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Air Cargo World

THE SOURCE FOR AIRFREIGHT LOGISTICS

MADE IN VIETNAM

A logistics giant emerges in a post-TPP world P13

CLOUD COMPETING

Small forwarders embrace virtual IT to survive P16

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EDITOR'S NOTE

THE SHOCK OF THE NEW


Randy Woods

As we age, it's common to feel indifferent toward the new year. Once you've seen 40, 50 or 60 years go by, the need for champagne, confetti and Guy Lombardo music can seem like overkill. As U2's Bono memorably sang more than 30 years ago, "Nothing changes on New Year's Day."

Not so for 2017. I can hardly remember a new year that has so many logistics question marks surrounding it, from cargo traffic predictions to the viability of free-trade agreements to the existential crisis forwarders are experiencing in light of the e-commerce revolution. Here are just a few of the sweeping changes to come in the airfreight logistics landscape, which we cover in this first full issue in 2017:

A new standard. In this increasingly interconnected world, carriers and forwarders must rely more than ever on securing shipments with the highest value, such as pharmaceuticals. In our cover story, we look at pharma traffic in China (see page 10), where middle-class demand for medications is far outstripping the nation's capacity to maintain cold-chain quality standards. To help reduce this deficit, IATA's previously Euro-centric CEIV-Pharma certification program is beginning to take root in the People's Republic, as a wave of new cold-storage development provides new opportunities for logistics companies.

A new world view. Love him or hate him (few have managed to express ambivalent feelings toward the man), President Trump is finally part of our collective reality. While the Trump Era will likely signal the end of the Trans-Pacific Partnership (TPP) and a retreat toward protectionism in the United States, new alliances are being formed elsewhere to keep global trade thriving. For example, in our feature on page 13, emerging manufacturing powerhouse Vietnam, far from being devastated by the loss of the TPP, is already pivoting its attention to the European Union and to other nearby countries in Southeast Asia for new free-trade agreements to keep its global ambitions on track.

A new strategy. E-commerce has become such an accepted way of doing business, it's hardly worth adding the "e" to the term anymore. Yet, despite the warnings, many forwarders still feel blindsided by the wave of e-commerce that has washed over an industry increasingly dominated by the likes of Amazon and Alibaba. Reflecting this change, *Air Cargo World* begins the first of a series of columns by logistics consultant Stan Wraight, titled "Where We Went Wrong," about the dire need for a renaissance in airfreight innovation. In the initial installment (page 20), Wraight sends a clarion call to air cargo firms, describing how the industry failed to grasp the importance of e-commerce and must force itself to cooperate in order to keep customers from seeking other modes.

A new look. In response to some of these tectonic shifts in 2017, readers will begin to see some other changes right here at *Air Cargo World* in the coming months, including the magazine's first-ever joint presentation of the **Cargo Facts Asia** conference, to be held **April 25-26** in Shanghai, along with sister publication *Cargo Facts* (see *cargofactsasia.com* for details). We will also begin rolling out some improvements in *ACW*'s design in the coming months, including a new section in the magazine (see page 6) dedicated to innovation and technology in support of our second-annual **ELEVATE Conference**, set for **Oct. 2** in Miami Beach (see *elevateaircargo.com*). Also, coming in October, we will begin a celebration of the magazine's 75th continuous year in publishing as we look back through the many decades of air cargo evolution within these pages.

Stay tuned to *aircargoworld.com* for the latest news and updates on these developments. Throughout this year of upheaval, we will continue telling the never-ending story of air cargo with the most comprehensive and insightful coverage in the logistics industry. As Bono also once sang, "I've conquered my past / the future is here at last / I stand at the entrance / to a new world I can see."

Randy Woods,
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AMAZON FILES PATENT FOR FLOATING WAREHOUSES

While some predictions of the future of air cargo may seem like "pie in the sky," Amazon is considering making that phrase a reality. In its latest bid to reinvent the industry, Amazon has filed a patent for "an airborne fulfillment center (AFC) and the use of unmanned aerial vehicles (UAV) to deliver items from the AFC to users."

This planned addition to Amazon's growing drone army is a giant hovering mothership/warehouse that is already being nicknamed "the Death Star" – although perhaps "Laputa," the flying island described in the 1726 book "Gulliver's Travels," by Jonathan Swift, is more apt. In the abstract for the patent application, which was filed in December 2014, but only discovered on Dec. 28, 2016, by Zoe Leavitt, an analyst for CB Insights, the AFC "may be an airship that remains at a high altitude (e.g., 45,000 feet) and UAVs with ordered items may be deployed from the AFC to deliver ordered items."

The filing describes smaller UAVs attached to the mothership that "can navigate horizontally toward a user-specified delivery location using little to no power." Shuttles would replenish the AFC with inventory, replacement UAVs, supplies, fuel and whatever biological manpower is required – likely very little. The filing also describes a scenario in which "items likely to be ordered are determined and stocked in the inventory," in advance of a sporting event, while the flying warehouse hovers nearby to accommodate the impulse purchases of fans. Possibly including pie – from the sky.

–Lewis King

DHL ENTERS RAPIDLY EXPANDING VIRTUAL FREIGHT MARKET

Think of it as a pallet of digital shipping information.

In December, DHL debuted CILLOX, an online platform designed to reduce the hassle of price negotiations by gathering data based on shipment needs, availability of space and last-booked rates. CILLOX was created to help forwarders find lower-cost alternatives for road feeder services, currently a laborious task. CILLOX, DHL said, matches full-truckload and less-than-truckload shipments with all transportation providers.

The launch came just two months after DHL bought the platform, suggesting the urgency that large freight firms are sensing in the market. Most logistics companies are developing similar tools: Alibaba, UPS, which just bought Freightex for similar purposes, and a slew of startups, such as Freightos, Cargo42, Globatom and Convoy, backed by Amazon. Amadou Diallo, CEO of DHL Freight, said he is confident that CILLOX "will shake up the freight forwarding business," and that digitization "will benefit all parties involved."

–Lewis King

FLIRTEY, 7-ELEVEN TO ELEVATE DRONES BEYOND NOVELTY ACT

Flirtey drones and the 7-Eleven convenience store chain have been busy ramping up their drone-delivery service agreement since delivering the first iced "Slurpee" drink to a customer in Nevada this July. The partners have now announced the completion of 77 autonomous drone deliveries to customer homes in the United States.

With Amazon completing its own automated delivery last December, followed by the promise of a meaningful scale-up in the coming months, drone delivery seems to be moving out of the "novelty-act" phase towards economic viability.

Flirtey said that it conducted "regular weekend deliveries" during November 2016 from an undisclosed 7-Eleven store to a roster of select customers who placed orders with a custom app. Along with listing all items available for delivery, the app also notified customers when their drone was loaded, when it departed the store and when it arrived. On average, customers received their packages by Flirtey less than 10 minutes after the placement of their orders.

–Lewis King

VIENNA AIRPORT BEEFS UP WAREHOUSE CAPACITY

Vienna International Airport (VIE) announced that it is expanding its cargo facility by 30 percent and expects to have an additional 15,000 square meters of warehouse space operational by the end of this year. The €16 million addition will feature solar panels that will be "one of the country's largest rooftop photovoltaic electricity generating facilities," the airport said.

The addition is taking place in conjunction with a series of expansions at VIE, including a 140,000-square-meter office park. The airport plans to "target international firms, especially Brexit refugees from Great Britain, in light of the fact that we boast a unique location in the heart of Europe," said Günther Ofner, member of the management board of VIE's operator, Flughafen Wien AG.

