



E-freight, pharma standards ready for takeoff

By Tony Tyler, Director General and CEO, IATA

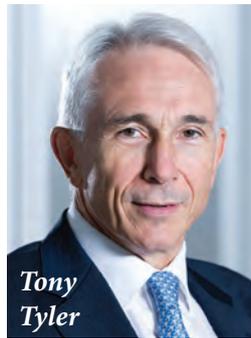
I'd like to offer a warm welcome to attendees of the 9th World Cargo Symposium. I am sure you will agree that Shanghai is the perfect example of a city built on the power of trade and commerce, and an ideal backdrop to our discussions.

The growth of aviation in China, which has been accompanied by a transformation in infrastructure and safety, has been remarkable. It is greatly to the credit of Chinese politicians and regulators that they were able to develop a vision for aviation and then follow it through. The Chinese people will reap a wonderful dividend from this. Our 20-year passenger forecast envisages 5.5 percent growth in China, leading to it displacing the United States as the world's largest air transport market by around 2030. And there is good news for China's air freight prospects too: FTKs are set to grow by 4.9 percent, on average, over the 2014-2018 period.

The general picture for air cargo in 2014 was of strengthening volumes as economic recovery gathered pace. FTKs were up by 4.5 percent – better than expected after a slow start to the year. While the growth in volumes is welcome, it is not being matched by an improvement in yields and revenues. Cargo revenues remain US\$5 billion below their 2011 peak, and yields are set to decline for a fourth straight year in 2015. As Glyn Hughes has pointed out, doing more work for less money is not a sustainable business model for the long term.

In addition, the overall growth figures do not explain the story of the kind of goods being shipped. Increasingly, air cargo is being used for ever-more-sensitive shipments. These require greater speed, tighter security and absolute temperature integrity. The more complex procedures and facilities that are needed for these are

both a challenge and an opportunity. There is a challenge because we need to invest in infrastructure and train our people in order to meet customer expectations and regulatory requirements. But we have an opportunity because this is a huge market; pharmaceuticals, for example, is a US\$64 billion a year market and growing fast.



Tony Tyler

So how does air freight seize this opportunity? There are two key initiatives I'd like to highlight: the transition to paperless freight, and the development of harmonized standards for the handling of pharmaceutical goods.

We live in a digital century. Yet air cargo still operates with procedures from an analog age. Moving from paper to electronic processes will open up countless efficiencies and opportunities for improved service delivery. Although progress has been slow, 2014 saw something of a breakthrough. Through close cooperation across the entire supply chain, the industry achieved 22 percent e-AWB penetration.

Adoption is now set for takeoff. We want to reach 45 percent use by the end of this year. The tools are in place for the industry to implement it, and the business case is proven. We still have work to do to help some businesses with the transition. But there is now acceptance that paperless is the way to go, and it means that we can now look ahead and plan for the wider adoption of e-freight processes.

The growth in demand to ship pharmaceutical products has been a boon for air freight, compensating for the decline

in other goods that had previously been shipped by air. But handling pharma is a demanding business. And those demands are increasingly coming not just from customers, but from regulators.

To help the industry, IATA has developed a new initiative: the Centre of Excellence for Independent Validation (CEIV) in Pharmaceutical Handling. An organization that achieves CEIV Pharma certification will give shippers confidence that facilities, systems and qualified people are in place to handle their sensitive goods appropriately. We hope to establish a wide network of certified trade lanes, independently assessed to be compliant with the increasing number of regulations being set down by authorities worldwide.

The work on e-freight and harmonized standards for pharmaceuticals are just two of the many initiatives that the industry is undertaking. Our aim this week is to shine a light on the trends and innovations that are transforming the relationship between air cargo and its customers. I am confident this transformation will ensure air cargo strengthens its service offering, as well as secure the sustainability of its business model during a period of momentous change in the global economy.

TUESDAY • MARCH 10, 2015

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Improving the Cargo Customer Experience

To kick off the 9th edition of the World Cargo Symposium this morning, IATA has created a lineup of distinguished speakers at the Opening Plenary Session, fitting the theme for this year's Symposium: Improving the Customer Experience.

This year's Symposium has been organized for the first time in the People's Republic of China and will be hosted by China Eastern Airlines. Local dignitaries – Mr. Li Jiexiang, Administrator of the Civil Aviation Administration of China; Mr. Liu Shaoyong, Chairman, China Eastern Airlines; and Mr. Li Derun, Board Chairman of Shanghai Airport Authority – will give the welcoming addresses and provide insight about the air cargo industry in Shanghai and the rest of China.

