are existing customers retrieving an unsuccessful delivery attempt, and those who would not have otherwise bought online, but now do so due to the convenience of a locker or kiosk location. This second group is especially exciting for e-retailers and brick-and-mortar participating stores alike. "People who pick up packages actually make purchases at the host location," Robinson said.

The services offered by UPS and CornerDrop provide an important link in what O'Shea, from XPO, called a "cooperative approach to consolidate inventory of multiple sellers within distribution/fulfillment centers so that they can get the same advantages as Amazon – inventory close to the end customers, and lowering cost and time."

To this end, CornerDrop is already eyeing expanding the role of its locations and giving SMEs a leg up on e-commerce giants like Amazon.

"What we're actually building is a warehouse, with little bits of warehouse all over the U.K.," Lasota said. "There is potential to do fulfillment. Businesses could ship products to our CornerDrops for immediate pickup. It's there. You've bought it, so go down the road and pick it up from the pub. That will change online retail, and Amazon can't do that."

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IATA: Total Freight Growth by Region, May 2016 & YTD

Region	% Growth YoY in FTK May-16	% Growth YoY in FTK YTD
Africa	0.3%	-1.1%
Asia/Pacific	-0.7%	-3.4%
Europe	4.5%	2.9%
Latin America	-9.7%	-4.0%
Middle East	3.2%	5.9%
North America	-0.2%	-2.3%
Industry	0.9%	-0.5%

Source: IATA

The pace of total freight traffic expansion slowed in May, as the cumulative number of freight tonne kilometers (FTKs) flown by IATA-reporting airlines grew only 0.9 percent, year-over-year, in May, compared to 2.6 percent, y-o-y, in April 2016. Load factors fell to record lows in May as airfreight capacity continued to outpace freight traffic growth. Capacity, measured in available FTKs, expanded by 4.9 percent in May. "Hopes for a stronger 2016 are fading as economic and political uncertainty increases," said IATA director general and CEO Tony Tyler. "Global trade has basically moved sideways since the end of 2014, taking air cargo with it."

AAPA: Asia-Pacific Carrier Traffic, May 2016 & YTD

International scheduled services, monthly and YTD, for Asia-Pacific Airlines

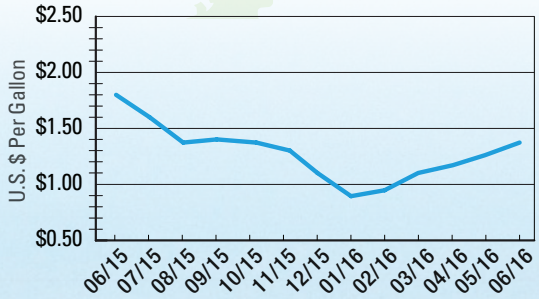
		FTK (mil.)	FATK (mil.)	Freight Load Factor
Monthly	May - 2015	5,401	8,587	62.9%
	May - 2016	5,364	8,756	61.3%
	YoY % Change	-0.7%	2.0%	-1.6 points
YTD	Jan - May 2015	26,827	41,750	64.3%
	Jan - May 2016	25,781	42,653	60.4%
	YoY % Change	-3.9%	2.2%	-3.9 points

Source: Association of Asia Pacific Airlines

Preliminary May 2016 totals for year-over-year Asia-Pacific cargo demand remained flat as Asian airlines registered a decline of 0.7 percent, measured in freight tonne kilometers (FTKs). Freight capacity, meanwhile, increased by 2.0 percent, leading to a 1.6 percentage-point drop in the average international freight load factor to 61.3 percent for the month. "International air cargo demand remained soft," said Andrew Herdman, AAPA's director general, "with year-to-date demand registering a 3.9 percent decline, compared to the same period a year ago, reflecting the weak trading conditions in the global economy."

