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May 2006 | CONTENTS | Volume 9, Number 4

REGIONS

Air Cargo Forecast

In the 2006 World Air Freight Forecast, BACK Aviation Solutions predicts that China and other emerging markets will drive steady cargo growth.

Macro Forecast

In a supplement to the air freight forecast, BACK Aviation looks at economic drivers in world regions. and pricing probe.

DEPARTMENTS

Europe Changes

Lufthansa Cargo's revenue and profits are growing but Europe's longtime air cargo leader also is navigating through management changes and other challenges.

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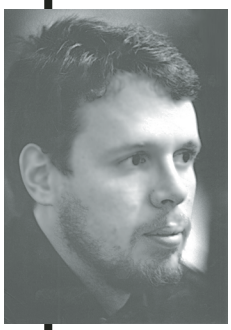
Editor's Note

Changed

Keeping up with the dizzying pace of change in Asia's air cargo markets is proving to be daunting for all parts of the air shipping business. That's never been more evident than in recent weeks as air carriers, passenger and cargo alike, launched a raft of new connections to China even as the country was announcing new changes that will roil the world's aviation markets.

The world's largest integrated express carriers had barely had the chance to trumpet their new services to China before a senior aviation official pledged that the skies would be even more to cargo.

Yang Yuanyuan, director general of China's Civil Administration, opened the recent annual general meeting of The International Air Cargo Association with more than just the usual welcome to Beijing. He said rights for air cargo operators, once highly hemmed in and controlled by state entities, would be further opened in coming years.



At the same time, five China-based air cargo airlines are due to launch this year. That carriers such as Jade Cargo include a heavy dose of international joint venture agreements is a reminder of the fences still around business in China, but the very number of the operators and the expansive services they plan to offer is a sign of just how fast the market is changing.

The speed of that change is having a dramatic impact not only in Asia but in anything touching the airline business around the world.

Just as China's voracious hunger for steel and other construction and energy materials is roiling world commodities markets, the urgent push for capacity in the air is roiling markets for carriers and expedited shippers. Fleet planning that once seemed precipitous if airlines looked at even a five-year horizon now is more like a two-year affair, with carriers plugging in leased aircraft as Boeing, Airbus and conversion push production lines to keep up with demands for maindeck lift.

It's a pace that has added more risk than ever to planners and more uncertainty than ever to forecasting. After all, a business plan that includes jet fuel prices at $1.75 a gallon might look far different three months later at $2 a gallon.

This year's Air Cargo World air freight forecast marks something of a change. Performed by our sister company BACK Aviation Solutions, the research and consulting firm looks at a 10-year horizon and includes sections on projected fleet developments and on the macroeconomic conditions that will, after all, drive demand — and change.

Air Cargo World

International Edition

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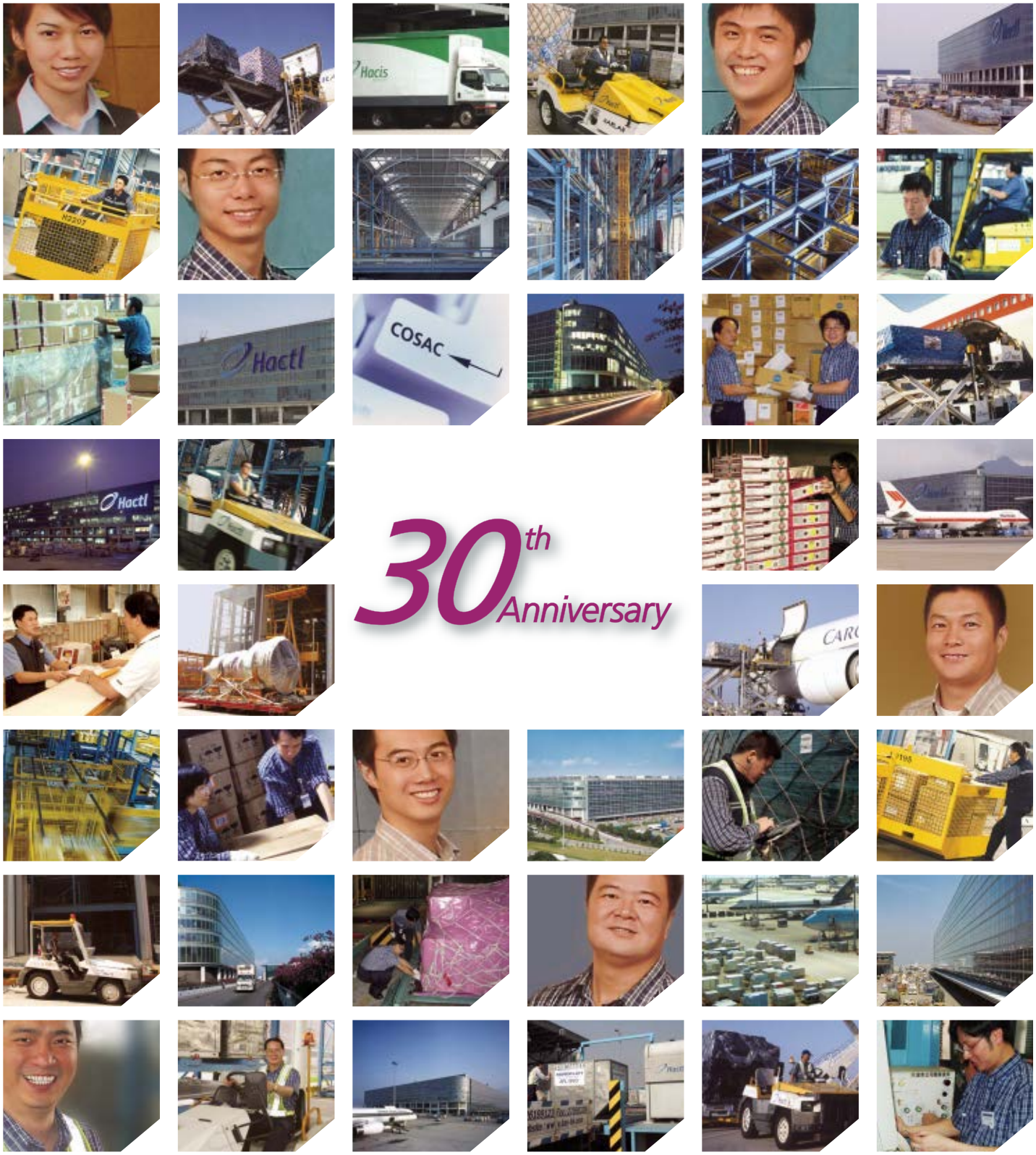

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News Updates

Expressing Expansion in China

Aviation officials in China say they will use air cargo services as the priority for opening the country to foreign competition, but the express cargo carriers appear to be making the country a priority on their own. Within days of each other last month, FedEx, DHL and UPS announced new initiatives on the ground and in the air in China, making their case that growth in the world's fastest-growing air trade market will only accelerate in coming years.

Marking 20 years in the country, DHL said it would spend $24 million on a new headquarters for DHL Sinotrans and add 16 branches around the country, giving the carrier 72 stations. The additions bringing to nearly $1 billion the investment the company has made in China and Hong Kong in recent years

DHL pointedly calls its expansion strategy "First in China," but new moves by rivals are a sign of how crowded the cargo field is becoming far more crowded.

UPS and FedEx announced new flights into the country last month, moving quickly to take on new routes allowed in the aviation treaty between China and the United States.

UPS says the additions that will bring five MD-11 freighters from Cologne, Germany to Shanghai and new services to Shanghai and Qingdao mean "UPS now flies to more points in China than any

other U.S. airline — freight or passenger," said David Abney, the company's president of international operations.

FedEx claimed it had more flights than other carriers, with 26 weekly arrivals in China starting last month, and the carrier's recent agreement to buy out the 50 percent stake China's DTW Group has in their joint venture express business suggests also may be planning more expansion of intra-China services.

China's government, which once tightly controlled cargo services through state-owned operations such as Sinotrans, looks open to new expansion. The official Xinhau news agency last month quoted a civil aviation who said non-Chinese firms would be given greater freedoms to operate in the air cargo market.

There also were greater freedoms in the skies as China approved a new air traffic route that the International Air Transport Association said would cut flight times between Europe and China by 30 minutes. Perhaps more significant, the route called IATA-1 would help the airlines save $30 million a year on fuel burn, allowing them to get into the market more cheaply even as the express airlines are moving to tie up the cargo.

Fueling Spikes

Jet fuel prices took off on steep ascent last month, following sharply rising oil prices and suggesting of summer is shaping up for airline balance sheets.

Prices for jet fuel jumped past an average of $2 gallon in some parts of the world by the middle of last month, according to several airlines, putting average prices 50 percent ahead of where they stood at the start of 2005. The official price measures from the U.S. Energy Information Administration ranged from $1.90 a gallon in Singapore to $2.01 a gallon in New York.

Those levels were unthinkable

only a couple of years ago but the spike upwards to $71 a gallon had air carriers rethinking finances for 2006. "We're budgeted with oil at $57 a barrel, so we should be alright as long as it's stable," an official at one carrier said before the latest run-up.

The closely-watched Lufthansa Cargo fuel index hit its highest levels since post-Hurricane Katrina spike last fall and by the middle of last month the index had grown 10 percent in just three weeks.

That presages new fuel surcharge increases, and with them new concerns that rising air costs will drive shippers to cheaper surface transport heading into towards the peak shipping season.

Atlas Lifts

For Atlas Air, the soaring profit the airline reported for 2005 was just a matter of time.

Atlas Air Worldwide Holdings, the parent of Atlas Air and Polar Air Cargo showed a $73.9 million net profit in 2005, including $193.3 million in operating earnings, and that it filed its annual report ahead of schedule. The world's largest operator of 747 freighters says that shows the carrier is on a strong recovery path after several years of struggles that included a trip through bankruptcy protection.

AAWH says it is increasing scheduled service to China, cutting costs, potentially shedding older aircraft and looking for alliances with "synergistic carriers." The company also suggested new aircraft were on the way, saying it would offer customers "new services and new fleet types."

"We intend to build upon our momentum and take this company to the next level," said Michael Barna, Atlas' chief financial officer.

