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DECEMBER 2005

INTERNATIONAL EDITION

Cargo's New Directions

the 2005-2006 Review & Outlook

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Air Cargo World

INTERNATIONAL EDITION

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Editor's Note

Anticipating

It's impossible to know whether air cargo will rebound in 2006. Last year was far better than anticipated while 2005 was much worse than anyone predicted. What does seem clear, however, is that 2006 will be a critical year for a changing air freight industry.

Several key issues are worth following closely next year. Decisions made in 2006 could guide air cargo's future direction for years to come.

Security. U.S. Congress' investigative arm issued a report last month that raised questions about the U.S. government's air cargo security efforts. The U.S. Transportation Security Administration's endless delay in issuing a final rule for air freight security left the agency ill-positioned to counter the critical report. The TSA has promised a new security regime for more than two years. But a TSA spokesman says there's no timeline for when the new regulations will be rolled out.

It's unlikely another year of delay from the TSA will be tolerated. Political pressure will probably force a new air cargo security rule next year, and may even force the TSA to impose tougher regulations than the agency would like.

Airline finances. With fuel prices unlikely to take a steep dive next year, it's a good bet the global airline business is in for another rough year and the slow-motion restructuring of the industry may take a significant turn. The reshaping of bankrupt carriers in the United States (United, Delta and Northwest) and other parts of the world could alter global air cargo networks.

Open skies. Trends throughout the world point to greater liberalization in air rights but the biggest potential breakthrough — a new air treaty between the United States and the European Union — remains stalled. Both sides are looking for a way to reach an agreement in 2006, but even a "first stage" pact toward open skies faces heavy political opposition on both sides of the Atlantic. Limited rights for European airlines to operate cargo flights within the United States may be the path to a compromise in which neither side can possibly get all that it wants.

Logistics consolidation. News of Deutsche Bahn's purchase of BAX Global was barely out last month before other names hit the rumor circuit, suggesting the consolidation game remains in full swing. Expansive global networks and a wide-portfolio of product offerings are becoming requirements to compete in the lucrative logistics sector, and the biggest players will seek to close gaps in their networks and further fill out their product portfolios. That will only accelerate air freight's separation from the passenger side of aviation as global players push more density through expanded networks scaled more to freighter operations.

So even if 2006 doesn't shine, the shape of air freight may look far different in the next year.

Aaron Karp

Air Cargo World

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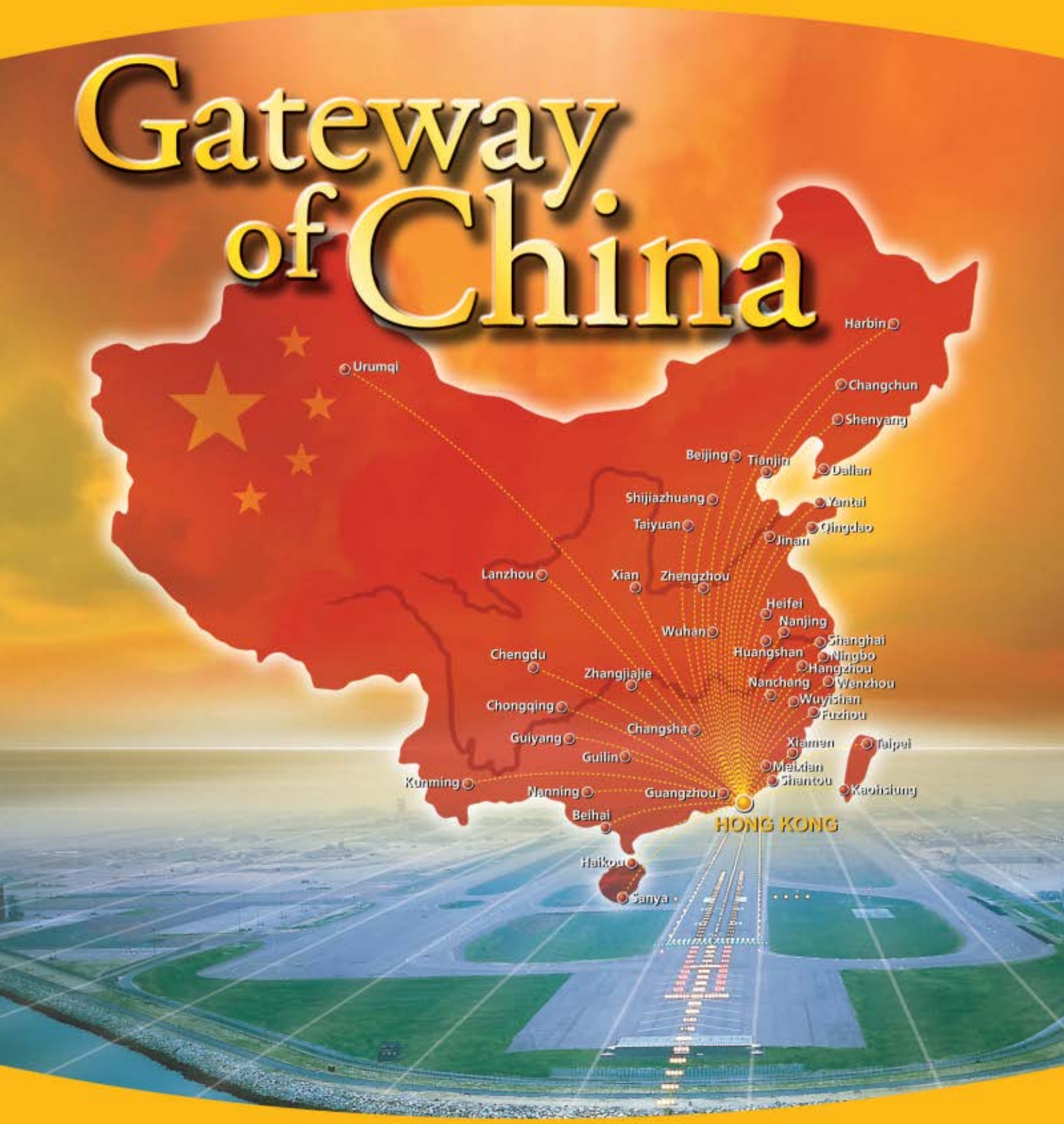

Hong Kong International Airport (HKIA) is one of the world's busiest international airports - some 79 airlines operate more than 5,100 flights every week to over 145 destinations worldwide, including 42 cities in the Mainland of China. With half of the world's population within 5 hours' flying time from Hong Kong, HKIA is indeed a prominent aviation hub for the region and the gateway of China.

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News Updates

BAX's Global Reach

Is there a logistics operator in the United States left to buy? German operator Deutsche Bahn is taking a big leap onto the global freight transport and logistics stage with its $1.1 billion purchase of BAX Global, a response to the rapid consolidation in the logistics world that experts believe will itself trigger new competitive response in a business where scale, service and survival all are moving on the same track.

BAX, ringing down years of rumors about its sale, will be paired with Stinnes Logistics, Schenker and Railion in Deutsche Bahn's Transportation and Logistics Group, creating a formidable competitor for Deutsche Post World Net.

Although long identified as a North American heavyfreight integrated airline, BAX is a $3 billion company with a considerable weight in air and ocean logistics.

"BAX will be entering a dynamic phase of growth and expansion," Joey Carnes, president of BAX Global, said in a letter to customers. "Our combined networks and product offerings will provide BAX customers with a much more competitive and flexible platform. With the addition of BAX, DB enhances its already strong position as a leading global logistics provider."

The combined logistics and forwarding entities of BAX and Schenker/Stinnes will be the leader in surface freight transport in Europe – both rail and truck – No. 2 in air freight worldwide and No. 3 in global sea freight, Carnes said.

The sale ends the odd fit of BAX within a corporation otherwise devoted to security services and coal mining.

David Beatson, who once competed against BAX as head of what was then Emery Worldwide, says logistics operators are building greater scale as a response to trends in globalization that are creating new shipper demands. "The shippers are driving the industry and people are looking for global solutions," said Beatson, now a consultant based in California. "Shippers are reducing the number of core carriers and they are looking for a full range of services. You just look at the scale of what Exel and DHL are creating by combining and you see there's a drive for these companies to grow even bigger."

For Schenker, he says, "the trick will be getting the IT systems integrated, and that is a very long-term process, even within a single company. That is one of the biggest challenges facing the industry today."

For BAX, North America accounted for $937.3 million in revenue and $10.6 million in operating profit in the first nine months of 2005 against nearly $1.2 billion in revenue and $50.5 million in profit from international freight.

The companies did not say whether they would keep the North American heavyfreight network backed by 18 aircraft operated by BAX subsidiary Air Transportation International. The airline will have to be carved apart to meet regulatory requirements but there is plenty of precedent for that in the expansion of DHL in the United States.

Deutsche Post's buy of Exel, meantime, was moving forward and new merger talk involving such names as TNT, EGL, FedEx and others was already swirling.

"The consolidation trend will continue in 2006 as service providers seek to offer clients end-to-end solutions, expand globally and serve new vertical markets," said Adrian Gonzalez of the ARC Advisory Group.

Eyeing TNT

Even as BAX Global's sale to Deutsche Bahn was being agreed to, rumors were rampant last month that the logistics world was in for another big sale: German investor Cornelius Geber said he was considering buying Dutch express transport company TNT.

But TNT CEO Peter Bakker moved quickly to squelch the speculation, announcing that management wasn't interested in selling and that TNT has more than $1 billion ready for acquisitions of its own. TNT buttressed claims of independence by announcing a joint venture with China's Cosco Group, the most populous nation's largest ports and shipping firm.

Analysts expressed skepticism about Geber's chances of closing a deal for the $12.5 billion TNT, even though Geber has decades of experience as a logistics executive with Kuehne + Nagel and other companies. Key to success would be bringing in an industry partner such as FedEx, which was rumored to be interested in TNT's express unit.

FedEx would be a good fit with TNT's express unit, says investment firm Bear Stearns, since the former is strong in U.S. and Asian markets while TNT is strong in the European parcel market FedEx lacks.

Piloting UPS

UPS pilots are turning up the heat on UPS in their long-stalled contract talks, suggesting a possible strike if progress is not made this month.

The Independent Pilots Association told UPS it will ask the U.S. National Mediation Board to release it from formal talks, potentially paving the way for job actions, if management does not submit a new contract by Dec. 23 that the pilots can ratify. Talks between UPS and its pilots have been going on for more than three years.

"It has become clear that UPS's recent overture for a settlement is not genuine, but a cynical move timed to prevent any disruption during Christmas Peak," said IPA President Capt. Tom Nicholson. "Christmas 2005 will be our fourth holiday season during this contract negotiation — that's long enough. UPS has one more shot to deliver a contract that our pilot group can ratify."

If the NMB were to release UPS pilots from mediated talks, the pilots would enter a 30-day "cooling off" period before being allowed to strike. Mediated talks are scheduled for Dec. 19-23.

UPS says the pilots are making "inaccurate statements" and that the possibility of a walkout is highly remote. "The union continues to engage in the normal rhetoric that is common to labor negotiations," said UPS spokesman Norman Black.

Industry observers see little chance of service disruptions.

"We continue to believe that UPS and IPA will complete the contract renewal process without labor action," said equity investment firm Bear Stearns.

Any job actions, whether a work slowdown or an actual strike, could only occur after a release from federal mediation and a 30-day cooling-off period.

Security Attack

Proponents of greater screening for air cargo shipments are keeping the pressure on the industry, pointing to a new report that is highly critical of United States government efforts on air freight security.

The report from the U.S. General Accounting Office, the investigative arm of the U.S. Congress, said officials blamed "limited resources and competing priorities" for a long delay in issuing a comprehensive cargo security rule and it questioned the reliability of "known shipper" databases. Meanwhile, the report said, only "a very small percentage" is physically or electronically inspected at airports.

That was a red flag for lawmakers who have pointed to air cargo as a gaping hole in anti-terror security.

"GAO's report blows away the Bush administration's smoke screen that paperwork checks, random inspections and other half measures keep Americans safe," said Rep. Ed Markey, a Massachusetts Democrat and relentless critic of the Transportation Security Administration.

A private-public working group gave the TSA recommendations on air cargo security measures more than two years ago but the agency has never issued a full rule, a regulation many in the industry say they hope will put the debate, and the criticism, to rest.

"TSA has established a strong, layered system of security in the air cargo arena and recognizes the need to do more," the agency said in a statement responding to the report. "In the last year alone, TSA has required passenger air carriers to triple random inspections of cargo, hired an additional hundred cargo inspec-

tors to ensure compliance, launched a risk-based approach to provide additional vetting of indirect air carriers, and is testing new technologies to more effectively inspect the full spectrum of cargo."

Freighter Launch

A new flurry of 747-400 freighter orders pushed the aircraft past the 150 mark, more than twice the orders for all-cargo editions of the 747-200 and Boeing appears eager to keep up the momentum.

The manufacturer signed Cargolux and Nippon Cargo Airlines as the launch customers for its new 747-8 freighter, an aircraft that will feature technology derived from research for Boeing's 787 aircraft program. The manufacturer says the plane will reduce emissions, lower trip costs and have an upgraded flight deck and improved wing.

