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Air Cargo World

International Trends & Analysis

March 2006

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POSTMASTER and subscriber services: Call or write to *Air Cargo World*, Customer Care Department, 400 Windsor Corporate Park, 50 Millstone Rd., Suite 200, East Windsor, NJ 08520-1415; telephone (888) 215-6084

Cartels

While large swaths of the air cargo industry are preaching about the need for greater cooperation, it appears that government regulators around the world are taking a somewhat different view of the difference between cooperation and competition.

Last month's surprise raids, flurry of subpoenas and letters of inquiry at air cargo offices in Europe, North America and Asia sent shock waves through the industry not only because of the threats of legal penalties, even jail, against many of the world's largest carriers but because the investigation has set off alarm bells about how far the mantra of working together can go.

After all, air transport, by its very nature, is built on cooperation on many different levels.

From the Cargo 2000 effort to common booking portals to the broad airline alliances, carriers and forwarders push at the boundaries between operating companies. They do that to better serve shippers, they say, but also to respond to trends in globalizing trade and extend networks in a field with tight margins and high costs.

Basic rates, of course, are separate. But shippers and forwarders have long complained about expansive menus of surcharges and for many cargo customers, the very mechanism for fuel surcharges remains a point of contention.

After all, as one shipper complained privately to us, when several airlines all announce the same surcharge increases within a day or two of each other, it suggests the airlines all face exactly the same fuel costs. Yet real fuel costs may vary a great deal among airlines because of hedging and operating characteristics, and the surcharges do not take into account distance. Distance is so important in the air freight industry that the generally accepted measure for international airline cargo is revenue tonne kilometers, or one tonne of freight traveling one kilometer. The fuel surcharge has none of that artful multidimensional quality.

And airline industry cooperation has drawn fire before.

When airlines three years ago sought to change common standards for dimensional weight calculations, they faced a withering attack. The U.S. Justice Department denounced the airlines' rights to even set such standards, calling that "price-fixing" and said fundamental broad International Air Transport Association agreements on freight and passenger rates were "contrary to fundamental United States competition policy set forth in antitrust laws."

For the airlines, the best defense may be in their financial reports. From what's on the public record, if carriers are colluding on air cargo pricing, there's little evidence that they're making it pay.



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Cargo Carriers Raided

Surprise raids into the offices of major airlines around the world by European Union, United States and Asian regulatory authorities shook the global air cargo community and raised serious questions about the legality of surcharges that have become an imbedded part of air freight pricing. At issue is whether carriers transporting cargo, including many of the world's largest airlines, illegally colluded to fix surcharges for fuel, security and war-risk insurance.

Airlines said they were fully cooperating with authorities. Shippers applauded an investigation they say is long overdue.

"One can only assume the authorities have been given some information that would have required them to start such a serious investigation," said Andrew Traill, head of air freight policy at the U.K.-based Freight Transport Association, which represents shippers' interests. "We've raised surcharges as an issue for many years. They all seem to go up at exactly the same time by the same amount."

The European Commission, the U.S. Justice Department and regulatory authorities in several Asian nations were coordinating efforts in the wide-ranging investigation. The EC said it "has reason to believe that the companies concerned may have violated" rules against price-fixing.

SAS, one of the airlines whose offices were raided, said E.U. officials told the carrier the "cooperation (among airlines) has involved routes within Europe as well as to countries outside the European Union."

According to SAS, "The alleged competition limiting cooperation has supposedly been carried out since 2000 and mainly involved agreements regarding certain surcharges to offset external cost increases, such as fuel surcharges, costs for additional security measures (post-September 11) and surcharges for war-risk insurance premiums."

Traill said shippers have "long been suspicious" about air cargo surcharges. "The suspicion is there and that's not good for customer relations," he said. "If this (probe) clears that up, that would be good for the industry. ... To know (surcharge prices) are not being fixed would at least help in building confidence for shippers."

British Airways, Air France, KLM, Lufthansa, Cargolux, SAS, Swiss International, Cathay Pacific, Polar Air Cargo, UPS, Korean Air and United, American, Japan, Asiana and Singapore airlines all confirmed they had at least been contacted by investigators, and some airlines said multiple offices in different countries had been raided.

BA, whose offices in Europe and New York were visited, said the inquiry was related "to alleged cartel activity involving British Airways and a number of other airlines and cargo operators."

Escalating fuel surcharges for cargo shipments became common among airlines last year. With oil prices skyrocketing, carriers imposed fuel surcharges of as high as 60 cents per kilogram and often mirrored one another in the timing and level of surcharge increases.

FTA's Traill said that shippers understand airlines "are under tremendous pressure in terms of costs." But he doesn't understand why surcharges "can't be built into freight prices. Security (surcharges) stick

around year after year. Why not just include it in the price?"

Capping Growth

Air freight growth turned out to be relatively light across most of the world in 2005 in what most of the cargo industry is hoping was just a pause after the rapid recovery the year before.

The International Air Transport Association's final measures showed international air freight grew 3.2 percent in 2005, with business stagnant in North America and Europe but expanding 14.6 percent in the Middle East. Even the Asia-Pacific region fell behind long-term trends, growing 4.4 percent over 2004, according to IATA.

More troubling to the airlines was that the 3.2 percent growth was nearly half the capacity expansion and capacity growth far outstripped traffic gains in all areas but the Middle East by IATA's measure.

That also proved true in regional reports.

United States airlines were the weakest, with traffic up a bare 1.3 percent last year over 2004, according to the Air Transport Association. The domestic business fell 1.2 percent, pushed down by a 12.4 percent plunge in mail and a stagnant market for freight and express.

For the American carriers, domestic revenue ton miles last year were behind what the airlines reported in 1999 and even international traffic is only slightly ahead of the 2000 report.

The Association of European Airlines says freight traffic for its members edged up only 2.3 percent last year, with Africa trade showing the only significant expansion.

The Association of Asia-Pacific Air-

lines measured a 3.3 percent traffic increase on a 4.9 percent gain in available tonne-kilometers, both the stingiest growth reported in Asia since 2001.

Building China

Can China handle its massive air traffic growth?

China's state-owned airlines flew 3.04 million tons of cargo in the five-year period ending in 2005, an 89 percent jump compared to the five years ending in 2000. And China's aviation authority predicts passenger and cargo traffic will double over the next five years. The Chinese government admits such rapid expansion by its seven airlines will challenge infrastructure and carriers that need to quickly add aircraft and pilots.

Gao Hongfeng, vice head of China's General Administration of Civil Aviation, unveiled the country's new five-year aviation plan last month, boasting that China's commercial air sector is booming but cautioning that keeping up with soaring demand is difficult. He said China will buy at least 100 aircraft each of the next five years and train 1,000 new pilots by 2010. Airport construction, already moving at a fast pace in China, will accelerate, said Gao.

"But the most serious challenge will be whether we can train well-qualified pilots so quickly," Gao told a Beijing news conference announcing the five-year plan. "With such an enormous volume of air traffic, the pressure on safety is only too apparent."

Beijing-based Air China said it plans to recruit non-Chinese pilots because of doubts that China can produce enough pilots to keep up with rising demand and the delivery of new aircraft.

Gao said cargo carried by China's airlines increased by an annual average of 13.6 percent over the past five years.

Advancing Tech

Only a few weeks into 2006, the year already seems to be shaping up as a critical year for air cargo automation. Several cargo technology interests, from the Cargo 2000 broad industry coalition to more specialized software providers, made major announcements of new customers, adding new scale to technology businesses, new services that cross lines in capabilities and suggesting that air cargo systems may be reaching a new level of technology.

The quick succession of announcements followed last year's "e-freight" launched by the International Air Transport Association, a bid to ramp cargo automation to a new level.

Cargo 2000, the IATA interest made up of large forwarders and airlines, announced three new members, including TNT Freight Management, an important addition of a unit of the global TNT Logistics that gives Cargo 2000 new scale in its impact on cargo quality standards around the world. "Logistics buyers are increasingly embracing the new paradigm of pro-active exception management as opposed to mere reactive incident measures," said Hakan Nilsson, chief information officer of TNT Freight Management.

Cargo 2000 also added Asiana Airlines and, in a critical sign of the development of the operation, got Japan Airlines to rejoin the group it had left several years ago.

JAL Cargo suggested that that the

News Updates

growing need for cargo automation played as much a role as the development of Cargo 2000 in its move back. "We fully understand the need for paperless trade and transportation and e-customs formalities to

meet security requirements," said Shigeo Akiba, vice president of planning and marketing at JAL Cargo.

Two of the large booking portals, Global Freight Exchange and Cargo Portal Services, said bookings were

growing as they were adding services.

Last month's agreement between Global Freight Exchange and CHAMP Cargosystems, the cargo automation system developed by Cargolux and now a part of SITA, seeks to extend the booking business of the GF-X portal with CHAMP's functions — and its customers. "GF-X can expand its customer base by accessing CHAMP's impressive client list whilst, we, in CHAMP, can offer the world's leading distribution product as an integral element of our product suite," said John Johnston, CEO, CHAMP Cargosystems.

And Traxon, the 15-year-old communications network, said Etihad Crystal Cargo and Martinair signed new deals while Gulf Air and CSA joined the system.

The technology push extended to forwarders with deals such as a new EGL contract with OAG Inforwarding for air freight rates showing that companies that have largely eschewed broader industry platforms are looking at new automation potential.

Pilot Unrest

If there is ever a good time to go on strike, World Airways' airline customers got lucky with the walkout by World's pilots.

The nine-day strike by World Airways' pilots in late January and early February came during the time of the Chinese New Year, traditionally a slack shipping period. That allowed World's wet-lease cargo customers, which include EVA Airways, Air Canada and Menlo Forwarding, time to absorb the hit to capacity, although it also provided a fresh example of the labor tensions simmering in airline quarters.

Since last summer, pilots have en-



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gaged in work actions at Asiana Airways, Korean Air and Polar Air Cargo, and there is more unrest in the air. UPS and FedEx pilots remain mired in difficult contract negotiations, and Northwest Airlines pilots voted throughout last month on whether to give their union leadership the authority to call a strike against the bankrupt carrier.

Some 400 unionized World pilots began striking the Atlanta-based airline's commercial flights after talks overseen by the U.S. National Mediation Board failed to broker a deal. World pilots said the final agreement will provide four annual pay increases and improve job security and benefits. "We are very happy that the company finally came back to the table to actually negotiate so that we could reach this agreement," said pilots' representative Luis Carmona.

Meanwhile, Northwest pilots were considering work action as the carrier asked a U.S. bankruptcy court to set aside its labor contract with the pilots if negotiations fail.

Expeditors Soars

For freight operators looking to add volume without cost, Expeditors International of Wash-

ington set a very strong target in the fourth quarter.

The Seattle-based forwarder ended an enormous year by closing in on \$4 billion in gross revenue. But the real growth came at the end of the year when Expeditors saw business surge, yields expand and net profits soar 85 percent.

The \$80.5 million net profit in the fourth quarter was by far the largest quarterly profit the company has recorded and the expansion on top of its already-large numbers suggested that Expeditors was adding some significant market share along with its new and very profitable business.

The net revenue grew 23 percent in the fourth quarter to \$296.3 million, well ahead of the 18 percent gain in gross revenue to \$1.1 billion, and the \$92.5 million operating profit in the last three months of 2005 was a remarkable 31.3 percent of the net revenue. "We were able to handle a significant increase in freight without having to add a commensurate amount of expense," said Expeditors Chairman and CEO Peter Rose.