The morning session focuses on the health of the air cargo industry and a look back at the industry's accomplishments since we last met in March 2014 in Los Angeles. In those past 12 months, the industry has seen a rise in cargo volumes, but those are still far off the yields and revenue numbers witnessed in 2010 and 2011. The economic outlook session considers the key indicators from the past year, discusses whether the industry has returned to a steady growth path, and previews what to expect in 2015.

Trade facilitation efforts currently underway at both the international and regional levels will undoubtedly have an impact on the growth of global GDP. The Bali Trade Facilitation Agreement and the ASEAN Economic Community are only some of the trade facilitation efforts in place that could bring a 15 percent increase in world trade. These measures assist the less-developed countries gain better access to global markets and could impact the way airfreight is handled.

Aside from the economic and political drivers that influence the airfreight industry and contribute to its evolution, the customer's voice has increasingly become a key driver for its change and transformation.

Join the afternoon sessions, where the customer's views and expectations will be showcased. Results from the IATA shipper survey, which was launched prior to the Symposium, will be revealed, providing you with insight into customer expecta-

tions. Knowing why shippers use air cargo will place us all in a better position to improve their experience.

To wrap up the first day, we will look at how tomorrow's air cargo environment will be shaped. There is undoubtedly an increasing need to adopt a new way of thinking to balance out supply and demand, efficiency and cost, quality and performance.

The final Plenary Session will review the many options available for providing capacity. Between freighters, narrowbodies, widebodies, scheduled or chartered service – which is the right choice? Carriers representing various business models will debate the need to effectively match supply and demand, because the need to meet customer's expectations is imperative, no matter which model you choose.

OPENING PLENARY SCHEDULE

8:45–9:00**Chairman's Opening Remarks**

Glyn Hughes, Global Head of Cargo, IATA

9:00–9:10**Welcoming Remarks**

Li Jiexiang, Administrator, the Civil Aviation Administration of China

9:10–9:30**Host Carrier Address**

Liu Shaoyong, CEO, China Eastern

9:30–9:40**Shanghai, at the Heart of Today's Air Cargo Industry**

Li Derun, Board Chairman, Shanghai Airport Authority

9:40–10:00**Keynote: Facilitating Trade and Smart Regulations, Working With the Air Cargo Industry**

Kunio Mikuriya, Secretary General, World Customs Organization

10:00–10:25**The State of the Industry**

Tony Tyler, DG and CEO IATA

10:25–10:30**Chairman's Remarks**

Glyn Hughes, Global Head of Cargo, IATA

10:30–11:15

Networking Coffee Break

11:15–11:30**The Year in Review: Did We Deliver on Promises Made?**

Glyn Hughes, Global Head of Cargo, IATA

11:30–11:50**Economic Outlook: Has the Growth Path Returned?**

Julie Perovic, Senior Economist, IATA

11:50–12:30**Executive Roundtable: Instruments for Global and Regional Development**

Moderator: Andrew Herdman, Director General APAA

Panelists:

- Tony Tyler, IATA DG and CEO
- Kunio Mikuriya, Secretary General WCO
- Xiaozhun Yi, Deputy Director General WTO

12:30–14:00

Networking Lunch

14:00 – 14:50**Improving Air Cargo: The Customer's View**

Moderator: Tom Windmuller, IATA SVP Airports, Passenger, Cargo and Security

Panelists:

- Jason Frerich, Director, Global Logistics Infrastructure – Sustainability, Nike Inc. (invited)
- Robert Mellin, Head of Distribution Logistics, Ericsson
- Alex Xu, Associate Supply Chain Director, Lilly Suzhou Pharmaceutical Co., Ltd (invited)

14:50 – 15:05**Air Cargo 2015: New Thinking Required**

Marco Bloemen, Partner and SVP Seabury Group

15:05 – 15:50**Matching Supply and Demand: Meeting Customer Expectations**

Moderator: TBA

Panelists:

- Oliver Evans, Chief Cargo Officer, Swiss World Cargo
- David Kerr, Vice President, Etihad Cargo (invited)
- James Woodrow, Director, Cargo, Cathay Pacific Airways (invited)
- Michael Steen, CCO and EVP, Atlas Air

15:50–16:00**Chairman's Closing Remarks**

Glyn Hughes, IATA Global Head of Cargo

16:00

Networking Coffee Break

Leaders from WCO, China Eastern highlight plenary

At the start of the 9th Annual World Cargo Symposium, IATA is pleased to have two giants in the field of customs and airfreight addressing attendees at the Opening Plenary session: Mr. Kunio Mikuriya and Mr. Liu Shaoyong.