The move makes sense, given the airport's steady increase in cargo volumes in recent years. The latest numbers for the first three quarters of fiscal 2016 showed cargo volume up 5 percent, year-over-year, to 208,830 tonnes. VIE also reported growth in cargo volumes of 4.8 percent, y-o-y, for the month of October 2016.

"At present, about 800 tonnes of freight are handled daily at the airport, or about 280,000 tonnes annually, showing a clear upward trend," said Ofner. "For example, half of the export production value of Lower Austrian industry of €8 billion is transported from Vienna Airport throughout the world via air cargo."

–Lewis King

DP-DHL COMPLETES UK MAIL DEAL

At the start of the year, Deutsche Post DHL Group (DP-DHL) completed the acquisition of UK Mail in a US$315.5 million bid to strengthen its presence in the U.K.'s e-commerce market. Both E.U. and U.K. regulatory bodies signed off on the deal in late 2016, and the companies have moved to cancel the listing of UK Mail Group plc and add UK Mail's operations to the European parcel network of DP-DHL.

Deutsche Post has been on an expansion spree of late. In January 2016, the German company bought a 27.5 percent stake in French logistics firm Relais Colis to strengthen its foothold in Europe's third-largest e-commerce market. In September 2016, the company added ventures in Hungary and Slovenia, expanding its presence to 19 European countries, according to a company spokesman.

On the UK Mail side, the company has bolstered its tech capabilities in recent years, investing in IT and in product and service innovation. In 2015, a DP-DHL release noted that UK Mail "completed the most significant development in its history with the move to a new automated hub in Ryton, near Coventry. The result is that it offers one of the largest integrated parcels and mail operations in the U.K."

–Lewis King

FREIGHTEX DEAL PROVIDES UPS ACCESS TO EUROPE'S 3PL SECTOR

UPS has bought into the European truckload brokerage sector with purchase of Freightex, a U.K.-based provider of truckload, less-than-truckload, specialized and refrigerated over-the-road services. With the purchase, Freightex will benefit from UPS' vast truck and air carrier network. The acquisition also gives UPS access to the European 3PL sector, which is expected to reach US$174 billion by the end of 2016.

"The U.K. and Europe are strategic 3PL freight brokerage growth markets for UPS, and there is significant cross-border opportunity," explained Alan Gershenhorn, COO for UPS. The brokerage portion of the European 3PL market is growing at a faster rate than the total market, and is expected to further expand as shippers and carriers further adopt the brokerage model.

The news comes more than a year after UPS bought Coyote Logistics in August 2015, a truckload brokerage in the North American market. The 2015 purchase gave UPS greater control over the transportation chain, and increased its customer base and utilization of its trucks. Freightex said it will gain access to Coyote's technology and vice versa, and will continue to operate as a wholly-owned subsidiary of UPS.

– Lewis King

ON THE RAILS: GROWTH IN THE SLOWER LANE

Last October the British and Chinese governments agreed to allow more than double the number of passenger flights between the two nations and threw the door open to unlimited cargo flights. To date, however, no air carrier has availed itself of the opportunity. Instead, rail, as well as rival ground-based modes, have risen in popularity.

The new year saw the launch of the first freight train service from Yiwu in China's Zhejiang province to London, a 12,000-kilometer journey, which was covered in about 18 days, passing through four Asian and four European countries before entering the U.K. There are two corridors for such connections on this well-worn route between Europe and China: One going through Mongolia and Russia, and the second through Kazakhstan and Russia. Most rail services from China terminate in Germany, but the reach across Europe is spreading. Last year, Kerry Logistics entered the rail arena with a large-scale project that involved two block trains plus a number of full containerloads moving to Spain.

At the Asian end, the number of origin points has climbed steadily in the last decade, creating a greater threat to air cargo options. Over the past couple of years, DHL Global Forwarding (DHL-GF) established rail-ferry connections from Japan and Taiwan to Europe, as well as a link from Korea. In September, DHL-GF started services from Japan to Germany; Vietnam to Europe; and Chengdu to Istanbul. According to Charles Kaufmann, DHL-GF's CEO for North Asia and head of value-added services for Asia-Pacific, the introduction of less-than-containerload services has been well-received, as it offers greater flexibility and speed – making it more competitive with air – and allows clients to export low-volume shipments.

Block-train journeys from Asia to Europe have climbed from 72 in 2013 to an estimated 1,200 last year, according to forwarder TransXpress. Panalpina, which has seen double-digit growth in this segment, moved almost 900 forty-foot containers in this corridor last year, reported Sng Peng Koon, Panalpina's country head of overland/subcontractor management in Greater China.

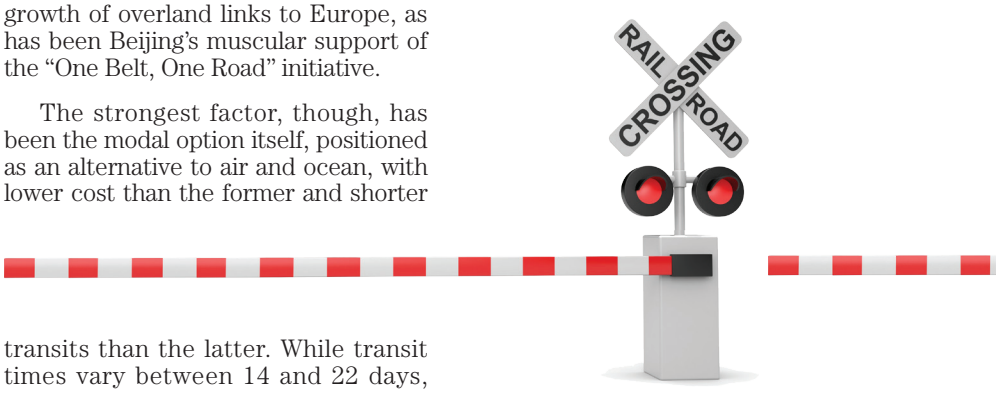
The collapse of Hanjin last summer was initially thought to be a boon for air cargo, but rail seems to have been the real beneficiary, as shippers suddenly faced a shortage of marine capacity, said Caspar Lum, manager of trade development at Kerry. Hellmann Worldwide Logistics also reported a shift to rail after the Hanjin bankruptcy. The migration of manufacturing to China's interior has been a factor in the growth of overland links to Europe, as has been Beijing's muscular support of the "One Belt, One Road" initiative.

The strongest factor, though, has been the modal option itself, positioned as an alternative to air and ocean, with lower cost than the former and shorter transits than the latter. While transit times vary between 14 and 22 days, multimodal routings can reduce cost by up to six times, DHL-GF said. Rail service also has a reduced impact on the environment, Kaufmann added.

Kerry has targeted mostly shippers that have used ocean routes so far, but Lum also sees potential with traditional airfreight users, although it takes longer to get them attuned to the transit times and gain confidence in rail, he said. Clients from the electronics, industrial machinery, consumer products and automotive sectors have been strong users of the rail option from China to Europe, but more recently, fashion and garment makers have put their goods on trains. In the opposite direction, Kerry has moved automotive traffic and also food shipments from Spain.

There are some notable downsides that limit rail's attractiveness. For instance, perishables that require more complex cool-chain protocols are not yet a viable option, as the proper refrigeration technology on rail is prohibitively expensive, Lum said. Differences in rail gauges between China, Russia and Europe force cargo trains to shift twice to different rail chassis along the way. While customs clearance is still challenging, he said, it still creates only minor delays.