Cargolux, which operates 13 747-400 freighters, ordered 10 747-8 freighters, with the first delivery slated for the third quarter of 2009, with options for 10 more.

NCA, meanwhile, ordered eight aircraft and will take its first 747-8 in the fourth quarter of 2009. The airline also took options for six more. Nippon operates 13 747 freighters and has six more on order.

The firm orders for the 747-8 freighters are valued at $5 billion based on Boeing list prices.

Boeing surpassed 150 orders for the -400 version of the 747 last month, with most coming since the plane-maker added new features to the version that debuted with Cargolux in the early 1990s. Boeing built 72 747-200 freighters when that plane was the workhorse of international air freight but industry experts say the newer planes, although more expensive to buy, are vastly more fuel-efficient.

"High fuel costs are killing the airlines that are operating older aircraft that burn more fuel," said one air cargo industry official.

Boeing President and CEO Alan Mulally says the 787 technologies will "offer greater fuel efficiency, improved operating economics, and be more friendly to the environment with reduced noise and emissions."

Joining Forces

The impact of Lufthansa's purchase in March of Swiss International Airlines is starting to ripple across the freight world through a comprehensive capacity agreement between Lufthansa Cargo and Swiss WorldCargo.

The accord guarantees each carrier specified capacity on each other's flights, expanding the cargo networks of both carriers. Beginning this month, Lufthansa will guarantee space to Swiss customers on flights from Frankfurt to Shanghai, Tokyo, Osaka, Nagoya, Madras and Tehran. Lufthansa Cargo customers can already use Swiss capacity on Zurich flights linked to Frankfurt, Karachi and Montreal.

"This agreement shows how rapidly we are putting our collaboration into practice," says Andreas Otto, Lufthansa Cargo head of sales.

Adds Swiss chief cargo officer Oliver Evans, "We are working together on exploiting further immediate-gain synergies — especially through sharing capacities, providing reciprocal network access and conducting joint purchasing activities."

The two carriers also said they would begin joint business operations for cargo services in Canada beginning in January.

"This arrangement will enable both our companies to substantially strengthen their market positions," says Jürgen Siebenrock, Lufthansa

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News Updates

Cargo's vice president of sales for the Americas.

EGL Looks

EGL Eagle Global Logistics may get back into the acquisitions game but only to ramp up its business in contract logistics.

"We will only buy what we do not have," EGL CEO Jim Crane said last month.

What the Houston-based forwarder does not have on the scale of some competitors is the contract logistics that has fed growth at companies such as Exel and UTi Worldwide. But EGL has long experience with integrating acquisitions after its buy of Circle International several years ago, a purchase that took years to absorb.

Above all, Crane said, "We don't want any integration issues."

He says EGL would consider buying a logistics firm with sales of around $100 million to $500 million as a way of boosting the company's freight handling business.

The core forwarding operations pushed gross revenue up 8 percent in EGL's third quarter, to $780 million, and net revenue up 9 percent, to $247 million, from the same quarter last year. The net profit grew 16 percent to $19.2 million.

Forward Peak

Expeditors International of Washington was setting records with its business even before the forwarder said demand was growing at a strong rate through the peak season.

Despite growing expenses in its main air freight business, Expeditors reported a quarterly record $55.8 million net profit in the third quarter, 29 percent better than the same quarter a year ago. Gross revenue soared to $1.05 billion, 17 percent ahead of last year, helped by sharp improvement in ocean yields.

That came as Expeditors CEO and Chairman Peter Rose was seeing "substantial shipping volumes on most major trade lanes" into late October, belying suggestions in some quarters of a weak peak.

Still, air freight tonnage was up only 7 percent in the third quarter and ocean business was getting more attention, with double the growth and improving yields.

Meanwhile, in its first financial report as a publicly traded company, Panalpina said supply chain management activities helped boost the nine-month net profit up 31.3 percent, to $78 million.

Net revenue for supply chain management business grew 21.5 percent in the first nine months of 2005, outpacing all other Panalpina activities except Asia-Pacific freight, which expanded 22.9 percent during the period.

Dropping JFK

In a sign of the changing direction of trade winds, Northwest Airlines is suspending its freighter operations between Japan and New York.

Northwest says high costs at New York's Kennedy International Airport were a factor in the move but that the real driver in moving its 747-200 freighter to Los Angeles is the tilt of trade out of Asia. "Most demand is from Asia to the West Coast," said Shawn McWhorter, Northwest's vice president of network management.

The shift includes garment trade that used to move through distribution centers in the Northeast but now find their way to market through myriad Midwest airports in new supply chains.

Northwest is looking at shifting trade patterns with growing urgency as it operates through bankruptcy protection.

Cargo is doing its part this year, with revenue growing 18.4 percent in the first nine months of the year to $695 million and cargo yield up 12.2 percent during the period. ■

Correction

In last month's edition, a story titled "Even Freighters Get Detailing" contained two mistakes. First, FedEx says it is finalizing a contract with AAR to supply loading systems for its A380 aircraft and is not using Goodrich as stated in the article. Also, AYY and SAA containers are designed for narrowbody aircraft while the AMJ container is used on widebodies.

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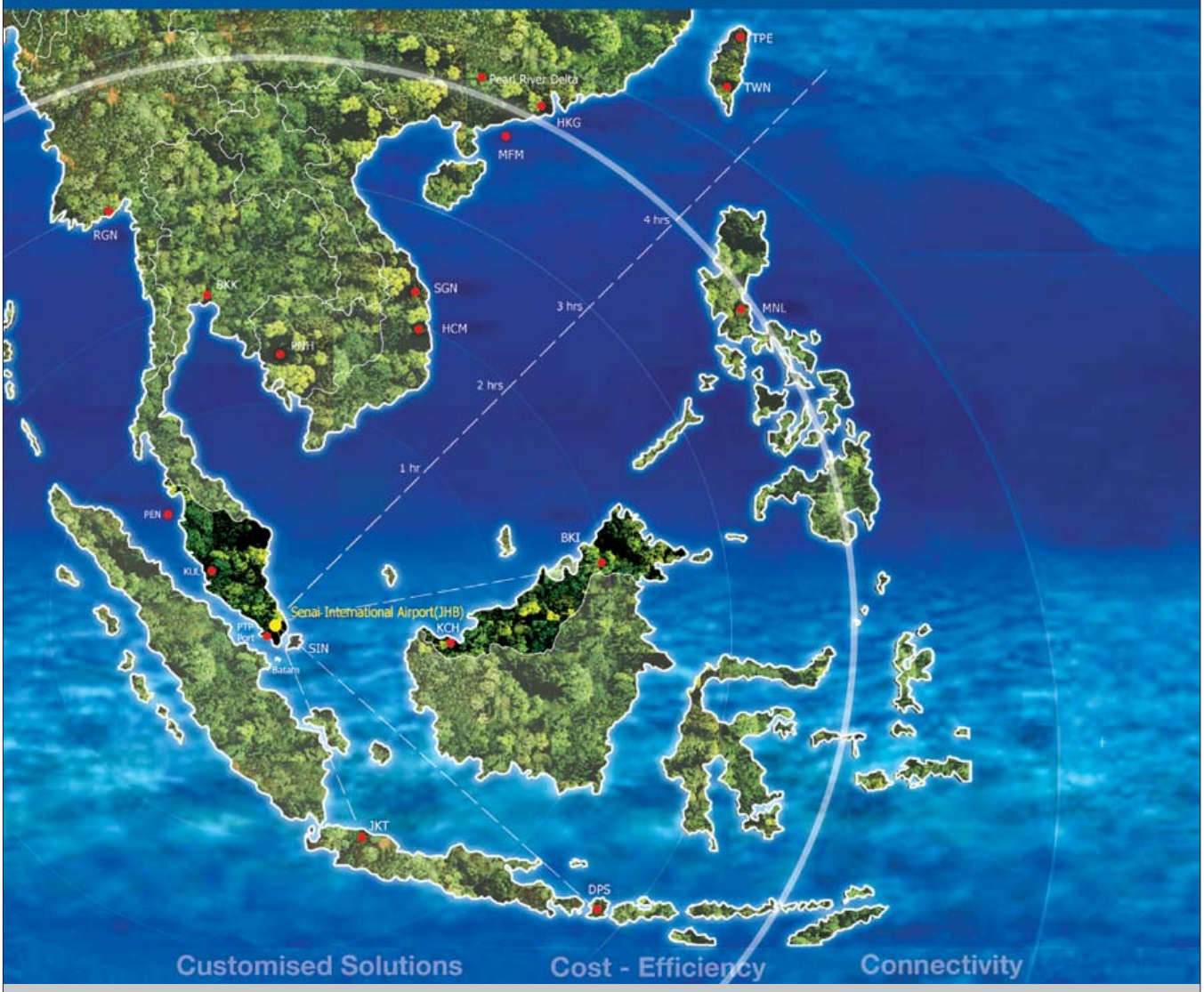

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NORTH AMERICA

Fueling Savings

UPS implements a series of fuel conservation measures aimed at lowering soaring energy costs

There's one sure way for airlines to reduce fuel costs, even if oil prices remain sky high: use less fuel. Amid growing signs that shippers are balking at the fuel surcharges that are driving up the cost of air freight, conservation is becoming a central business component for carriers that formerly placed speed above all else.

UPS, for one, has taken a series of measures to reduce its fuel costs. The company's long-held philosophy that its top priority should be to get flights to destinations as early as possible has given way to a new mindset that seeks to balance flight speed with fuel efficiency.

By Aaron Karp

"This is a major cultural shift because we have historically been a time-driven business," says Tom Olson, a 19-year UPS pilot who this year was named the integrator's first-ever flight operations fuel manager. "Historically, our belief has always been, 'On-time, great, early, even better.' … There's a price to pay for that kind of thinking."

He says the "squeeze" of soaring fuel costs "drove us to re-look at that." Although UPS obviously does not want to compromise its express delivery schedules, the cargo carrier found that being a few minutes early actually may be a money-losing proposition.

"If we fly as fast as possible, the best we can do is save a few minutes on a two or three-hour flight, but it could cost us thousands in terms of fuel burn," says Olson.

By devaluing flight speed, "the system was not compromised and the cost of operating flights dropped dramatically."

Olson says UPS slowed down 17 daily flights to the U.S. West Coast. The flights still arrive early, but the flights' slower speed is "saving thousands per flight per night," says Olson. "The numbers get staggering pretty quickly."

Staggering Numbers

The moves at UPS come as air carriers and forwarders say cargo customers are pushing back at the fuel-driven increases in air shipping, sending some of their business to cheaper ocean vessels to bring transport budgets down.

The International Air Transport Association estimates airlines will spend a collective $97 billion on jet fuel in 2005, 30 percent higher than 2004. Airlines are looking for ways to save on energy costs, which IATA says are sabotaging the industry's efforts to return to profitability.

FedEx Express said in its most recent financial filing that its fuel spending

jumped 49 percent in the quarter ending Aug. 31 to $628 million.

Northwest Airlines, operating through Chapter 11 bankruptcy protection, kept the growth in its fuel consumption to just 0.7 percent in its third quarter on a 1.5 percent gain in capacity. Its reward was a 47.6 percent jump in the airline's fuel bill.

Virgin Atlantic Airways' Chairman Richard Branson went so far as to suggest last month that he would build "cellulosic ethanol plants" to make jet fuel "derived from the waste product of the plant."

Branson conceded that he was in the "early days" of planning for the alternative fuel plants, but insisted a replacement for traditional jet fuel needs to be found.

Conserving Costs

UPS has instituted more conventional fuel conservation steps that may provide a window into how airlines, particularly express cargo carriers, can save on energy costs. Olson's mandate to "re-look" at UPS's use of fuel has led to a number of measures that the integrator says is saving more than $1 million in energy costs each month.

For example, Olson concluded that UPS airplanes were using too much fuel on the ground. So the company now has ground-based power units or generators waiting for planes at airports so aircraft engines can be turned off while planes are on the ground at airports.

He also foiund that UPS planes were carrying extra fuel to reach alternative airports in the event of weather-related closings, even on days when the skies were clear. "On good weather days, almost 70 percent of flights were being planned with alternate airports (and thus extra fuel) when none were required," says Olson.

UPS aircraft are also now being loaded so that a freighter's center of gravity is further back than used to be the case. "Further forward center of gravity creates fuel drag because more lift is needed for the plane's tail," says Olson. "Moving center of gravity aft is money in the bank."

In addition, the cargo carrier is carefully monitoring jet fuel prices at various airports to find the cheapest rates. "We look at fuel prices at every gateway in our system," says Olson. "If Louisville is a nickel or more cheaper than Ontario, we'll tanker fuel out to Ontario. We save hundreds per flight by tankering fuel."

The carrier is also using Lufthansa Systems Lido Operations Center, a flight planning system that calculates the most efficient route between two points, including an analysis of which altitudes make best use of tailwinds while avoiding headwinds.

Olson says high fuel prices were a "good wakeup call" that forced UPS to revaluate its use of jet fuel. "We don't have to throw fuel at everything," says Olson. "We're much smarter now than we were 12 months ago. … This is a process taking place throughout our company."

And it also makes UPS more environmentally friendly. "We're trying to be a good neighbor from a pollution point of view," says Olson.