The increase included accelerating growth in air freight tonnage during the quarter to 21 percent in Decem-

ber and better than 50 percent growth in revenue and operating profit out of Asia.

LAN Connects

LAN Cargo has new global air cargo ambitions to go with new leadership. The Chilean carrier named Cristian Ureta as its new CEO and set a goal to rank among the world's 10 largest air cargo companies in three years.

That would be a sharp step up for a carrier that ranked 29th in the world among freight carriers a year ago, but LAN also is increasingly dominant in Latin America and the impending addition of six 767-300 freighters may help LAN build on its average annual growth of nearly 10 percent over the last five years.

Ureta, who replaced Armando Valdivieso, says LAN hopes to boost Europe trade while developing more Asia traffic "by increasing our interline agreements with Asian carriers and the possibility of introducing our own operations to the region."

LAN pulls in about a third, or \$800 million, of its overall revenue from cargo and Ureta says freight sales should soon clear \$1 billion. ■

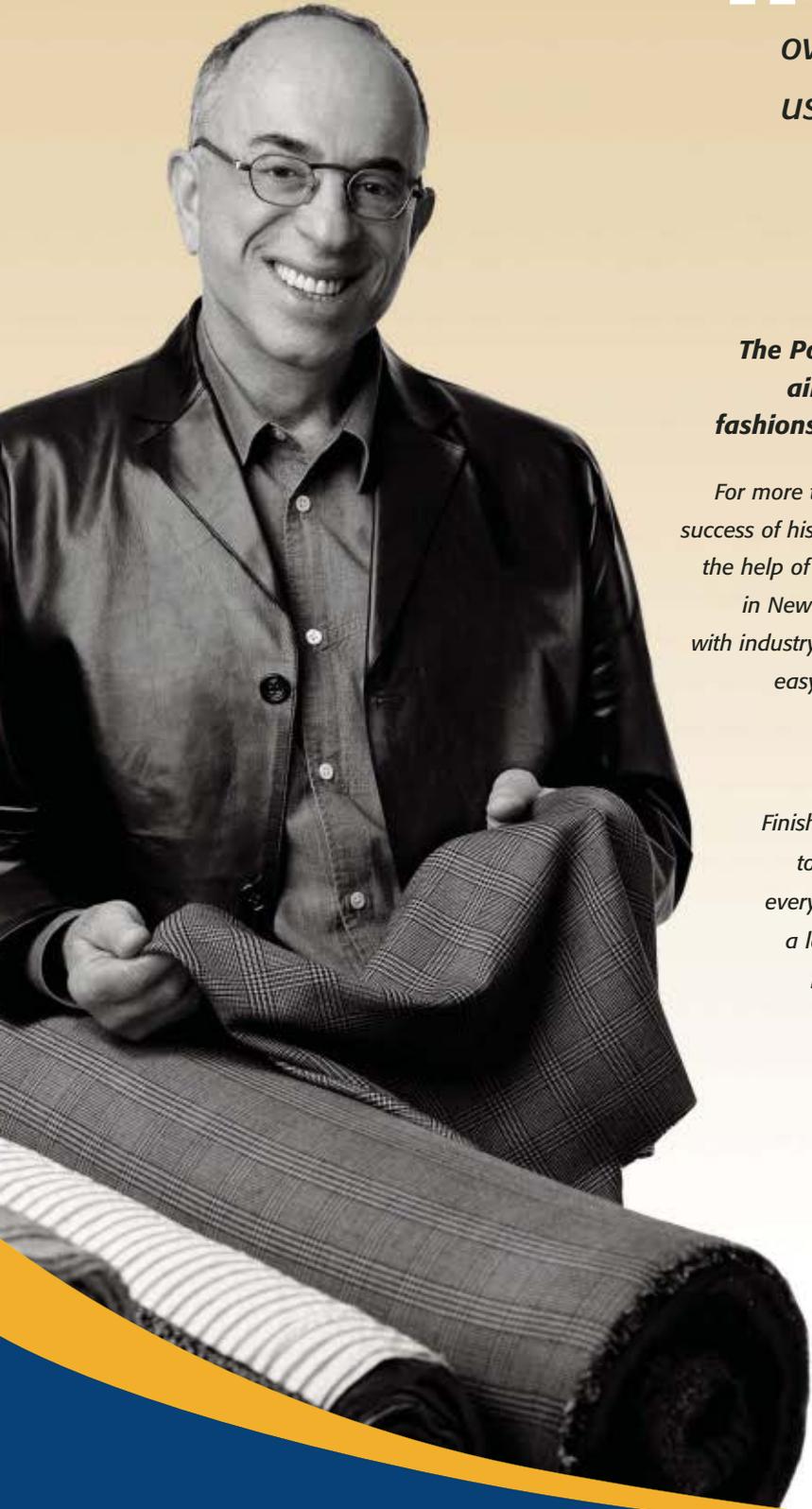


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Home Forwarding

U.S. forwarders are expanding past their 'core competence' to offer non-traditional global options



"It's a bit of a niche business, but more and more customers are demanding special services," says John Keleman, vice president of special services for forwarder Pilot Air Freight.

Pilot formally established a special services division in 2004, shipping a wide range of cargo — such as medical equipment, office equipment, household furniture and electronics requiring set up — that "falls outside of our core air freight services ... and requires something other than a dock-to-dock delivery," says Keleman.

"Most of the major forwarders now provide both home delivery as well as special services. ... As a business, you have to keep growing, look at areas outside your core competence. This is the future."

New York-based forwarder Associated Global Systems recently expanded its residential shipping to include delivering products of "any weight and size" to "any residential address" in

the U.S. AGS says the offering is "ideal for companies who sell and ship products directly to consumers, require a single carrier for transportation and final mile delivery, and the flexibility to meet any residential customer's needs."

Indeed, flexibility appears to be the key for smaller forwarders looking to keep pace with mammoth and rapidly consolidating global logistics operators. Traditional forwarders in the U.S.

Can an air freight forwarder survive if it only provides standard "warehouse-to-warehouse" domestic services? Perhaps — but not for long.

At least that's what traditional forwarders in the United States believe. Many are diversifying their businesses to compete in the modern air cargo market, expanding into the international marketplace, upgrading technology and offering "special" services that sometimes even include delivering to and setting up furniture and high-tech equipment in residential homes.

"Forwarders have to have a lot of creativity to stay on top of the market," says U.S. Airforwarders Association Executive Director Brandon Fried. "It's all about increasing the value proposition that forwarders can offer the customer."

On the domestic side in the United States, forwarders are increasingly expanding into home delivery and offering non-traditional services such as warehousing and "picking and packing" shipments. For the smaller and mid-sized operators, it's a version of the special services targeted at vertical markets such as electronics or perishables that more multinational forwarders are building to bring specific expertise to shippers.

By Aaron Karp

are seeking to offer a wide range of freight delivery and logistics services while still maintaining a non-asset, subcontractor-based business model.

"All it takes is a little time and effort and you can develop a book of willing vendors" that can be contracted to provide a range of services, says Fried.

Global Reach

But merely expanding the range of service offerings is not enough. U.S. forwarders are also moving into international markets, forming partnerships with forwarders and logistics operators in other nations to manage global shipments.

"Willing or not, forwarders have to go global right now," says Fried. "Domestic U.S. forwarders are now going global because their customers are going global."

Pennsylvania-based Pilot is trying to shed its image as a domestic U.S. forwarder. The company has aggressively expanded international operations in recent years, with a strong focus on the Asia-Pacific region. International air freight now makes up about 20 percent of Pilot's overall revenue.

International service "is what the customer requires," says Brian Gillen, Pilot's vice president - international. He notes shippers are looking for one forwarder to handle international shipments from start to finish rather than having a forwarder guide the shipment from China to Los Angeles while another takes over to get the cargo from L.A. to its end destination in the U.S.

"Handing the cargo off" from one forwarder to another leads to "delays" and "finger-pointing," says Gillen. "We're the responsible party from start to finish. We own the shipping process and that's what our customers are hiring us for."

Gillen says Pilot will continue to push hard on the international front, particularly in Asia, and recently hired a full-time representative in Shanghai.

"I don't mean to sound draconian, but it will be difficult for purely domestic forwarders to survive long-term unless they're just purely a niche player," says Gillen. "Ultimately, we'd like international to be one-half of the total revenue of the company. That's not going to happen overnight, but certainly within three to five years is realistic."

China Connect

Though it now has a representative in Shanghai, Pilot does not plan to open overseas offices. Instead, it provides trans-Pacific services by partnering with local operators in Asia. Pilot and the local player sign an agreement and establish a communications network — mostly via the Internet — so shipments can be arranged and carried out.

International partnerships are "the most effective way" for U.S. forwarders to go global, says Fried. "You join in a group of others such as yourself. That way you don't have to go through the expense and trouble of opening foreign offices."

Many of the agreements call for reciprocal services in the United States and Asia.

"We marry (international and domestic) services," says Gillen. Once the cargo clears customs, "it moves from being an international to a domestic shipment. Those modes blend together and the shipment doesn't actually have to stop. It looks like one shipment to the customer."

About 60 percent of Pilot's international focus is on Asia, with China at the center of things. "A lot of

our resources right now are in China," says Gillen. "We're making the investment to develop these relationships (with Chinese partners). Operationally, there's a lot of communication."

The new Pilot representative in Shanghai reports directly to Gillen. "We're trying to make the Pilot name more well known in the region," he says. "We're not ignoring the (U.S.) domestic market at all, but we're focusing on the enormous growth in the international market."

... Briefly

UPS international package volume grew 25.1 percent in the fourth quarter and the larger domestic volume grew 6.2 percent, including solid gains in air express business. The growth capped a year in which UPS record a net profit of \$1.05 billion in the fourth quarter and \$3.87 billion for the full year on \$42.6 billion in revenue, 16.4 percent ahead of 2004. ... **American Airlines**, with \$622 million, and **Continental Airlines**, with \$320 million, each finished 2005 with cargo revenue flat compared to 2004. ... **FedEx** agreed to penalize shippers who illegally ship cigarettes directly to consumers. ... **Target Logistics**, a Baltimore-based forwarder, said it's profits may more than double in its 2006 fiscal year ending June 30, forecasting a 70-to-110 percent increase in net profit on a projected 12 to 14 percent gain in gross revenue. ... Cargo traffic at **Los Angeles International Airport** edged up 1 percent in 2005, with mail down 4.4 percent and freight up 1.3 percent. The 1.6 percent slip in cargo in December marked the fifth straight monthly decline at the trans-Pacific gateway. ■



Cargolux Planning

All-cargo stalwart Cargolux couldn't escape high fuel costs but its future looks strong with new freighters on the way



After three years at the top of Cargolux, Ogiermann has been around long enough to spot the difference between tough competition and foolhardiness. "In this case we are dealing with the second option," he says. "What concerns me now is that this type of strategy is actually threatening the whole fabric of the industry and we could end up in the situation of some suppliers not surviving."

Simple Strategy

Cargolux's strategy is relatively straightforward, and has hardly deviated over the years, even as other carriers have trumpeted their ties to logistics. "We recognize that the forwarder is our most important customer base," Ogiermann says. "We want to work with them to help them create value for their business, which is why we are not in the business of providing value-added premium products. We want to deliver a simple airport-to-airport product, which is exactly what our customer base asks us to deliver."