Some forwarders have claimed that rail service to Europe would not be competitive were it not for Chinese government subsidies to support One Belt, One Road. Lum said he expects Beijing's pro-rail stance to continue.



Kerry has been building up its rail capabilities, setting up a consolidation hub in China, and developing full and less-than-containerload (LCL) services. "This will be one of the key priorities for Kerry in the coming years," Lum said. Panalpina is also beefing up its rail service by "setting up self-operated LCL services along the route at strategic locations in China," Sng said.

"Multimodal rail service is an important focus," DHL-GF's Kaufmann added. "We will continue to explore more services in the near future."

–Ian Putzger

THIRD PARTIES

B&H Worldwide has named **Markus Homann** managing director, Germany. Homann opened the company's first German office in Hamburg in April 2012. He developed and grew the B&H team in Germany from the warehousing of routine consumables through to providing engines for grounded aircraft.

GEFCO Forwarding UK Ltd. has appointed **Ben Cunnington** to head the new Humanitarian Relief Logistics (HRL). Cunnington brings more than six years' experience in the transport and logistics sector, having also held a range of senior roles at TNT Express, Energy Armor Racing, Tesco PLC and PDC Diving.

CEVA Logistics, has appointed **Carlos Velez Rodriguez** as managing director for its Australia and New Zealand cluster. Velez Rodriguez joins CEVA from FM Logistic, where he was group managing director for Central Europe and led a team of 5,000 employees.

CARRIERS


Marcel de Nooijer

Marcel de Nooijer is the new executive vice president of **Air France-KLM Cargo**. He will also join the Air France-KLM Group Executive Committee. De Nooijer joined KLM in 1995 and has gained commercial and operational experience working in various positions at KLM, and its cargo division, as well as at Air France-KLM, most recently serving as executive vice president KLM Cargo.

Turkish Airlines has appointed **Turhan Özen** as its new chief cargo officer. Özen joined the carrier in 2016, and held a similar position at CEVA Logistics, eventually becoming deputy managing director of commercial at CEVA in 2011.

Chapman Freeborn Airchartering has appointed **Pierre van der Stichele** as the carrier's group cargo operations director. With 14 years of experience with Chapman Freeborn, Van der Stichele managed several European offices, including Italy, which he helped to establish in 2009. He also held positions at airlines such as Southern Air Transport, Antonov Design Bureau and Evergreen International Airlines.

ORGANIZATIONS


Renate de Walle

Renate de Walle, director of pharmaceutical logistics at Air France-KLM-Martinair Cargo, has been chosen by **The Cool Chain Association (CCA)** as treasurer and director on the CCA board. De Walle will replace Malik Zeniti from the Cluster for Logistics Luxembourg, who will step down after three years of service. De Walle has spent 18 years at Air France-KLM, including three years in the cargo division, where she is responsible for the pharma unit.

EVENTS

FEBRUARY 8-9

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 9-12

The 9th WCA Worldwide Conference – Singapore: One of the industry's largest conferences of the year is being held for the first time in Singapore. Expect to see more than 2,500 freight forwarding executives gather for three days of one-on-one business meetings and social networking events. For more information, visit *conference.wcaworld.com/wcaworld2017/info/eng/about.php.*

FEBRUARY 21-23

Air Cargo Africa 2017 – Ekurhuleni, South Africa: This mega-event, to be held near at the 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.*

MARCH 14-16

11th World Cargo Symposium – Abu Dhabi, United Arab Emirates: WCS is IATA's largest and most prestigious event of the year, held at the Abu Dhabi National Exhibition Center. *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 29-30

Smart Supply Chain and Logistics Conference – Sydney, Australia: As the leading supply chain conference in Australia, Smart provides vision, strategy, networking and education for supply chain managers seeking guidance on the digital transformation of the logistics business. For more information, visit *smartconference.com.au.*

APRIL 4-6

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

APRIL 25-26

Cargo Facts Asia – Shanghai, China: The sixth annual conference, co-presented for the first time with *Air Cargo World*, explores industry trends and opportunities in the Asia-Pacific region. With two tracks of panel discussions and presentations, Cargo Facts Asia features 200+ companies and 80+ carriers with the most innovative executives in the industry. For more information, visit *cargofactsasia.com.*

APRIL 30 - MAY 2

26th CNS Partnership Conference – Orlando, U.S.: IATA subsidiary Cargo Network Services Corp. brings together 600 air cargo professionals from the 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.*

JUNE 4-6

AirCargo 2017 – Orlando, U.S.: AirCargo, the thirteenth conference and presented by the AirForwarders Association, brings together all actors in the supply chain to discuss trends, challenges, opportunities and the future of the air cargo industry. For more information, visit *aircargoconference.com.*

COLD FRONT APPROACHING

As the truck entered the warehouse, it was unloaded by workers and the cargo was placed on the floor on open platforms. After the pallet was broken down for transport by truck to various locations, the cargo was stored in an open cage, with a few pipes running overhead to supply coolant for the open space. The truck itself also had been open to the elements for much of its journey. Later, when the broken-down contents were arranged for shipment to their final destination, some were strapped on the fenders of open mopeds, which sped off into the evening.

Welcome to the typical "cold chain" storage facility in 21st century China. "This is actually a rather good storage, in our minds, because you don't see a lot of ice," said Clement Lam, director of the Hong Kong office of logistics giant John Swire & Sons, during a presentation at last year's Asian Logistics and Maritime Conference in Hong Kong.

In contrast to the first facility, Lam then showed the crowd images of Swire's Shanghai facility – "the tip of the arrow" of Swire's cold-chain network, Lam said – which was a well-lit, secured warehouse with completely sealed storage units for various ranges of temperatures, some as low as -18°C, and a wide staging area maintained at temperatures ranging from 0° to 4°C. "Apart from the protective gear that you see people wearing, you really don't recognize that this is cold storage," he said. "This is a U.S.-style concept that we brought to China."

With more than 60 years of experience in the cold-chain business, Swire is currently the third-largest cold storage operator in the world, Lam said, and one of their fastest growing markets is China. Swire Cold Chain Logistics now operates five facilities in China, located in the cities of Guangzhou, Shanghai, Langfang, Ningbo and Nanjing, with three others under development in Xiamen, Chengdu and Wuhan. One of the company's major priorities is to eradicate conditions like the outdated facility described above, and raise China's cool-chain infrastructure to world-class standard. It seems like a long uphill climb, however.

Still, the payoff of these efforts will likely be worth the toil, thanks to China's enormous potential for growth in pharmaceuticals. Asia's share of the global perishables market grew from 13 percent in 2006 to 20 percent in 2015, with pharma making up only about 18 percent of that perishable market. From this low base, pharmaceuticals that require cold-chain care have seen a compound annual growth rate (CAGR) of 7.7 percent over the last 10 years, compared to 4.4 percent CAGR for the entire Asian perishables market during the same period, according to a report by the research firm Seabury Group. Most of this temperature-sensitive pharma traffic passes through China.

While the biopharma market is still considered to be in its infancy in China, the potential is astounding, said Yvonne Ho, the International Air Transport Association's (IATA) general manager for Hong Kong and Macau. Global spending on cold-chain logistics is expected to reach US$16.7 billion by 2020, making it one of the fastest-growing sectors in air cargo. Leading most of this growth will be China, which Ho named as the number-one country in the world's top 21 emerging – or "pharmerging," as she termed it – pharmaceutical markets.