'Murder-Suicide'

Delta Air Lines is just at the beginning of Chapter 11 bankruptcy restructuring but is already near a crisis point.

Delta asked a bankruptcy judge to reject its collectively bargained agreement with the carrier's 6,000 pilots, which would force $325 million in annual wage and benefits cuts. But the members of the Air Line Pilots Association, threatened to strike if the judge grants Delta's request.

Delta said in a filing with the bankruptcy court that a pilots' strike would amount to a "murder-suicide" that would "kill the company."

But ALPA, which offered $90.7 million in givebacks, says outright rejection of the contract would force the union to explore all options, including a strike.

… Briefly

The **Airforwarders Association** canceled the contract of David Wirsing as executive director and named Brandon Fried, a former executive at Adcom Worldwide, to replace him. ... Air freight trucker **Forward Air** boosted its net profit 34 percent in the third quarter to $12.1 million on an 18 percent gain in revenue, to $84.8 million. Forward Air's $231.9 million in revenue in the first nine months of 2005 was 13 percent better than last year. … **Pilot Air Freight's** forwarding revenue grew 5.6 percent in the third quarter to $79.7 million, lead by 13.7 percent growth in international business, to $14.7 million. … **Emirates** launched a second daily A340-500 passenger flight between New York's Kennedy International Airport and Dubai, raising the airline's cargo capacity on the route by 30 percent. ... **ASIG** started performing ramp handling and warehouse services for freight airline **Kitty Hawk Aircargo** in San Diego. … Abu Dhabi-based **Etihad Airways** started three-times-weekly flights to Toronto through Brussels and appointed **Swissport Cargo Services** as its ground handler in Toronto. ■

EUROPE

Merging Ambition

Air France and KLM are combining their cargo operations, creating the world's largest international air freight carrier

The Air France-KLM Cargo venture advanced a stage further with completion of the "integration" phase. From now on, the carriers will present one face to the customer. A team of 70 managers has been appointed worldwide to cement into place the building blocks of what is now the world's leading international cargo carrier.

By Roger Turney

Michael Wisbrun, executive vice president of KLM Cargo, is the chairman of the Air France-KLM Cargo joint management committee, leading an inner sanctum of four key executives. Jean-Charles Foucault heads up sales and distribution, Pascal Morvan is in charge of operations and logistics, and Claude Sereno oversees strategy and development. The three Frenchmen are joined by Dutchman Bram Graber, who is taking care of marketing and network management.

Just to even up the equation, one of the Frenchman was posted to Amsterdam, although it is still insisted that Amsterdam is "not necessarily" the headquarters of the joint venture. One person remaining in Paris is Marc Boudier, executive vice president of Air France Cargo. Boudier seems to have lost out in the senior management numbers game brought on by the grand merger. Air France executives insisted on heading the passenger business, so it was thought diplomatic that cargo should be run by KLM executives.

"You can write that I am alive and well and living in Paris," insists Boudier.

Hot Potato

Wisbrun in Amsterdam, meantime, has got the hot potato in this key integration phase of joining the two carriers' commercial functions, which will include the whole gambit of sales, customer service, products, marketing, revenue management and network planning.

"We have approached and smelled each other and compared our strengths and weaknesses," says Wisbrun, perhaps revealing a little too much information. "We realized that we could work efficiently together, with trust becoming one of the cornerstones of our cooperation."

The mutual trust, says Wisbrun, has already led to capacity swaps, network synchronization and commercial alignments. Coordination has already taken place on such routes as Atlanta, Bangkok and Sao Paulo, while capacity swaps were initiated on flights to Sao Paulo, Beijing, Hong Kong and Tokyo. The main commercial synergies have apparently been gained through KLM

Cargo adopting the SkyTeam Cargo product portfolio.

"It will be synergies, productivity improvement and innovation which will contribute positively to our margin in the long term," says Wisbrun. "Even in this first year of operation we believe we have achieved synergies which have resulted in savings of over $14 million. That will more than double in the next year and head towards synergy savings of more than $58 million over the next three to four years."

As far as Wisbrun is concerned, Air France-KLM Cargo is on track to become the powerhouse cargo carrier in Europe.

"Although we are now facing a period of slowdown in air cargo growth, the European market has the strongest growth prospects in the long term, but the trend is not linear, but cyclical and will be constantly disrupted by economic factors," he said. "As a major European carrier we are now operating in an increasingly competitive environment, with strong expansion by the Asian carriers and the aggressive development of Middle East carriers. The European carriers' market share is shrinking, down from 45 percent two decades ago to 30 percent today. We cannot afford any further erosion."

High Ambition

To that end Wisbrun has set out the goals for the AF-KLM Cargo initiative to be the No. 1 carriers in their respective home markets and to be at least No. 2 in most other key global markets. The two carriers hold sway at their two key European strongholds of Paris and Amsterdam, currently ranking second and third, respectively, among European cargo airports after mighty Frankfurt.

But in some respects the twin-hub operation of the Air France-KLM Cargo combo, may yet prove to be its Achilles heel. That much appears to have been acknowledged by the carriers themselves.

In the headlong rush for integration on all fronts it has been made clear that the operational activities of both carriers on the ground at Paris and Amsterdam will remain distinct and separate. Here Wisbrun appears to be on the back foot, talking not of free-flowing integration, but of one team and two solutions. That may not be the kind of dilution the end customer wants to hear.

"It is important that we don't mix up the two operations at Schiphol and Charles De Gaulle," said Morvan, the Air France Cargo executive charged with coordinating the ground handling operations at both hubs.

"What we will do instead is to build bridges between them so that customers can get connectivity as required," he said. "We need to recognize that the characteristics of the two systems differ and we must manage each of these operational processes in the way they were designed."

Morvan talks of aligning standards at the two hubs, insisting that 80 percent of this process is already complete. There will be physical connectivity between the two hubs, but Morvan maintains that the need for moving transfer between hubs will never be more than two percent of all traffic handled by the two carriers.

However, there will be a common handling strategy imposed at all outstations.

The carriers have helped alleviate the need for double handling at their two European hubs by swiftly coordinating their respective freighter networks in order to obviate duplication and provide better offerings on key sectors.

"What we are trying to achieve is a balanced growth through both our European hubs," says Graber, head of marketing and network management. "That is already being achieved, with for example a predominance of Air France main deck space to South America and a strong KLM presence to South East Asia. But this also enables us to play to our strengths and provide a joint network presence in key markets like China, Japan and North America."

Graber says the joint venture can now offer the market more than 50 percent of its overall capacity in main deck lift, with over 170 frequencies a week. The joint cargo fleet comprises 16 747 freighters and 17 747 combis. On the way are five 777 freighters ordered by Air France.

It is obvious that there is genuine harmony and respect between the two parties. But there are still hurdles to overcome.

Across the North Atlantic an antitrust immunity bar remains in place, preventing the two carriers from initiating any form of joint commercial cooperation in the United States. In Europe, Air France's SkyTeam cohort, Alitalia awaits an uncertain fate.

"We hope that both these issues are resolved soon," says Wisbrun." The U.S. market is of obvious strategic importance to us and in the case of Alitalia, we already have important plans in place when the carrier's future can be assured."

... Briefly

European airlines saw freight traffic grow 1.5 percent in September, putting the carriers up only 2 per-

cent over last year in the first nine months of 2005. Traffic across the North Atlantic was down 1.8 percent in September. … **TRAXON Europe**, the air freight electronic communications provider, says its service surpassed five million monthly electronic messages. The operation says its services aimed at new customs regulations in the United States and India helped more than double business in those markets. … Cargo traffic at **Air France-KLM** inched up 1.9 percent in October but cargo load factors fell nearly 3 percent as capacity grew at more than three times the growth in traffic. For the first 10 months of 2005, Air France-KLM cargo traffic was up 3.7 percent, half the 7.4 percent increase in cargo capacity. … Ending a long-term trend in all-cargo volume growth, traffic on freighters at **Amsterdam Airport Schiphol** slipped 0.1 percent in September although overall cargo traffic was up 0.9 percent in the month and 2.9 percent for the first nine months of 2005. … Memorex Europe extended its inbound logistics, inventory management and delivery contract with **Kuehne + Nagel** for two years. … **Martinair Cargo** started weekly MD-11 freighter service between Amsterdam and Khartoum, the capital of Sudan. … **bmi** started service to Jeddah and Riyadh out of **London Heathrow**. … **Globe Air Cargo** will represent **Ethiopian Airlines** as general sales agent for the United Kingdom and Ireland, where Ethiopian plans to upgrade capacity this year from a 757 to a 767. … French forwarder **Geodis** will build a warehouse in Maisfeld, Germany, to help handle a three-year contract for logistics services in Western Europe for audio and video distributor Thomson. … The Belgian post office will use **ABX Logistics** for customs clearance of inbound international parcels. … **Virgin Atlantic Airways** contracted with **Unitpool** to manage ULD repairs for the airline at Unitpool's 30 stations around the world. ■

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PACIFIC

Peak Worries

Asian exports are finally reaching a peak, but it may too little too late for the struggling air carriers

You could almost hear the collective sigh of relief rise from airline offices on either side of the Pacific Ocean as the peak season finally moved into gear in the second week of October. Hopes for an early start to the season – perhaps as early as mid-August – turned into a glum waiting game by late September, and some executives wondered if this year would produce any surge in eastbound volumes at all.

By Ian Putzger

With stratospheric oil prices taking massive bites out of their income, carriers desperately needed a buoyant peak season, but their Christmas remained elusive throughout September. International Air Transportation Association statistics for the month showed a paltry 1.3 percent rise in global air freight and the figures for Asia-Pacific airlines have consistently shown meager growth in freight traffic lagging behind their capacity growth.

Nobody was expecting massive growth, for sure.

The previous year had set the bar at a pretty high level, as port congestion on the United States West Coast triggered a stampede of shippers and forwarders to air freight terminals in Asia in order to get their goods to U.S. retailers in time. Despite warnings that the rail heads could prove a weak link causing another wave of problems this year, there was no congestion to speak of at the ports well through October.

Lesson Learned

Operators are still scratching their heads what happened to cargo demand in September. Peter Rose, chairman and chief executive officer of Expeditors International, said he received no indications from his shippers about why the peak got underway so late this year. Ole Ringheim, senior vice president for global air freight at Exel, suggested that shippers had learned their lesson from previous years and lined up maritime capacity in time.

"I think people were better prepared. It's not that there was less freight, but it was better planning and forecasting. We've had a good dialogue with key clients trying to anticipate needs," he said.

This would explain the pattern of air freight volumes from Asia since mid-October, which executives described as strong but steady.

"It's not gangbusters; it's a controlled peak," said Jim Friedel, president of Northwest Airlines Cargo. The airline has experienced some backlogs,

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but only moderate amounts which are cleared within a week, he said.

Claude Morin, president of Air Canada Cargo, attributed the lack of drama to an abundance of capacity.

For one thing, the liberalization of air services treaties between the U.S. and a number of Asian countries — not least of all China — has brought more scheduled freighter lift into the market. And American freighter operators who have contracts with the military to run charters to the Middle East return back to base via Asia. "They're already handsomely paid for the military work, so for them the Asia-U.S. leg is gravy," Morin said.

Import Drive

There are still glimmers of hope that the tail end of the season could bring a spike in traffic.

For one thing, early November brought news that rail bottlenecks were finally producing slowdowns at West Coast ports, prompting the National Retail Federation to raise its assessment of port congestion from 'low' to 'medium.'

Moreover, output and orders have gone up in several Asian economies.

Taiwanese exporters saw orders from overseas rise 22 percent in September, buoyed by demand for chips and consumer electronics and a drop in the value of the Taiwan dollar versus the greenback. Singapore's manufacturing output unexpectedly surged 9.6 percent in September, fueled by pharmaceuticals and electronics. In Korea, investment in plants and equipment rose 4.5 percent during the third quarter and economists forecast a strong fourth quarter.

Airlines must be praying that this momentum carries on.

But Bob McGowan, cargo manager for Canada of Korean Air, expressed concern about signs of weakness of air imports to North America this past year. "That's worrying. That's what has been carrying the bacon for years," he said.