Because of its restructuring, Atlas' comparisons between 2005 and 2004 were skewed, but the operating profit on $1.62 billion in revenue showed the airline was running smoothly last year even as its business changed.

Revenue from scheduled service, largely a Polar business, was off about 16 percent in the fourth quarter and Atlas Air's "wet lease" ACMI revenue was off slightly from the last three months of 2004. Military charter revenue nearly doubled, however, and commercial charter revenue grew nearly 20 percent to $53.9 million.

Top Airports

The world's top 30 cargo airports in 2005, and change from 2004

RANK	AIRPORT	TRAFFIC	% CHANGE
1.	Memphis (MEM)	3,598,500	1.2
2.	Hong Kong (HKG)	3,437,050	10.1
3.	Anchorage (ANC)	2,609,498	9.7
4.	Tokyo, Narita (NRT)	2,373,133	10.1
5.	Seoul (ICN	2,133,443	15.8
6.	Los Angeles (LAX)	1,902,547	5.3
7.	Frankfurt (FRA)	1,839,084	11.4
8.	Singapore (SIN)	1,795,646	10.0
9.	Miami (MIA)	1,778,897	8.6
10.	Louisville, Ky. (SDF)	1,739,029	7.5
11.	Taipei (TPE)	1,701,020	13.4
12.	New York (JFK)	1,683,073	2.7
13.	Chicago (ORD)	1,681,835	11.6
14.	Shanghai (PUG)	1,642,062	38.1
15.	Paris (CDG)	1,637,610	9.4
16.	Amsterdam (AMS)	1,467,205	8.4
17.	London (LHR)	1,412,031	8.6
18.	Dubai (DXB)	1,169,256	22.2
19.	Bangkok (BKK)	1,058,145	11.3
20.	Indianapolis (IND)	1,000,262	9.3
21.	Newark (EWR)	920,104	5.0
22.	Osaka (KIX)	886,857	11.8
23.	Atlanta (ATL)	864,650	7.9
24.	Tokyo Haneda (HND)	773,918	7.2
25.	Dallas/Ft. Worth (DFW)	754,764	12.2
26.	Luxembourg (LUX)	712,954	8.5
27.	Oakland (OAK)	676,210	9.1
28.	Beijing (PEK)	668,654	1.0
29.	Kuala Lumpur (KUL)	664,237	12.6
30.	Brussels (BRU)	659,090	9.1

Source: Airports Council International

Memphis Leads

Memphis International Airport was the world's busiest cargo airport in 2005 for the 14th straight year, but whether the title survives another year is an open question.

Cargo business at Hong Kong International Airport grew 10.1 percent last year against just a 1.2 percent gain for Memphis, according to preliminary numbers from the Airports Council International, bringing HKIA within about 160,000 tonnes of the FedEx hub.

That much tonnage would make a pretty good year at most airports, but Memphis handled nearly 3.6 million tonnes of freight in 2005 and the gap is about a month's worth of export traffic alone at busy Hong Kong.

Early reports on 2006 suggest Hong Kong is having another banner cargo year.

Hong Kong saw 273,000 tonnes of cargo in January, up 10.5 percent over last year, a gain that was helped by a 13.8 percent increase in freighter movements.

Hong Kong Air Terminals, the largest handler at the airport, saw its business grow 8.5 percent in the first quarter, and smaller Asia Airfreight Terminal says it broke a record in March when its cargo tonnage jumped nearly 25 percent.

Comparable figures for Memphis were not available for 2006.

News Updates

Laboring Up

Labor unrest may be settling down at some of the troubled United States passenger airlines but cargo carriers are still in turbulent talks.

Delta Air Lines settled what looked to be the airline industry's most serious deadlock with pilots in several years, reaching an 11th hour settlement in a showdown that company officials said could have led to the demise of the airline.

The pact was only a tentative agreement and needed approval of both pilots and a U.S, bankruptcy court, but it left Delta with a lifeline and the possibility of some $325 million in pay and benefit cuts the carrier says it will need to survive.

Meanwhile, ASTAR Air Cargo, a sub-service flier in the United States for DHL, last month asked for government mediators to help kick-start talks that are nowhere near a contract after 18 months of negotiations.

The attempt to break that logjam came as industry observers said UPS and its pilots appeared ready to return to the bargaining table this month, resuming mediated negotiations that broke off just before last Christmas. The unionized pilots asked the mediator to start the clock ticking toward what the labor world calls "self-help" — which could mean a strike — but the formal declaration of an impasse was turned down.

FedEx Express was also in mediated talks and reached one agreement with its pilots: The sides will resume their negotiations next month.

Volga Grows

Project cargo specialist Volga-Dnepr says its share of the outsized cargo market grew two points to 56 percent in 2005, when its overall profit reached $5.1 million on a 54 percent gain in revenue to $487 million.

Volga-Dnepr's revenue from AN-124 charters rose to $293 million from $225 million in 2004, while profits from that business more than tripled to $14.9 million in 2005 com-

pared to $4.2 million the year before.

Volga's scheduled service AirBridge Cargo business, which is adding three 747s in the next two years, reached $119 million last year after taking in $43.1 million in 2004.

Export Targets

The ranks of air cargo operators caught in a United States government crackdown on the export of restricted goods is growing.

Under an agreement with the U.S. Commerce Department's Bureau of Industry and Security, freighter operator Cargolux will pay $9,000 to settle charges the airline violated rules on the transport of some restricted American goods abroad with an attempted 2004 shipment of seismic equipment to Syria.

The latest action adds the Luxembourg-based carrier to a growing list of freight operators that have been hit with BIS penalties, including DHL, Exel, FedEx Express and Lufthansa Cargo. The fines varied from $40,000 for FedEx to $18,000 each for DHL and Lufthansa and $8,000 for Exel.

John Wanat, assistant director of BIS, told an air cargo conference in March that the office was stepping up its scrutiny of carriers and logistics companies that manage the movement of U.S, exports. "You are the carriers can be and will be held liable for shipments that violate export regulations," said Wanat, who is retiring. "It is not only the shipper's responsibility to verify the legality of exports."

The BIS enforcement program targets exports of goods or technology for which the U.S. requires certain licenses, including material that could be used for military purposes.

Martinair Switch

Rising fuel costs are taking a toll on the world's fleet of 747-200s. Martinair became the latest airline to decide to switch to newer aircraft, saying it will drop the older aircraft for converted 747-400s.

The Dutch carrier flies only two of the four-engine jumbos in full-freighter configuration, alongside two 747-200s it operates as convertible passenger-cargo aircraft. The airline says it will take the planes, to be converted by Boeing, by the end of 2006.

The airline's cargo revenue, which makes up about two-thirds of Martinair's overall revenue, jumped 16 percent in 2005 over the year before to US$870 million. Cargo traffic grew 5 percent, led by growth in Asia and the Americas.

Martinair's overall profit grew 40 percent to $17.2 million.

Meanwhile, Cargolux saw its net profit grow 7.1 percent to $89.4 million last year, but the freighter operator says a $12 million capital gain helped boost the bottom line in what it called "a very difficult year ... in a very competitive environment."

Cargolux said its revenue grew 19 percent to $1.45 billion, but traffic was up only 3.5 percent against a 7 percent gain in capacity. ■

FUNNY, IT DOESN'T LOOK LIKE THE MIDDLE OF THE DESERT.

As the seventh-busiest airport in the U.S. for passengers, Phoenix Sky Harbor International Airport is an oasis of convenience. Recent renovations added even more national brand-name shops and restaurants throughout the airport. And a new rental car center – the largest in the country – will easily accommodate the airport's more than 40 million travelers a year. Home to US Airways and Southwest Airlines, Phoenix Sky Harbor serves non-stop flights to more than 100 cities in the United States, Canada, Mexico and Europe.

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NORTH AMERICA

Combined Growth

The cargo combination under the merged America West and US Airways has an aggressive plan for building on bellies

Randy Richards' first venture into the belly of an A330 gave him an eyeful — and a new business plan. After running cargo at decidedly narrowbody America West for four years, Richards went to Philadelphia last September for a firsthand look at the international widebody capacity the airline was taking on its merger with US Airways.

By Paul Page

"We were going from planes that could hold 5,000 pounds to an A330 with a belly big enough to throw a party in," said Richards.

If it's a party, freight is clearly on the invitation list. The merger of America West and US Airways is bringing the combined business new energy in the air cargo arena, says Richards, and a plan for growth that was never possible at a carrier where a 757 was as large as an aircraft got.

The plan includes a target of $165 million in cargo revenue this year as part of what Richards says is an aggressive plan to manage yield, sharpen service and build business. "We think there is a lot of opportunity here," he said. "Capacity was our biggest inhibition to growth at America West. Now we've got A330s and 767s, two East Coast hubs and 13 departures a day to Europe from Philadelphia. There's more upside than we reallzed."

The opportunity came from the slow but certain consolidation of the American airline industry.

After stumbling out of Chapter 11 bankruptcy protection, financially airline US Airways finally merged with smaller but profitable America West, combining its network on the United States Atlantic Coast with that of a Phoenix-based career built around the Rocky Mountains. The combined business is operating under the US Airways name and based in Phoenix.

In Sourcing

Formerly head of cargo at America West, Richards, a forwarding industry veteran formerly with Emery Worldwide, Eagle USA Airfreight and AIT Worldwide, took the reins of the combined freight business and made a splash immediately.

The airline canceled an agreement that US Airways outsource its bellyhold capacity to Lufthansa Cargo, reclaiming control of westbound trans-Atlantic business Richards says will help build up higher-yield revenue.

The $165 million in revenue would mark a sharp step up from 2005, although how big a step is unclear since the airlines combined books part of the way through the year.

The biggest step will come in com-

bining the cargo information systems of the two carriers. They have been operating separately since the merger and the cargo division has kept the sales and services of the America West and US Airways capacity separate to prevent potential foul-ups.

"Having two IT systems and trying to cross-utilize your capacity is setting yourself up to fail," said Richards. "Our strategy has been to be methodical and to get it done right. We hope to have the project completed in June," said Richards, saying the US Airways Sabre will provide the management backbone. "That has been our biggest focus."