That strategy extends to the major forwarders buying space on Cargolux flights on a block-space basis. "It is a strategy which works well for both partners," says Ogiermann. "We could never operate our flights or, importantly, launch new services without guaranteed base loads negotiated on the ba-

The auditors may not have yet signed off on the final figures, but Cargolux CEO Uli Ogiermann already knows the results for last year are not going to make for happy reading. Surging fuel costs were acutely felt throughout the air cargo world, and Europe's steady all-cargo carrier was not immune.

"Sure we increased our revenues and we grew our business, but nothing can counter the hit we have had to take with fuel surcharges last year," says Ogiermann. "It has been a year-on-year imposition which we have had to adjust to, but last year was the absolute worst when we had to work with a 60 percent increase in fuel surcharges.

"These are additional costs which you can never hope to recover, even with fuel surcharges added to our base rates."

What angers Ogiermann more is that some carriers are now using fuel surcharges as a gambling chip. "We have reached the ridiculous situation where some carriers are offering a virtual zero freight rate and then offering to discount the fuel surcharge," he says. "These are not new market entrants, but some of the biggest players in the field. I can't name them or else they would try to put me in court, but they know who they are."

By Roger Turney

sis of block-space agreements. At the same time, it is a trade-off which provides the forwarders with some stability and consistency in a market which seldom has either."

According to Ogiermann, 50 to 60 percent of the airline's business is generated by the top 10 forwarders. "The forwarder market continues to consolidate with some very big individual players out there, but the truth of the matter is that the market still remains very fragmented," he says. "For our part we are quite happy to work with these big players and possibly fewer of them, because they now have the network strengths and IT strategies in place which makes it much simpler to for us to do business with them."

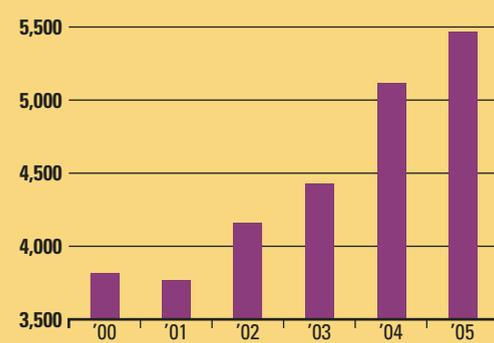
Not that Cargolux signs a raft of cozy block-space deals with a chosen few service providers at the start of the year and then sits back and lets the business take care of itself.

"You always want to build in as many constants as you can to the business," says Ogiermann. "But the one thing you can never forget is the need to be constantly flexible. It is the one major advantage the all-cargo carrier has over the combination carriers."

Cargolux is adapting to a cargo market that is demanding more lift out of China. The carrier has served Shanghai for five years and now operates daily. But to meet the demand for direct flights, Cargolux this year added twice weekly services out of Beijing and Xiamen to Europe.

"Like all carriers serving China, we are facing a tough time with traffic imbalances on these routes," says Ogiermann. "But the flow eastbound is gradually beginning to improve with more project work going on in China and we have got our own imbalances

Cargolux annual traffic
(in millions of freight tonne kilometers)



Source: Company reports, Association of European Airlines

down to a ratio of about two to one."

U.S. Bound

Not that all of Cargolux's start-up efforts are directed at China.

North America remains high among the airline's priorities. It is a love affair that has over the years largely centered on the U.S. West Coast and, in particular, Los Angeles and San Francisco. Added to that mix are service to New York and Chicago, a long-time connection to Huntsville, Alabama, and oil-related traffic out of Houston.

"Right now the North American market is being very good to us, unlike four to five years ago when we had a very tough time of it," says Ogiermann. "I think this is because we have developed and strengthened our U.S. network and created some very strong partnerships."

So much so that last month Cargolux added Indianapolis to its U.S. portfolio, a move the airline says is driven by demand from the pharmaceutical industry. Cargolux has introduced the new routes following delivery of its 14th 747-400 freighter. The airline is slated to take delivery of a two more 747-400 freighters in 2007 and 2009.

"The B747-400F is currently the

best freighter option there is in the business," says Ogiermann. "Boeing's order books for the type are full through to 2009 and we could easily sell our slots within 10 minutes if we wanted to."

Cargolux's has become launch customer, along with Nippon Cargo Airlines of Japan, for the new Boeing 747-8 freighter, which incorporates engine and aerodynamic technology from the manufacturer's next generation 787 passenger air-

craft program. The Luxembourg carrier has placed orders for 10 747-8 freighters with options for 10 more. Delivery is set to begin in 2009.

"The B747-8F promises to be a fantastic aircraft," says Ogiermann. "The extended fuselage and payload capability will increase uplift to 140 tonnes compared to the 120 tonnes on the -400F series. Added to the prospect of a 17 percent less fuel burn, this promises to be a very profitable aircraft for us to operate." Launch customer status for Cargolux and NCA means both carriers will participate in defining the final specifications of the 747-8 freighter.

Cargolux is also cozying up to Boeing in the development of its 787. The aircraft manufacturer is converting a fleet of modified 747-400 aircraft into what is describes as 747 Large Cargo Freighters, which will be used to ferry major assemblies manufactured in Japan and Europe to Boeing's Seattle plant for final assembly of the new 787.

Three 747LCFs are being converted to support the project and Cargolux will operate the European routes out of Italy with one of the aircraft beginning in 2007.

"This is very much a Boeing project and we will be working on it closely

in conjunction with Evergreen International Airlines, the main project supplier," Ogiermann says.

Back in Luxembourg, Cargolux has been tidying up its financial affairs.

There appears to be final resolution in sight for the acquisition of the 33.7 percent stake in the airline that for several years has languished in a Swiss bank vault. The shares are finally to be bought back by Luxair and other assorted local shareholders, meaning the shares will be parked firmly on Luxembourg soil. That will end speculation about airlines, such as Middle East carrier Etihad Airways, wanting to acquire a stake in Cargolux. For the time being, at least.

"We are bringing the shares in house, but this does not mean we are still not looking for a suitable investor in the airline," says Ogiermann.

Handling Change

Swissport International plans to restructure into five business units that the company says will better position the global ground handler to serve a globalizing aviation market.

The new setup, taking effect April 1, moves the aviation services company away from a "primarily geographical approach in favor of a business line-based structure," says Swissport.

The five units will comprise Cargo Services; Ground Handling Europe, Asia, the Middle East & Africa; Ground Handling Switzerland & Germany; Ground Handling Americas; and Emerging Businesses.

"The new organization will permit cost savings by enhancing processes and making greater and more effective use of synergic potential," says Swissport.

As part of the restructuring, Swiss-

port also appointed Luis Pascual chief financial officer, replacing Clive Dolman. Pascual was previously in charge of corporate controlling at the Spanish-based Ferrovial Group, where he is credited with managing numerous merger and acquisition projects.

IL-76 Comeback

Volga-Dnepr's new version of the IL-76 freighter has the environmental clearance it needs to return to service.

The International Civil Aviation Organization gave the factory-built IL-76TD-90VD Chapter 4 noise clearance, according to Volga-Dnepr, allowing the aircraft's use in the specialized markets where supporters say it serves a unique mission.

Earlier versions of the aircraft were banned from the United States and Europe in 2002 for failing to meet modern noise standards. Several charter brokers, forwarders and relief groups complained that the ban was a sharp blow to an important secondary air cargo market that depends on cheaper aircraft to connect Third World markets to Europe and North America.

"Obtaining a noise certificate allows the IL-76TD-90VD to operate worldwide, including the major cargo transportation markets in Europe, North America, Australia and Japan without any limitations," said Andrei Pakhomov, general director of leasing for Volga-Dnepr.

The new-build IL-76 freighter is undergoing flight tests in Russia, and will be placed into commercial service after tests are completed.

Hubbing UPS

UPS finished revamping its European package sorting hub at Ger-

many's Cologne/Bonn Airport, completing a two-and-a-half-year construction project that cost \$135 million and was UPS's largest-ever facility investment outside the United States.

By increasing the UPS hub space to 813,000 square feet — more than double its previous size — and installing more automated technology, UPS said it made the Cologne hub "the most advanced as well as the largest facility of its type in Europe."

It can now sort 110,000 packages per hour, and UPS said the facility could "easily expand its capacity" to 165,000 per hour. That's a strong statement of confidence in the growth potential for intra-European air express business and to the substantial growth UPS is showing in its international traffic.

Wolfgang Flick, president of UPS Europe, said the hub investment "is part of a long-term strategy to help customers compete and succeed in the key trading lanes within Europe, and linking Europe to North America and Asia."

... Briefly

The **International Air Transport Association** condemned an **Aeroports de Paris** proposal to raise airport fees 5 percent a year over the next five years, saying the increase over the inflation will hurt Charles de Gaulle Airport's competitiveness in Europe. ... General sales representative **Aviareps** says its turnover in the six months ending Sept. 30 grew 65 percent over the same period the year before. ... Cargo traffic at London-area airports grew 2.5 percent in 2005, including a 1.5 percent increase in December, over the year before. But **London Heathrow Airport** was flat, grow-

ing 0.9 percent over 2004, while **London Stansted** led the area with 5.3 percent more cargo in 2005. ... **China Airlines** extended its cargo handling contract with **Fraport Cargo Services at Frankfurt Airport**, where the Taiwanese airline operates two weekly freighter flights and five passenger flights, for another four years. ... Cargo general sales agent **IAM** handled more than a million kilos of freight in September, the first time it has broken that barrier in a single month. ... **Eastern Air Cargo**, a regional freight service owned by the Central German Airports Group, named **Sky-XS Air-cargo Network** as its general sales

agent in Austria and Eastern Europe. ... Logistics operator **Davies Turner** pressed expansion of its regional hub strategy by moving into expanded facilities in Cumbernauld, Scotland. ... **Kuehne + Nagel** won a contract to handle global export logistics from Europe for United Biscuits. ... **Royal Jordanian Airlines** started twice-weekly service between Amman and Milan. ... **Ariana Afghan Airlines** appointed **Aviareps** as its cargo general sales agent in Germany, France, Italy, Switzerland, Austria, Poland, the Benelux and the Czech Republic. ... **Schenker** renewed and extended its subscription to **Management Dynamics'** BridgePoint

solution for supply chain visibility. ... Forwarder **F.S. Mackenzie** opened a wholly-owned subsidiary in Germany, outside Dortmund, and said the office would focus on building German business to Russia and Ukraine. ... Cargo traffic at the **Maastricht Aachen Airport** in the Netherlands grew 17 percent in 2005, boosted by the addition of Malaysian Airlines in September. ... France-based **Geodis** reported a 6.7 percent gain in revenue in 2005, with three-quarters of the \$4.3 billion turnover generated in France. ... Cargo traffic at **Air France-KLM** grew 2.2 percent in January against a 4 percent increase in capacity. ■

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PACIFIC

Striking Back

Asiana Airlines cargo operations look to rebound after last year's disruptive pilots' strike



Photo by Jeremiah Scott/Boeing

Asiana Airlines' cargo division hopes that the year of the dog, which got underway at the end of January, will prove better for business than the dog days of last summer, when a 25-day strike by the carrier's unionized pilots disrupted the cargo operations of South Korea's second-largest airline.