CHINA GETS SERIOUS ABOUT TEMPERATURE CONTROL FOR PHARMA

By Randy Woods

"When Asia and other parts of the world use pharmaceuticals at the same rate as Europe and North America, the total market should be three times larger than it is today," Ho said.

"So I'm not surprised when [Swire] said many years ago that we want to develop this business in China," Lam said. "China is a very, very important market for cold-chain logistics."

SPEAKING A COMMON LANGUAGE

While the potential is vast for the Chinese pharma market to boost global airfreight, there's only so far it can rise while still being tethered by a tangle of conflicting regulations. Brett Marshall, corporate head of quality assurance for pharmaceutical distributor, Zuellig Pharma Holdings Pte. Ltd., has struggled for many years with the red tape that has held back his business, which has operated for nearly a century in Southeast Asia, and which employs 10,000 people working in 13 different countries. Naturally, this diversity can lead to some regulatory misunderstandings.

Zuellig, which focuses mostly on distribution for more than 120 multinational pharma companies – along with some pick-'n'-pack 3PL operations, warehousing and secondary repackaging operations – is heavily involved in cross-border business to serve its manufacturer clients. "We deal with 12 different regulatory authorities across the region," Marshall described. "There are different industry bodies that determine regulation, so you have the [Medicines & Healthcare products Regulatory Agency], the E.U., the World Health Organization, the U.S. FDA – everybody had a standard. The establishment of a standard for quality, and the way that we can meet the quality needs of the industry going forward, is extremely important."

This is where the global standards, such as Good Distribution Practices (GDP) and the Center of Excellence for Independent Validators in Pharmaceutical Logistics (CEIV-Pharma), begin to play a major role.

According to IATA's Ho, at the end of 2016, the CEIV-Pharma program had been completed at 41 locations worldwide, while 72 companies are currently pursuing certification. However, the vast majority have been within Europe. To date, only two locations in all of Asia – Shanghai Pudong Airport/PACTL and Changi Airport Singapore/SATS – have earned their certs, while another 12 are currently pursuing the program. One of the 12 was Hong Kong International Airport, along with supply chain partners Asia Airfreight Terminal Co Ltd., Cathay Pacific Airways Ltd, Cathay Pacific Services Ltd., Hong Kong Air Cargo Terminal Ltd (Hactl), Hong Kong Airport Services Ltd., Jardine Aviation Services Ltd., and SATS Ltd.

CEIV-Pharma, Ho said, is one of the best ways to cut down on the number and severity of temperature excursions that occur along the supply chain. "Although pharmaceutical shipments are a growing trend, air cargo is losing its share of the global pharmaceutical products' transport market, mainly

to ocean freight," Ho warned. The temperature deviation is much more significant, she added, when the cargo is in the hands of airlines and airports, causing annual product losses of US$2.5 billion to US$12.5billion.

Swire's Lam, however, contended that it is more likely for a temperature breach to occur during land transportation rather than the short time air cargo containers are moved on the ramp. "Some truck drivers," he said, "have been known to actually switch off the air conditioning to get better gas mileage, and then turn it back on again when they are about to arrive at their destination."

Regardless of the reason for the excursions, Frosti Lau, general manager of cargo services for Cathay Pacific Airways, said the need for CEIV-Pharma certification is due to the rapidly increasing demand for pharmaceuticals and temperature-controlled products, not only in Hong Kong but throughout China and Southeast Asia. "We are in the process of getting a CEIV-Pharma certification for Hong Kong," he said. "So I hope in the next year we will actually get it done."

STANDARDS LEAD TO BIG DATA

One of the tangential benefits to participation in either a GDP or CEIV program, Lau pointed out, is the potential for companies to gather information for deeper, "big data" analysis of their operations. "Whether it's CEIV or GDP, it's a start to create a formal language," he said. "For now, it's really a preliminary stage to really start getting the basics right. When there is more information available, in terms of how we're tracking, maybe in the next few years' time, then things will come together."

Ten years ago, Lau recalled, when he used to work in sales at Cathay, "we didn't have that many active companies asking a lot about temperature excursions, because [the data] was just not there. Now, we even have some pharmaceutical perishable shippers who do their own tracking to measure temperature excursions. So we know there is data that exists out there. So, with these technologies, they can enable us to do better analysis in terms of the potential gaps that we have along the chain."

In the long term, Lau continued, "maybe in the next few years, we will be able to do more structural reviews... If we have the data available, which, in mainland China, is not too difficult to get, then you will be able to see a better demand forecast for certain types of products. And then we could actually go back to the supply chain, and see how we planned the capacity and how we planned the relevant requirements in terms of the cool chain requirement that we want to go by."

Zuellig's Marshall agreed about the huge potential that certification programs can have on big-data analysis. "This is an area that we haven't had the capability to analyze before, but it certainly fits in with the new approach of risk-based management, so we identify where the gaps are [and] reduce the risks for the entire process," he said. "I think one of the numbers we were talking about was that we lose somewhere between 20 and 30 percent of our temperature-controlled shipments because of temperature excursions. There's huge potential for applying a risk-based approach to how we reduce that, because it's not just the cost of lost product, it's also patients that are impacted by not being able to have medicine administered."

THE FUTURE OF CHINESE PHARMA

With demand expected to remain strong for cold-storage facilities in China for many years to come, the next few years may see major opportunities for builders and operators of modern cold-chain facilities.

"We expect that growth to continue to be strong as we see expanded health care being provided with more investments by governments in health care services," Marshall said. "There's more propensity to spend with a growing middle class, particularly in China. And we're also seeing high-growth markets in Korea, Vietnam and, of course, India. That is translating to increased volumes, and a lot of pressure that's being placed upon the available infrastructure."

"We believe that one way to [meet this need] is to bring in network operators such as us, because wherever you go, you are guaranteed the same quality that you would expect for the state-of-the-art facilities," said Swire's Lam. "In terms of low-price and low-quality operations, that is still the situation in China, but we hope in the end that will change."

As the $3 trillion global pharmaceuticals market continues to grow at 4 to 5 percent per year, products requiring cold chain facilities will represent 25 percent of the market by 2020, said Gert-Jan Jansen, executive director of the Seabury Group research firm and head of Seabury's Cargo Advisory Team. Global pharma sales, he added, will continue to drive pharma trade growth in the medium term.

Some of the largest Asian pharma trade lanes, mainly involving China, have seen rapid growth in the past few years, and much of this trade requires temperature-control facilities, Jansen said. Temperature control capabilities and facilities will need to be continually improved, he added.

"While it is still relatively small, the pharmaceutical industry in China has one of the fastest growing air trade sectors in the world," Jansen added. "Recent growth in key trade lanes and future forecasts suggest temperature-controlled pharma to be a major growth driver for air trade. Airlines, airports and handlers will need to adapt their capabilities to serve this growth market in the future."

ACW

MADE IN VIETNAM

THE EMERGING LOGISTICS GIANT HAS NO PLANS FOR SLOWING DOWN POST-TPP

By Lewis King

Electronics manufacturers in the central Vietnamese province of Quang Nam had been ramping up capacity since 2008, when the country joined 11 other nations in crafting the Trans-Pacific Partnership, or TPP. The free-trade agreement would be the largest ever conceived and promised to promote economic growth and launch Vietnam as a regional manufacturing and export powerhouse.