Ground Up

Even with combined capacity and IT systems, however, US Airways remains a far bigger force in the passenger arena that it is in cargo. And with its narrowbody focus within the United States, the airline is fighting business headwinds that are pushing more domestic cargo to trucks and new flavors of expedited transportation within the United States.

"The more the airlines reduce their offerings the more we move to ground," said Chris Van Hagen, vice president of forwarder Adcom Worldwide. "Ground shipping has seen tremendous strides over the years in service, tracking, and a better level of customer service."

Richards says service at the retooled US Airways is important to cargo growth plans. "We're going to yield manage the bellies under the wing just like we manage yield over the wing," he said. "We're going to focus on bringing value to customers. … For us, that means dependability."

With the U.S. Postal Service the airline's single largest customer, and with the airline is defying trends by seeing more mail each year, mail figures prominently in the future. And so does the domestic market that has been weighing on the American passenger alrlines.

"There is always going to be a future for domestic (cargo for the airlines)," said Richards. "But you can't approach it the way you did five years ago, or even two years ago. As clichéd as it sounds, it's true — you have to partner with the forwarders."

Radiant Glows

Newly formed Radiant Logistics says its acquisition of forwarder Airgroup Express is the first step in a strategy of building through buying.

The Bellevue, Wash.-based company says it plans to combine "regional best-of-breed" logistics companies with a base of domestic and international forwarding to create "an expanding array of value-added supply chain management services."

Radiant is the latest investor-based business in recent months to start making acquisitions in the American forwarding market. IJS Global, headed by ex-Air Express International executives, launched its acquisition strategy in December 2004 and Gregory Burns, a former Wall Street investment analyst, raised $90 million in a public stock offering in March for a company he is leading that aims to buy up logistics operators.

Radiant has a background in larger-scale logistics. Chairman and Chief Executive Bohn Crain is a former senior executive of Stonepath Group, Schneider Logistics and CSX and founded the company to, "execute a consolidation strategy in the sector."

That happened in January with the purchase of Airgroup, a Seattle-based forwarder with 34 stations in the United States, mostly franchises.

Radiant wants companies that show annual profits between $1 million and $5 million.

… Briefly

Nippon Express will move into a 12,000-square-foot facility owned by the Franklin Community Improvement Corporation site at **Rickenbacker International Airport**, a key endorsement from a global forwarder of the all-cargo airport. … Regional cargo airline **Alpine Air Express** had a $622.011 net profit in the three months ending Jan. 31, moving into the black on a 53 percent gain in revenue, to $8 million. The Utah-based airline says the improvement was partly from improved rates negotiated with the **U.S. Postal Service**. … **Target Logistic Services** opened a station near Boston's **Logan International Airport**. … **DHL** struck a three-year sponsorship to become the official express delivery and logistics provider to the National Baseball Hall of Fame. … **Adcom Worldwide** opened stations in Toronto and Santa Ana, Calif., giving the Minneapolis-based forwarder four new offices in recent months. … Less-than-truckload trucker **Estes Express Lines** says its recently-started freight forwarding operation is producing some $10 million in annual revenue. … Regional air cargo carrier **Alpine Air Express** won a new service contract for freighter flights between Honolulu and Lihue, on the island of Kauai. … **Aloha Freight Forwarders** opened a 40,000-square-foot terminal in Compton, Calif., it says will allow Hawaiian shippers to "extend their warehousing pipeline to the mainland" United States. ■

EUROPE

Ambitious Athens

Athens International Airport promotes a sea-air link as part of a major cargo push

Sea-air business is a shipping industry standard, but its long-recognized traffic flow usually involves an extended sea link and a shorter air sector to deliver goods to final destination. But Athens International Airport, which opened in 2001, wants to invert that concept and is marketing the Greek gateway as a Mediterranean sea-air crossover point.

Instead of looking to the Far East to generate the sea traffic element, Athens is eyeing the neighboring Middle East as the source point of potential business. "We have spent considerable time researching and planning this project and we now believe we have all the elements in place to launch Athens International Airport as a sea-air interchange," says Alexis Sioris, the airport's cargo director.

By Roger Turney

For Athens and its long-awaited new airport, the strategy is part of an effort to capitalize on a location that, on the one hand, puts the city at the crossroads of the Middle East and Asia but also,, on the other hand, finds Athens at the margins of both trading regions.

The airport recently signed an agreement with the Piraeus Port Authority, which controls Greece's major port near Athens, to jointly promote the concept. "More importantly, perhaps, we have ensured that before launching such a project we have the full support of the Greek Customs authorities and other government bodies in order to harmonize the smooth transit of sea-air traffic from Piraeus port to the airport," says Sioris. "It is a transfer distance of about 25 miles by road, which can be achieved by truck inside one hour."

Direct Links

The airport authority has even set up a trucking service to help develop the sea-air concept. But what type of traffic is Athens expecting to develop and what is the intended end delivery point?

"This is perhaps where we want to turn the traditional sea-air concept on its head," says Sioris. "We believe there is a big potential to develop the movement of garment traffic out of the neighboring Middle East countries of Jordan and Lebanon, and even Israel. The most efficient way of moving that traffic to Athens, according to our research, would be by sea, even though this would involve a relatively short sea sector."

Once transferred through to the Athens airport, the final sector would be completed by air. "This again is where we will reverse the traditional

sea-air logic, which normally calls for a shorter air sector," says Sioris. "We are too close to Europe to make the business work at that level, but we believe we can develop sea-air concept as an air-bridge across the North Atlantic to the United States, where much of this garment traffic is destined."

Athens, however, is a bit short on direct lift to the United States. National carrier Olympic Airways and Delta Air Lines both operate direct flights to the U.S. but neither offer much in the way of cargo uplift.

"It is a problem we are having to work around for the time being," says Sioris. "What is happening at the current time is that much of our initial sea-air traffic is being uplifted by European carriers such as Lufthansa Cargo and British Airways and transferred to the U.S. over their hubs."

It is a double transfer that Athens officials would probably rather not see. But the airport believes that if it can build this type of business, airlines will be encouraged to offer more direct freighter operations from Athens to North America.

For now, freighter flow is mostly heading eastbound, including services by both British Airways World Cargo and Lufthansa Cargo.

BA World Cargo introduced a weekly freighter from Stansted to Hong Kong with eastbound stops in Oporto, Portugal and Athens. The curious Oporto-Athens routing stems from a strong demand for the uplift of textiles from northwest Spain into Athens.

"Although there isn't a large manufacturing presence in Greece, Athens is developing as a key Eastern Mediterranean hub and is becoming an important market for BA World Cargo," says Erdogan Artuna, area commercial manager, East Mediterranean, for BA World Cargo.

But BA is not necessarily about to launch westbound house calls on Athens. "We are constantly monitoring the demand for freighter services throughout the BA World Cargo network to ensure we operate the right capacity in the right markets, but have no immediate plans to add further capacity to the Greek market," says Artuna.

Lufthansa Cargo also stops in Athens with a weekly MD-11 freighter from Hong Kong, but has been pulling the service during the summer months. Royal Jordanian Airlines operate an A310 freighter into Athens from Amman, but again the level of service tends to fluctuate.

Freighter Focus

What Athens International Airport is eager to generate is a head of steam for cargo, believing the airport is well positioned to develop into a significant cargo gateway for the Eastern Mediterranean over and above the sea-air niche business.

The airport opened just five years ago, in time to handle the 2004 Olympics. Transfer traffic accounts for just 10 percent of overall cargo throughputs. But traffic is building steadily, and the airport authority is already planning ahead.

"We want to establish a fully-integrated cargo village on the airport, with the potential at a later stage to develop a fully-fledged free trade zone," Sioris says.

"What is important to stress is that all these development plans are being made in cooperation and with the support of the Greek Customs authorities and other elements of the local business community."

Indeed, it is a point worth stressing because the old Athens airport developed a horrendous reputation for handling inefficiencies and security lapses. One Greek forwarder described the move to the new airport as a "jump from hell to paradise."

"All that was bad about the old airport has been left behind at the old airport," says Sioris. "There is a fresh approach at the new Athens airport and that includes all the supporting functions."

To drum up further business, particularly from freighter operators, the Athens airport authority is offering a sliding scale of incentives for new operators to start services. These include a 50 percent discount on landing and parking charges in the first year of operation, reducing to 37.5 percent in the second year and 25 percent in the third year.

"We are anxious to attract freighter operators such as Cargolux," says Sioris. "We believe we now have a real opportunity to put Athens International airport on the map as a cargo hub."

... Briefly

Cargo traffic for European air carriers grew 3.9 percent in February, according to the **Association of European Airlines**, the best expansion in several months. The business was up 3 percent in the first two months of the year, with double-digit gains in traffic to Asia and Africa offsetting sagging trans-Atlantic numbers. ... **TNT** expects to add 100 pilots during 2006 to its expanding European air express network, with 20 already hired in January. The carrier is adding five 737s, two 747-400s and two BAe-146s to its Liege, Begium-based freighter operation. The airline operation added

a new route last month between Liege and Brno, Czech Republic. … **British Airways** is doubling services between **London Heathrow Airport** and Delhi to 10 times weekly. BA's cargo traffic fell 1.1 percent in February and was down 0.8 percent in the airline's April-February reporting period. … Cargo traffic at **Air France-KLM** jumped 9.8 percent in March after a slow start to the year. The growth outpaced the 5.8 percent increase in capacity over last year and included 11.6 percent gain in Asia. … **Emirates** announced daily A330-200 service between Dubai and Hamburg, its fourth destination in Germany. Emirates also launched a second daily flight to Zurich. … **American Airlines** expanded service to Dublin and Shannon to daily flights and says its cargo revenue from Ireland through **IAM** grew 43 percent in 2005. … **Swiss WorldCargo** sales staff will sell charters for **Lufthansa Cargo Charters** under an agreement with the freighter charter company. … France's **Vatry International Airport** handled 10,830 tonnes of freight in the first quarter, up 73 percent over last year. … United Kingdom-based **Air Charter Service** opened an office in the United Arab Emirates after gaining a license from the Dubai Airport Free Trade Zone Authority. … Kazakhstan national carrier **Air Astana** started a fleet modernization program with delivery of the first of four new A320 aircraft it will take this year, part of an order of 30 of the narrowbodies coming by 2014. … **Czech Airlines** will use the **Traxon** cargo communication system to connect agents around the world to CSA Cargo, including electronic booking. … **Virgin Atlantic Airways** started a pilot project to test the use of RFID technology to track high-value aircraft parts through its London Heathrow base. … Facilities developer **Eurinpro** completed a 162,000-square-foot distribution center for **TNT** in Willebroek, Belgium. ■

PACIFIC

Vietnam Rising

Exports to the United States are growing, but that may not yield much new airline capacity

Vietnam Airlines recently postponed the launch of flights to the United States. Vietnamese exports to the U.S. are going through the roof but the carrier's decision probably does not matter for air cargo shippers. The capacity they need is elsewhere.