Along with the brief walkout by Korean Air pilots, the strike provided a rare speed bump to the rapid advance at the Korean carriers and to a Korean economy taking its place as an Asian power.

To maintain its international passenger schedule, which generates about 60 percent of Asiana's revenue, management suspended a number of domestic flights as well as its all-cargo operations, shifting the pilots to international passenger flights. That move kept the carrier's five 747 freighters and one 767 freighter on the ground in Seoul during most of the strike, leaving only two wet-leased 747-200 freighters flying across the Pacific.

The strike, which ended through government intervention, hit just when Korea's technology exports to North America were picking up again.

Korea's economy advanced 7 percent in the 2005 third quarter, the fastest pace since 2003. The International Monetary Fund projects Korea's economic

growth to rise from an estimated 3.8 percent last year to 5 percent in 2006, driven by exports and strong domestic demand.

Economy Grows

This should translate into growth well in excess of the lowly 0.2 percent year-over-year cargo traffic rise that Asiana clocked up last year. The Korea Civil Aviation Development Association forecasts the country's air freight volume to increase by 7.9 percent this year.

With growth in the forecast, Asiana is ready to grab a larger piece of the pie. Its all-cargo fleet was enhanced by the delivery of a 747-400 freighter last month, bringing the airline's freighter fleet to six 747-400s and one 767.

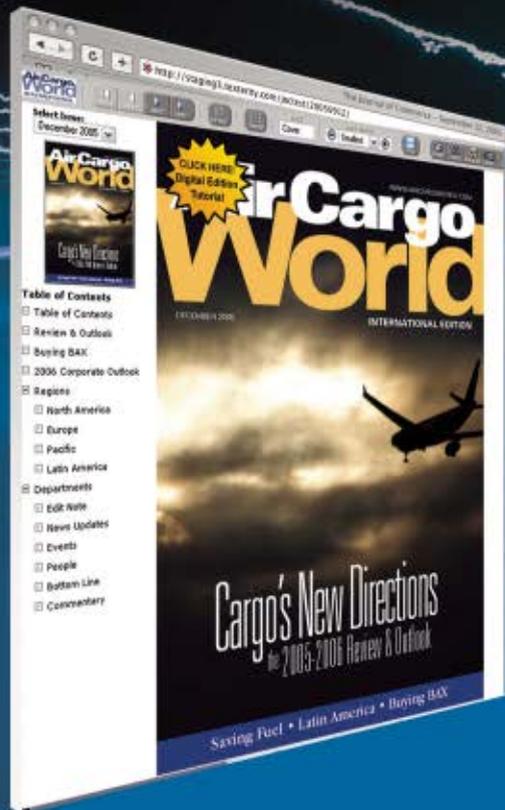
The new plane has been designated for service to Penang. It will operate there two days a week through Singapore, with the 767 taking a third weekly rotation, also through Singa-

pore. That will replace Asiana's weekly freighter to Kuala Lumpur, said S.K. Lee, senior vice president of cargo.

Not surprisingly, Lee is looking next to boost Asiana's presence in China — Asiana wants to expand existing services to Nanjing, Shenzhen and Qingdao. Shanghai, which Asiana serves with combi aircraft, is also on the list.

By Ian Putzger

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"This year, we will try a freighter (to Shanghai) and also to Guangzhou," he said, adding that no dates have been set for these new services.

Transit Traffic

The expansion of China flights should to keep the carrier's share of transit cargo — which stood at 43 percent in 2005, up from 42 percent the year before — relatively high. In terms of revenue, Lee says freight originating or terminating in Korea is more lucrative since it involves less work. On the other hand, transit cargo is precisely the type of traffic that the Korean authorities want to cultivate given their overarching vision of turning Seoul's Incheon International Airport into a logistics hub for Northeastern Asia.

Lee said government officials have been very active in their efforts to turn Incheon airport into a mega-hub for the region.

In March, the first phase of "Airport LogisPark," a foreign trade zone one kilometer from the cargo area, is due to open. Asiana completed its third cargo building at Incheon last year, which should give it sufficient capacity for the foreseeable future, Lee said.

Asiana appears eager to increase the share of premium cargo it carries on its flights. In late January, the airline became an associate member of the Cargo 2000 initiative, with full membership envisaged for later. "By adopting Cargo 2000's master operating plan for the movement of cargo, we are confident we can enhance our customer service levels and reduce our operating costs," said J.H. Kim, senior manager of cargo.

The carrier is also looking to tap into the need of big Korean electronics giants, such as Samsung and LG,

for an express service to Latin America that would be driven by a growing flow of cell phones and other products from their facilities to that part of the world. Lee said he is looking to develop a guaranteed product in tandem with a Latin American carrier, with the service interlined over Los Angeles.

Japan Venture

All Nippon Airways and Japan Post are working together to create a cargo airline that aims to begin flights in August and compete with the Asia-Pacific's major air freight players.

Logistics operator Nippon Express and shipping line Mitsui OSK will also be investors in the airline, to be named ANA & JP Express.

The airline will initially be 100 percent owned by ANA, with Japan Post planning to take a 33.3 percent stake in April, subject to approval by the Japanese government. Nippon Express is slated to own 10 percent of the carrier and Mitsui 5 percent. ANA plans to ultimately have a controlling 51.7 percent stake in the carrier.

Kenkichi Honbo, ANA's senior vice president for cargo marketing and services, will head the business.

"This is a great step forward for ANA as we move to truly establish cargo as the third pillar of our business," said ANA President and CEO Mineo Yamamoto.

ANA & JP Express will use ANA's three 767 freighters. Four more 767 freighters are to be delivered by October 2008, three to be converted from ANA 767 passenger aircraft.

ANA reported an operating profit of \$76 million for the first three quarters of its fiscal year 2005, up 11 percent over the year before.

... Briefly

Thailand said construction of its **Bangkok Suvarnabhumi International Airport** would end May 31, putting the new airport on schedule to open in the next few months despite growing concern about delays and contracting controversies. ...

Cathay Pacific Airways handled 26.3 percent more cargo in December than the same month the year before, giving Cathay a 15 percent gain for the full year. ... **Qantas** was considering cutting some 2,500 jobs after saying fuel costs grew some US\$500 million in the six months ending Dec. 31. ... Air freight at **Singapore Changi Airport** jumped 7.4 percent in November after several stagnant months, leaving cargo business at the airport up 2.8 percent through the first 11 months of 2005. ... **Hong Kong Air Cargo Terminals** handled a record 2.4 million tonnes of cargo in 2005, 7.5 percent more than the year before, including a 10.9 percent jump in December. Import tonnage fell 2.7 percent for the year, however. HACTL also said it won certification from the **Technology Asset Protection Association**. ...

In a bow to the air express industry, the **Philippines' Bureau of Customs** says it will speed up the release of air express shipments during weekends and holidays before all duties and taxes are paid. ...

Vietnam Airlines will put off its hoped-for launch of direct service to the United States this year, saying it cannot get new aircraft soon enough from Boeing and Airbus and cannot find longhaul passenger planes for lease at good rates. ... **KLM Royal Dutch Airlines** will fly twice-weekly between Amsterdam and Chengdu, China, with a 777-200ER. ■

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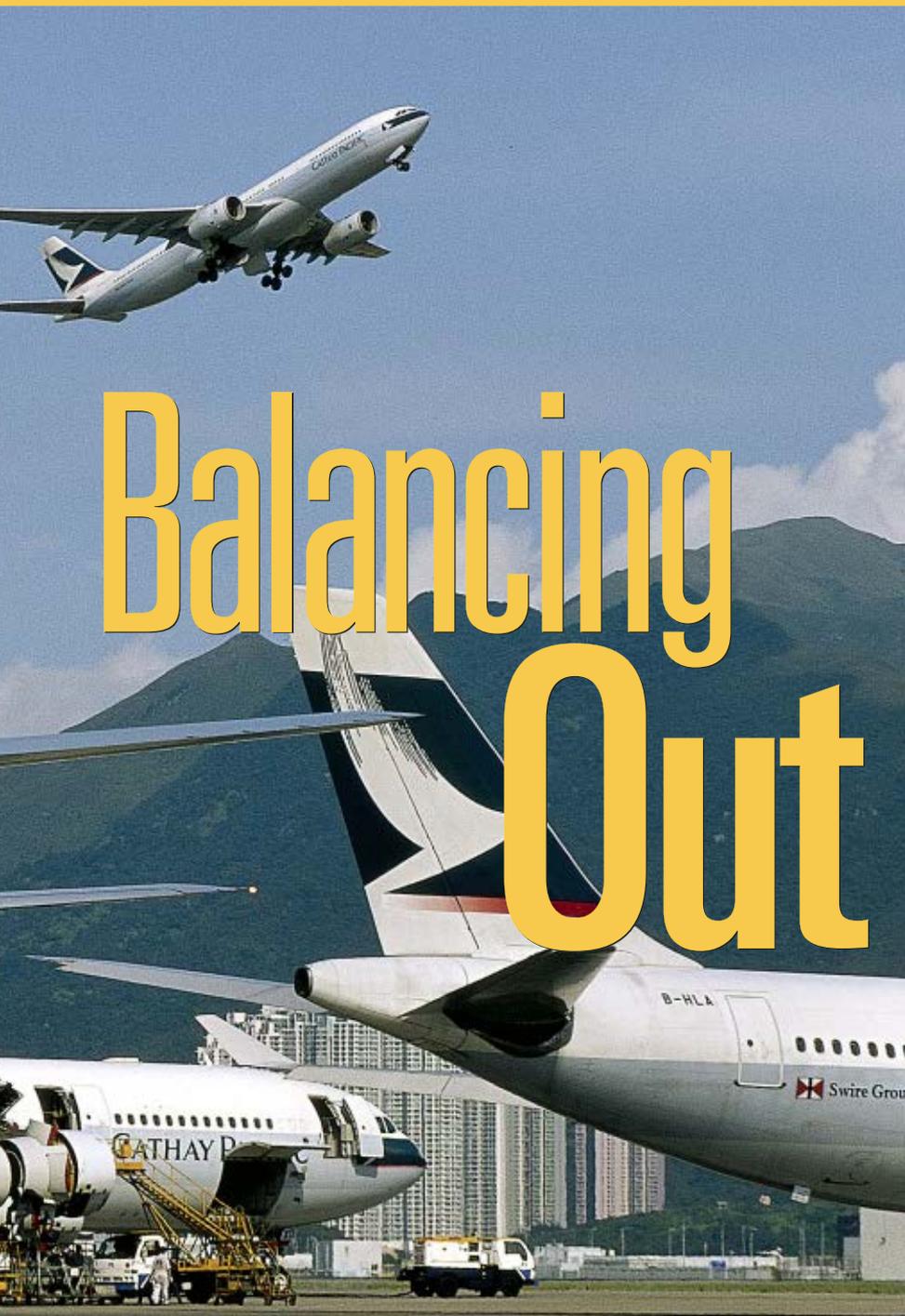
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Hong Kong cargo traffic is soaring but say expansion is a balancing act



Balancing Out

The problems and concerns of air cargo operators in Hong Kong today might have a familiar ring to the early 19th century traders who helped turn the city into the epitome of the modern metropolis. As Hong Kong was turning into the world's ultimate global trading post 165 years ago, trade between China and the Western powers was only just turning into a two-way affair.