... Briefly

Freight traffic for Asian airlines grew 1.5 percent in the third quarter, less than half the 3.5 percent increase in capacity, according to the **Association of Asia-Pacific Airlines**. Capacity growth outstripped traffic for five straight months, including a September report that showed capacity measured in available freight tonne-kilometers up 4.9 percent and FTKs rising 1.9 percent over the same month a year ago. … China's Central Bank said China's economy would grow at better than 9 percent in 2005 after the GDP rose 9.4 percent in the first nine months of the year. … **Korean Air** saw cargo traffic fall 4.5 percent in the third quarter because of weak exports out of Korea. ... The owner of **Nippon Cargo Airlines** says the Japanese freighter operator placed a firm order for eight 747-400 freighters with options for up to six more of the jumbos, sharply scaling up capacity for an airline with 11 747s in its fleet. NCA projects its profit will grow to $84 million this year. ... **AirBridge Cargo** and **Nippon Cargo Airlines** signed an agreement to share 747 freighter capacity between Japan and Europe on flights that will operate through ABC's hub in Krasnoyarsk, Russia. … **Singapore Airlines** took its 15th 747-400 freighter and stepped up service to India and the United States, including new twice-weekly flights on a Singapore–Dehli–Copenhagen–Chicago rotation. … Hong Kong-based forwarder **U-Freight** opened an office on Indonesia's Batam Island, an electronics manufacturing base. … **Hong Kong Air Cargo Terminals** saw traffic grow 6.7 percent in October as the handler set a monthly record of 228,234 tonnes. It was the third straight month of decelerating growth at HACTL and imports grew only 1.8 percent. ... Freight traffic at **Singapore Changi International Airport** grew 2.8 percent in September and was up 2 percent in the first nine months of the year over the same period a year ago. … **Dragonair Cargo** was seeking government approval to add five freighter flights a week to Taipei to respond to growing demand for shipping between Mainland China and Taiwan. The Hong Kong-based airline's cargo traffic was up 15.8 percent through the first nine months of 2005. … TRI-US Entertainment of Thailand appointed **GAC Thailand** to provide a full door-to-door service from Thailand to Hollywood for its film projects. … **Exel** joined the RosettaNet logistics technology standards group in Thailand. … **Singapore Air Terminal Services**, working with partners in China to increase its stake in ground handling services in the country, struck a joint venture with China's **Tianjin Airport Cargo Services** and will be the single largest shareholder with a 46 percent stake. … **Boeing** struck a deal with Afghanistan's **Ariana Afghan Airways** to renew the carrier's fleet with two leased 757-200s this year and direct purchase of four 737-700 aircraft in 2009. … New Zealand's Ministry of Defense awarded **ST Aerospace** a $38 million contract for the cargo conversion and avionics upgrade of two 757-200 aircraft. ■

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LATIN AMERICA

Perishable Market

Air cargo operators have mixed feelings about Latin America, where politics and regulations restrict freight flows

By Aaron Karp

The Latin American market is something of a conundrum for air cargo operators trying to decide how much to invest in the region. Demand for its products, notably perishables, is growing in the United States and elsewhere, and production methods throughout the region are becoming more sophisticated. But there is skepticism of free trade in much of Latin America, and complicated and conflicting regulations stifle air freight growth.

"We still see that the region is very polarized in terms of countries that want to open up free trade and the ones that want to be more restrictive," says Frederick Jacobson, the president of Colombian all-cargo airline Tampa Cargo.

"It has a lot to do with politics," he says. "Most (Latin American) countries are developing countries and they view globalization with suspicion. They believe that U.S. and European companies will take over and create more unemployment."

Fish, flowers and fruit are the region's top draws for cargo operators, and Chile, Brazil and Argentina are Latin America's strongest markets. Textiles are also a growing export commodity, and in a promising development for a region long marked by steep imbalances, there's growing import demand for high-tech goods from Asia and the United States.

Still, even after years of promised growth, "a lot of these economies are still at a base level," says Ron Kuhlmann, a Unisys principal transportation consultant . "I am unaware of a broad air cargo network that exists for Latin America. Especially with the price of fuel, you're not going to send a 747 freighter somewhere where it's not going to cover costs. … There's an influx of manufacturing goods from China to Latin America, but the Chinese can only buy so many flowers from Latin America."

Overall, cargo handled at Latin American airports rose just 1.5 percent year-over-year for the first nine months of 2005. Air cargo trade between the United States and Latin America fell 1.1 percent year-over-year for the period.

Seeing Possibilities

But companies such as Hellmann Worldwide Logistics see growing possibilities in Latin America's products and believe that most of the region's nations will eventually ease trade restrictions.

"I feel good about the Latin American market right now despite some of the political developments," says Karl

Weyeneth, Hellmann's president and CEO of the Americas, noting the recent unrest when international leaders gathered for a summit in Argentina. "Most definitely, politics has an influence on the economies and the economics has an impact on our business. … But we're going to continue seeing healthy growth. Argentina is recovering, Brazil is very strong, Chile remains healthy."

Air cargo players involved in Latin America agree that the region won't reach its trading potential without across-the-board liberalization of trade and customs regulations. "You can't ignore that," says Frank Visconti, president of Miami-based LGSTX Services and former head of Arrow Air. "More liberalized regulations will certainly help. Short-sighted political views will hurt (trade), but inevitably (a more liberalized system) will come.

"There are people on the political side and on the commercial side that really understand the value of opening markets and creating a more stable, competitive platform for carriers to operate. You can't stop the forces of good, sound trade."

Customs regulations remain a key sticking point, particularly for air cargo operators used to a more fast-track clearance of goods in the United States, Europe and Asia. "Latin America has always been a difficult region in regard to customs regulations, no doubt about it," says Weyeneth. "We live with that. Is it putting added costs on supply chains? Yes it is. But I think it's a matter of time before regulations ease.

"It really depends on the politics as to how long it will take before countries will loosen up. Right now it's very cumbersome."

It's not just an easing of regulations but a standardization of customs procedures and rules that is needed, says Jacobson. "One of the most pressing matters (in the Latin American cargo market) is customs regulation. Customs varies from country to country and they are very complex," he explains. "Columbia, Brazil and Ecuador have very complicated regulations and it inhibits the flow of commerce. Unfortunately, we don't see (customs) as a regional process."

Regional consensus does not appear to be near. "There seems to be a wide range of opinion as to how the borders should be opened," says Kuhlmann. "There's anything but a mandate to change the trading relationships."

Ancient Fleets

Kuhlmann points to another impediment to Latin American air cargo development, particularly on intra-regional operations. "One of the concerns across the board is the age of (Latin American airlines') fleets," he says. "The fleets are just ancient. It's not an accident that Miami is one of those airports where you can see aircraft from previous eras, and many of the older planes are operated by Latin American cargo carriers. So if there's going to be any kind of serious growth, they need new equipment."

Also clouding air cargo prospects in the region are the financial difficulties of bankrupt Varig Brazilian Airways, which operates VarigLog, Latin America's second largest air cargo carrier and "the biggest player in the region's most established market," says Kuhlmann. "VarigLog is in the process of reinventing itself. They're going to have to have the money to buy planes that will allow them to expand."

But Visconti says air cargo players should take note of the "phenomenal transformation" in "service levels" of the producers of Latin America's key commodities, such as Chilean salmon farmers. "Export demand is growing and creating a more consistent air freight community," he says. He concedes, however, that it's "difficult for carriers to make money in the market."

Indeed, growth in Latin American air cargo is likely to be a slow process. "The omens are not pointing to the fact that this is a market on the cusp of explosion," says Kuhlmann.

… Briefly

Varig Brazilian Airways lost $175.4 million in the third quarter but boosted its prospects for emerging from bankruptcy protection by agreeing to sell its logistics units, VarigLog and Varig Manutencao, to **TAP Air Portugal** for $62 million. … **Mexicana** added a seventh daily flight between Los Angeles and Guadalajara. ... Panama's **Copa Airlines** will buy up to 15 next-generation 737 aircraft for delivery from 2007 to 2009. … **LAN Airlines'** cargo traffic fell 1.3 percent in October on a 0.3 percent reduction in capacity. ... The U.S. Department of Transportation granted **American Airlines** antitrust immunity to form a three-way alliance with **LAN Peru** and **LAN Airlines** that will allow for the coordination of marketing, scheduling and other services among the three carriers. ... **Continental Airlines** received preliminary government approval to operate flights to Buenos Aires from its Houston hub. ... **Delta Air Lines** plans to add service over the next six months to 28 destinations in the Caribbean and Latin America, including Roatan and San Pedro Sula in Honduras and Managua, Nicaragua. ■

AIR CARGO'S R

After a banner year in 2004, air freight

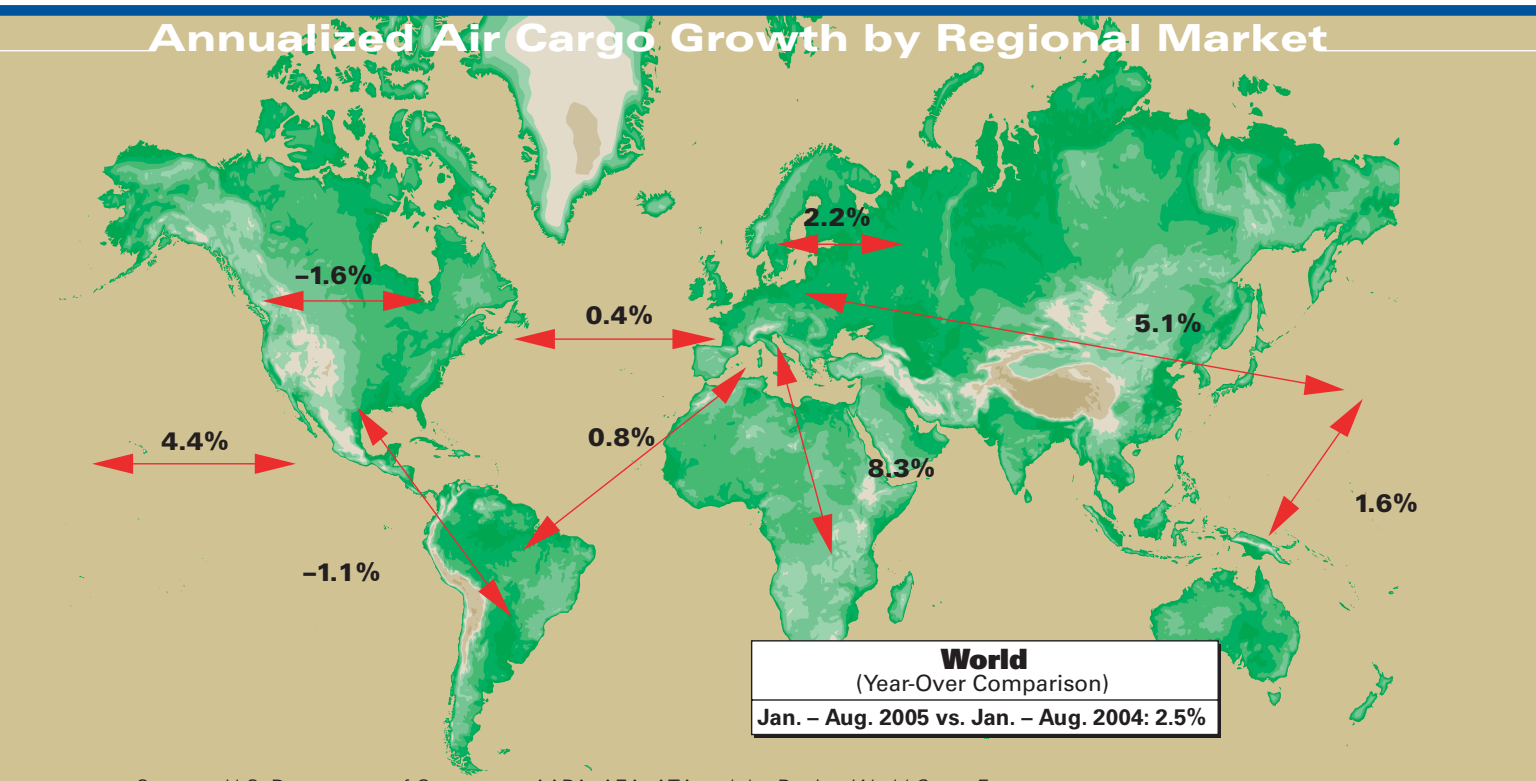
This year's review/outlook is a collaboration between BACK Aviation Solutions and the editors of Air Cargo World

The skyrocketing growth in air cargo traffic in 2004 was followed by a loud thump in 2005. After celebrating the industry's best year of growth since 1997 last year, air freight fell rapidly back to earth this year. Growth in 2005 did not just fail to repeat last year's high level; global air freight traffic basically stagnated in 2005 as fuel prices soared and air cargo moved, in many instances, to less expensive ocean and ground alternatives.

EALITY CHECK

growth stalled in a lackluster 2005

Annualized Air Cargo Growth by Regional Market



Sources: U.S. Department of Commerce, AAPA, AEA, ATA and the Boeing *World Cargo Forecast*.

Air cargo observers knew full well that 2004's 12 percent traffic growth could not be sustained. But few could have predicted a year ago that the drop-off in 2005 would be so severe.

Through September, global freight tonne kilometers flown had grown just 3 percent over the pervious year, with little turnaround expected in the year's final month. Remove January's figures, when momentum from 2004 generated a strong month of traffic, and 2005's FTK growth stands at just 2 percent. Even traffic on trans-Pacific routes, the mightiest of air trade lanes, grew just 2.5 percent in 2005 when January is excluded.