Already outpacing China in terms of manufacturing growth, Vietnamese firms were producing around the clock, according to HSBC and Markit Economics analysis. "Falling commodity prices in world markets continued to feed through to lower input costs," said Andrew Harker, senior economist at Markit. Wages were – and still are – relatively low, with the average Vietnamese earning US$197 per month in 2013, compared with $391 for Thailand and $613 for China, based on International Labor Organization data. Free trade with America and other TPP signatories pointed to a "golden age" of Vietnamese manufacturing and logistics.

But then 2016 happened.

The storm clouds started gathering during the U.S. presidential primaries in early 2016, as both the Republican and Democratic parties started falling over themselves to condemn the incipient agreement that many had previously supported. "The Trans-Pacific Partnership is another disaster done and pushed by special interests who want to rape our country," declared candidate Donald Trump last year at a rally in St. Clairsville, Ohio. "It's a harsh word, but it's true." On Nov. 9, whatever chances the oft-maligned TPP had of becoming ratified by the U.S. were dead, as Trump scored a surprise victory over Hillary Clinton to become the nation's 45th president.

With so much riding on trade with the U.S., and an economic development model predicated on free trade, Vietnam stands at a crossroads. How will the country maintain its growth without a deal with the largest economy in the world? While this remains a vexing question, some say the answer is relatively simple: Look elsewhere.

With an already existing free-trade agreement with the European Union that will begin to kick in next year, and with its proximity to the massive Chinese economy directly to the north, Vietnam has enough options – even without the TPP – to become a thriving manufacturing country, a logistics nerve center for Southeast Asia and a booming airfreight hub. The only remaining question is whether the emerging nation has the political will and economic commitment to bring its outdated infrastructure into the 21st Century.

THE ART OF THE PIVOT

In many ways, Vietnam is already turning its attention away from its long and troubled relationship with the United States and facing to the west, eying increased trade with the European Union.

"Our current main trade lanes are from Vietnam to Europe," said Li Wenjun, DHL Global Forwarding's senior vice president of airfreight for the Asia-Pacific region and head of airfreight for China. E.U.-bound airfreight business is already "showing strong growth and has immense potential for further development," he added. "With the Vietnam-European Union free-trade agreement, we expect that it will boost our air freight tonnage between Vietnam and Europe."

The E.U. free-trade agreement, Li said, "will take effect in 2018 and is expected to bring more business activities in the next few years, leading to positive growth in GDP."

This E.U. connection is also bringing in a massive influx of foreign direct investment and intra-Asian investment, which bodes well for South Asia trade. "A lot of [foreign direct investment] is flowing into Vietnam," said Andrew Chen, acting country manager for forwarder Dimerco Vietnam. "China is already number two and Japan and Korea are close behind because they are investing in manufacturing. That means there is a huge demand for import-export, so for logistics companies, the demand will increase accordingly."

One of the pioneers of the overseas investment wave is C.H. Robinson, the first fully foreign-owned global forwarding company to set up shop in Vietnam after the government removed restrictions on foreign ownership in 2015. That deregulation alone was an important signal to multinationals that Vietnam was moving fast to integrate into the international economy, trade deals or no.

C.H. Robinson opened its Ho Chi Minh City office in April 2015. Tony Tan, the company's regional manager for Southeast Asia, told *Air Cargo World* that "the E.U. already had a large presence that dates back to as early as the '80s, and it promises to be one of Vietnam's largest markets going forward, presenting even more opportunity." For Tan, customs delays and infrastructure shortages were the primary concern, given Vietnam's built-in growth potential. "Without investment," he explained, "importers and exporters will run into problems."

IN THEIR OWN BACK YARD

While the European connection looks to remain a vital aspect of Vietnam's growth in the airfreight sector, the country also benefits greatly from being in the Southeast Asian corner of the world. As labor costs keep rising in China, many Chinese manufacturers are looking elsewhere for less-expensive workers.

"Free trade cuts both ways," said Zvi Schreiber, CEO of online forwarding firm Freightos. On the one hand, with the TPP out of the running, Vietnam forfeits "an extra competitive boost, from freer trade with the U.S., that would have given them an additional edge over China," he said. But he also pointed out that "China is becoming richer and more expensive, and that benefits the less sophisticated manufacturing countries."

So, while China's exporters stand to benefit from the demise of the TPP, that's not all bad news for Vietnamese exporters, since rising wages are sure to drive up demand from middle-class Chinese consumers for Vietnamese-made goods. Meanwhile, as the sophistication of manufacturing in Vietnam increases, more expensive goods will be loaded into the bellyhold of jets bound for China.

Schreiber also noted that it would be tough to compete with South China because the entire ecosystem was in place for complex manufacturing there. "In Shenzhen, you drive up and down the street and there are people making every possible component in electronics, so the fact that the labor was cheaper in Vietnam was irrelevant to us because none of the sub-contractors, none of the parts were available at the same expense," he said.

China took a page out of the U.S. playbook and, along with 15 other countries, including Vietnam, has been negotiating a region-wide trade deal since early 2013, covering around 30 percent of global GDP. The Regional Comprehensive Economic Partnership (RCEP), while a less comprehensive treaty than the TPP, has finished its 15th round of negotiations, and other countries are watching with interest.

THE ACHILLES HEEL

For Vietnamese manufacturers, supply chain connectivity is essential, which is why industries like textiles are thriving, since their supply chains are less complex and easier to set up, even in underdeveloped countries. For electronics, however, much more modern air cargo facilities are needed.

"The country's air cargo capacity and abilities are improving, but there will be challenges in the future due to growth," said C.H. Robinson's Tan. "Customs delays are still a challenge for freight forwarders in Vietnam. Right now, growth is still sustainable for the next three to five years, but without investment, importers and exporters will run into problems."

Currently, according to Corinna Seidel, department head of communications for the Asia-Pacific region for German forwarder Dachser, "both ports and airports are lacking capacities." For example, Ho Chi Minh Airport has little ramp room for the cargo aircraft needed to meet the demand from nearby factories. She added that the road and rail network, particularly the north-south railway connection between Hanoi and Ho Chi Minh City is insufficiently developed.

Vietnam, it seems, is responding with economic pragmatism, hoping that current infrastructure development can keep pace with demand for fast and reliable transportation. In a 2014 speech, IATA boss Tony Tyler noted that Vietnam ranks 82nd in the Infrastructure Index of the World Economic Forum's Global Competitiveness Report. Among the ten ASEAN states, Vietnam is ranked sixth. Vietnam is addressing these low rankings with significant investments. It has announced an aviation master plan to have 26 airports by 2020. Expansion programs are underway at Hanoi and Ho Chi Minh airports, with the new Long Thanh International Airport to be ready by 2020.

From a logistics standpoint, DHL-GF's Li noted that "there are ample opportunities to move textiles/agricultural products from Vietnam to Europe, and pharmaceuticals, car parts and food products from Europe into Vietnam. Vietnam offers huge potential for logistics development over the coming years. However, for the industry to develop further in Vietnam, there are some areas that need to be enhanced, such as infrastructural development, government policies to support logistics development and simplifying customs processes."

Japanese investment consulting firm Seiko Ideas Corp. anticipates that air cargo will expand at 6.6 percent per year through 2020. The usual rule applies here – airfreight accounts for a small volume of exports, but up to 25 percent by value. In addition, air cargo accounts for higher value-added production such as more sophisticated electronics and high-value fashion.