Before Western traders realized they could sell opium to the Middle Kingdom, their business had been frustratingly lopsided. Their home markets clamored for Chinese goods — mostly tea and silk — but the Chinese showed no interest in Western products, so ships left the Pearl River estuary loaded to the rafters with Chinese exports and returned with little beyond provisions for the Western traders stationed in Guangzhou and silver to pay for Chinese exports.

Today, doubts about Hong Kong's air trading future in light of rising competition from Chinese airports may have been laid to rest, but airlines are struggling despite the growing volume of cargo they are lifting out of Chek Lap Kok. Costs and the imbalance in traffic flows are eroding their margins.

On the face of it, for instance, Cathay Pacific Cargo had another banner year in 2005. Cargo ton-kilometers climbed 10.2 percent to

carriers loaded down with exports

by Ian Putzer

Region Focus: Hong Kong

6,618,261 and freight tonnage surged a resounding 15 percent to 1,118,047 tons. Ron Mathison, director and general manager of cargo, sees no occasion for celebration, however, because yields and load factors have been under pressure.

The reason is that the freighters that serve Hong Kong International Airport show the same pattern as those trading clippers sailing up the Pearl River to Guangzhou before 1840 – they are full heading out to North America and Europe but carry scant cargo on their way

about the imbalance. The only cure is pricing. Carriers have to charge right for the headhaul,” said Jim Friedel, president of Northwest Airlines Cargo.

It’s not only the poor loads into Hong Kong that are hurting the airlines. Kersti Krepp, vice president for the Asia-Pacific at Polar Air Cargo, cited two common headaches — the imbalance and costs.

Costs tend to become more painful as stage lengths increase, given the cost of fuel and the way the surcharge is levied on a per kilo basis

said. The twin pains of structural imbalances in traffic flows and costs have replaced earlier concerns about Hong Kong’s future as a cargo gateway in the face of rising competition from airports across the border.

Those fears are not an issue today.

“If people had the mentality a few years ago that Hong Kong was going to lose to airports in Southern China, that’s not the case any more,” Friedel said.

In part, this confidence is rooted in the realization that the likes of Baiyun Guangzhou International and Shenzhen International airports have a ways to go yet to match the cargo infrastructure of Hong Kong. In terms of cargo facilities, customs clearance, handling and other processes, HKIA still has a clear edge over its upstart rivals in the Pearl River Delta, plus it has critical mass and a strong forwarder base, many of which have consolidation facilities in Hong Kong, carrier executives stressed.

Hong Kong is also holding its own against competition from further away. Albert Yau, head of cargo at Dragonair, said even cargo from the Yangtze River Delta is flowing through Hong Kong due to capacity

There may be abundant cargo to fill all the available capacity out of Hong Kong, but “no carrier can simply price up the headhaul and then declare victory.”

in. Last year, some 3.4 million tonnes of cargo moved through Hong Kong International, but the weight was nearly two-to-one in favor exports. As recently as 2001, the imbalance was more like 60-40 for exports.

The viability of the operation hinges squarely on the rates carriers can charge for the headhaul, as prices into Hong Kong are at best close to cost level, if not below.

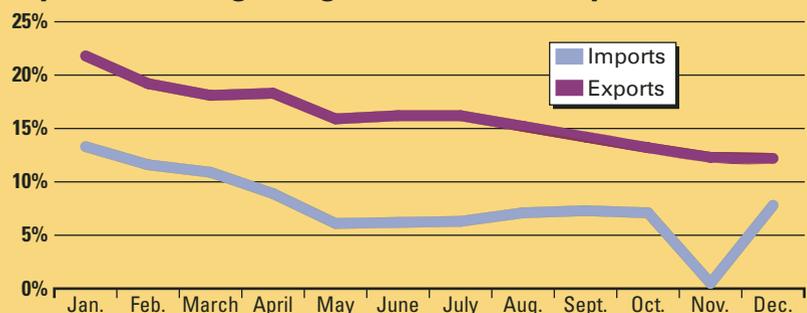
Hence the paradoxical results for Cathay and other airlines. “The more we grow, the more pressure we feel on load factors and yields,” Mathison said.

Carrier executives harbor no illusions that the lopsided traffic pattern is going to change any time soon. “There is nothing we can do

regardless of distance flown. Polar added two flights from Hong Kong via Korea to Los Angeles last year, taking advantage of fifth freedom rights between the two Asian points. Still, 70 to 80 percent of its lift out of Hong Kong is longhaul, Krepp

Balancing Act

Monthly year-over-year percent change in exports and imports at Hong Kong International Airport in 2005.



Source: Airport Authority of Hong Kong

constraints at Shanghai's Pudong airport. About 50 to 60 percent of Dragonair's longhaul exports from Hong Kong come at its home base but the rest is fed through flights from China. Yau is looking forward to expanding this traffic as Dragonair replaces A320s and 321s with A330s, loading in some 15 tonnes of capacity for cargo from China to Hong Kong.

Hong Kong authorities have been pushing for initiatives to ease cargo flows across the border.

The Western Corridor, a new road into Shenzhen to be completed by the fourth quarter of this year, should help alleviate congestion and speed up cross-border truck flows, carrier executives say. HACTL, which handles the lion's share of Hong Kong's cargo throughput, runs bonded trucks to Shenzhen through its HACIS subsidiary to catch Chinese export cargo at the source.

Mathison views such initiatives as key planks in Hong Kong's play to maintain its long-term status as the leading gateway for the Pearl River Delta.

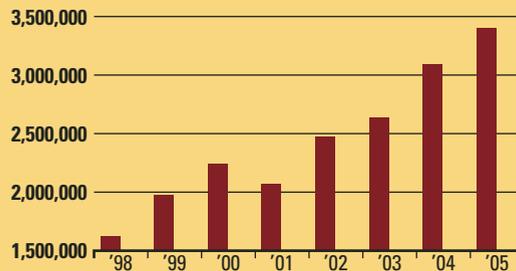
Equally comforting is the growing conviction that demand in the region is large enough to sustain several airports, which makes the rise of Baiyun less threatening than some had initially feared.

Hong Kong's momentum certainly did not suffer last year, with some 3.4 million tonnes of throughput, nearly 10 percent better than the previous year. It is by far the world's largest international cargo airport.

And like rival Cathay, Dragonair also clocked up double-digit growth, with volumes going up

Hong Kong, Annually

Total freight tonnes handled by Hong Kong International Airport and year-over-year percent change, 1998-2005.



Source: Hong Kong International Airport Hong Kong

12.5 percent to 385,000 tons. HACTL's tonnage increased 7.5 percent last year to reach 2,432,759 tons.

The Airport Authority of Hong Kong is confident growth will stay on its present trajectory. It anticipates volumes to exceed 4.4 million tons by 2010, with particularly strong increases in the express segment. In January, the authority unveiled plans to invest \$4.5 billion in various expansion projects between now and 2010. These include the construction of 10 freighter stands at the airfield, bringing the total number of freighter positions to 35.

The growth in the express sector is reflected by DHL's announcement last October to spend \$110

million on the expansion of its Asian hub at HKIA — six years ahead of schedule and just over a year after its establishment. The integrator routes over 70 percent of its China traffic through its Hong Kong hub, which handled an estimated 30 million shipments last year.

Since last December, DHL also has a dedicated freighter link from Hong Kong to the United States in the shape of 10 weekly

MD-11 flights operated by Malaysian cargo carrier Transmile.

Dragonair also launched freighter flights to the United States last year, an important step in taking the once-regional carrier to another level as an international player. It was especially important, Dragonair officials have said, that they chose to launch across the Pacific with a freighter rather than a passenger service.

The carrier is not due to get its first converted 747-400 freighter until later this year, so it started the three weekly flights to New York with a 747-400 freighter from China Airlines and gives the Taiwanese carrier some block space on the plane.

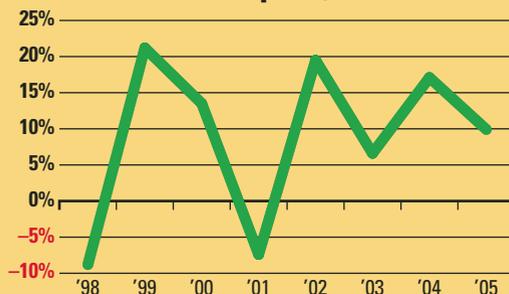
Yau keeps an open mind on continuing the partnership beyond the arrival of his first own 747-400 freighter in November. "Nobody can tell what will happen in two or three years, but as long as the flight makes a profit, I don't see why we should not continue the partnership. It depends on the market," he said.

Dragonair will get a second 747-400 freighter in December, with two more scheduled for delivery in 2007 and one in 2008.

While it uses 747-200 freighters on the flights to Eu-

Asia's Gateway

Year-over-year percent change in freight traffic at Hong Kong International Airport, 1998-2005



Source: Airport Authority of Hong Kong

Region Focus: Hong Kong

rope, the -400 is Yau's preferred beast of burden across the Pacific. This is because of the stage length. And the European freighters are routed over Dubai, which offers commercial opportunities, unlike Anchorage on the United States route, Yau said. "By 2008 we will have daily flights to New York and Los Angeles and maybe to Chicago," he said.

Cathay, which launched freighter flights to Dallas and Atlanta last year, took delivery of its first converted 747-400 in December, the second addition to its freighter fleet in 2005. Two more 747-400BCFs are scheduled to join the line-up this year, but Cathay will not renew leases for two freighters which expire in May and June, so the net growth of the fleet will be just the one freighter rolled out in December. "We'll have little extra capacity. This will be a year of consolidation for us," Mathison said.

Lately he has seen some softening in the market, so the pause in Ca-



thay's fleet growth may prove timely.

In the long run, Mathison is bullish about Hong Kong's growth potential, however. All three 747-400BCFs scheduled for delivery in 2007 will be incremental capacity, and Cathay will not retire any of its older 747-200 freighters before 2009. "We need the capacity," he said.

Cathay holds options on another five 747-400BCFs.

For now, Mathison's focus is more on cost control to compensate for the downward yield pressure from trade imbalances. Much of his effort on this front is on automation. "We see Cargo 2000 and e-freight as key initiatives to improve efficiencies,"

he said, adding that Ezycargo, the electronic booking portal backed by Cathay and other Australasian carriers, is a key instrument in pushing up e-bookings.

Cathay's overall electronic booking penetration stands at 49 percent, but it is in excess of 90 percent in markets like Japan and Hong Kong, while the adoption rate in Europe and North America is significantly lower, Mathison said.

The cost reduction theme is also high on the agenda at other carriers. There may be abundant cargo to fill all the available capacity out of Hong Kong, but "no carrier can simply price up the headhaul and then declare victory," said Friedel. "We have to cut costs."

As most of its traffic consists of large consolidations, Polar sees less incentive to embrace e-booking and similar undertakings to reduce costs, so optimizing flights is critical.

"We have to micromanage our flights and manage business proactively. You can't make a capacity agreement in November and then sit back and wait for the cargo to roll in," said Krepp.