More than 30 years after the last helicopter took off from the roof of the U.S. embassy in Saigon, now Ho Chi Minh City, Vietnam might as well be in a different galaxy as far as the North American air cargo industry is concerned. For years since then, there were no direct flights between the two countries and trade was virtually non-existent.

By Ian Putzger

Today the picture is strikingly different. With 8.4 percent GDP growth last year, Vietnam was one of the fastest growing economies in Asia. In the first 10 months of 2005, the country's exports to the United States reached $5.5 billion, more than the value of the full previous year.

"There's a lot of optimism about Vietnam. We've seen a lot of growth there," said Steve Dearnley, Asia-Pacific president for BAX Global.

Although most of the world's trading attention is on China, foreign investment in Vietnam is rising rapidly. Last year, $5.8 billion poured into the country. And although most was funneled into the garment and footwear and seafood industries, which dominate exports, investment in electronics production also grew.

"It's got all the makings of another Southeast Asian up and coming producer," said Dearnley, noting the earlier development of the Asian Tiger economies.

Good Intel

Steven Lee, vice president for Southeast Asia at DHL Danzas Air & Ocean, says the foreign direct investment has been a major catalyst for growth in Vietnam. "One good example is Intel, who has officially announced an investment of $650 million over the next five years to have their plant in Vietnam. Due to this announcement, many Intel suppliers have started to review their presence and this may eventually attract other manufacturers to put in similar investment," he said.

Air carriers are paying attention. United Airlines launched daily 747-400 passenger flights from San Francisco to Ho Chi Minh City in December 2004, establishing the first direct link between the two countries since the end of the Vietnam War. Scott Dolan, president of United Cargo,

said Vietnam has proven a growing market for the airline, although that does not mean that every flight departs Vietnam with its bellyhold bulging with freight. The carrier routes the flight over Hong Kong, and yields out of Vietnam are no match for those generated in Hong Kong, Dolan said.

Hence, only about one-third of United's cargo capacity out of Ho Chi Minh City is dedicated to Vietnam-U.S. traffic; the rest is for shipments on the intra-Asian leg. The airline feeds some Vietnamese freight on interline flights to other Asian points such Osaka, where the yield differential is not that pronounced.

In all likelihood, Vietnam Airlines will pursue a similar strategy for U.S.-bound cargo once it gets its service running.

A treaty with Taiwan concluded at the end of March allows the carrier to fly to San Francisco or Los Angeles via Taipei.

Plane Short

Having seen 14 percent growth in cargo volume to 88,589 tonnes in 2004, Vietnam Airlines was targeting 95,000 tons for last year. All this on the basis of belly capacity from passenger 767s, 777s and A320.

Freighters are not likely to enter the picture any time soon, as the airline is struggling to catch up with passenger growth. In March, management declared it would need to spend about $1.2 billion grow from 39 aircraft to 56 by 2010, and 100 aircraft would be needed by 2020. Last year, Vietnam Airlines ordered four 787s worth about $500 million.

The decision to delay the launch of U.S. flights to next year was attributed to a number of reasons, including a shortage of aircraft.

In the meantime, the new treaty with Taiwan should help air freight shippers. EVA Air, which operates two MD-11 freighter flights a week from Taipei to Ho Chi Minh City, will add a third weekly cargo flight in June.

In the absence of maindeck capacity to North America and Europe, Asian carriers like EVA play a key role in moving Vietnam's intercontinental exports. Noting the limited capacity out of Vietnam, which gets especially tight during peak season, Dearnley said BAX moves a lot of Vietnamese cargo over Singapore.

Kuala Lumpur could become another option. MASkargo is looking for A300 freighters for operations to Southern China and Vietnam, says J.J. Ong, senior general manager of cargo. However, this option would only work for European markets. Ong has no near-term plans to launch freighters to North America.

... Briefly

Cargo traffic for Asia-Pacific carriers grew 5.3 percent in the first two months of 2006 against a 3.5 percent gain in capacity, according to the **Association of Asia-Pacific Airlines**. ... Taiwan and Japan signed an agreement to increase air trade between the nations, including a 50 percent increase in cargo business. … **Israel Aircraft Industries** will provide passenger-to-freighter conversion kits to **Qantas** for the airline's in-house conversion of four 737-300 aircraft. … Security at **Kintetsu World Express'** Baraki terminal at **Tokyo Narita International Airport** was certified under **Technology Asset Protection Association** standards. … Japan opened its second new airport of the year, the **Kitakyushu Airport** in the Southwest part of the country. Open from 5 a.m. to 2 a.m., the airport has largely domestic service, although **China Southern Airlines** started with three-times-weekly flights to Shanghai. … **Etihad Airways** is starting four-times-weekly A330-200 passenger service between Abu Dhabi and Jakarta. … **THAI Cargo** flew a one-and-a-half-year-old, 551-pound male hippo from the Frankfurt Zoo to the Chiang Mai Night Safari in North Thailand. … **Swissport** opened its first terminal at **Singapore Changi Airport**, the largest terminal in Swissport's global network and one that gives Changi its third cargo handler. Swissport says the facility, designed by **Advanced Logistics Systems**, has capacity for 200,000 tons at a site where Swissport handles 200 flights a week. … **Etihad Crystal Cargo** named **P.T. Unique Kargonize** to start cargo operations for Etihad Airways in Indonesia, where Etihad started fout-times-weekly passenger flights to Jakarta. … Freight traffic at **Singapore Changi Airport** jumped 9.9 percent in February over a year ago, the airport's best monthly showing in a year. … **GAC Logistics** won ISO 9001:2000 quality certification for operations in Shanghai. … Forwarder **Kintetsu World Express** won ISO 4001 certification for environmental quality in Hong Kong. … **Korean Air** announced passenger service between Seoul Incheon and Japan's **Komatsu International Airport**. … The Australian unit of British ground handler **Menzies Aviation** agreed to acquire **Australian Air Support**, which operates in Sidney and Brisbane. … **Singapore Airport Terminal Services** formed a joint venture with the **China Aviation Qingdao Liuting Airport** to operate ground services at the regional Chinese airport. ■

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Emerging Markets Drive Growth

BACK Aviation's 2006 World Air Freight Forecast

by **Marty Graham**,
BACK Aviation Solutions

The air freight industry saw a slowdown in growth in 2005 as traffic rose only 3.2 percent over 2004. Although it was unlikely the industry could sustain the rapid expansion of 2004 into the next year, several environmental factors contributed to slower air freight growth, including natural disasters (the Asian Tsunami and hurricanes Katrina, Rita, and Wilma). These unexpected events affected consumer demand, especially in the United States, and correlated with a decline in business investment that caused inventory levels to rise as demand for products traditionally carried by air (such as high-tech intermediary goods and finished products) slowed.

Demand was further weakened as the industry coped with the spike in energy prices in the second half of 2005. As jet fuel prices increased, the cost differential between air freight and other modes of transportation widened further, dampening demand for air freight.

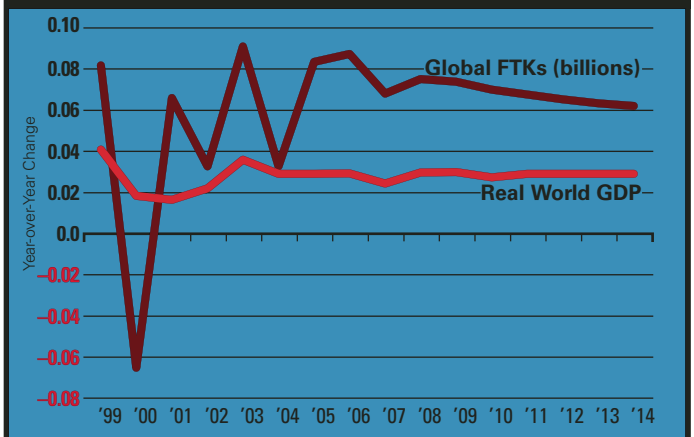
However, all news was not bad in 2005. The Africa, Middle East and Asia regions all had in excess of 10 percent year-over-year growth in air freight traffic during 2005, driven mainly by continued strength of Chinese air exports. And as we look at the future of air freight growth over the next decade, these markets will take on an greater profile in development of new services and new growth.

Forecast Overview

The air freight industry has been recovering slowly since 2001. Led by a rapidly developing Chinese market and strong global economic growth created by an increasingly global supply chain, air cargo has been able to achieve annual growth rates that have exceeded rates of passenger traffic growth.

Historically, air freight growth was closely correlated to world GDP growth, although external forces caused below-average growth in 2005. Over the next decade, BACK expects air freight to return to more familiar historical growth rates as global economic expansion continues.

Global Freight Tonne Kilometers (FTK) and Real World GDP



Source: BACK Aviation Solutions Analysis

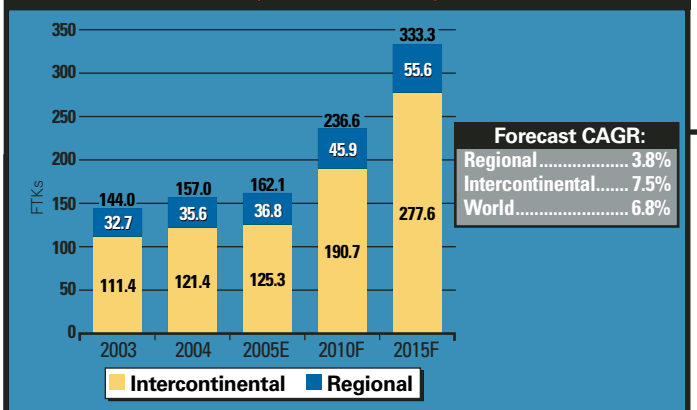
We forecast worldwide freight ton kilometer traffic to grow at 6.8 percent average annual rate through 2015, driven by strong intercontinental trade flows (7.5 percent), while regional trade flows will see relatively slower growth (3.8 percent) as air capacity faces fierce competition from other modes, mostly from truck capacity.