USEIA: Jet Fuel - Spot Price, 12-Month Change

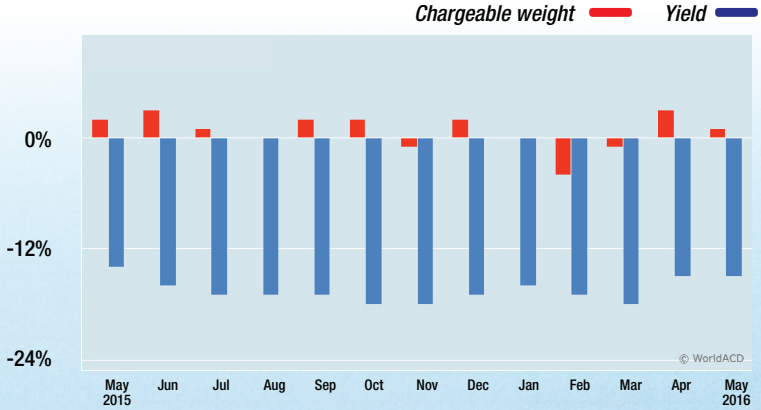
U.S. Gulf Coast, kerosene-type (wholesale price) over the last 12 months



Source: U.S. Energy Information Administration

The spot price of jet fuel was up a slight 6 percent, month-over-month, in June 2016, at the onset of peak summer air travel. Average spot prices reached US$1.38 per gallon, the highest level since last October. Despite the month-to-month increase, prices are still 20 percent lower than June 2015.

WorldACD: Worldwide Air Cargo, Chargeable Weight & Yield, May 2016



Source: WorldACD

May data from the Netherlands-based WorldACD indicate the airfreight market is still struggling to find growth in 2016. Worldwide air cargo demand (measured by chargeable weight), was nearly flat in May, up just 0.5 percent, year-over-year, indicating that growth in some markets was cannibalized by contractions in others. During the first five months of 2016, cargo tonnage originating in Europe grew by the inverse of the tonnage North America lost during the same period. Yields, meanwhile, were down 16 percent from May 2015. Despite some weak trade lanes, WorldACD noted yield improvements on a few larger routes between South America and North America, particularly on Bogota-Miami and Quito-Miami, providing further indication that yields may be nearing the bottom.

If You Purchased Freight Forwarding Services Providing domestic and international shipping,

You Could Get Benefits from a $53.55 Million Settlement

If you or your company used the services of certain freight forwarders, you may be entitled to a potentially significant cash payment from class action Settlements. Settlements have now been reached with the final two Defendants. Settlements were previously reached with 29 Defendants.

The Settlements involve a lawsuit claiming that certain freight forwarding companies secretly agreed to prices for their freight forwarding services worldwide, including on routes in the U.S. and between the U.S. and China, Hong Kong, Japan, Taiwan, India, Germany, the U.K. and other parts of Europe. The Settling Defendants deny that they did anything wrong.

Freight Forwarders provide transportation, or logistics services for shipments relating to the organization or transportation of items via air and ocean, which may include ancillary rail and truck services, both nationally and internationally, as well as related activities such as customs clearance, warehousing, and ground services.

Who is Included

You may be included in one or more of the Settlements (as a Class Member) if you: (1) Directly purchased Freight Forwarding Services; (2) from any of the Defendants, their subsidiaries, or affiliates; (3) from January 1, 2001 through January 4, 2011; (4) in the U.S., or outside the U.S. for shipments within, to, or from the U.S.

What Do the Settlements Provide?

DHL and Hellmann will establish a $53,550,000 Settlement Fund. The amount of your benefits will be determined by the Plan of Allocation, which is posted on www.FreightForwardCase.com.

How to Get Benefits?

You need to submit a Claim Form, online or by mail, by **April 3, 2017** to get a payment from the Settlements. You can obtain a Claim Form by calling one of the numbers below or visiting the website. **If you already submitted a Claim Form for the first or second round of Settlements, you do not need to file a new claim.** You will automatically be paid from this third round of Settlements.

Your Other Rights

Even if you do nothing you will be bound by the Court's decisions. If you want to keep your right to sue DHL or Hellmann yourself, you must exclude yourself by **September 20, 2016** from that Settlement. If you stay in a particular Settlement, you may object to it by **September 20, 2016**.

The Court has appointed lawyers to represent you at no charge to you. You may hire your own lawyer at your own cost. The Court will hold a hearing on **November 4, 2016** to consider whether to approve: (1) the Settlements, (2) a request for attorneys' fees up to 33% of the Settlement Fund, plus interest, and reimbursement for litigation expenses; and (3) a request for Class Representative service awards of no more than $75,000 each. You or your own lawyer may appear and speak at the hearing.