Polar added Miami to its U.S. destinations served out of Hong Kong by through-plane last year. Recently, it expanded its reach to U.S. points beyond the major gateways by setting up trucking service on routes such as Los Angeles to Dallas/Fort Worth or Chicago-Miami. ■

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- ➔ **Changes in the Worldwide Aircraft Freighter Fleet** - Robert Dahl, Project Dir.
- ➔ **Performance of the Air Cargo Industry by Segment and Company** - Brant Douglass, Analyst

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2006



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Air Cargo World Survey:
Air Cargo Excellence

Air Cargo World's Air Cargo Excellence

2006



Survey

The second edition of the Air Cargo World Air Cargo Excellence survey found the top rated airlines and airports separated by only razor-thin margins in responses from customers on a wide range of performance measures. The final tally from the worldwide survey showed China Airlines and Dallas-Fort Worth International Airport finishing at the top of rankings from respondents from around the world while customers gave other airports and carriers high marks within their operating regions.

Those top performers included Memphis International as the top performer among the largest North American airports, with a final score of 109, but DFW earning top measures for value, performance and facilities to get an overall rank of 113.

Fraport Frankfurt was the top airport in Europe, with a 112 score. But the top two vote-getters among smaller airports were London's Gatwick and Stansted, earning strong votes that contrasted with responses that rated London Heathrow at the low end of European airport performance.

Hong Kong International was tops among larger airports in Asia and the Middle East but respondents also ranked smaller and nearby Shenzhen International close behind with a 109 overall ranking.

Among air carriers, grouped together this year, China Airlines had the top overall score of 126 and tied for or exceeded other airlines in indicators for customer service, performance and value.

Lufthansa Cargo, close behind at 124, was the top vote-getter among European airlines and its 133 ranking for information technology was approached by only FedEx Express. The 130 score in IT gave FedEx the top score in North America, although Southwest Airlines rated higher in customer service, performance and value.

In the voting, airports were divided into subcategories based on annual tonnage.

Survey respondents evaluated each company by rating four measures on a scale of one as the lowest and five as the highest. For each measure, the average rating across all companies in the survey was calculated and set to a value of 100.

Ratings for each company are presented in these pages as an indexed score, relative to the average, to allow for easy comparisons. A score greater than 100 represents above average performance; a score of less than 100 represents below average performance. A complete list is posted at www.aircargoworld.com.

Airports were rated on performance, value, facilities and operations. Air carriers were rated on customer service, performance, value and IT.

CRITERIA FOR AIRPORTS

Performance: Fulfills promises and contractual agreements, dependable, prompt and courteous customer service, allied services — ground handling, trucking, etc.

Value: Competitive rates, rates commensurate with service level, value-added programs.

Facilities: Apron, warehousing, perishables center, access to highways and other modes.
Regulatory Operations: Customs, security, FTZ.

CRITERIA FOR AIRLINES

Customer Service: Claims handled expeditiously, problems solved in a prompt and courteous manner, professional and knowledgeable sales force.

Performance: Fulfills promises and contractual agreements, dependable, accomplishes scheduled transit times.

Value: Competitive rates commensurate with service levels, value-added programs.

Information Technology: Tracking and tracing, Internet/electronic commerce capabilities.

Air Cargo World Survey: Air Cargo Excellence

	OVERALL	PERFORMANCE	VALUE	FACILITIES	OPERATIONS
Airports North America - 1,000,000 or more tons					
Memphis, MEM	109	108	108	107	110
Anchorage, ANC	108	108	108	104	109
Los Angeles, LAX	101	101	101	104	100
Chicago, ORD	101	102	102	101	99
Louisville, SDF	100	100	100	100	100
Miami, MIA	92	88	88	93	94
New York, JFK	91	93	93	92	88

	OVERALL	PERFORMANCE	VALUE	FACILITIES	OPERATIONS
Airports North America - 500,000 to 999,999 tons					
Dallas/Ft. Worth, DFW	113	110	110	117	110
Atlanta, ATL	103	109	109	102	100
Newark, EWR	102	100	100	102	102
San Francisco, SFO	99	99	99	95	101
Oakland, OAK	97	98	98	97	99
Toronto, YYZ	96	94	94	92	99
Philadelphia, PHL	96	92	92	98	93
Ontario (CA), ONT	95	97	97	95	97



	OVERALL	PERFORMANCE	VALUE	FACILITIES	OPERATIONS
Airports North America - 499,999 or less tons					
Seattle/Tacoma, SEA	108	106	106	107	110
Baltimore/Washington, BWI	107	108	108	112	100
Houston, IAH	106	108	108	107	105
Orlando, MCO	103	103	103	107	106
Phoenix, PHX	103	99	99	102	104
Denver, DEN	101	102	102	104	102
Boston, BOS	101	106	106	100	94
Montreal, YMX	100	95	95	102	102
Minneapolis/St. Paul, MSP	100	96	96	98	104
Detroit, DTW	99	100	100	94	102
Toledo, TOL	98	92	92	100	99

	OVERALL	PERFORMANCE	VALUE	FACILITIES	OPERATIONS
Airports Europe - 1,000,000 or more tons					
Frankfurt, FRA	112	112	112	111	113
Amsterdam, AMS	107	109	109	104	107
Paris De Gaulle, CDG	91	88	88	94	93
London Heathrow, LH	90	91	91	91	87

	OVERALL	PERFORMANCE	VALUE	FACILITIES	OPERATIONS
Airports Europe - 500,000 to 999,999 tons					
Cologne/Bonn CGN	106	106	106	104	105
Luxembourg, LUX	101	101	101	102	101
Brussels, BRU	93	92	92	94	94

	OVERALL	PERFORMANCE	VALUE	FACILITIES	OPERATIONS
Airports Europe - 499,999 or less tons					
London Gatwick, LGW	111	109	109	116	109
London Stansted, STN	108	109	109	106	108
Zurich, ZRH	106	110	110	103	107
Hahn, HHN	106	107	107	107	110
East Midlands, EMA	105	104	104	103	108
Helinski, HEL	105	100	100	102	112
Barcelona, BCN	102	105	105	103	102
Copenhagen, CPH	102	99	99	105	100
Manchester, MAN	102	105	105	102	97
Munich, MUC	101	101	101	101	102

	OVERALL	PERFORMANCE	VALUE	FACILITIES	OPERATIONS
Airports Asia & Middle East - 1,000,000 or more tons					
Hong Kong, HKG	109	110	110	109	109
Dubai, DBX	105	106	106	104	105
Singapore, SIN	104	103	103	105	105
Seoul Incheon, ICN	102	100	100	103	102
Tokyo, NRT	96	95	95	98	98
Shanghai Pudong, PVG	92	94	94	90	90
Bangkok, BKK	91	92	92	91	91

	OVERALL	PERFORMANCE	VALUE	FACILITIES	OPERATIONS
Airports Asia & Middle East - 500,000 to 999,999 tons					
Tokyo, HND	106	101	101	108	107
Osaka, KIX	104	107	107	109	102
Guangzhou, CAN	99	100	100	97	101
Kuala Lumpur, KUL	96	94	94	95	96
Beijing, PEK	96	97	97	92	95

	OVERALL	PERFORMANCE	VALUE	FACILITIES	OPERATIONS
Airports Asia & Middle East - 499,999 or less tons					
Shenzen, SZX	109	108	108	106	109
Macau, MFM	108	107	107	113	109
Shanghai Hongqiao, SHA	106	108	108	107	101
Jakarta, CGK	103	100	100	107	103
Sharjah, SHJ	97	98	98	99	98



**Air Cargo World Survey:
Air Cargo Excellence**

AIR CARRIER	OVERALL	CUSTOMER SERVICE	PERFORMANCE	VALUE	INFORMATION TECHNOLOGY
China Airlines	126	122	127	129	126
Lufthansa	124	122	124	115	133
Emirates Sky Cargo	123	122	123	121	126
Cathay Pacific	122	121	124	120	123
Singapore Airlines	121	122	125	116	123
Swiss WorldCargo	119	122	122	116	118
KLM	118	117	120	113	122
FedEx	118	111	118	112	130
Southwest Airlines	117	117	119	120	112
Cargolux	115	116	118	114	115
Virgin Atlantic	115	118	117	113	111
British Airways	114	115	108	115	120
Austrian Cargo	113	113	112	113	115
Korean Airlines	112	110	111	113	114
Japan Airlines	112	110	113	109	115
SAS	111	111	110	110	112
EVA Air Cargo	110	111	112	112	105
Thai Airways	110	115	112	107	106

AIR CARRIER	OVERALL	CUSTOMER SERVICE	PERFORMANCE	VALUE	INFORMATION TECHNOLOGY
Nippon Cargo Airlines	109	111	109	106	113
Continental Airlines	109	110	108	108	109
Martinair	108	110	111	106	104
All Nippon Airways	107	109	107	102	109
Air France	107	103	103	108	113
Qatar Airways	107	110	107	106	102
Malaysian Airlines	106	106	106	107	105



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Events

March 12-14

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

March 20-22

Vienna: 9th Annual European Postal Services Conference, at the Renaissance Penta Vienna Hotel, the Institute of Economic Affairs event looks at changes in competition and strategy in Europe's postal sector. For information, call +44 (0)20 7608 0541 or visit: www.marketforce.eu.com/eupost.

March 26-28

Orlando, Fla.: ISTAT 23rd Annual Conference, the meeting of the International Society of Transport Aircraft Trading looks at the value of plane-speaking. 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 18-20

Fort Worth, Texas: ECA Marketplace, the annual meeting of the Express Carriers Association brings shippers and carriers, and includes an exhibition. For information, call 866-322-7447 or visit: www.expresscarriers.com.

April 24-26

Amsterdam: Animal Transport Association 2006, at the Renaissance Amsterdam, focuses on future opportunities in niche sector. For information, call (903) 769-2847 or visit: www.animaltransport.org.

April 24-26

Seattle: Freightier Aircraft Workshop, at the Grand Hyatt, the fourth annual Air Cargo Management Group event examines the cargo aircraft market overhead. For information, call (206) 587-6537 or visit: www.cargofacts.com.

April 30-May 2

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

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

May 11-12

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

June 5-6

Los Angeles, Trans-Pacific Air Cargo, at the Century City Hyatt, organized by *Air Cargo World*, sponsored by Los Angeles World Airports, the second annual edition of the event has speakers from airlines, shippers, logistics companies, and government looking at new opportunities, emerging markets, changing strategies and regulations in the world's most dynamic trading lane. For information, call (760) 294-5563 or visit: www.joc.com/conferences/tpac/.

Sept. 12-14

Calgary, Alberta: International Air Cargo Forum, at the Roundup Centre in Stampede Park, TIACA's bi-annual gathering is the global air cargo industry's largest event and lands this year in North America. For information, call (786) 265 7011 or visit: www.tiaca.org.

Oct. 25-27

Miami: Cargo Facts 2006, at the Loews Miami Beach, the well-attended annual ACMG gathering brings the people with the planes together with the people with the money. For information, call (206) 587-6537 or e-mail: ashoemaker@cargo-facts.com. ■

People

Airlines

Etihad Crystal

Cargo: The Abu Dhabi-based carrier appointed **Daniel Nolz** charter operations controller. A Swiss national, he had been with Chapman Freeborn in Sharjah as cargo operations manager. Etihad also added **Julia Vetter** to its product and strategic development division. She had worked in international fleet management for Sixt Rent a Car in Munich.



Vetter

Active Aero

Group: The charter specialist named **Christopher F. Healy** president. A 33-year industry veteran, he had been chief operating officer of the Michigan-based company since 2001. Healy earlier was president and CEO of forwarder Skyway Freight Systems and also worked for FedEx Global Logistics and Emery Air Freight.