We expect growth will continue to be driven by strong trade exports from Asia and emerging trade regions such as Africa and the Middle East to major consumption regions such as North America and Western Europe.

China will remain a dominant force in air freight growth as it takes advantage of strong exports created by World Trade Organization membership, favorable monetary policies, and an ongoing relocation of multi-national manufacturing.

However, beyond China, we see Japan as a significant contributor to Asian growth as recent macroeconomic indicators suggest Japan is on the brink of pulling out of its decade-long recession.

World Air Freight Traffic Snapshot: 2005 - 2015
(billions of FTKs)



Source: BACK Aviation Solutions World Air Freight Flow Model

While Asia will be an important source of global air freight growth, emerging regions such as the Middle East pose an interesting opportunity for growth. Major Middle East airports such as Dubai and Bahrain have become significant international air freight centers. While many of the world's largest airports saw slow-to-negative growth in 2005, Dubai (12 percent) and Bahrain (9 percent) ranked only behind Hong Kong and Shanghai as the strongest performers in total international freight traffic during 2005, according to Airports Council International.

As the Middle East and Africa areas develop, goods and materials traditionally carried via air will become increasingly important to the sustained growth of these regions.

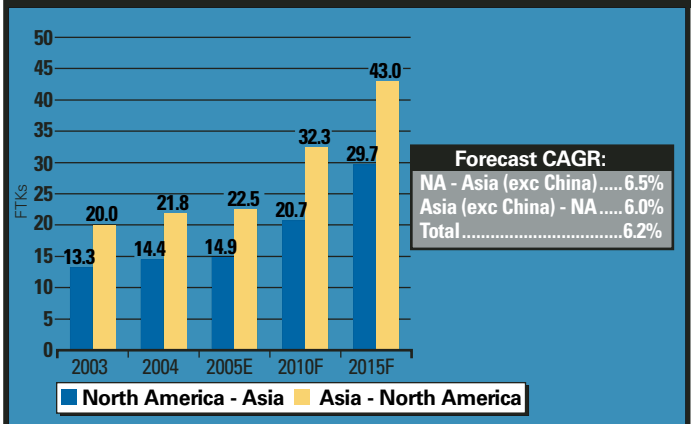
Regional Outlook

The next section provides a snapshot of key trends and drivers of air freight growth in key trade lanes.

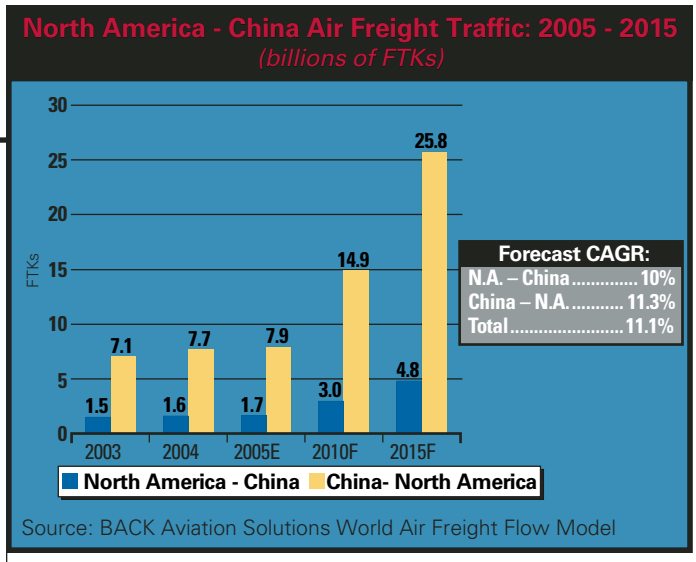
North-America – Asia (excluding China)

Historically, North-America–Asia (excluding China)

North America - Asia (excluding China) Air Freight Traffic: 2005 - 2015
(billions of FTKs)



Source: BACK Aviation Solutions World Air Freight Flow Model



has been an imbalanced market where eastbound imports from Asia to North America outnumber exports nearly two to one.

This imbalance has been magnified over several years as North American manufacturing relocated to Asia and global consumption for goods shipped by air continued at a rapid pace, driven by strong economic growth and a housing market that created more "paper" wealth to spend on imported goods.

In the westbound markets, air freight growth has been linked closely to Japan, accounting for nearly one-third of all westbound trans-Pacific traffic historically.

In recent years, as Japan suffered through a prolonged recession, U.S. exports to Asia (excluding China) continued to grow mainly due to steep dollar depreciation making U.S. goods more affordable to the increasingly affluent Asian population. Demand for intermediary goods (a 5.9 percent compound annual growth rate since 2001) and capital equipment (2.7 percent) fueled exports as multi-national corporations shifted manufacturing capacity overseas, and U.S. perishables (4.2 percent) remained attractive to Asian consumers, particularly the Japanese.

And although Japan's growth stalled (1.4 percent CAGR), South Korea (6.8 percent) and Taiwan (4.3 percent) have experienced strong demand growth since 2001.

In the eastbound markets, excluding China, Japan is the key driver for air freight, accounting for approximately 17 percent of the total market, followed by Malaysia, Taiwan, and Korea. The market is highly dependent on high-tech, telecommunication and high-end fashion products. Since 2001, traffic in all these commodities has grown strongly, particularly telecommunication equipment (5.6 percent, driven by the rapid growth in cellular technology consumer adoption), intermediate goods (7.8 percent) and consumer products (6.3 percent).

BACK sees several economic indicators suggesting Japan is poised to have an economic renaissance over the next 10 years. Therefore, led by strong Japanese growth and the effects of continued globalization driving additional economic growth in key markets such as Hong Kong, Korea, Taiwan, and Malaysia, BACK forecasts total North America to Asia (excluding China) will average 6.2 percent annual growth over the next decade.

North America – China

Since 2001, air freight has benefited as China became a hot-bed for economic growth and a major stimulus of global air freight trade.

With an abundance of cheap and skilled labor, China has attracted significant foreign direct investment as multi-national corporations shift manufacturing capacity. As this build-up of manufacturing capacity has developed, air cargo carriers have been very aggressive in obtaining air service rights and developing infrastructure to prepare for the large increase in air freight demand.

In 2005, China accounted for 12 percent of westbound transpacific traffic (growing at a 10.7 percent CAGR since 2001). China's overriding importance to of North America-Asia trade is underscored in the eastbound trans-Pacific segment where China accounts for a staggering 42 percent of all traffic, of which over 50 percent is attributable to telecommunication equipment and consumer products. Strong growth in these two commodities (32 and 17 percent, respectively) has allowed eastbound China exports to North America to post an amazing 20 percent CAGR over the past five years.

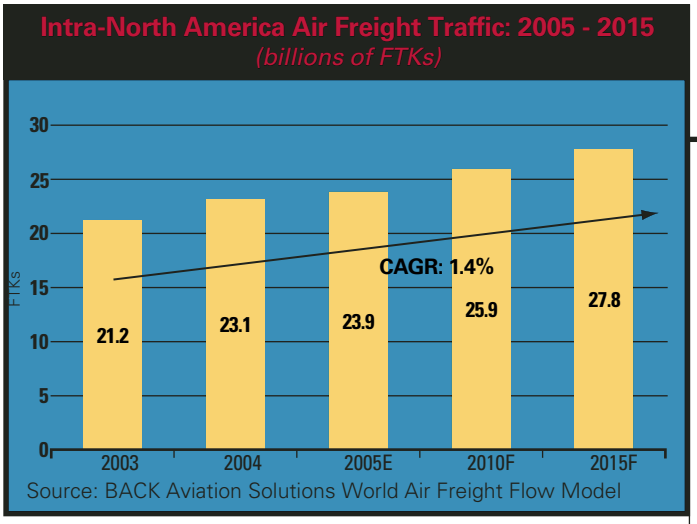
BACK expects China to continue its economic growth over the next decade, fueled by sustained manufacturing capacity expansion, an improving regulatory environment, and the potential upside of WTO inclusion and the removal of apparel quota restrictions.

We expect overall North America to China growth to average more than 11 percent per year over the next decade with the eastbound trans-Pacific trade growth rate (11.3 percent) outpacing westbound trade (10 percent).

Intra-North America

The intra-North America freight market growth has been significantly affected over the past five years by changing shipper strategies.

Since the downturn in 2001, shippers have slowly shifted to other modes of transportation with longer transit times (such as deferred trucking) in a sacrifice of service for reduced cost. As a result, intra-North America air freight



traffic growth has stagnated while ceding growth to segments in the domestic trucking segment.

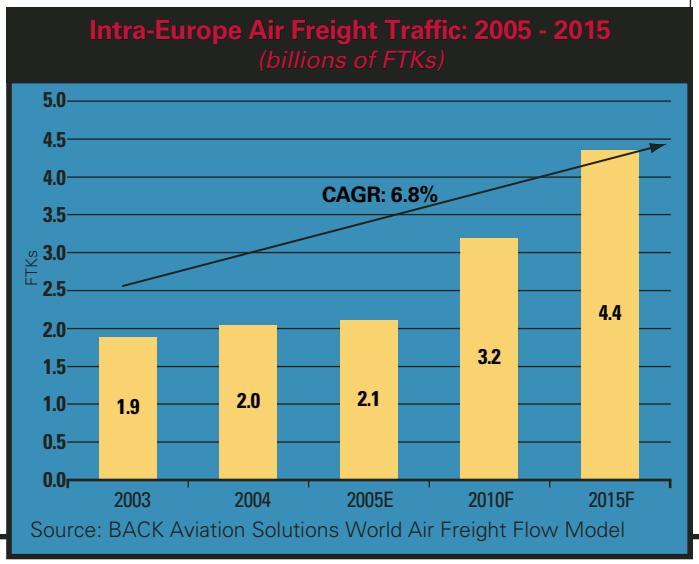
Over the next decade, we foresee intra-North America air freight will grow at 1.4 percent per year.