This notice is only a summary. For detailed information:

Call U.S. & CANADA: 1-877-276-7340 (Toll-Free) INTERNATIONAL: 1-503-520-4400 (Toll)

or Visit www.FreightForwardCase.com

Events

AUGUST 14-17

Americargo Meet – Las Vegas, U.S.: This event is designed for independent international freight forwarders to interact and develop business contacts with American forwarders, solution providers and alliances in one networking event. Meetings are optimized to provide a business development platform via an optimized Face2Face scheduler. For more information, visit *americargomeet.com*.

SEPTEMBER 13-15

IATA E-cargo & Technology Conference – Geneva, Switzerland: The conference provides a platform for industry professionals with a stake in e-cargo to interact with each other and be informed about the latest worldwide developments, in terms of regulation, standards, business processes and technology. The approach will be interactive, focusing on debates from experts, opening the floor for challenges and new ideas. For more information, visit *iata.org/events/Pages/e-cargo.aspx*.

SEPTEMBER 18-21

13th Sino-International Freight Forwarders Conference 2016 – Shanghai, China: Co-organized by the China International Freight Forwarders Association (CIFA) and WCA, the conference is scheduled to attract 1,500 freight forwarders, as well as an impressive range of logistics vendors and industry-related companies, to create new, mutually beneficial partnerships around the globe. For more information, please visit *sinoconference.com*.

SEPTEMBER 26

Cold Chain GDP & Temperature Management Logistics Global Forum – Boston, U.S.: The world's largest event for temperature-controlled life science supply chains will return this year with extended topic focuses, new session formats, exciting speakers and enhanced vendor options. For more information, visit *coldchainglobalforum.com*.

SEPTEMBER 27-28

Cool Logistics Global – Bremen, Germany: Stay abreast of the latest industry trends, covering supply and demand of key perishable commodities, innovative distribution techniques, and new strategies for both core and new perishable markets. The theme of this year's event will be "Cool strategies for core markets." For more information, visit *coollogisticsresources.com/global*.

OCTOBER 3-8

FIATA World Congress – Dublin, Ireland: The event, to be held at the Convention Centre Dublin, will help celebrate FIATA's 50th anniversary by providing networking opportunities among top freight forwarders in the welcoming atmosphere of the Emerald Isle. For more information, visit *fiata2016.org*.

OCTOBER 10-12

ELEVATE/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. This year, Air Cargo World will also present its inaugural ELEVATE conference, focusing on the latest innovations in freight forwarding. For more information, visit *cargofactssymposium.com* or *elevateaircargo.com*.

OCTOBER 25-27

AVSEC World Conference – Kuala Lumpur, Malaysia: Hosted by Malaysia Airlines, AVSEC World unites professionals in the security sphere to discuss current issues and actions to be taken to manage risks in the aviation industry today. For more information, visit *iata.org/events/avsec/Documents/AVSEC-agenda-2016.pdf*

OCTOBER 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*.

NOVEMBER 16-18

Logitrans – Istanbul, Turkey: The 10th edition of Logitrans will take place at the IFM Istanbul Expo Center. The international trade show features solutions in the field of transportation, logistics and telematics, all located in Istanbul – the ideal bridge between the markets of Europe, Asia and Russia. In 2015, the event attracted more than 15,000 participants and 220 exhibitors. For more information, please check *logitrans.com.tr*

NOVEMBER 22-23

Asian Logistics and Maritime Conference – Hong-Kong: This sixth edition of ALMC will bring together logistics and maritime services providers and users, including manufacturers, traders and distributors to exchange market intelligence and explore business opportunities in the region. For more information, visit *almc.hk/en/index.html*.

DECEMBER 8-9

Cold Chain Distribution Conference & Exhibition – London, U.K.: This 11th annual conference will include lively debates, market updates and a platform for delegates to stay ahead of the lucrative temperature-sensitive cargo market. For more information, visit *smi-online.co.uk/pharmaceuticals/uk/cold-chain-distribution*.

2017

JANUARY 25-27, 2017

15th Annual Cool Chain Temperature Controlled Logistics Europe – Frankfurt, Germany: Europe's largest and longest-running gathering of life sciences logistics professionals is expected to attract 500+ attendees and 60+ exhibitors. The whole program focuses on actions to implement when attendees get back to their offices. For more information, visit *coolchaineurope.com*.