Healy

Qatar Airways: The carrier named **Bruce Gillette** general manager for cargo worldwide. Gillette had been at Atlas Air since 2001, first as vice president of products and services and later as vice president of sales and marketing. Before that, he was United States operations director of LAN Cargo

Kitty Hawk: The Dallas-based freight airline named **Donald A. Premel** to the new post of managing director of business development and appointed **Randy P. Smith** managing director of team resources. Premel was a veteran of Continental Airlines who headed the airline's Americas di-

vision, overseeing cargo and operations. He earlier directed Continental's express services and managed the carrier's partnership program with forwarders. Smith had been at CompUSA for eight years as vice president of human resources.

Integrators

TNT: The Netherlands-based express, logistics and mail company appointed **Henk van Dalen** chief financial officer and member of the company's management board. He has been CFO of DSM, a Dutch nutritional products and industrial chemicals company. He replaces **Jan Haars**, who will step down March 31. Van Dalen had been at DSM since 1976 and held positions including general affairs director of DSM Research and CEO of the company's Agro and Polyethylenes units.



van Dalen

Empost: The United Arab Emirates' national courier service named **Abdelaziz A. Al Mazmi** sales manager. He will be responsible for the entire sales and business development activities of Empost within the UAE and internationally. Al Mazmi had been Emirates airline's district manager in Jeddah, Saudi Arabia, and earlier was the carrier's acting sales manager in Mumbai.

Third-Parties

Wincanton: **Graeme McFaull** became chief executive officer of the British contract logistics provider. McFaull, 44, joined Wincanton in 1994 and most recently was managing director of the United Kingdom

and Ireland. He had held positions at Geest, Cargill and Pepsico.

SEKO: The Illinois-based freight forwarder named **Joseph Burger** director of import services. Burger will assume all import compliance responsibilities, replacing **Annelori Roder**, who was reassigned to handle SEKO's international business development in the Midwest U.S. He has worked for U.S. Customs and for Rhenus Transport and the Fritz Cos.

BAX Global: The company named **Andrew Mitchell** director of logistics business development for Asia-Pacific at the company's regional headquarters in Singapore. Mitchell has 15 years experience in pharmaceutical logistics and most recently was regional operations manager for Sigma Company in Australia.

Lynden International: The Seattle-based forwarder promoted **John Kaloper** to vice president for the Northwest region and **LaDonna Blackwell** to the new position of business development director for Russia CIS. Kaloper had been with Lynden since 1984, most recently as a director of the Pacific Northwest and Western Canada.

BDP International: The Philadelphia-based forwarder named **Jennifer Thornton** to the new position of director of business development at its Houston-based project logistics unit. Thornton was vice president of corporate development at Transoceanic Shipping and earlier held operations positions at MSAS International and UPS. BDP also named **Michael Loup** chief information officer. He has more than 20 years' experience in technology and logistics, most recently at BDP's Elite Group subsidiary.

GeoLogistics: The California-based forwarder named **Marco**

People

Gamma senior vice president of Latin America development as the company opened an office in Santiago. Gamma, who will be based in Miami. Gamma had been in various positions with Panalpina.

Samuel Shapiro & Co.: The Baltimore-based forwarder and customs broker promoted **Robert Burdette** to director of marketing and strategic development. Burdette worked with the Fritz Cos. and Tower Group before joining Samuel Shapiro. The company also named **Colin Chapman**, who has worked with UPS and FedEx, director of sales.

Business Post: The European delivery company appointed **Terry Richards** managing director of the UK Pallets operation it acquired in 2003. Richards replaces Paul Sanders, who resigned. Richards had been managing director of Business Post Technical Couriers and before that held senior posts at TNT and NFC. Business Post also promoted **Simon Hazelgrove**, from UK Pallets sales and marketing director to deputy managing director.

TwoWay Vanguard: The Irish and United Kingdom forwarder named **Lisa Jenkins** operations clerk at its expanding Birmingham site. Jenkins had held a post at Midland Import Export Services.

Hellmann Perishable Logistics: The division of Hellmann Worldwide Logistics promoted **Raul Villavicencio** to vice president of market development. A 20-year veteran of perishables logistics and transportation, Villavicencio joined Hellmann as a branch manager in 2001 and had been general manager for the United States since 2003.

Pilot Air Freight: The Pennsylvania-based forwarder named **Dan McQuesten** station manager in

Boise, Idaho. An 11-year industry veteran, McQuesten has been an export specialist with Expeditors International, and also worked with EGL and Bensussen Deutsch.

Technology

Manugistics: The logistics software company named **James Malizis** managing director for Australia and New Zealand, based in Sydney. Malizis had been senior senior director of Manugistics' Solutions Consulting division and headed the company's pre-sales team in the Asia-Pacific region.

Management Dynamics: The New Jersey company specializing in software for the international logistics industry appointed former Cathay Pacific Airways cargo executive **Raymond Yuen** to its board of directors, a move Management Dynamics says will help to expand its presence in China. Yuen recently retired from John Swire & Sons, where he had been the director and chief representative for China since 1996. Yuen, who once served as Cathay Pacific's head office cargo manager and sat on the airline's board, has also held a seat on the Dragonair board.

Ground Handling



Burnett

Aviartner: The ground handler named **Andrew Burnett** business development manager for the Aviartner Group. Burnett had been business development manager for the Asia Pacific and Africa for Menzies Aviation Group and has an MBA from the University of Edinburgh.

Consultants

BG Strategic Advisors: The strategy consulting firm focused on the logistics and industry named **Jonathan Saltzman** as a senior associate. Saltzman was corporate finance manager for TNT, where his focus included mergers and acquisitions analysis and capital markets transactions. BGSA also named **Matt Gordon** a vice president. He had been a vice president with SightPoint Partners, a management consulting and investment banking firm.

Airports

Aeroports de Paris: The airport authority named **Gonzalve de Cordoue** director of human resources. He has worked at ADP since 1989, most recently as ground handling director and CEO of the ADP-owned Alyzia Airport Services.

Berlin Airports: The German airport authority named **Rainer Schwarz** chief executive officer of the business that heads Berlin Brandenburg International Airport. Schwarz, 48, had been CEO of Dusseldorf International Airport since 2002. ■

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BACK Aviation Aircraft Report

Given its large capacity (over 7,600 cubic meters of volume and 112 tonnes of available payload capacity in freighter configuration) and long-haul range capabilities (nearly 8,000 miles at maximum payload), the 747-400 is the major player in the international air freight industry.

The passenger version of the 747-400 accounts for 66 percent of all active 747-400 aircraft while the 747-400 freighter accounts for 19 percent. Boeing has delivered 115 factory-built freighter versions of the 747-400, including 14 extended-range freighters it had built through December 2005. Another 56 are on order, including 18 of the new 747-8.

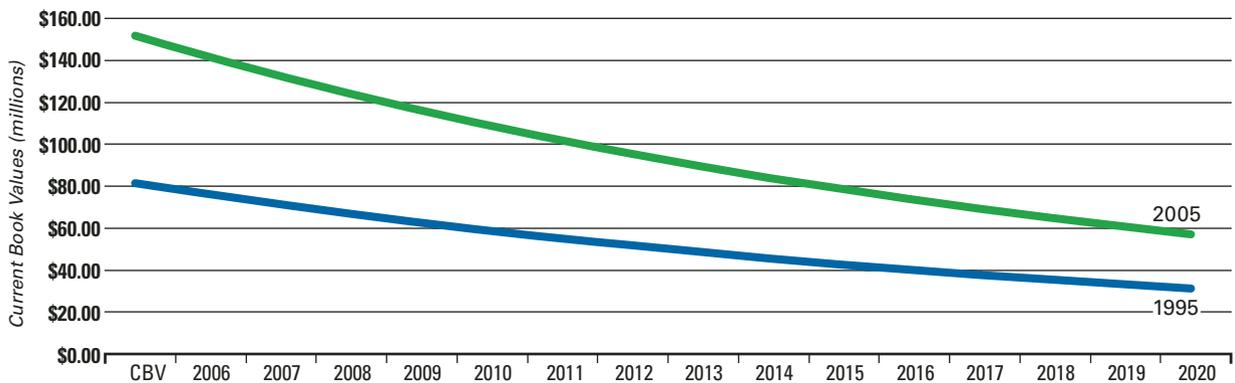
The passenger version of the 747-400 can carry up to five lower-hold pallets weighing a total of 47 tonnes. The



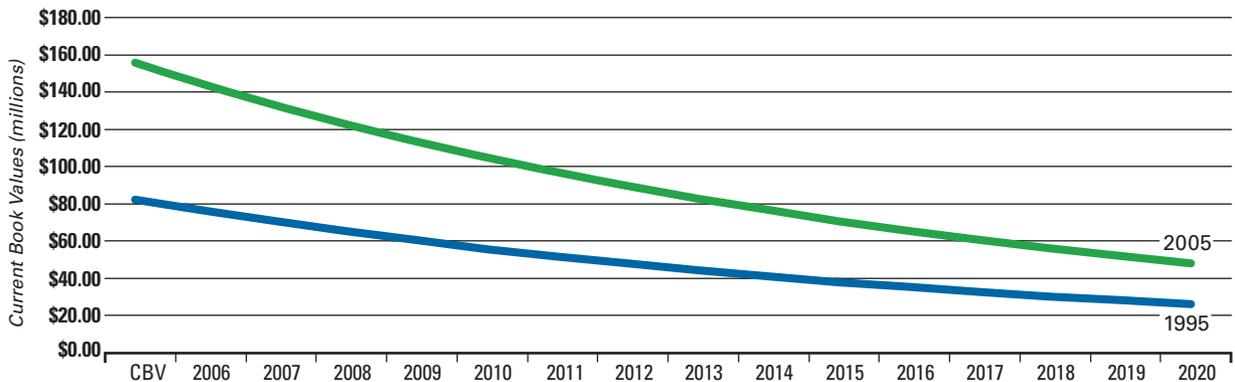
747-400F can carry 113 to 118 tonnes up to 4,445 nautical miles or, for the 747-400ERF, 4,970 nautical miles.