This outlook reflects our view that the domestic logistics chain has permanently changed since 2001 as shippers and manufacturers have shifted their supply chain and distribution strategies to reduce transportation cost. Elevated fuel costs have further highlighted the discrepancy in pricing of air versus surface as many domestic airlines continue to "right size" their fleets and schedules through down-gauging of aircraft to less cargo friendly aircraft and frequency or network reductions that limit capacity availability in the domestic network beyond lift provided by integrators.

Therefore, we believe the growth will be tempered relative to overall U.S. economic growth.

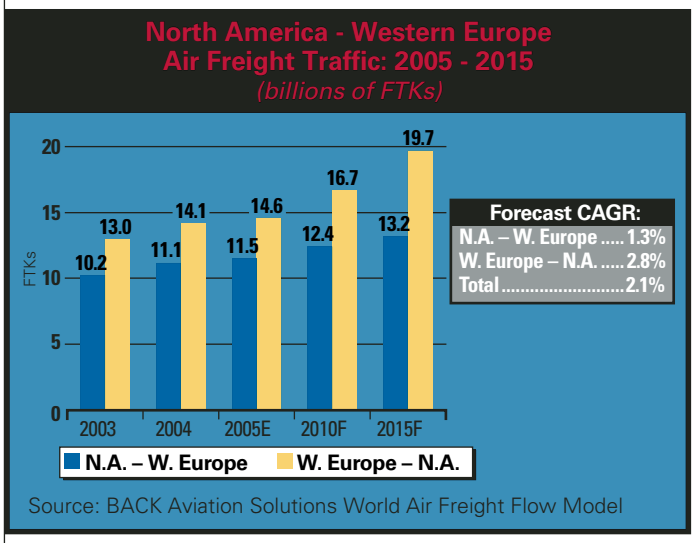
Intra-Europe

Intra-Europe air freight growth has been slow the past several years as regional air freight volume have faced pressures similar pressures to those of intra-North America.



The close proximity of major cities make truck and rail transit cost effective and reasonably acceptable in terms of transit time. Traditional Western Europe air freight traffic has matured and provides limited long-term growth unto itself.

However, there are several interesting possibilities for future growth in Eastern European countries, where although the economies are small, there is potential for fast growth as companies search for the next big consumer market to tap. As emerging Europe economies expand, the rest of the European Union will gain trade benefits, which will ultimately translate into integrator network expansion and additional scheduled carrier service to facilitate air freight growth.



Therefore, we expect Intra-Europe growth to average in excess of 6 percent over the next 10 years, although the growth may well be experienced in the later half of the forecast period.

North America – Europe

The eastbound trans-Atlantic market has struggled to grow in recent years. Key markets such as the United Kingdom and Germany, which account for more than 40 percent of total trans-Atlantic air freight demand, have experienced limited growth since 2001. However, as the euro has strengthened against the dollar, U.S. air exports to Europe have become increasingly attractive.

Eastbound, the strength of the euro against the dollar will support air freight growth, but we expect only a 1.3 percent CAGR over the next decade as the market continues to mature. BACK foresees the growth being driven by

perishables, intermediate goods and capital equipment.

Germany and the United Kingdom will continue to play a large role in this market segment, but France, the Netherlands, Italy, and developing economies in Emerging Europe will be critical for growth.

While the U.S. dollar depreciated against the euro, the U.S. economy has expanded along with it and so has robust consumption. U.S. demand has driven solid growth of telecommunication equipment (3.2 percent), capital equipment (4.1 percent), and consumer products (2.2 percent) over the past five years. Given projected continued U.S. economic strength, we expect westbound trans-Atlantic air freight growth to average 2.8 percent over the next decade as Germany, the United Kingdom and the Netherlands remain key to air freight growth.

North America – Latin America

Historically, southbound markets from North America to Latin America have contracted as demand was affected by economic turmoil. However, in recent years, this market has rejuvenated as the appreciation of Latin American currencies against the dollar boosted U.S. exports to the region.

Telecommunication equipment, capital equipment, and consumer products account for nearly a third of all the exports to Latin America from North America driven by demand from Brazil (20 percent of total), Mexico (14 percent), and Colombia (14 percent).

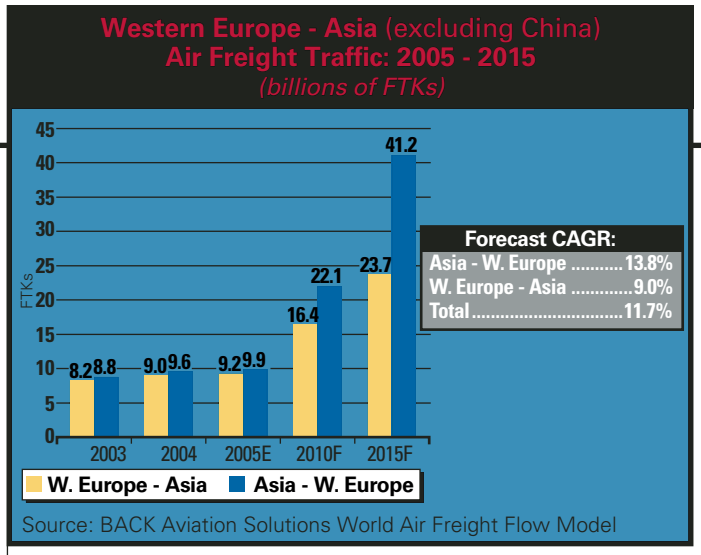
Northbound air freight is dictated by demand for Latin American perishables and fresh produce, accounting for nearly two-thirds of exports to North America in 2005. Over the past five years, along with perishable growth (3.3 percent), northbound air freight also experienced growth from intermediate goods (18 percent).

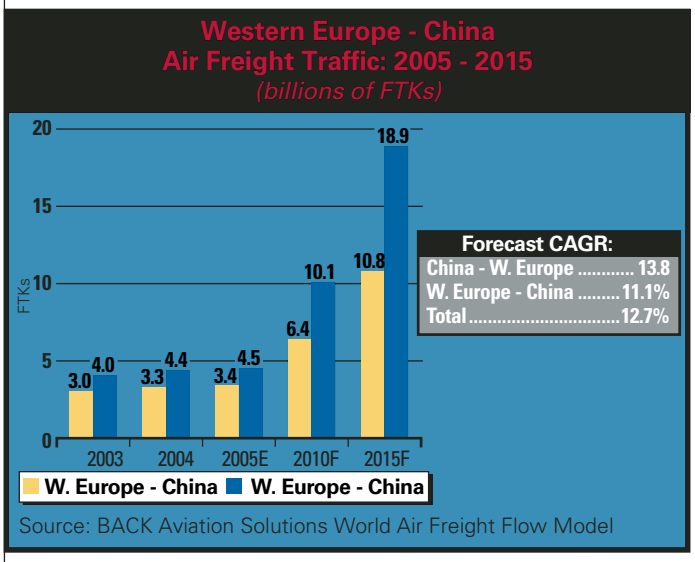
Over the next decade, we forecast North America-Latin America air freight trade will post an overall 5.2 percent CAGR. We believe Latin America will continue its economic recovery and will continue to demand North American products that travel via air.

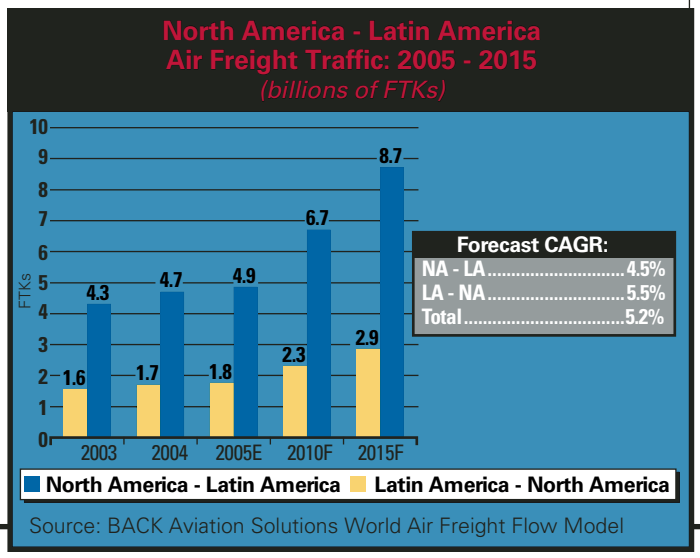
With continued weakness in the dollar, countries such as Brazil, Argentina, Mexico, and Colombia will help southbound air exports average 4.5 percent compounded annual growth over the next 10 years while northbound air freight will average a 5.5 percent CAGR as perishables flow out of Brazil, Chile, Colombia, and a strengthening Peru.

Europe – Asia

Historically, trade between Europe and Asia has been a valuable and large component of global air freight trade flows. Outside North America, Europe is the largest con-







suming region of products shipped via air such as technology goods and fashionable consumer products.

As Asia developed as a manufacturing powerhouse, Europe has become an integral supplier of capital goods required to develop these capabilities.

BACK predicts air freight flows will average between 11 and 13 percent over the next 10 years as a strong euro provides ample purchasing power while favorable regulatory environments such as the recent removal of clothing and textile quotas for Chinese exports provides fertile ground for strong air freight growth.