FEBRUARY 8-9, 2017

Cargo Logistics Canada – Vancouver, Canada: This conference helps connect freight owners with freight movers, fostering multimodal synergy between diverse stakeholders in import, export and domestic supply chains. For more information, visit *cargologisticscanada.com*.

FEBRUARY 21-23, 2017

Air Cargo Africa 2017 – Ekurhuleni, South Africa: This mega-event, to be held near at Casino Convention Resort, near Johannesburg, enables the global air cargo community to explore and strengthen networking corridors with the African continent. For more information, visit *stattimes.com/aca2017*.

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Logan's almost-forgotten cargo operation gets local spotlight

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

by Brandon Fried

The late former Speaker of the House, Thomas "Tip" O'Neill, is most closely associated with the phrase "All politics is local" – a saying he used when the Boston-area Congressman's seat was challenged in 1982 by a Massachusetts lawyer who had financed most of his campaign with money from Texas oil interests. When O'Neill manipulated the local Boston media to convince voters that his support came from local interests and not those located in a far-off place, he used the expression to explain the winning strategy.

The Airforwarders Association has been conducting outreach sessions to understand better the challenges affecting members on a local level. After successful events in Chicago and Los Angeles created an enhanced understanding of airport congestion and access delays in those cities, we recently decided to travel to Boston, where the seemingly noble spirit of local politics thrives, but may also be hampering air cargo growth in and outside the city.

The Air Cargo Club of New England, along with Boston Logan landlord Massport, assisted the AfA in bringing together a diverse group of industry leaders from throughout the region. Two panels focused on the current state of the global and local air cargo industry, as well as Logan-related infrastructure concerns. A lively discussion ensued, revealing intriguing facts and provocative questions.

For the passenger, today's Boston Logan has improved immensely from the days-of-old terminals, thanks to an ongoing renovation project that now features new domestic concourses and a refurbished international facility, coming soon. The airport is the 18th busiest in the United States, serving more than 33 million passengers last year. Virtually all U.S. domestic carriers serve Logan and, thanks to increased international expansion, direct service flights have been established to Latin America, Europe, Asia and the Middle East.

But for cargo interests, the outlook is not as beneficial, despite the facility ranking as the 10th busiest cargo airport in the country, with in excess of 686,000 tons of cargo moving through the facility annually, including seafood and other goods. Jutting out into Boston Harbor and hemmed in by dense urban development, Logan cannot add any more real estate to its property, which is often seen as an impediment to the airport meeting its full cargo volume potential. But this may be just part of the story. During last week's gathering, the dark reality set in that, unlike passengers, freight has apparently become lost in Logan's recent redevelopment plan.