Asian airline fleets account for 51 percent of all active 747-400 aircraft. China Airlines operates the largest 747-400 freighter fleet with 18 aircraft. ■

Freighter Values



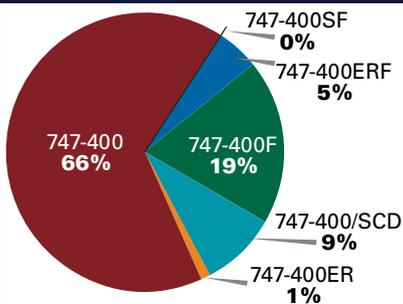
Passenger Values



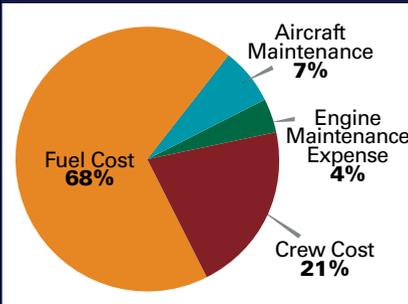
Source: BACK Aviation Solutions

BOEING 747-400

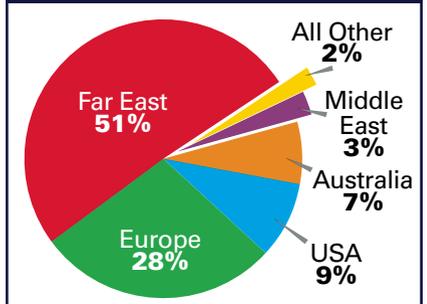
Fleet by Type
(Active / On order)



Average Direct Operating Costs
Q1 2005



Active Fleet by World Region



OPERATOR	EQUIPMENT TYPE	ACTIVE IN SERVICE
British Airways	747-400	57
Japan Airlines	747-400	42
United Air Lines	747-400	30
Singapore Airlines	747-400	28
Qantas	747-400	24
Korean Air Lines	747-400	23
All Nippon Airlines	747-400	23
Lufthansa	747-400	21
Cathay Pacific Airways	747-400	21
China Airlines	747-400F	18
Thai Airways International	747-400	18
Malaysian Airline System	747-400	17
Korean Air Lines	747-400F	16
KLM Royal Dutch Airlines	747-400/SCD	16
Singapore Airlines Cargo	747-400F	16
China Airlines	747-400	15
Cargolux	747-400F	14
Northwest Airlines	747-400	14
Virgin Atlantic Airways	747-400	13
Air India	747-400	12
Air France	747-400	10

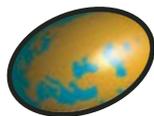
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the **AirCargo** Bottom Line

Europe Airlines

Top 10 European airlines in cargo traffic in 2005.

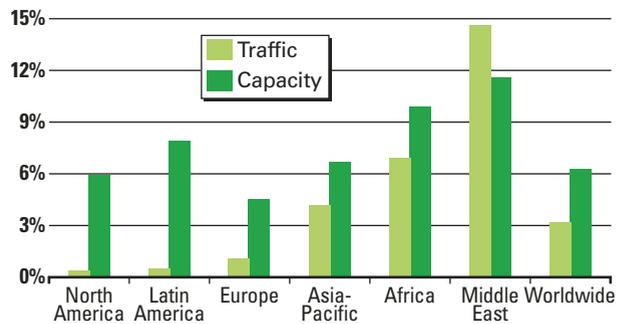
(in millions of freight tonne kilometers)

AIRLINE	TRAFFIC	%CHANGE
1. Lufthansa	7,680.4	-4.3
2. Air France	5,538.8	3.0
3. Cargolux	5,466.5	17.4
4. KLM	4,845.6	2.4
5. British Airways	4,814.9	0.6
6. Alitalia	1,364.0	-1.6
7. Virgin Atlantic	1,157.2	7.9
8. SWISS	1,139.7	-2.5
9. Iberia	951.4	-1.4
10. SAS	633.1	-10.9

Source: Association of European Airlines

Global Freight

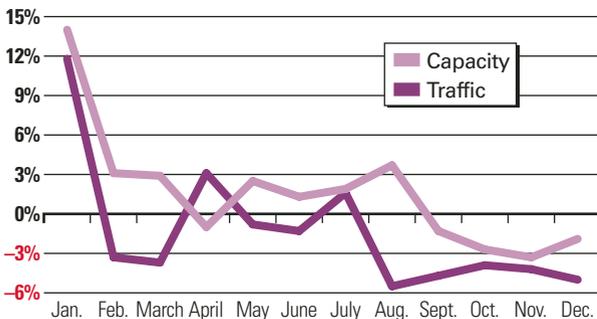
Percent change in international air freight traffic and capacity by region in 2005 over 2004.



Source: International Air Transport Association

Lufthansa Cargo

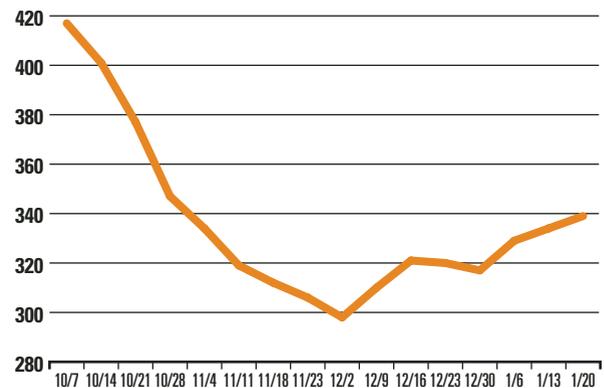
Lufthansa Cargo monthly year-over-year percent change in cargo capacity and traffic.



Source: Company reports

Filling Up

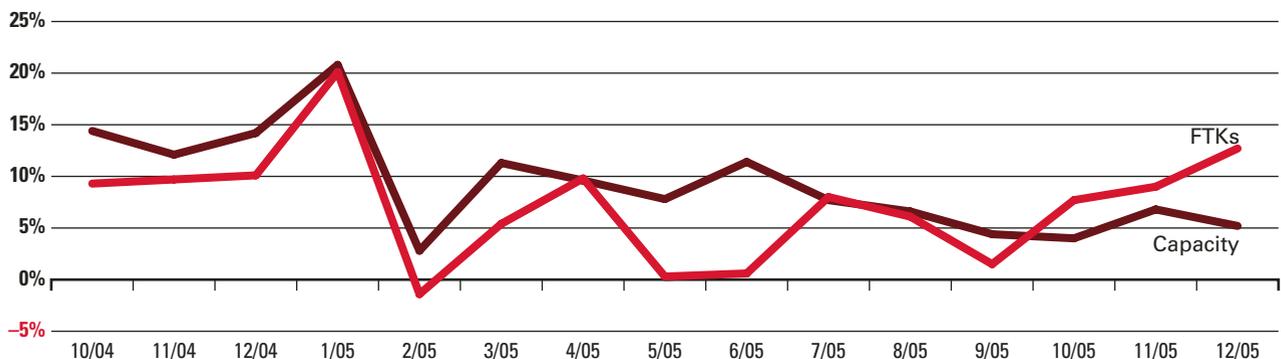
Lufthansa weekly fuel index.



Source: Lufthansa Cargo

Managing Singapore

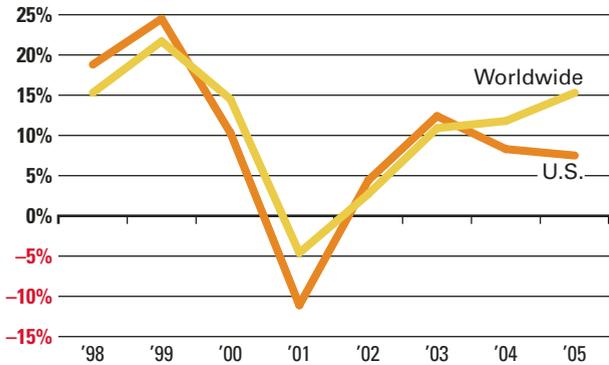
Singapore Airlines' monthly year-over-year percent change in freight traffic, measured in freight-tonne kilometers, and cargo capacity in 2005.



Source: Company reports

Rebooting

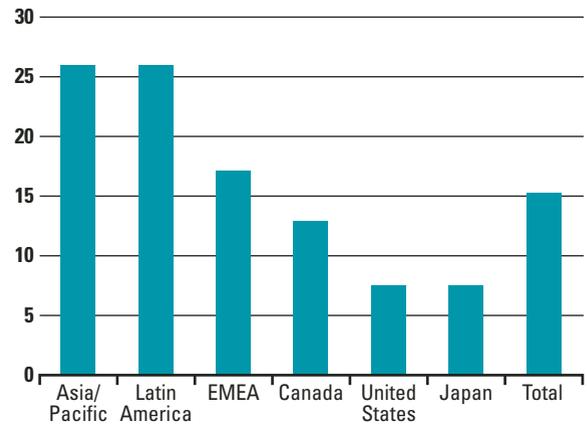
Year-over-year percent change in personal computer shipments worldwide and in the United States through 2005.



Source: Gartner Dataquest

Desktop Shipping

Growth in PC shipments in 2005 over 2004 by region.

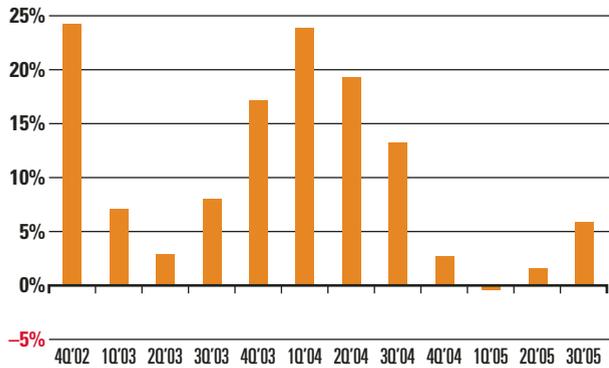


Source: ??????

SemiBuilding

Quarterly year-over-year percent change in semiconductor production worldwide.

(based on starts for integrated circuits)

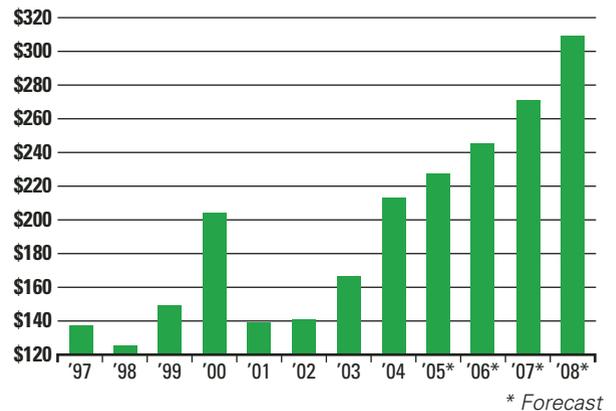


Source: Semiconductor Industry Association

Semi Tough

Historical and forecast semiconductor sales worldwide, 1997-2008.

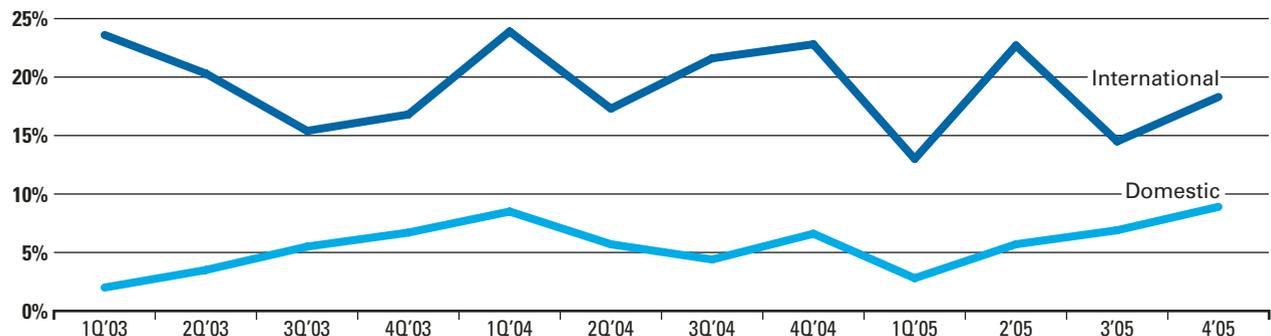
(in US\$billions)



Source: Semiconductor Industry Association

UPS

Quarterly year-over-year percent change in UPS domestic and international package revenue.



Source: Company reports

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