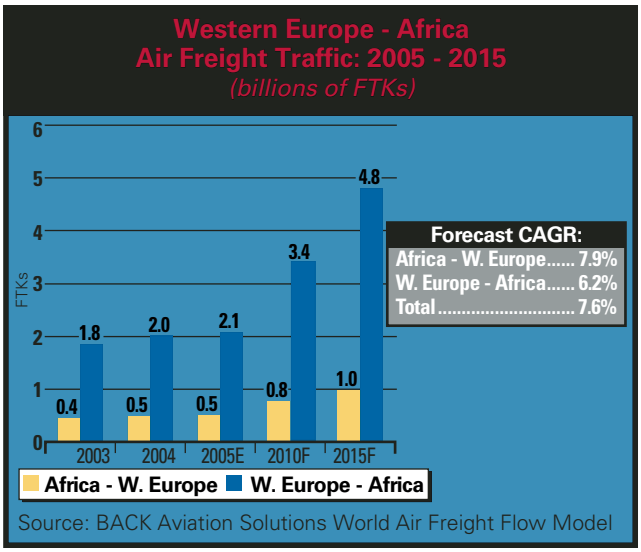
Europe to the Middle East and Africa

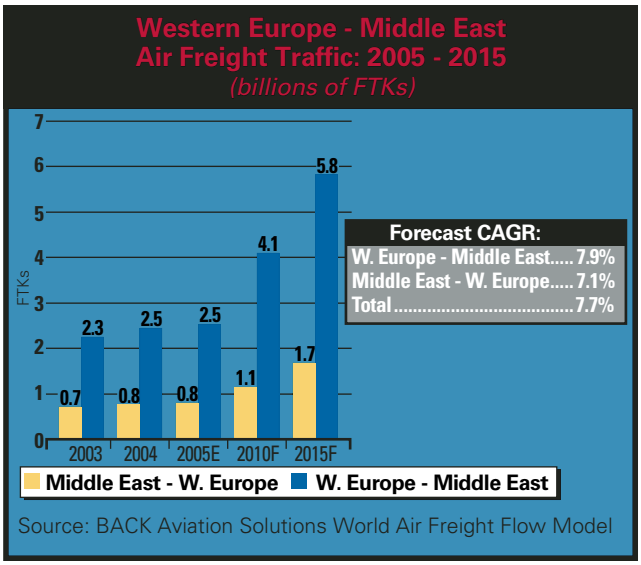
Historically somewhat overlooked in terms of air freight production, the Middle East and Africa recently have become important growth centers.

While the airline industry has struggled to overcome the impact of increased oil prices, that increase has been a boon for this region.

Elevated oil prices not only bring additional wealth and potential consumer consumption, but also an inflow of capital equipment and other goods required to support oil infrastructure maintenance and expansion. Several of the region's countries, notably the United Arab Emirates, also are taking substantial steps to diversify into financial and tourism ventures that will provide additional demand for air freight capacity.

Given its close geographic proximity, Europe is a key trade partner for air freight goods to the Middle East and Africa, ac-





counting for over 60 percent of the region's trade flows. Given that there is no reason to believe oil prices will return to historical averages in the near future, we see a bright outlook for Africa and the Middle East over the next 10 years.

We forecast air freight traffic between Europe and the Middle East and Africa will average more than 7.5 percent annually over the next 10 years.

Intra-Asia

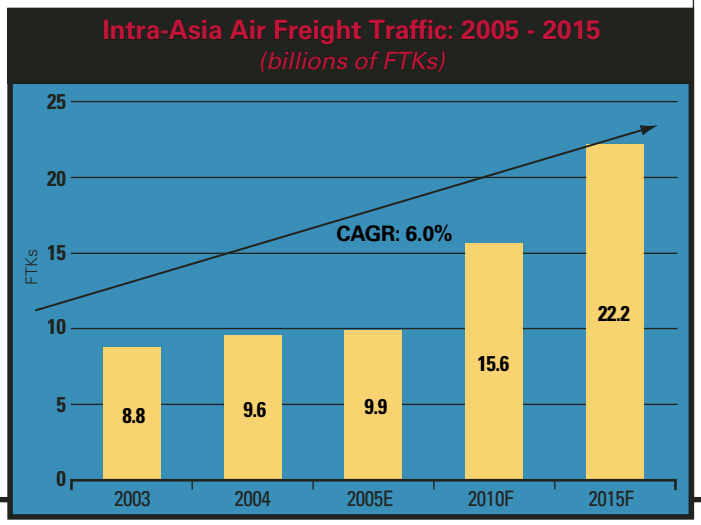
Air freight capacity in the intra-Asia (including both domestic and intra-continental capacity) region is an important component of the global air freight network.

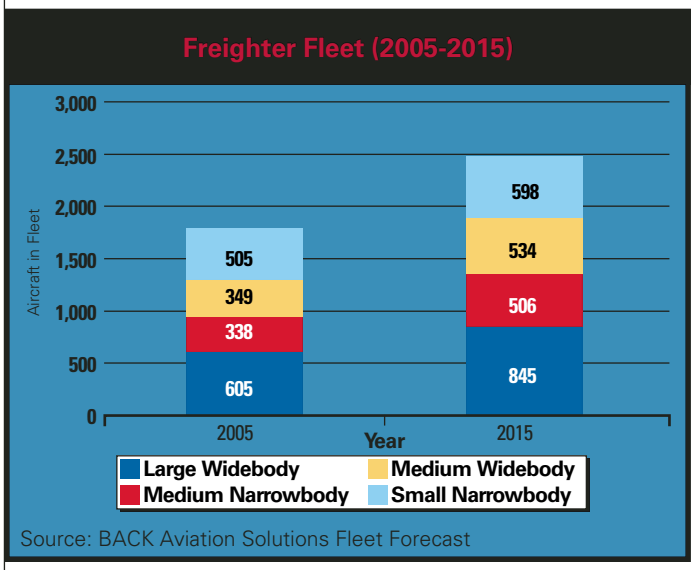
The region is home to not only an increasingly affluent consumer base hungry for products carried via air, but also accounts for substantial manufacturing capacity, which relies heavily on air freight carriers to transport finished goods to consumer markets and capital equipment and intermediate goods to manufacturing plants.

Since 2003, intra-Asia air freight flows have averaged slightly more than 4 percent yearly growth as the region accounted for about 6 percent of global air freight flows. Over the next 10 years, the potential for growth in the intra-Asia region is substantial.

Although we all know the power of China and understand the importance of established air freight economies, emerging economies, such as India and Vietnam will become a vital component of sustained growth in coming years.

Given the expected regional economic growth and continued development of Asia as a global manufacturing base, BACK predicts intra-Asia air freight traffic will average a 6 percent CAGR over the next 10 years.





World Freighter Forecast

The current fleet of freighters around the world numbers approximately 1,800, with widebody aircraft accounting for over 53 percent of the global fleet. Geographically, corresponding to the concentration of air freight flows, North America, Western Europe, and Asia account for nearly 90 percent of all freighter aircraft.

Average Fleet Age by Category

Category	Average Age
Large Widebody	18.1
Medium Widebody	15.3
Medium Narrowbody	29.3
Small Narrowbody	28.0
Total	22.5

Source: BACK Aviation Solutions Fleet iNet

In order to keep up with the 6.8 percent CAGR expected in air freight through 2015, we forecast the global freighter fleet will grow to 2,483 aircraft by 2015.

Widebody aircraft will account for 60 percent of airframe growth as both large (3.1 percent CAGR through 2015) and medium widebody (3.7 percent CAGR) freighters are expected to experience strong demand for freighter capacity as carriers look to add capacity to fast growing long-haul segments.

In the narrow body segment, we forecast the 3.9 percent average annual growth in the medium widebody market will far outpace small narrowbody aircraft (1.5 percent CAGR) as the smaller aircraft are retired and replaced by larger, more economical narrowbody aircraft.

Retirements

As elevated prices of jet fuel continue to look like a new reality rather than a short term spike, carriers are demanding greater fuel and operating efficiencies from their fleets in order to lower direct operating cost.

We expect that only 817 aircraft will remain from the current fleet by the end of the forecast period as older aircraft are retired over the next 10 years. A significant portion of the narrowbody fleet faces retirement age over the next decade and a fleet renewal will begin during the forecast period.

Specifically, the current standard narrowbody fleet's average age is 28 years with the vast majority of the fleet, mainly 727 and 737 classics, being retired. Furthermore, the medium narrowbody fleet averages over 29 years of age.

While the average 757-200 freighter is relatively young (at only 15 years old), a large share of the remaining medium narrowbody fleet will retire over the next 10 years, including the dwindling DC-8 and 707 fleets that are currently pushing nearly 40 years of age.

The medium widebody fleet, meanwhile, is the youngest in the worldwide freighter fleet, averaging slightly more than 15 years in age.

This freighter size category, mainly A310, A300, and 767 aircraft, provide substantial lift to integrators such as UPS and FedEx. Based on the strong demand for this size category and relatively young age of the fleet, we expect limited retirements in this category beyond L-1011 retirements and older vintage A300 (-100/-200), A310 (-200C/F) and 767-200.

These fleet types all have average ages between 21 and 25 years, which make them retirement candidates during our forecast horizon.

Current Fleet Mix by Category

Category	2005 Fleet	% Converted
Large Widebody	605	54%
Medium Widebody	349	65%
Medium Narrowbody	338	56%
Small Narrowbody	505	98%
Grand Total	**1,797**	**69%**

Source: BACK Aviation Solutions Fleet iNet

With Boeing and Airbus offering several new freighter aircraft being (777-200, 747-400, 747-8, A380-800, along with 747-400 conversions available, BACK expects older vintage large widebody freighters to be retired over the next 10 years including DC-10-10/30 (average fleet age exceeds 25 years old), 747-100 (35 years average age), and 747-200 aircraft (over 23 years average age).

Freighter fleet additions will be dominated by conversion aircraft

BACK expects more than 1,150 passenger-to-freighter conversion aircraft will enter the global freighter fleet over the next 10 years. This compares to slightly more than 500 new freighters entering the fleet through 2015.

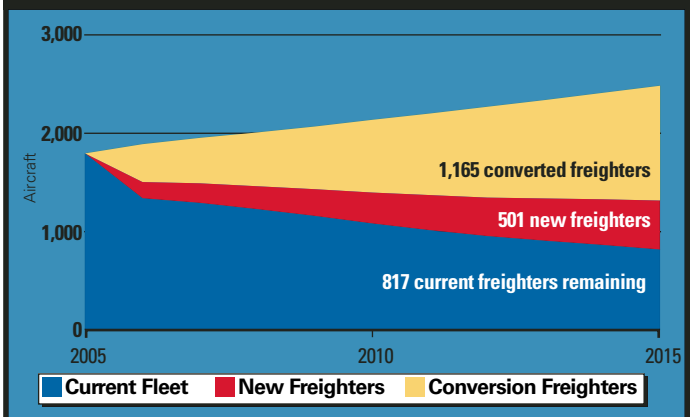
Historically, freighter operators tend to prefer converted passenger aircraft to new freighters due to lower rate of return requirements, less required capital, limited new freighter programs historically offered, and a business model the inherently produces lower aircraft utilization versus its passenger cousin.