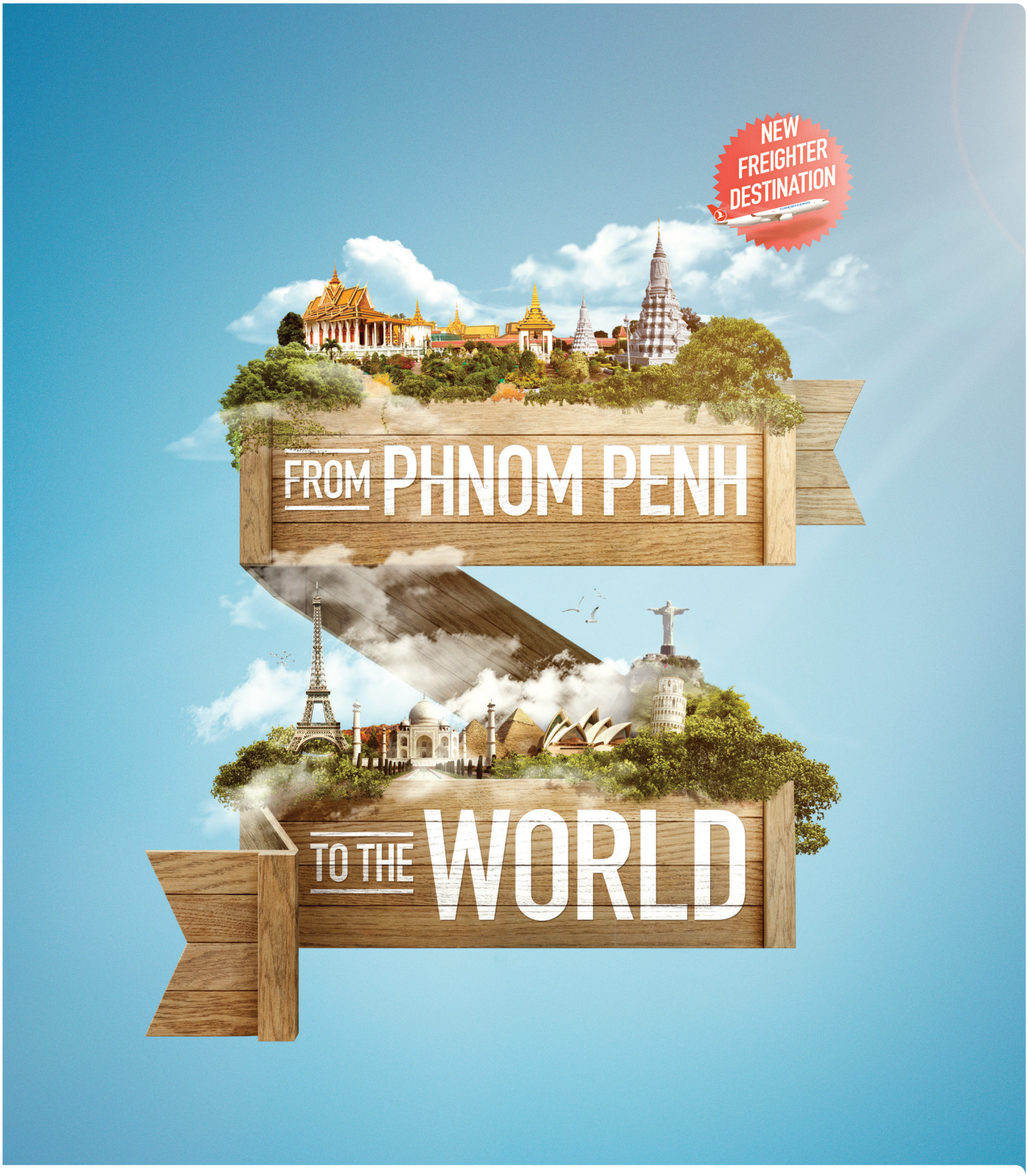
As airlines continue to come to Logan, many probably share the anticipation of not only serving passengers, but cargo interests as well. Unfortunately, two new international carriers calling on Boston are restricted to passenger loads only, since a handler at the meeting claimed that the airport

lacked the properly sized facilities to accommodate their additional cargo. This limitation not only limits an airline's revenue potential, but also trading opportunities for other countries with the Boston community. Further, the restriction is alarming as it creates the ripple effect of limiting activity within the whole air cargo community.

Despite the increased international expansion and future promise at Logan, larger freight forwarding interests in Boston will not replace New York-JFK as a primary consolidation point for cargo anytime soon. While JFK has lost volume over the past few years, it still ranks as one of the three largest gateway airports for cargo in the country. But for smaller shipments and forwarders wishing to increase their New England presence, Logan's new international flights are essential and should be accessible to all of them. Can these forwarders find and afford the space nearby to make its use worthwhile?

One local forwarder suggested that Massport could develop an unused warehouse currently on airport property to increase cargo handling space and thus handle more shipments. Since cargo space is at such a premium at Logan, it's hard to imagine that Massport would not seek to develop this unused space for increased cargo handling. Certainly, with corporate giants such as GE relocating to Boston, such a move would signal Massport's desire to increase both passenger and cargo throughput for the region. After all, as with many airport real estate interests, this independently run public authority must maximize returns for its primary shareholders – the people of Massachusetts and the business community of Boston.

To many of us, air cargo is attractive and exciting, but to industry outsiders, it remains a mysterious necessity. The truth is that airfreight is a vital part of many airline and freight forwarder business models, and we must continue to interact with Massport to find solutions to keep air cargo moving and expanding through the port of Boston. Protecting the cargo space presently available at Logan, while ensuring our industry is in mind when considering future provisioning of facilities, is essential. Politicians throughout the country know that, for a community to thrive, airports must always encourage new entrants, avoid congestion and overcome obstacles, even the local ones in Tip O'Neill's home town.



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**flight schedule as of 20 May 2016

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