Kunio Mikuriya, who will give his keynote address, "Facilitating Trade and Smart Regulations, Working With the Air Cargo Industry," at this morning's session, has been Secretary General of the World Customs Organization (WCO) since Jan. 1, 2009. He provides leadership and executive management for the global customs community's priorities, including developing global customs instruments, standards and tools, and securing and facilitating global trade.

Prior to joining the WCO, Mikuriya worked for Japan's Ministry of Finance for 25 years. During his career with the Ministry, he occupied a variety of senior posts, which have given him broad experience and knowledge in customs, trade, development, budget and financial policies. While serving as Director of Enforcement, he led efforts to fight illicit trade.

As Director of Research and International Affairs, he paved the way for the conclusion of the first regional trade agreement for Japan.

He served as Director of Salaries and Allowances to coordinate remuneration levels for the entire government workforce, and also as the Budget Controller for Foreign Affairs, Official Aid, International Trade and Industry, in the Budget Bureau. In addition, he spent time as a counselor at the Japanese Mission to the World Trade Organization (WTO) in Geneva and participated in the GATT Uruguay Round trade negotiations.

Mikuriya has a law degree from the University of Tokyo and a Ph.D. in international relations from the University of Kent, in the U.K.

Liu Shaoyong, IATA Board member and Chairman of China Eastern, the host airline of the Symposium, started as a pilot, graduating from China Civil Aviation Flight College, and obtaining an Executive MBA degree from Tsinghua University. Previously, he worked as Deputy Director General of the Civil Aviation Administra-



tion of China (CAAC), Shanxi Bureau; President of MU's Shanxi Branch; Director General of CAAC Flight Standard Department; and President of CEA.

In 2002, Liu was promoted to Vice Minister of CAAC and was assigned two years later as President of China Southern Air Holding Company and Chairman of China Southern Airlines Co. Ltd. Liu is Chairman of China Air Transport Association and a member of IATA Board of Governors. He has been chairman of China Eastern since 2009 and is also General Manager in China Eastern Air Holding Company.

In addition to representing the host airline of this morning's Plenary Session, Liu will also make a brief address before the keynote speeches begin.



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Perishable cargo markets ready to ripen

The perishable sector is one of the fastest-growing and lucrative sectors in air cargo transportation. It's also one of the most demanding and vulnerable types of cargo tackled by airlines with demanding products. Therefore, it is crucial to prepare for the future and ensure that handling facilities are capable of accommodating the growing demand.

Such is the theme of the Perishables Management Track that will be held here tomorrow, March 11, during the afternoon sessions. The agenda, moderated by Sebastiaan Scholte, CEO of Jan de Rijk Logistics and Chairman of the Cool Chain Association, will include many experts who are willing to share their insights regarding industry collaborations, technological advancements and future market trends in the perishables market.

After the Welcome Address by Christian Ureta, CEO and Head of Cargo at LAN Cargo, attendees will hear Gerard de Wit, managing director of WorldACD, discuss the latest developments in the transportation of this temperature-sensitive cargo in his presentation, "Perishables Market Overview and Global Trends."

Later, officials from Dupont will present some exciting findings about new technologies designed to lengthen the shelf-life of fruits and vegetables, which currently represent about 40 percent of all claims made in the transport of perishable cargo. These products are the only perishables that generate heat as a normal physiological process and show rapid visual damage.

As the presenters will show, using "high-respiration asparagus" as an example, specific solutions used during transport can significantly decrease the number of potential claims and increase the quality delivered to the end-customer by improving the temperature management, moisture control and reducing the water loss.



Pactl's Markus Knickmann will discuss cool chain strategy tomorrow.

Markus Knickmann, Head of Business Development and Strategy for Pactl, will then discuss some of the integrated solutions the Shanghai Pudong International Airport terminal operator uses in support of its cool chain infrastructure. Active engagement in a collaborative approach within a perishable product supply chain environment, he will demonstrate, improves the delivery of the goods and services, and reduces costs leading to enhanced competition with other transport modes.