OUTLOOK UNCERTAIN

So, while some investments are in place to address infrastructure needs, does the Vietnamese government have the political will to align regulations with best practices? There certainly isn't a shortage of headlines celebrating new development projects. Construction of Long Thanh Airport, north of Ho Chi Minh City, is expected to start in 2018 or 2019, at a cost US$5.4 billion, and upon completion, will have capacity for 25 million passengers and 1.2 billion tonnes of goods annually.

Some, however, are less enthusiastic about the country's bureaucracy. Do Van Thuat, director of Long Quang Investment Co. Ltd., told *Vietnam Net* that it still "takes three to six months to import an auto into Vietnam and 15 to 20 days to finish customs clearance procedures." Clearly, there is still red tape to cut.

On the forwarding side, DHL-GF's Li was more optimistic. He predicted that "logistics demand in Vietnam will increase in order to support the growth in the manufacturing sector." And while he admitted that transportation and warehousing infrastructure were underdeveloped, he saw that as an opportunity. "The Vietnamese government is also working on improving the road infrastructure and reducing customs procedures complexity to build a more conducive and attractive business environment in Vietnam."

If the country can meet its infrastructure needs, the socio-economics of the country – a young growing population, stable macroeconomic policy, and economic liberalization – suggest decades of increasing trade and job creation.

And what of the United States? That post-TPP story has yet to be written. "The USA as Vietnam's most important trade partner will not lose importance," said Dachser's Seidel. But with the extra promise of the European free-trade agreement and the various Southeast Asian trade deals, Vietnam is hardly out of options for a brighter future in logistics.

ACW

CLOUD COMPETING

SMALL FORWARDERS EMBRACE VIRTUAL IT TO SURVIVE

BY RANDY WOODS

It's late afternoon on a Thursday and the weather report keeps getting angrier. Wind speeds are increasing, the rain is pounding the doors of your distribution center and there's talk of a storm surge to come when the eyewall makes landfall in a few hours.

Just another typical early autumn day for a 3PL in Florida.

Hurricanes are a fact of life along the Atlantic Coast in the U.S., but they can wreak havoc for unprepared logistics companies. This was the scenario faced by Saddle Creek Logistics Services last October as Category 4-intensity Hurricane Matthew began scouring the length of the Florida coast. While the company's Data Center in Lakeland was not in the direct path of the storm, Steve Congro, director of omni-channel fulfillment technology at Saddle Creek, was concerned about some of the other warehouses the 3PL operates in the state and along the rest of the Atlantic seaboard. Fortunately for Saddle Creek, the forwarder had already switched over most of its inventory managment system services to a cloud-based supply IT platform called Softeon.

Talk about good timing.

As it turned out, Hurricane Matthew passed by without doing damage or knocking out power to Saddle Creek's properties last year, but Congro said he is confident that, even if the main office took a direct hit, the new cloud system would be able to handle the situation. "We have more than 40 buildings now, all over the country," totaling about 17 million square feet of warehouse space in the continental United States, Congro said.

"But we have our infrastructure in a more centralized place with built-in redundancy and built-in disaster recovery," he said. "With a cloud, if we had to leave here because of a hurricane, we still are able to run our operation. A hurricane that hits Florida really shouldn't affect us."

That peace of mind is a huge asset for any 3PL that must compete with large, multinational forwarders, such as Kuehne + Nagel, Panalpina or C.H. Robinson, which have vast networks of offices to help steer cargo traffic away from trouble spots. By converting IT services to the cloud, small- to medium-sized enterprises (SMEs) like Saddle Creek can operate on a more level playing field.

"I definitely think this is the wave of the future, I think this is where the audience is going," Congro said. "People are looking for 'better, faster, cheaper.' By investing in technology, the cloud can let you compete with the behemoths of the e-commerce industry, like Amazon. This allows us to bring more technology to the operation without having to put out the capital outlay."

DOLLARS AND SENSE

The experience of Saddle Creek is becoming an increasingly common way to do business as SME forwarders seek ways to stand out in the crowded 3PL arena – at least for those companies that would rather grow and evolve than be swallowed up by competitors in this rapidly consolidating field. Evan Puzey, chief marketing officer for Kewill, a multimodal logistics software provider, said that by offering greater process automation and reducing human error, cloud platforms empower today's forwarders to achieve better customer service via technology. "Cloud computing gives freight forwarders – particularly the small- to medium-sized forwarders – the logistics toolkit they need to remain nimble in a highly competitive market with thin margins," he said.

According to a joint 2016 report by Kewill and logistics analysis firm Transport Intelligence, cloud systems that charge a monthly subscription fee rather than large, up-front expenditures, can help level the playing field for SME forwarders. "The significance of this is that the operating costs of cloud solutions are very low and their ability to scale, also 'on demand,' provides tremendous flexibility," the report said. "Success or failure of a forwarder can come down to its buying power in the market – to drive down rates – and its ability to execute efficiently and with the lowest possible overheads. The importance of technology to freight forwarders cannot be overstated."

With the cost savings allowed by the cloud, smaller forwarders may be able to offer other value-added services, like warehouse management, customs brokerage, and the receiving, handling or distribution of goods, Puzey said.

The types of cloud systems currently on the market are too numerous to list, but some include CHAMP Forwarding Systems' Logitude World, the Cleo Integration Suite, CSA Software's Web-Trak and World-Trak systems, ShipHawk, Infor SCM for Logistics and Logisuite Air Export. Most cloud systems, Puzey added, offer supply chain functionality that is almost indistinguishable from more complex legacy systems, "all for pennies on the dollar."

"We all know the cost of fuel is going to go up," Congro explained. "So we want the client to know that we have an infrastructure that can find the lowest transit cost options." Sometimes, this entails shipping merchandise to Saddle Creek's clients from multiple buildings. "We need a method to be able to decide that, when an order comes in, we're best able to fulfill that product – but which [warehouse]?" he added. "What's closest to the customer? Which one has the inventory? Can one of those warehouses ship it complete? Is one of those warehouses behind today?"

Beyond the undeniable cost-savings of a cloud platform, there is also the lifting of the burden of responsibility, Congro said. For instance, in a traditional on-premises IT system, he explained, the vendor will help set up the hardware for the client, but once it is operational, it is generally up to the customer to monitor the performance of the system, make updates or add patches. "So, if there's a performance problem, you always have to go through these troubleshooting steps – is it a hardware issue? Is it a bandwidth problem due to high activity?" he said. "But when the system is a 'cloud,' maintenance is the responsibility of the vendor. So, who better to diagnose what might go wrong with the system than the people that wrote the system for themselves?"

The cloud also provides automatic systems for redundancy, for backups, for disaster recovery – all of which are the responsibility of the vendor partner – allowing the forwarder to focus on its core business instead of on IT distractions, Congro added.

READY, SET, GO

The other chief benefit of cloud systems is the short time it takes to set up, often measured in days not months. Congro described a couple of Saddle Creek clients that needed to begin logistics services in a few weeks. "That's not normally our M.O. – usually we need a little bit more time," he said. "But we were able to make that happen, which we would not have been able to do if it was an on-premises solution."

The same is true for air cargo carriers, as well. Last summer, when MASkargo, the cargo division of Malaysia Airlines, wanted to replace its core mainframe-based IT system with a cloud platform, it chose the logistics management system offered by Unysis to handle its cargo shipments. "Due to the nature of our daily operations, we needed a heavy-duty system that was accessible system-wide," said MASkargo CEO Ahmad Luqman Mohd Azmi, adding that the carrier processes approximately 1.5 million master and house air waybills per year.