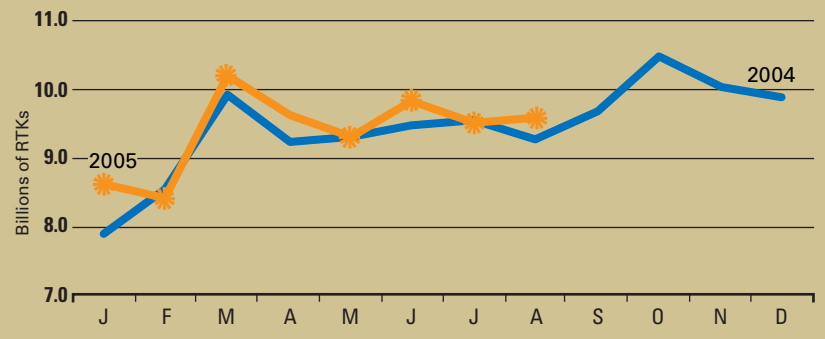
Most forecasts still project long-term annual air cargo traffic growth of about 6 percent annually. This year's growth was well below that level. What happened? Natural disasters, for one. Last December's devastating Asian tsunami was followed by a spate of major hurricanes in the southeast United States and a debilitating earthquake in Pakistan.

None of these events alone massively interrupted global commerce. But the disasters cumulatively added to an overall slowing in global demand, including usually reliable American consumer demand. The U.S. economic slowdown caused business investment to decline, driving up inventory levels of goods traditionally carried by air such as high-tech intermediary parts and finished products.

And, of course, the price of oil soared, passing $60 per barrel in the second half of 2005. This led to un-

World Air Cargo

World air cargo grew 2.5 percent January–August 2005 relative to traffic levels of 2004



Sources: U.S. Department of Commerce, AAPA, AEA, ATA and the Boeing *World Cargo Forecast*.

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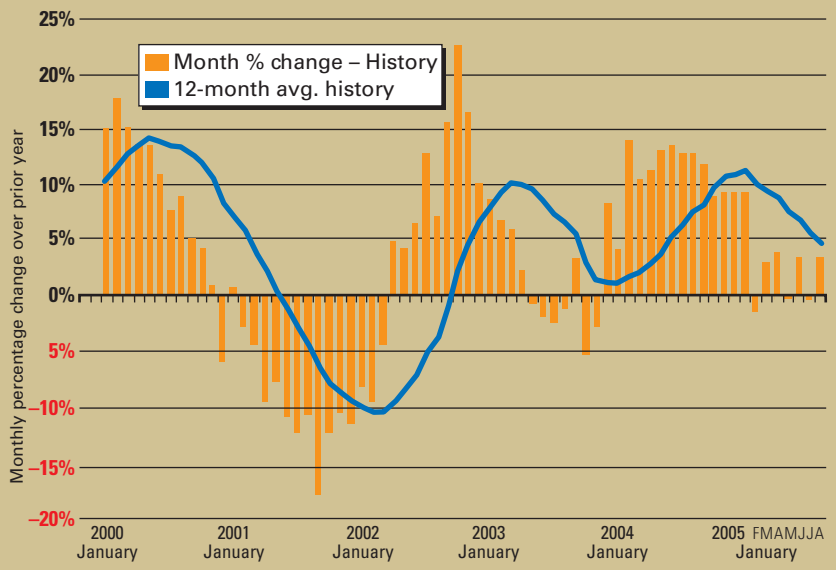
Monthly Swings

World air cargo grew 3.5 percent in August 2005 compared to August 2004.



Sources: U.S. Department of Commerce, AAPA, AEA, ATA and the Boeing World Cargo Forecast.

precedented jet fuel prices and an escalating series of fuel surcharge increases on air cargo shipments. The Air Transport Association of America says airlines paid 45 percent more year-over-year for a gallon of jet fuel in 2005. According to ATA Chief Economist John Heimlich, the correlation between rising oil prices and the rate of increase of jet fuel prices was "drastically higher" than historic levels.

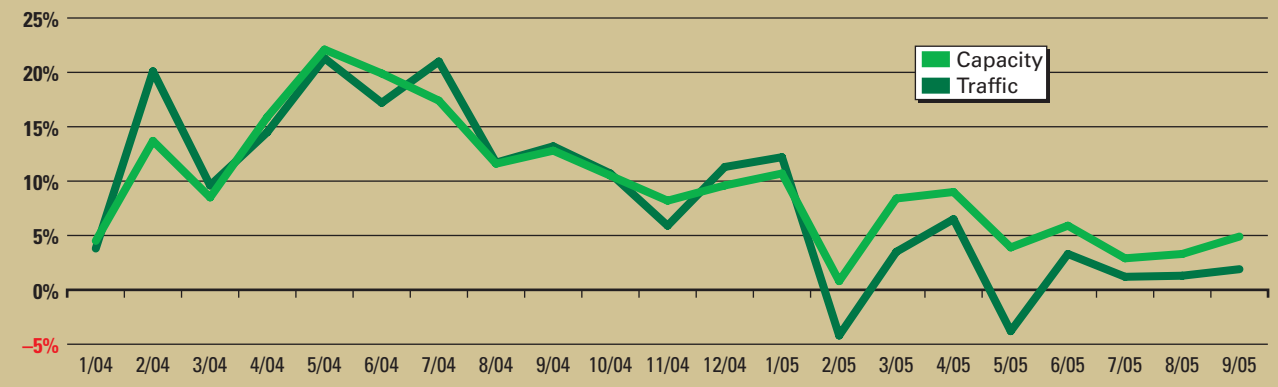
There is another less overt but very serious impact on air freight traffic from rising oil prices. As energy costs climb higher, consumers' disposable income is reduced, dampening demand for high value goods typically carried by air.

Also hurting air freight growth is the ongoing financial problems faced by the world's airlines, which are expected to lose $7.4 billion in 2005. In the United States, three major airlines (United, Northwest and Delta) are operating under bankruptcy protection. Struggling airlines are forced to curtail services and eliminate unprofitable routes, thus eroding shippers' confidence in the reliability of carriers' capacity on trade lanes. This is especially true in the U.S. domestic market, where changing airline strategies and high fuel

Also hurting air freight growth is the ongoing financial problems faced by the world's airlines, which are expected to lose $7.4 billion in 2005.

Asia Airlines

Monthly year-over-year percent change in capacity, in available tonne kilometers, and traffic, in freight tonne kilometers, of Asia-Pacific airlines.



Source: Association of Asia Pacific Airlines

surcharges make air cargo increasingly less competitive.

Domestic U.S. air cargo traffic growth was again flat in 2005. Air freight is losing an uphill battle with expedited truckers in the United States. Forwarders complain that airlines' domestic cargo capabilities are unreliable with carriers shifting to smaller planes on many routes and cargo getting tied up in bottlenecks at major hubs.

Perhaps the most telling development in the air cargo sector in 2005 was that the strongest growth came in the Middle East and Africa, historically weak air cargo markets.

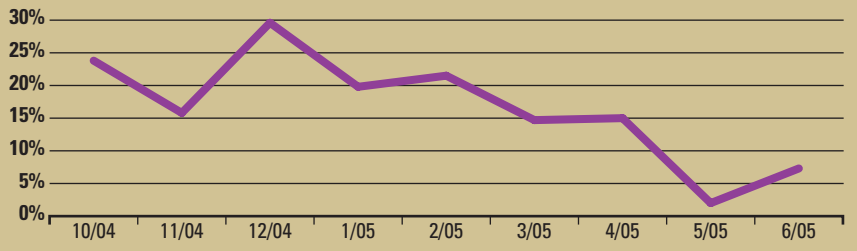
Will 2006 look more like 2004 or 2005? Analysts say it is reasonable to conclude that the year will fall into the 5 to 7 percent "normal" annual growth range, although air cargo has not had a "normal" year in quite some time. BACK Aviation Solutions predicts a rebound in trans-Pacific traffic and continued strength in Africa and the Middle East.

Key to a rise in air cargo traffic growth in 2006 will be the fortunes of the Asia-Pacific region, and there are some good economic signs in the Far East's top two economies.

With bad debts diminishing, permanent employment on the rise, and a Tokyo stock market thriving at a four year high, Japan is showing signs of shaking off its decade-long economic woes. Given that Japan remains the second largest economy in the world and a major air freight trade partner with the United States, Japan could be one of the leaders driving Asia air freight traffic growth in 2006. And China's recent monetary policy actions could allow further currency appreciation against the U.S. dollar,

Exporting America

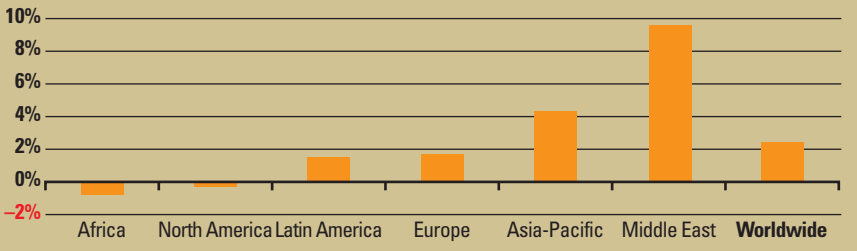
Monthly year-over-year percent change in air exports from United States by weight.



Source: CNS-USA *Market Monitor*

Regional Air

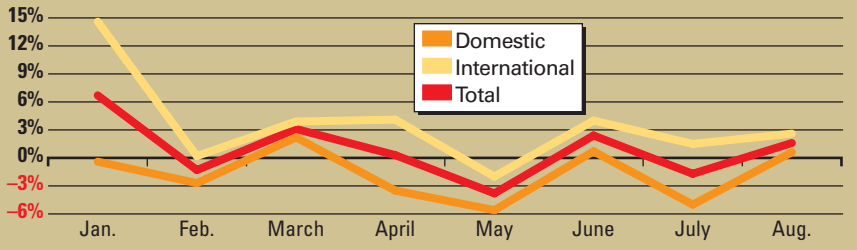
Year-over-year change in air cargo traffic handled at airports, by region, first nine months of 2005.



Source: Airports Council International

American Airlines

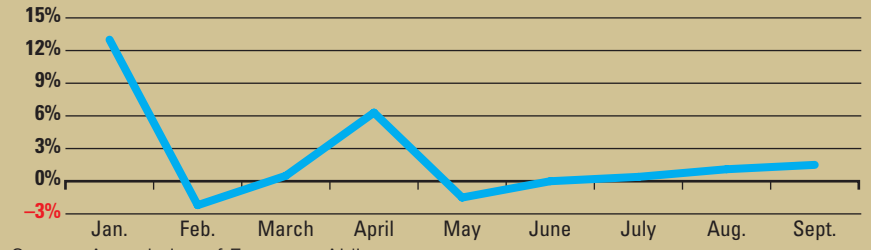
Monthly year-over-year percent change in air traffic at U.S. air carriers.



Source: Air Transport Association of America

Europe Airlines

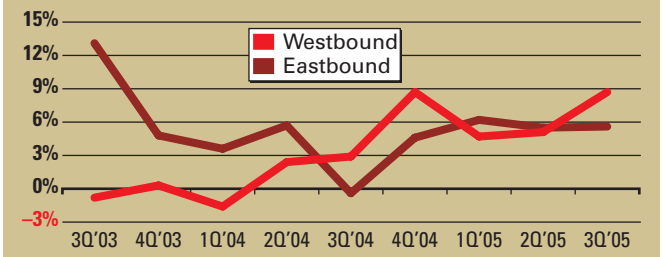
Monthly year-over-year percent change in air freight traffic carried by European airlines in 2005.



Source: Association of European Airlines

Air Prices – Pacific

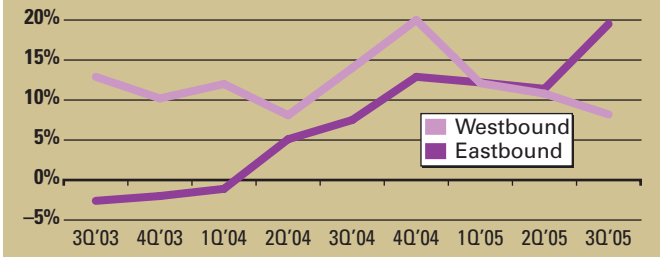
Quarterly year-over-over percent change in air freight prices over the Pacific.



Source: Citigroup Investment Research

Air Prices - Atlantic

Quarterly year-over-over percent change in air freight prices over the Atlantic.



Source: Citigroup Investment Research

which may further fuel China's appetite for imports.

But several factors could once again keep air cargo growth levels down. Struggling U.S. legacy carriers are in the process of "right-sizing" flights based on decreased passenger demand. That means carriers are often switching to smaller aircraft with less belly space on key international lanes. For example, Continental Airlines recently down-gauged from 777s and 767s to 757s on several European destinations, including Amsterdam, London Gatwick, and Paris De Gaulle, from their Newark hub.

As the combination airlines adjust schedules to correspond to passenger demand, all-cargo operators are ordering freighters in increasing numbers, with total orders for 747-400 freighters pushing past the 150 mark by the end of 2005.

Greater use of pure cargo capacity, along with passenger "right-sizing" and the tighter combination cargo capacity that comes with it, may help support stronger 2006 air freight yields in markets such as the North Atlantic, where yields have been soft.

It is hard to see any positives, however, in regard to escalating energy costs.

A steep drop in the price of crude oil looks unlikely, leaving air cargo players to hope for little-to-no escalation. If the price of oil does not significantly exceed $60 per barrel, BACK does not believe fuel costs will further erode air cargo traffic growth. But even at current levels, fuel will likely continue to hurt airlines' efforts to regain profitability and make air cargo traffic growth of more than 6 percent highly unlikely.

But even to achieve 6 percent traffic growth, the economies of the United States and China must have good years.