China Eastern will round out the afternoon with a presentation on developing



Photo: ©Alex Kwanten

China Eastern will present about expanding approaches to perishables and becoming a provider rather than a shipper.

an integrated approach for creating a direct linkage between perishable products and end consumers. The session will explore new business models through which airlines can offer customers a wider variety of goods and enable them to be a direct source for perishable products.



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Q&A: Julie Perovic, Senior Economist, IATA

Julie Perovic, IATA's Senior Economist, has more than eight years of experience in economic analysis and modeling.

She is responsible for analysis and evaluation of air transport markets, including the suite of IATA Economics publications on airline industry performance.

Previously, she worked as a consultant on a variety of assignments, including macroeconomic strategy development in emerging Asia, valuing economic benefits of transport safety in the Middle East, and a host of transport and infrastructure economic assessments in Australia. Perovic received a BBA in economics from the University of Louisiana and an MA in Economics from Wichita State University, both in the United States.

Q: How would you characterize the performance of air cargo last year?

Air cargo had a much better year in 2014 than it has had for the past several years. In fact, air cargo recorded the strongest growth since 2010. Total industry FTKs expanded by 4.5 percent in 2014 and volumes reached record highs by the end of the year. The improvement in air cargo performance in 2014 was driven by a cyclical, albeit fragile, upturn in the global economy. The results of easing fiscal austerity policies, continued expansionary monetary policy and a more-confident consumer have been stronger growth, particularly in economies like that of the U.S. During the first half of 2014, air freight volumes and world trade overall went through a weak patch, but there was a marked acceleration during the second half of the year.

Q: What are the major trends in terms of trade flows and cargo demand, and what do you think will happen next year?

Historically international trade has outpaced domestic production, which has benefitted air cargo. Over the last five years, however, this ratio has flat-lined, which has been bad news for airfreight demand. But importantly, the improvement in international trade seen during the second half of 2014 took place while domestic industrial production growth remained stable. It is too early to say whether the last few months signal a decrease in the adverse impact of recent on-shoring and trade protectionism, but this recent development will be worth observing over coming months.

The improvement in international trade growth during 2014 was driven by emerging Asia, supporting robust growth in FTKs carried by Asia Pacific carriers. In contrast, a fragile recovery in the Eurozone was disturbed by the Russia-Ukraine crisis. This paused earlier improvements in trade to and from Europe and reduced growth in air freight.

Looking at the year ahead, concerns have been rising about the health of the global economy, with indicators of business confidence weakening. Conditions in the Eurozone and China suggest that the cyclical upturn in the global economy remains at risk of faltering or continuing on a weak trajectory. Nonetheless, the Economist Intelligence Unit expects growth in world trade to continue in 2015 and to at least match 2014. If that holds, we should



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continue to see further, moderate growth in air freight volumes.

What has been the overall trend in air cargo financial performance?

There have been notable declines in jet fuel prices since mid-2014, which should help reduce airline costs. But, despite improvements in airfreight volumes, continued growth in capacity has placed downward pressure on load factors and yields, putting a strain on financial performance. Yields are now 2 percent below the year-ago period, and down a significant 15 percent compared to the mid-2011 peak. What's more, yields could weaken further as new aircraft deliveries come into service in 2015.

IATA is expecting 4.1 percent cargo growth on average for the next five years. What likely economic scenarios could positively or negatively impact that forecast?

Future growth in airfreight activity could be positively impacted if we see a continuation in the recent trend of interna-

Conditions in the Eurozone and China suggest that the cyclical upturn in the global economy remains at risk of faltering or continuing on a weak trajectory.

tional trade growing at a faster pace than domestic demand. That would imply some reversal we have seen in recent trends towards on-shoring and trade protectionism. A stronger-than-expected pickup in developed market growth could also mean better medium-term prospects. That would require robust activity in the corporate sector and increased consumer spending, mostly in the U.S., supporting activity around the world.

But frankly, most of the economic scenarios that could impact the forecast for

airfreight growth are on the downside. The major risk is with a notable deterioration in the Chinese economy, if there is a housing-price collapse and spending is constrained. Due to the size of the economy, the impacts would be significant on the region, but of course also globally. Similarly, if growth in the Eurozone weakens further and inflation edges lower, with consumers and companies deferring spending for later, the impacts could also be a notable drag on the global economy.

The WCS Daily Report is published by

Air Cargo World

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