But the Kuala Lumpur-based carrier also wanted to bring over customized information from the legacy system to be integrated with MASkargo's automated warehouse system – no easy task, considering how MASkargo, at its Advanced Cargo Centre, acts as the agent for more than 30 foreign airlines to accept, process and deliver their cargo shipments. The Unisys platform, however, was able to handle the data transfer smoothly, said Christopher Shawdon, vice president of logistics solutions for Unisys.

KNOW YOUR PARTNERS

If there is any note of caution that forwarders should take with cloud-based systems, Saddle Creek's Congro said it's best to thoroughly vet your system vendor.

"Some people have an issue with trust," he said. "If a system goes down, your partner is going to be responsible for bringing that system back up. The advantage is obviously that they're going to know their app better than anybody, but the disadvantage to that is giving up control. If it's my direct client or customer that's affected, I have a vested interest and I'm going to care more than anybody. Whereas, some [vendors] may not have that same attitude."

Just before weathering the storm last October with their existing Softeon cloud platform, Saddle Creek had announced they were launching another cloud system – this time a customer engagement software package provided by Enspire Commerce, Congro said. With the changeover, the 3PL will soon be able run its order management system (OMS), its product information management system and its trading partner management/EDI activities on one platform.

"We've just begun the implementation process," he said last fall. The company is now expecting to roll out the OMS by the end of this month. "We wanted a partner that knows not only the IT management systems space but also knows the 3PL business. That was really important for us."

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IATA: TOTAL FREIGHT GROWTH BY REGION, NOVEMBER 2016

REGION	% GROWTH YOY IN FTK NOV - 16	YTD
AFRICA	10.9%	1.1%
ASIA/PACIFIC	6.1%	1.4%
EUROPE	9.0%	6.8%
LATIN AMERICA	-1.3%	-4.6%
MIDDLE EAST	7.8%	6.4%
NORTH AMERICA	5.6%	1.6%
INDUSTRY	**6.8%**	**3.2%**

Source: International Air Transport Association

In its November 2016 airfreight market analysis, the International Air Transport Association (IATA) reported a 6.8 percent, year-over-year, increase in worldwide cargo traffic, measured in freight tonne kilometers (FTKs) flown. This was down slightly from the twenty-month high of 8.4 percent reported in November. IATA credits a strong 2016 peak season and increased shipments of silicon material for the robust figures. IATA's director general and CEO, Alexandre de Juniac, said, "There are encouraging signs that this growth will to continue into 2017, particularly with the shipment of high-value consumer electronics and their component parts. But, the trend in world trade is still stagnant. So, it remains critically important for the air cargo industry to continue to improve its value offering by implementing modern customer-centric processes."

AAPA: ASIA-PACIFIC CARRIER TRAFFIC, NOVEMBER 2016 & YTD

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

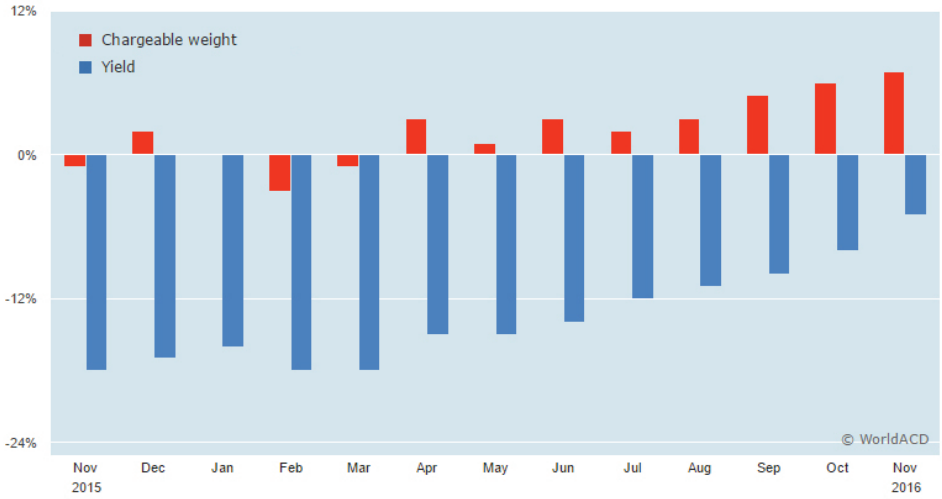
		FTK (mil.)	FATK (mil.)	Freight Load Factor
Monthly	Nov - 2015	5,799	8,848	65.5%
	Nov - 2016	6,106	9,127	66.9%
	YoY % Change	5.3%	3.2%	1.4 points
YTD	Jan - Nov 2015	59,437	93,602	63.5%
	Jan - Nov 2016	60,140	96,707	62.2%
	YoY % Change	1.2%	3.3%	-1.3 points

Source: Association of Asia Pacific Airlines

For the month of November, international air cargo demand growth, measured in FTKs, outpaced passenger traffic growth, measured in revenue passenger kilometers (RPKs), according to data released from the Association of Asia Pacific Airlines. Airfreight traffic for the month rose by 5.3 percent, year-over-year, outpacing a 3.2 percent, y-o-y, rise in airfreight capacity, measured in available-FTKs. This, in turn, pushed the freight load factor 1.4 percentage points higher to 66.9 percent, this year's monthly high. Commenting on November's performance, Andrew Herdman, AAPA's director general, said, "The region's carriers have seen a modest but progressive recovery in international air cargo demand this year, with volume growth of 1.2 percent for the first 11 months of 2016."

WORLDACD: WORLDWIDE AIR CARGO, MONTHLY CHANGE, NOVEMBER 2016

Weighted average of all-in "buy rates" paid by forwarders to airlines.



Source: WorldACD

Netherlands-based WorldACD set the tone for November air cargo traffic when it hailed the eleventh month of 2016 as a continuation of the "best peak season in years." Worldwide air cargo volume, measured by chargeable weight, was up 6.9 percent, year-over-year. WorldACD also reported cargo traffic in terms of direct tonne kilometers (DTKs), which attempts to eliminate the inflationary effect of intermediate stops often included in FTK figures, by measuring the direct-flight distance between origin and destination. DTKs were up 7.1 percent, y-o-y, in November. Worldwide yields, measured in U.S. dollars, also continued to improve and were up 3.9 percent over October. As is often the case during peak season, trans-Pacific cargo played a major role in boosting November's handle. "Exports from China and Hong Kong played a major role in the positive end-of-year developments," WorldACD added.

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WHERE WE WENT WRONG

THE E-COMMERCE REVELATION

THE FIRST IN A SPECIAL ACW SERIES ABOUT THE NEED FOR CHANGES IN THE INTERNATIONAL AIR CARGO INDUSTRY

WILL AMAZON & ALIBABA BE THE SHOCK NEEDED TO WAKE UP THE AIR CARGO INDUSTRY?

BY STAN WRAIGHT

Here's an open secret: physical "brick and mortar" shops are closing as multitudes of shoppers flock to online retail sites, such as Amazon and Alibaba. In the stores that still remain, many of the consumers are "just looking," but will make their purchases later on the web.