Given that trade with the United States accounts for approximately 60 percent of all global air freight traffic flows, the continued strength of the U.S. economy is vital for air freight to return to normal growth rates. ■

The World Air Cargo Event 2006

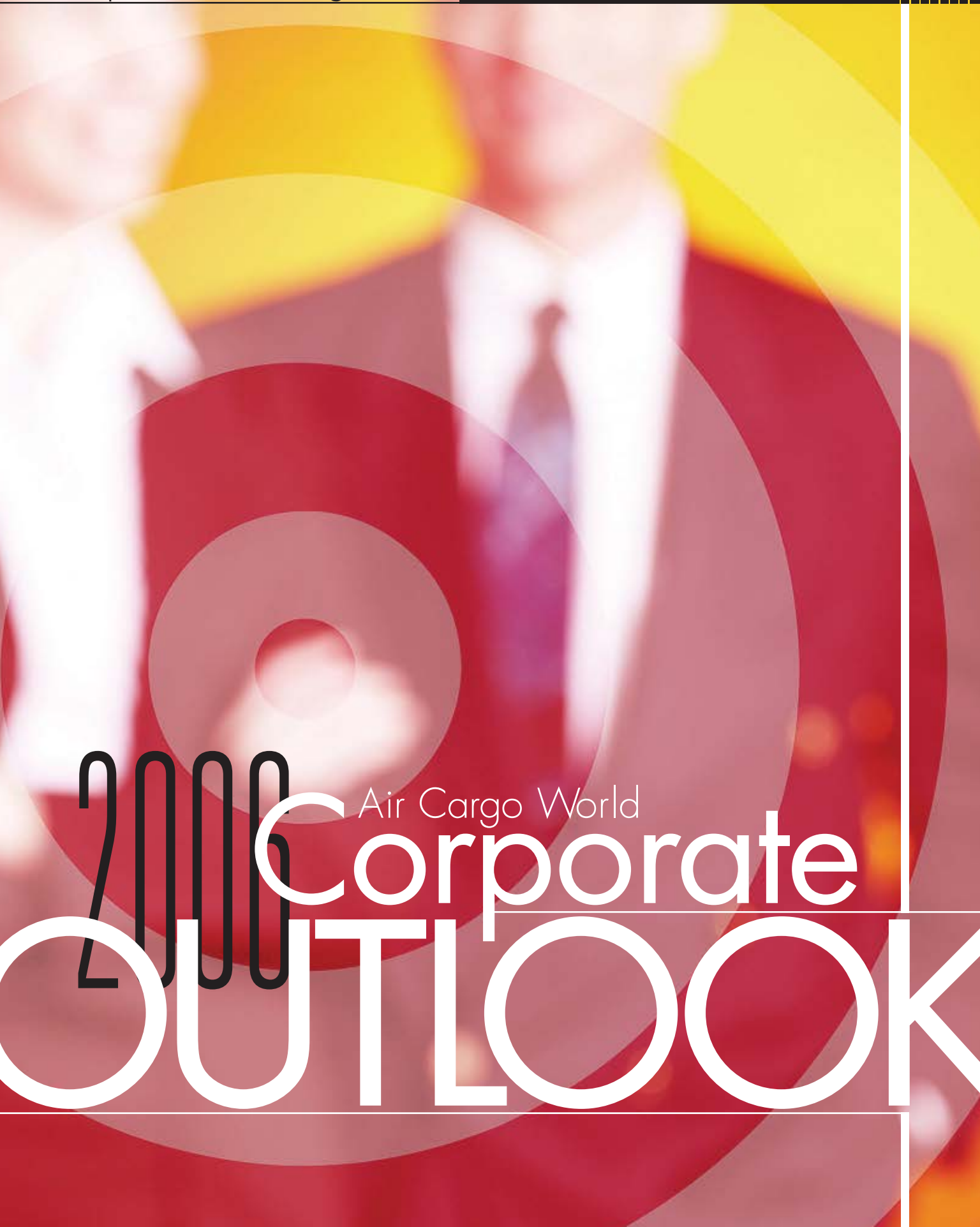
EXHIBITION VISITORS TICKET

January 23-25, Jumeirah Beach Hotel, Dubai

Pre-register online at:
www.worldaircargoevents.com

The exhibition is open to visitors from 10am, 23rd January, 9am, 24th and 25th.
The exhibition will close at 6pm on 23rd and 24th, and 1pm on 25th.
Admittance is free of charge.

Special Advertising Section



2006 Air Cargo World Corporate OUTLOOK

Canadian Airports Council

Canadian airports — gateway to North America

Canadian airports expect further growth in 2006 as they continue to establish Canada as the preferred gateway for air cargo into North America.

Working together through CAC Cargo, a division of the Canadian Airports Council, 11 cargo-focused airports from coast to coast are committed to promoting Canada's strategic business and logistics benefits.

Canadian airports, the first point of entry for Asian and European flights via the Polar Route, provide excellent access to the major North American markets through extensive transportation super-networks. They offer cargo carriers year-round; congestion-free, flexible and efficient cargo-handling facilities; and customs clearance procedures. The result: less down time and greater profitability.

Building on the North America Free Trade Agreement, Canada and the U.S. have an excellent cross-border relationship and efficient protocols. These longstanding relationships and clear procedural requirements make the movement of goods efficient and trouble free. Landing in Canada and bringing cargo into the U.S. by rail or truck are all competitive options that are readily available, depending on specific need.

In November 2005, the U.S. and Canada reached a full Open Skies agreement that removes all economic restrictions on air services to, from and beyond the other's territory by the airlines of both countries. Other negotiations with various U.S. federal agencies are directed toward improving cargo security and border clearance procedures. In 2006, CAC Cargo will continue to work with the Canadian government in negotiations to further improve access and ease of use of Canadian airports.

Since 1970, international air cargo flying into Canada has increased almost tenfold. International airfreight carriers such as Martinair, Cargolux, Cathay Pacific and Asiana have successfully introduced scheduled flights to Canada, joining Air Canada, UPS and FedEx in an expanding market. At the same time, domestic cargo flights have grown significantly, primarily through the Cargojet and Purolator/Kelowna Flightcraft networks, as well as heavy-lift charter activity. We expect this growth to continue in 2006.

CAC Cargo members are looking forward to meeting one-on-one with our current and potential customers at the 2006 International Air Cargo Forum and Exposition, occuring in Calgary, Alberta, from Sept. 12-14. Calgary Airport Authority, one of our members, is serving as host for ACF 2006 on behalf of The International Air Cargo Association.

A Canadian pavilion at ACF 2006 will bring Canadian airports, air carriers, Transport Canada, Canada Border and Revenue Services, and other partners, all under one roof. Together, we are dedicated to building Canada's air-cargo business through lower trade barriers and improved awareness of Canada as a gateway to North America.

CAC Cargo members represent Canadian airports at Vancouver, Calgary, Edmonton, Winnipeg, Toronto, Hamilton, Ottawa, Montreal, Halifax, St. John's and Gander.

Contact Info

Canadian Airports Council
350 Sparks St., Suite 604
Ottawa, ON K1R 7S8 Canada
www.caccargo.com

CAC
CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA
CARGO/FRET

Emirates Sky Cargo

Emirates Sky Cargo Senior Vice President Ram Menen

Company Mission

To deliver the highest standards of product quality to support business logistics within the air transportation industry and to achieve complete customer satisfaction through innovation and refinement of service levels.

Emirates Sky Cargo Senior Vice President Ram Menen's Outlook for 2006

In 2006, major markets worldwide are set to perform better than they have in 2005, on the strength of their experience with certain fundamental paradigm shifts that the world has witnessed this past year — especially in relation to oil prices, inflation and the resilience exhibited by many economies and industries.

The world has become accustomed to high oil prices, but the trends suggest that they will be stabilized, pegged between (or moving in the range of) mid-US$50s to US$60s.

The current strengthening of the U.S. dollar and the economy is heartening, as it will boost world trade. But if this trend does not continue into 2006, we are likely to encounter another challenging year.

We are closely monitoring the European markets and although the current sociopolitical unrest is unsettling, the German economy is on the mend, and the U.K. markets will perform well, depending on the American currency parity and the oil prices. Emirates SkyCargo's performance in these key markets will remain strong.

India and China will outperform most other markets, and there will be better clarity in the latter's trade relations with the U.S. and European Union. Although the quotas are being reinstated, Chinese markets will continue to dominate the textile trade, and Emirates SkyCargo is in a good position to service the market requirements.

The Middle East markets will remain buoyant, with the staggering pace of developments in the Gulf states leading growth. African markets will experience a higher growth curve.

With the arrival of the two Airbus A310 freighters on order by the end of December, Emirates SkyCargo will increase its cargo capacity to the Indian subcontinent, Africa and the Middle East next year to better fulfill customer demands.

Contact Info

Emirates Sky Cargo
P.O. Box 686
Dubai, United Arab Emirates
Phone: (971) 4 228 151
www.skycargo.com

Emirates SkyCargo

Winnipeg International Airport

Winnipeg Airports Authority Inc.
President and CEO
Barry Rempel

Mission Statement

With our community, we provide excellent airport services and facilities in a fiscally prudent manner.

Winnipeg Airports Authority Inc.'s President and CEO Barry Rempel's Outlook for 2006

Winnipeg International Airport is Canada's leading express cargo hub. Major operators such as Purolator Courier, Cargojet, FedEx and UPS contribute to Winnipeg having more scheduled freighter departures than any other airport in Canada. In 2006, it is our intent to continue working with customers to solidify our role in domestic cargo, strengthen our ties to other North American markets, building critical mass in support of potential international cargo capacity.

Creating the optimal environment for cargo airlines to thrive, including the right regulatory environment and the right infrastructure is critical to our mutual success. As western Canada's only federally designated international cargo transshipment center, we currently offer tremendous flexibility for carriers wishing to take advantage of it. We would, however, welcome even more liberalized air transport agreements for Canada. Offering maximum flexibility at our airport, and keeping costs low, translates into maximum profit opportunities for carriers in 2006.

A new dedicated cargo apron has enabled us to accommodate increased cargo traffic from major express operators. The additional capacity also accommodates more technical stops, particularly by heavy-lift carriers. The airfield infrastructure supports any aircraft type, with 24-hour operations, rehabilitation of both major runways since 2001 and CAT II operations on the longest runway. The airport is at the crossroads of the TransCanada Highway, and the International Mid-Continent Trade and Transportation Corridor, supported by truck and rail options to uncongested border crossings into the United States.

Whether it is polar cargo routes or international flights over the Atlantic and Pacific Oceans, Winnipeg's geography works to our advantage as Canada's most centrally located airport. Our location can help carriers save significantly on fuel burn compared with flying to other North American markets, and we see opportunities to develop such routings.

Our rate of cargo tonnage growth through August 2005 has our airport on pace for another record year, following on the heels of phenomenal 24 percent growth in 2004. According to the July 2005 issue of *Air Cargo World*, Winnipeg was Canada's fastest-growing cargo airport in 2004, and the 12th-fastest growing in the world. Our growth rate, which is forecast to be between 2 and 5 percent per year, will be more modest in 2005 and 2006.

A strong corporate commitment to cargo has helped facilitate this growth. We continue to demonstrate our ability to respond quickly and effectively to customers' needs. In meeting those needs, we have witnessed strong cargo growth by our customers.

Focus on meeting customer needs is driving our business processes in 2006.

Contact Info

Winnipeg Airports Authority Inc.
Room 249, Administration Building
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R3H 1C2 Canada
Phone: (204) 987-9400 / Fax: (204) 987-9401
www.waa.ca

WINNIPEG
AIRPORTS AUTHORITY

Southwest Airlines

Southwest Airlines Director of Cargo Mack Sikorski

Company Mission

The mission of Southwest Airlines is dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit.

Southwest Airlines Director of Cargo Mack Sikorski's Outlook for 2006

2005 was a challenging but exciting year for Southwest Airlines. As the industry faced bankruptcies, downsizing and restructuring, Southwest continued to spread its wings — adding 33 new planes to its Boeing-737 fleet (for a total of 445) and two new cities, Pittsburgh, and Fort Myers, Fla., to its vast 61-city network. By remaining focused on its core principles of customer service, value, and reliability, Southwest Airlines Cargo continued to provide its customers with outstanding levels of dedicated and personalized service.

"Even though Southwest is growing and expanding, we continue to place a lot of emphasis on maintaining a close connection with our cargo customers by giving them the necessary communications tools they need to stay in close connection with their shipments," said Mack Sikorski, Southwest's director of cargo. "We know that, as a shipper, your goal is to get the most reliable service at the best value, and we strive hard to make that happen every single day."

In January 2006, SWA Cargo will begin offering that same value and service from Southwest's newest city — Denver.

"We're excited about serving the 'Mile High City' as well as giving our existing customers a new destination for their shipping needs," Mack said.

SWA Cargo also will be working in 2006 to explore and implement additional technology solutions to create even more efficiency and increased bin space for all of the airline's cargo shipping options including NFG (Next Flight Guaranteed), RUSH Priority Freight and FREIGHT services.

"We truly view ourselves as business partners with every customer that we serve, and we understand, that by constantly studying and looking for new ways to improve our efficiency, we are ultimately improving the efficiency for the businesses we work with."