Unlike general air cargo, which will likely clock a modest 3 to 4 percent growth rate for 2016, global e-commerce is booming. At last year's Cargo Facts Asia conference in Hong Kong, Steven Li, director of strategic partnerships for Alibaba's Cainiao logistics network, said that "one-third

of the US$3 trillion global e-commerce market is cross-border trade, which is growing faster than domestic sales." While Li admitted that e-commerce has driven more demand for airfreight, he warned that the industry will not benefit fully until it "recognizes the need to change." What drives e-commerce boils down to "fast, transparent, easy and dependable," he added. No one gets around these basics.

Yet here we are, in 2017, with the air cargo industry scratching its collective head, still trying to figure out how to catch up to this new digital age that's passing us by. Where did we go wrong?

It's not as if we weren't warned. For years, "e-tailers" have repeatedly voiced their concerns about transparency and reliability. They have opened up global shopping to anyone with a computer or smartphone. By changing the distribution channels, they unlocked whole new markets, providing the world with new levels of availability and comfort. Understandably, they cannot – and will not – have their growth frustrated by below-par logistics.

On the passenger side, this online mentality was taken seriously from the start. Every airline jumped on the web more than a decade ago, enabling customers to buy tickets, book hotels, rent cars, choose insurance, etc. – all online and completely transparent. Now, every airline passenger division has an e-commerce department.

Rather than sticking with the old airfreight model of "push logistics" – moving goods from concentrated production locations to markets – the integrators embraced a "pull logistics" approach, similar to the passenger sector, in which consumers trawl the web for whatever they require, even if it's from the other side of the world, drop it in their digital shopping cart and leave it to Amazon, Alibaba and others to get it to them by the next day or two.

The general cargo industry, meanwhile, still favors the more economical tactic of bundling and consolidating shipments, which set it off on the hunt for lower unit costs, which led to freighters, which, in turn, called for geographical concentration on fewer consolidation gateways. But this is getting farther away from to-door delivery, not closer. Though outdated and largely ineffective from a user perspective, export-oriented budgets and price-capacity air cargo deals persist, while key investments in the speed of aircraft are not fully leveraged. Hence, airlines and forwarders are collectively missing out in initiating collaborative solutions.

Cargo – especially during the last peak season – is growing at a healthy pace, but it's not guaranteed to remain a service of scheduled airlines or forwarders. Airfreight is, by far, the fastest service for cargo shipments, but it is also the most expensive. Despite this vulnerability, airlines aren't fully embracing the possibilities that strategic alliances and open dialogue with ground handlers and IT service providers can bring.

At some point, if the status quo holds, major e-commerce companies may decide there is no other solution than to develop their own logistics systems – in fact, both Amazon and Alibaba have already moved in this direction. Their basic business may be order consolidation, but their IT prowess and financial resources will allow them to extend their controls from beginning to end. There is no lack of logistics services with which they can subcontract, but there is a critical consideration of whether it is wise to rely on carriers that seem unable to streamline their operations and keep up with today's innovations.

The challenge, therefore, lies not with e-commerce itself – the marketing of goods via the web – but with the raised expectations of today's clients, which now demand time-sensitive, door-to-door service. The logistics industry, particularly the airline/forwarder combination in its "open system arrangement," has some work to do in order to better meet these new e-commerce logistics requirements.

STAN WRAIGHT *is president of Strategic Aircargo Solutions (SASI), a Canadian firm that provides consulting and management services for international trade organizations and logistics companies.*

NEXT INSTALLMENT:

AN EXAMINATION OF THE CARRIER-FORWARDER RELATIONSHIP, AND HOW TRANSPARENCY WILL BE THE ONLY WAY THE INDUSTRY CAN SURVIVE.

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

TAMING THE TRUMP ROLLER-COASTER

BY BRANDON FRIED

As a roller-coaster climbs the steep track to its crest and subsequent stomach-dropping plunge, my eyes always fixate on that sign near the seat that says, "Keep your arms and legs inside the car at all times." Good advice not only for fun park rides but also when encountering unpredictable situations, such as the recent contentious American presidential election. Like a roller-coaster on its initial climb, the first days of the new administration bring a sense of uncertainty, anticipation and perhaps exhilaration because, regardless of your political leanings, the reality is that 2017 is shaping up to be one heck of a ride.

World trade serves as the backbone of our economy and of the forwarding industry. Therefore, those in the airfreight business paid attention to the new President during his campaign as he singled out the North American Free Trade Agreement (NAFTA) as ripe for gutting and renegotiation, while, at the same time, all but extinguishing prospects for the United States joining the Trans-Pacific Partnership (TPP). Hopefully, after the inauguration, these promises are not kept because, if they are, our nation risks the dire consequence of a trade war that could not only hurt American prosperity but – as the Great Depression and World War II showed – bring us closer to a descent into the unimaginable.

FedEx CEO Fred Smith recently cited findings that NAFTA makes the United States $127 billion richer each year and that private-sector jobs have increased by 32 percent since the trade agreement between the U.S., Canada and Mexico began in the early 1990s. But even the most permanent structures can show evidence of age. Perhaps NAFTA needs enhancements to reflect today's economic realities, including allowances for e-commerce, cross-border data flows, environmental issues and global supply chain demands. The agreement needs updating to continue its success, not the hit job being planned inside the White House.

Smith said that the relationship between China and the U.S. is highly interdependent, and that the two largest economies in the world have many common interests and challenges. But China's trade policies – including its investment in state-owned companies, intellectual property violations and cyber-espionage – should be of grave concern to American interests. He warned that China must understand that, under a Trump administration, such practices will have stronger, more rapid consequences. This behavior, he added, is why he hopes that the Trump administration will take another look at the TPP – an agreement that does not include China, but contains provisions for modern economic realities that benefit the U.S., while encouraging other countries to avoid China's commercial practices.

Many view trade agreements as a detriment to our economy. To those who have lost jobs or business to overseas competitors, this view may seem logical. But technology has, and will continue to have, a profound effect on all segments of our personal and commercial lives. In a globalized market, the competition comes from companies in other countries, not just from around the corner. So, trade agreements that come with enforced provisions, such as worker retraining and other assistance programs, are necessary to create a fair playing field for the jobs of tomorrow.

But there is reason to hope for airfreight forwarders. The new administration has pledged to make the long-overdue investment in our nation's transportation infrastructure. Our nation's roads, railroads, airports and bridges need improvement and expansion. These structures serve as arteries for trade, and if they are allowed to deteriorate any further, the results will work against our shared goal of prosperity. Of course, finding the US$1 trillion necessary to complete the monumental task over a 10-year period promises to be a challenge, as funding solutions are scarce.

In "Donald Trump's Contract with the American Voter," the new President proposes six measures in his first 100 days in office. One of them includes a requirement that, for every new federal regulation, two existing regulations must be eliminated. Forwarders and their shippers know that the ever-growing regulatory burden borne by the commercial sector has become cumulatively overwhelming and burdensome. Not every perceived problem needs a regulatory fix, as the past years have shown. If there is any common ground the logistics industry shares with President Trump, it is the belief that we cannot regulate our way to prosperity.

While the new administration works to resolve the regulatory clutter in Washington, forwarders strongly urge an ongoing push for harmonizing import, export and security rules with other nations. Fair trade and the protection of our interests against those wishing us harm begins outside our borders by keeping regulations similar and easy to follow. We hope the proposed Air Cargo Advanced Screening rule, now expected in the beginning weeks of the new administration, reflects this commitment.

The election is over, the people have spoken, and now we must unify as a nation to become more prosperous. The forwarding industry anticipates playing a key role, working with lawmakers in Washington to make sure the future is less of a roller-coaster ride and more like a steady course.