SWA Cargo wants to thank its customers for a successful 2005 and looks forward to continuing to provide the value, reliability, and customer service you have come to expect from Southwest Airlines Cargo in the coming year!

Contact Info

SOUTHWEST AIRLINES CARGO
Angela Vargo
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angela.vargo@wnco.com

SOUTHWEST CARGO

ARGO Tracker

ARGO Tracker
Chief Operations Officer
Michael J. Hammons

Company Mission

ARGO Tracker's mission is to be the global provider of choice for customers seeking to reduce product and freight losses resulting from theft, poor supply-chain visibility, damage and spoilage — through the deployment of ARGO Tracker's real-time asset-tracking solutions — ultimately culminating in higher profits, productivity and shortened return-on-investment cycles for our customers.

ARGO Tracker's Chief Operations Officer Michael J. Hammons' Outlook for 2006

ARGO Tracker's business objectives for 2006 involve our continued research and development efforts into emerging technologies that support and enhance our existing products and services. Specific applications involve the development of global radio-frequency identification, video integration and compatibility with the new ZigBee sensor protocol. Concurrently for 2006, the company plans to continue its core competency of providing its customers with the lowest cost, highest value and real-time asset-tracking solution(s) currently offered.

For the coming fiscal year, ARGO Tracker's marketing strategies involve the expansion of our global sales efforts targeting eastern Europe and Asia. To date, ARGO Tracker has engaged pilot programs in England and currently has ongoing programs in Mexico. Moving forward, the company will continue to target transportation, along with assessing the needs of security service firms and those of other high-value manufacturers to articulate ARGO Tracker's competitive posture in these industries. As an extension of its current sales and marketing strategy, biomedical transport will be another vertical market throughout which ARGO tracker will identify its competitive advantages.

Key to the upcoming 2006 business outlook is the launch of ARGO Tracker's "Partners Program." This new program will involve the use of "distributors," or well-defined businesses with strategic industry partnerships, who will facilitate company sales by offering the capabilities of the ARGO Tracker to provide their clientele with a value-add service. Also, to meet the anticipated sales growth projections in 2006, the company will augment its independent sales force by adding additional sales representatives in key regions throughout the country.

Given our current market forecast predictions, and the successful attainment of our operational goals and objectives, the company anticipates a twofold business growth in 2006. This optimism is shared by management and non-management alike, as the measurements upon which this forecasts are being made are not predicated on stretch goals, but more appropriately, on reasonable, highly attainable goals driven by a robust market and a well-defined business plan. As such, the future appears very bright not only for ARGO Tracker, but also its customers who stand to gain significantly as cargo losses decline and productivity and profitability rise — all because of greater supply-chain visibility and throughput accountability.

Contact Info

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Tucson, AZ 85706-5027
Phone: (520) 202-2785
www.acw.argotracker.com

ARGOTracker

Events

Dec. 5-6

Miami: World Mail & Express Americas, at the Sheraton Bal Harbour, the Triangle Management event looks at how private meets postal in express markets. For information, call operators meet Central European partners. For information, call +44 870 950 7900 or visit *www.triangle.eu.com.*

Dec. 5-6

Kuala Lumpur: Asia Pacific Aviation Outlook Summit, the forward-looking annual gathering hosted by the Centre for Asia Pacific Aviation. For information, call +61 9241 3200 or 870 950 7900 or e-mail: *mc@centerforaviation.com.*

Dec. 8-9

Tallin, Estonia: Transport & Logistics in International Trade, Information Technology, Western operators meet Central European partners. For information, call +372 627 2755 or visit, *www.bi-info.ee.*

Jan. 23-25

Dubai: World Air Cargo Event 2006, at the Jumeirah Beach Hotel, a Tabmag Publishing event bringing together global cargo leaders, including top officials from Emirates, Etihah and Cargolux. For information, call +44 178 425 5000 or e-mail*: events@aircargonews.net*

Feb. 14-17

Shanghai: Air Freight Asia 2006, at the Shanghai-Pudong International Conference and Exhibition Center, the bi-annual *Payload Asia* event looks at China from a global perspective. For information, e-mail*: looneyeo@payloadasia.com.*

Feb. 28-March 1

Washington: FAA Aviation Forecast Conference, the annual event includes detailed looks at United States air traffic and a luncheon address by Southwest Airlines Chairman Herb Kelleher. For information, call (202) 267-7924 or visit*: www.apo.faa.gov/conference/welcome.htm*

March 8-10

Geneva: International Forum on Aircraft Finance and Commercial Aviation, at the Hotel President Wilson, the event includes 120 speakers from the capital world and airline operations, including Lufthansa Cargo chief Jean-Peter Jansen. For information, call +44 207 915 5101 or visit: *www.icbi-aircraftfinance.com.*

March 12-14

Bal Harbour, Fla.: Air Cargo 2006, at the Sheraton, the annual meeting of the Airforwarders Association, Air & Expedited Motor Carriers and Air Courier Conference of America. For information, call (703) 519-0335 or visit: *www.airforwarders.org.*

March 12-14

Boston: International Boston Seafood Show, at the convention center, for shippers of great scale. For information, call (972) 620-3040 or visit: *www.bostonseafood.com.*

For more events, visit:
www.aircargoworld.com/dept/events.htm

March 26-28

Orlando, Fla.: ISTAT 23rd Annual Conference, the annual meeting of the International Society of Transport Aircraft Trading. For information, call (703) 978-8156 or visit*: www.istate.org/conferences.*

March 27-30

Cleveland: 2006 Material Handling and Logistics Show & Conference, at the I-X Center, the annual event includes keynote speakers from supply chain chiefs at Lucent and The Limited. For information, call (704) 345-1190 or visit*: www.NA2006.org.*

April 9-11

Beijing: International Air Cargo Association Annual General Meeting, TIACA's high-level yearly gathering looks at air freight directions in aircraft, Asia and fuel. For information, call (786) 265 7011 or visit*: www.tiaca.org.*

April 30-May 2

Las Vegas, Nev.: Cargo Network Services 2006 Partnership Conference, at the Hyatt Lake Las Vegas, the annual CNS meeting is the largest yearly gathering of the international air freight business in North America. For information, call (516) 747-3312 or visit*: www.cnsc.net.*

May 11-12

Paris: World Express and Mail European Conference, at the Sofitel Forum Hotel, hosted by La Poste, the annual event uniting the private and postal worlds. For information, call +44 870 950 7900 or visit *www.triangle.eu.com.* ■

People

Airlines

Atlas Air Worldwide Holdings: **Wake Smith** resigned as chief operating officer of the parent of Atlas Air and Polar Air Cargo. He started there as an advisor in 2000 and became COO in June 2004. No reason was given for his resignation.

Nippon Cargo Airlines: The Japanese freighter operator appointed **Shunichi Fujimura** senior vice president for the Americas and general manager for New York. He replaces **Naoshige Makino**, who returned to Japan. Fujimura was general manager for sales at NCA's Japan region. NCA also named **Terry McDonald** director of sales and marketing for the Americas, **Takashi Okushima** director of administration for the Americas and **Satoshi Shimura** marketing section manager.

SN Brussels Airlines: The passenger airline named **Neil Burrows** executive chairman after the resignation of **Rob Kuijpers**, the former CEO of DHL Europe. Kuijpers resigned in October because of what reports in Europe said were differences with the board.

Spirit Airlines: The regional passenger airline appointed **Tony Lefebvre**, the former head of cargo at US Airways, senior vice president of customer service regional passenger airline, a position overseeing all ground operations and airport services. Lefebvre had most recently been managing director of Europe for US Airways.

Integrators

FedEx: FedEx Services named **Ann Saccomano**, a former reporter at *Air Cargo World* sister publications the *Journal of Commerce* and *Traffic World,* a senior communications specialist at its Memphis, Tenn., headquarters. She had most recently been at the American Association of Exporters and Importers and also worked at the California-based logistics technology company Arzoon. She was logistics and technology editor for *Traffic World* in the 1990s and later covered logistics for the *Journal of Commerce*.


Saccomano

Third-Parties

APL Logistics: The unit of ocean container line APL named **Brian Lutt** president, replacing **Hans Hickler**, who left as CEO in May for DHL. Lutt has been president of Asia/Middle East for APL parent NOL Group since 2004 and has worked for NOL in Asia for more than 20 years.

FIATA: The International Federation of Freight Forwarders Associations, named **Alicia Chin** of Toronto the 2005 'Young International Freight Forwarder of the Year.' A sales team leader for Exel, Chin submitted a dissertation on new export trade scenarios. Under the award, Chin will receive: two weeks' practical experience in transport infrastructure in Hong Kong, London or New Jersey; one week of training on legal and insurance aspects of transport in London; and one week of air cargo training. "Alicia's achievements will provide motivation for future Exel ssociates to take advantage of the educational and professional development opportunities available to them," said Tim Speed, Exel President, Canada.

Lynden International: The Seattle-based forwarder named 20-year freight industry veteran **David Wright** an account executive at the company's headquarters. Wright spent 10 years in sales and pricing at ocean container line CMA CGM Group and more recently was director of transportation at Anderson Hay & Grain in Washington state.

Quick International Courier: The New York-based emergency shipment specialist named **Dan Rourke** director of an expanded and reorganized air charter division. Rourke has worked in the air charter industry for more than 20 years with companies such as General Motors, Caterpillar, BMW, Volvo and Dana.

Exel: The British logistics company named **Diogo Reis** as a sales manager for freight management in Portugal. Reis was a major account manager in Lisbon for TNT and earlier worked at Refrige.

Stonepath Group: The Seattle-based logistics provider promoted **Lothar Kammerer** to senior vice president as it expanded its project logistics team because of growing infrastructure and energy projects around the world. The company established a dedicated project logistics team in Shanghai and expanded teams in Houston and the Czech Republic.

Target Logistic Services: The Los Angeles-based forwarder named industry veteran **Jay Bellin** managing director at its San Francisco office. Bellin was most recently at Panalpina as vice president of professional services and compliance. He earlier worked in senior positions at the Fritz Cos. and at Matson Logistic Services.

Ozburn-Hessey Logistics: The Tennessee-based logistics company named **Dave Hanley** director of its

People

integrated solutions group and **Nathan Sanders** director of operations in Indianapolis. Hanley was at Triangle Services, Ryder Integrated Logistics and Performance Logistics Group before joining OHL last February. Sanders most recently was operations director at Brightpoint.

Hellmann Wordwide Logistics: The German forwarder named **Stephan Meyer** to head key accounts for its Night Star Express service. Meyer, 36, had been at NET-Nachtexpress for 13 years.

Manufacturers


McElroy

BBA Aviation Services: Hugh McElroy became president and CEO of the overhaul and maintenance company's Dallas Airmotive subsidiary. He has more than 30 years experience in the industry and joined the company in 1999. Before that, he was president of UNC Airwork, a subsidiary of GE Aircraft Engine Services.

Boeing Commercial Airplanes: The jet maker named **Kai Heinicke** regional director of cargo marketing for the Americas, expanding the freighter marketing division from three to four. He joined Boeing after seven years at United Airlines, and was at Challenge Air Cargo before that.

Jetworks: The Greenwich, Conn.-based asset management firm whose portfolio includes widebody aircraft and A300-B4 freighters, named **Anders Hebrand** and chief operating officer as part of an agreement with Hebrand's company, Sigma Aircraft Management. Jetworks will take over the 48 aircraft in Sigma's portfolio during a transition. Hebrand was co-founder of Sigma and has been president since 2004.

Technology

Traxon: Felix Keck of Lufthansa Cargo became managing director of airline technology provider Traxon Europe, succeeding **Jean Yves Cap**, who returned to Air France. Keck has been with Lufthansa Cargo for 14 years, most recently as vice president for margin management, mostly responsible for cargo capacity from Europe.

Airports


Van Assche

Brussels International Airport: The airport's management company named **Wilfried Van Assche** chief executive officer and chairman of the airport's management committee. A consultant since 2004, he was chief operating officer of Ontex International, a European hygiene products company. He was at Procter & Gamble for 18 years before that, most recently as vice president of P&G Nordic.

Aéroports de Paris: **François Rubichon** was named chief operating officer, replacing Hubert du Mesnil. Rubichon, 42, has worked in government and postal positions, and was executive director of Geo-Post Logistics from 2000 to 2002. Earlier, he was head of the finance division at La Poste and headed Sofipost, a holding company for subsidiaries of La Poste. More recently he was a special advisor in the Ministry of Equipment, Transport, Housing, Tourism and the Sea.

Ground Handling

ASIG: The Orlando, Fla.-based aviation services company named **Mike Conrad** vice president, sales and customer services. He had been regional vice president for operations in the West, overseeing business at 14 airports. A 39-year industry veteran, he worked earlier at a sister company, Signature Flight Support. Replacing him is **Anthony Mazza**, who was with DHL for 12 years, most recently as senior director of customer operations for the Western division. Before that, he worked with TNT and People's Worldwide.

Government

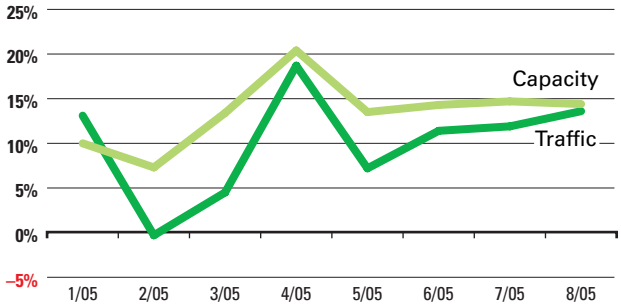
TSA: The U.S. Transportation Security Administration named **Donald L. Barker** federal security director for Memphis International Airport. Barker had been security director at the Eugene, Ore., Mahlon Sweet Field. A 21-year veteran of the U.S. Marine Corps, he holds several degrees and has completed advanced studies in transportation management and logistics. ■

Advertiser Index

the AirCargo Bottom Line

Cathay Capacity

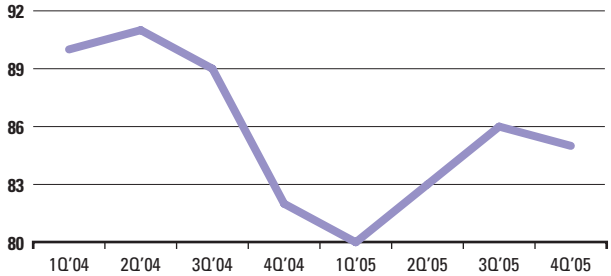
Monthly year-over-year change in cargo traffic and capacity at Cathay Pacific Airways this year.



Source: Company reports

Chipping News

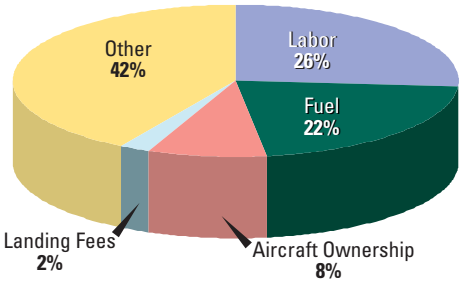
Quarterly worldwide semiconductor factory utilization.



Source: iSuppli

Airline Costs Makeup

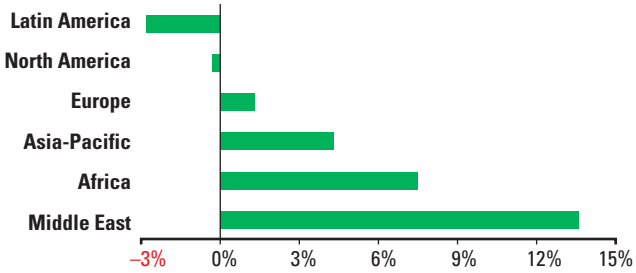
Operating costs' percentage of U.S. airlines' overall expenses for the 2005 second quarter



Source: Air Transport Association of America

Global Regions

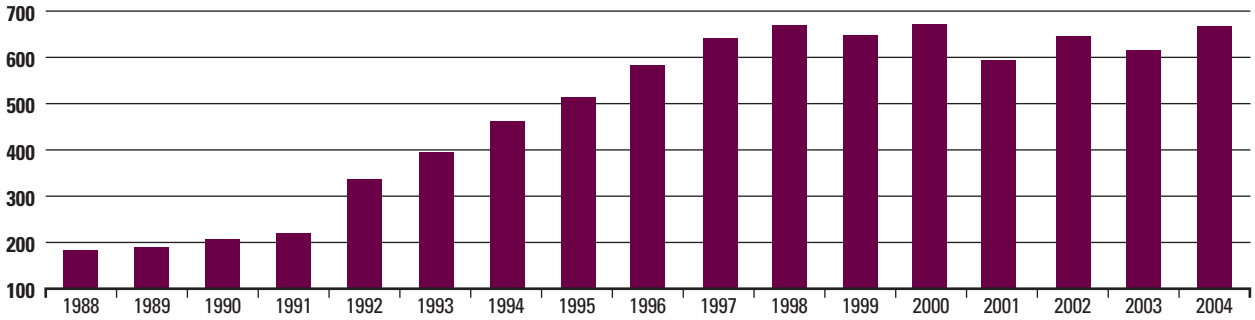
Year-over-year percent change in air freight traffic in major world markets, first nine months of 2005.



Source: International Air Transport Association

Carrying Oakland

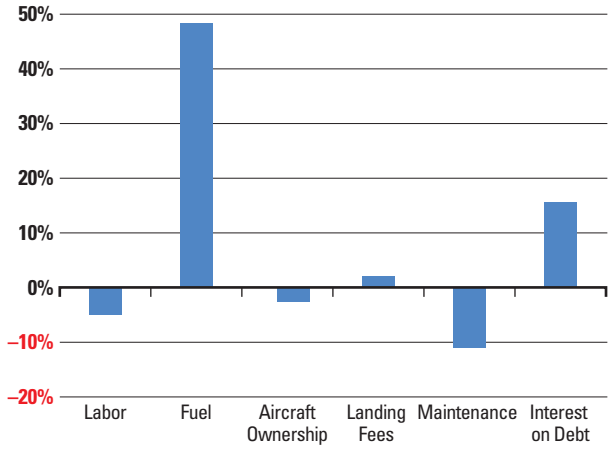
Oakland International Airport's air freight traffic, 1988-2004.
(in thousands of tonnes)



Source: Oakland International Airport

Airline Costs

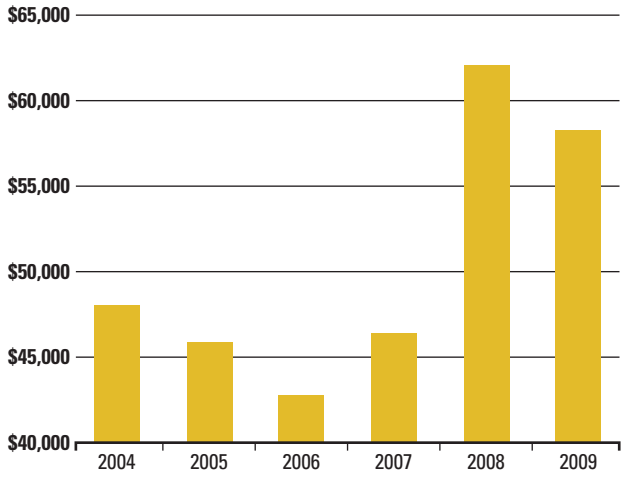
Year-over-year percent change in key operating costs for U.S. airlines for the 2005 second quarter.



Source: Air Transport Association of America

SemiInvest

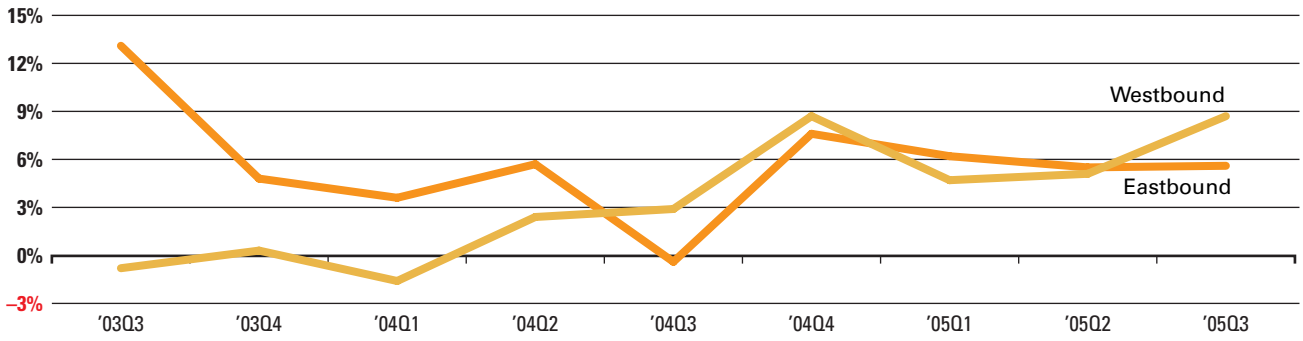
Forecast for semiconductor industry capital spending. *(in US$millions)*



Source: Gartner Dataquest

Pricing Asia

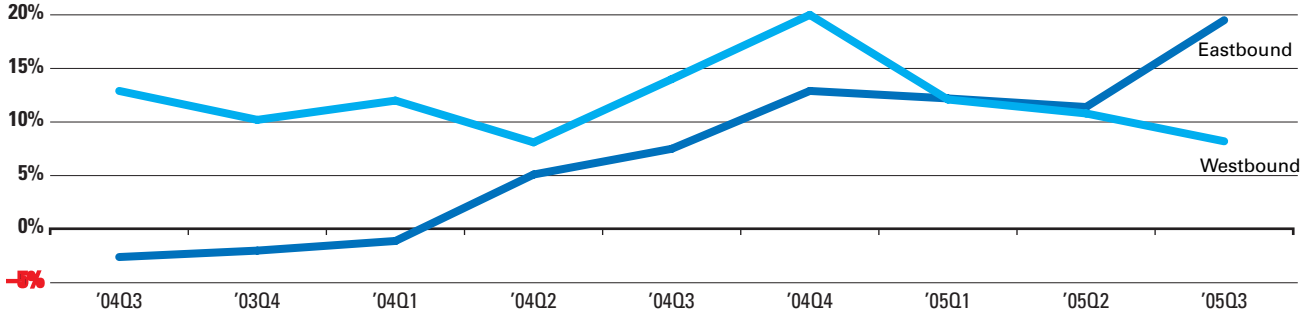
Quarterly year-over-year percent change in air freight pricing index for trans-Pacific air cargo since 2003.



Source: Citigroup Investment Research

Pricing Europe

Quarterly year-over-year percent change in air freight pricing index for trans-Atlantic air cargo since 2003.



Source: Citigroup Investment Research

Commentary

Liberalization

Jeffrey N. Shane, Under Secretary for Policy, U.S. DOT

The United States' refusal to budge on foreign ownership rules shouldn't stop historic U.S.-E.U. open skies deal

I would like to say a word about our negotiations with the European Union toward a possible breakthrough aviation agreement — one that would bring an entirely new level of liberalization to trans-Atlantic air services.

Everyone knows the European Community has indicated it wants to see progress in the removal of U.S. restrictions on foreign investment in U.S. airlines. At the same time, (U.S. Transportation) Secretary (Norman) Mineta has made it abundantly clear that U.S. investment rules cannot and will not be a topic for negotiation. If we decide to make changes, we will do so in response to our assessment of what is in the best interest of the United States.

We think the proposal we have just issued is in the best interest of the United States. Indeed, we think it is long overdue. If the E.U. talks were to collapse we would not abandon the proposal, but would see it through to its conclusion. We think — at least as a preliminary matter — that the restrictions we propose to ease represent anachronisms that no longer advance legitimate objectives. We are proposing to get rid of them for the same reason that we seek to get rid of any regulation that no longer delivers value.

But I will not pretend that we don't care whether the proposal will have a positive impact on the U.S.-E.U. talks. Of course we do. I won't mince words: We want to conclude that agreement —not only for the market access that U.S. carriers will achieve, but because it can be expected to enhance the quality of competition across the Atlantic in a dramatic way. A bilateral agreement between the U.S. and the European Union would bring nearly 750 million people and many of the world's great airlines together under a single liberalized regime.

It would take liberalization to the next level, linking two huge markets and allowing airlines from both sides of the Atlantic unprecedented flexibility in how they build, manage, and expand their operations. It would give us the momentum to do even more in follow-on U.S.-E.U. accords. And it would instantly become a new template for aviation liberalization elsewhere in the world. From an American perspective, a U.S.-E.U. agreement would be, quite simply, the most important thing we could do to further the work-in-progress we call deregulation.

We ask our friends in Europe to take our proposal seriously. European airlines in particular should evaluate it carefully and let us know what they think. We believe, if we ultimately adopt the proposal, that it would facilitate much or all of what European airlines seek to achieve in the near term within a newly liberalized U.S.-E.U. aviation marketplace, and that the proposal will bring important benefits not only to airlines on both sides of the Atlantic, but to the users of air transportation as well.

Some critics on the other side of the ocean have already complained to the commission that it should hold out for a complete sweeping away of U.S. restrictions on investment — that nothing less than the right of establishment will be a satisfactory concession by the U.S. in return for the agreement.

We all know that the perfect is the enemy of the good; but this is the first time in my experience that the perfect has declared all-out war on the good. I have to confess that I have grown weary over the years of hearing people argue that we should sacrifice achievable liberalization on the altar of what, in the near term at least, is clearly unachievable. It's an old ploy, and it's looking a bit shopworn. When the liberalization we can achieve now is nothing less than a transformational agreement between the United States and the European Community, the argument seems even more transparently protectionist.

The proposal we have just made, if ultimately adopted, would engender a new level of cross-border cooperation between alliance partners and, together with a "beyond-open skies" agreement between the U.S. and the E.U., would facilitate globalization on a scale heretofore unseen in civil aviation. It represents a tremendous opportunity.

Yes, deregulation is a work in progress. An aviation agreement between the U.S. and the E.U. would represent very important progress indeed.

Excerpted from a speech delivered last month to the International Aviation Club in Washington, D.C.

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