Currently, conversion aircraft account for nearly 70 percent of the entire freighter fleet, with conversions accounting for a large percentage of the narrowbody fleet (over 80 percent) than the widebody fleet (approximately 54 percent). With Boeing and Airbus aggressively pursuing the 777, 787, 747-8, A380, and A350 passenger programs, we believe the market for passenger-to-freighter conversion candidates will be significant and will provide ample aircraft required to meet the demand for conversions.

Although conversion aircraft will dominate fleet additions, some carriers will prefer to operate new all-cargo aircraft, as proven by recently announced 747-8 freighter orders by Cargolux and Nippon Cargo Airlines along with large A380-800 freighter orders by FedEx and UPS.

However, we expect this trend toward new-build freighters will be the exception rather than the rule and will mainly be restricted to top-tier carriers who possess large fleets to provide negotiating leverage and strong balance sheets to withstand the larger price tag of new aircraft versus used or converted aircraft.

Freighter Fleet



Source: BACK Aviation Solutions Fleet Forecast

Conversion Candidates

In the large widebody segment, several fleets are attractive conversion candidates.

First, the MD-11 fleet is destined to become all freighter. The aircraft is a great DC-10 replacement as it provides a much newer, more capable aircraft. Values have declined enough in the past five years to make it a very attractive conversion candidate. A recent surge in demand for the aircraft has revitalized the values, but it does not seem to stop operators from buying what they can get their hands on.

We believe the vast majority of the MD-11 passenger fleet (more than 40 aircraft with an average fleet age slightly less than 12 years) will be converted over the next decade. This in turn should stabilize the values as a freighter making the aircraft attractive to investors as well. Furthermore, the market for the 747-400 converted freighter is extremely attractive.

Similar to the MD-11, the 747-400 converted freighter is a natural replacement for an aging fleet type, the 747-200. The conversion parade has already started as Boeing and Israel Aircraft Industries have announced 747-400 conversion orders for such major 747-200 freighter operators as Japan Airlines, Korean Air, and Cathay Pacific.

With the price of conversion around $20 million to $25 million, a passenger aircraft needs to be valued between $20 million to $35 million for carriers to pursue the conversion.

So far, only the older aircraft (typically between 10 and 15 years old) have seen their value drop enough in recent years to make them attractive for conversion. However, due to the long production cycle of the aircraft and the introduction of the A380 and 747-8 passenger aircraft, this trend should continue.

In the medium widebody market, UPS and FedEx can be expected to be very active in the freighter conversion market where overnight express package carriers account for nearly 70 percent of the medium widebody fleet.

In the medium widebody market, the strong initial orders captured by Boeing and Airbus for the 787 and A350, respectively, will help create favorable aircraft values for conversion over the next decade.

Airbus is shutting down the A300 line, supporting our belief that the A300 fleet will be slowly phased out over the next 10 years, although we believe the A300-600R will enjoy some success in converted freighter configuration, albeit, in relatively small numbers. Furthermore, the approximately 115 remaining A310 passenger aircraft will most likely go through a similar process as the 757 where strong demand for passenger configuration (especially the -300) will give owners and operators an extended passenger life cycle and will push freighter conversion opportunities back until after 2011.

The most attractive freighter conversion aircraft in the medium widebody segment are the 767-300 and A330-200. With nearly 80 percent of the near 500 767-300ERs in active service under 15 years old, Boeing has a large customer base for a conversion freighter. As the 787 enters the market, the current elevated values of the popular 767-300ER may decline to where owners and operators find conversion attractive.

Similarly, there are more than A330-200 in use and the plane will make a logical freighter candidate to consider over the next 10 years as the next generation A350 enters service.

In the narrowbody market, 737-300s and 737-400 are well suited to replace the 727-100 freighter because the pallet configuration (eight or nine positions) of the 737 is similar to that of the 727. However, the 737 classics are in great demand and provide a good return as a passenger aircraft. Therefore, few carriers are willing to spend $2-2.5 million to convert the airplane as a freighter. Still, BACK expects over the next 10 years this phenomenon will change.

Over the next three to five years, as the 737 classics start to come off lease, the values will make the planes attractive conversion candidates. Although the 737 provides an excellent replacement for the 727-100, the large current fleet of 727-200 freighters is ideally suited to be replaced by the 757-200. However, the 757 passenger market has not come back as strong as the 737 classics, so in scenarios where an owner has written the asset down to a reasonable level, it is not unrealistic to foresee earlier 757 conversion opportunities.

Nevertheless, if an owner or operator can delay the $4.5 million to $5 million cost of conversion for three to five years from now, they will most likely opt for the latter unless they have a long-term commitment from an operator with a favorable lease rate.

Estimated Current Fleet Aircraft Values

As global freight traffic grows and fleets go through renewal over the next 10 years, narrowbody values will fall due to the overall age of the current fleet and the availability of newer, more efficient replacement aircraft (737s and 757s, for example). We see the remaining small narrowbody fleet values falling from $1.4 million-to-$4.7

Current Aircraft Values *(US$miilions)* **– 2005**

Category	Oldest Aircraft	Newest Aircraft
Large Widebody	$19.49	53.58
Medium Widebody	$13.61	39.86
Medium Narrowbody	$4.60	18.63
Small Narrowbody	$1.42	4.72

Source: BACK Aviation Solutions Value Guide

Current Aircraft Values *(US$miilions)* **– 2015**

Category	Oldest Aircraft	Newest Aircraft
Large Widebody	$12.35	30.33
Medium Widebody	$8.28	21.42
Medium Narrowbody	$2.70	11.16
Small Narrowbody	$1.32	2.77

Source: BACK Aviation Solutions Value Guide

million to $1.3 million-to-$2.77 million while medium narrow body values will dip from $4.6 million-to-$18.6 million to $2.7 million-to-$11.2 million by 2015.

Several widebodies will become available that will provide newer, enhanced options to the fleet.

In the medium widebody market, values will drop from $13.6 million-to-$39.9 million down to $8.3 million-to-$21.4 million as aircraft are retired and replaced by newer generation aircraft, dampening the values of the existing fleet.

The large widebody market will see current freighter values affected by the availability of the 747-400 converted freighter option as well the availability of the A380F and 747-8 freighter, which may, in the long-run, hurt the values of older vintage 747-400 aircraft that cannot match the fuel and operating efficiencies of these newer aircraft.

We expect large widebody aircraft values to fall from $19.5 million-to-$53.6 million today down to $12.4 million-to-$30.3 million in 2015.

Summary

The outlook is bright for the vast majority of the key air freight trade lanes while globalization continues to take hold and market participants evolve their business models.

As global business pushes for greater connectivity, more complex logistics chains, and increased flexibility to meet ever-changing consumer demands, the air freight market is uniquely positioned to reap the benefits over the next ten years.

Although, as in any forecast, unforeseeable events and risks can negatively affect an outlook, we believe the outlook for air freight is promising as the market expands, new emerging markets develop, and the worldwide freighter fleet begins an anticipated renewal. ■

BACK Aviation Solutions looks at the overall global economy, a critical indicator of air freight growth levels.

Economic Bright Spots

Given that global GDP growth is the primary factor driving air freight volume, bright global economic prospects are especially encouraging for the air freight outlook. Growth around the world appears to be more balanced, with less reliance on the United States and more help coming from Japan, in particular, as well as from the growth-challenged European Union.

Meanwhile, economic expansion in non-Japan Asia, led by booming activity in China and India, remains vigorous and expansions in European countries, including those in Central/Eastern Europe, remain solid. Additionally, the two largest economies in Latin America — Brazil and Mexico — are reaccelerating. Also very encouraging are indications that improved growth abroad is increasingly being fueled by domestic demand, rather than feeding so heavily off of strength from the external sector.

More balanced economic growth — both across countries and within countries — means that the global economy will hold up much better than before should the U.S. economy stumble. That's also a prescription for addressing the world's large trade/current-account imbalances, one of the key risks to sustaining the global expansion.

Apart from the general strength of the global economy, there are noteworthy regional economic developments that will have an influ-

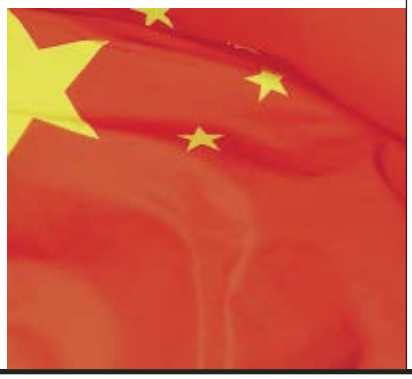
ence future air freight growth:

Japan seems to have finally embarked on a sustainable recovery and escaped its deflationary slump. With consumer confidence hitting its highest level in over 15 years this past February, Japanese household spending has strengthened along with business capital spending, leaving the economy less dependent on the still-strong export sector and benefiting more from domestic demand, which has driven output and growth sharply upward.

In fact, the Bank of Japan is so confident in the economy's performance that the central bank recently announced the end of its five-year policy of quantitative easing — a major move toward normalizing monetary policy and increasing policy interest rates, currently at zero, possibly later this year. As a result, Japan's economic outlook has improved dramatically.

We are looking for economic growth of more than 3 percent this year and some 3 percent in 2007, up from 2.7 percent in 2005 and 2.3 percent in 2004. For the entire 2006-2016 forecast horizon, we expect Japan's real GDP to grow 2-2.25 percent on average per year.

China continues to fuel global trade, and recently reported stunning real GDP growth of 9.9 percent for 2005, just a shade beneath the 10.1 percent pace seen in 2004 and a surprise to many analysts who were expecting a growth slowdown. This rapid growth pushed China into fourth place among the world's largest economies and speaks to the purchasing potential of the world's most populous nation.



Last year witnessed robust expansion in both external and domestic demand, which actually increased its contribution to growth over the course of the year. We expect Chinese real GDP to rise between 9 to 9.5 percent next year as domestic demand plays a greater role in driving the economy on the back of strengthening growth in disposable income for urban households and official efforts to boost rural incomes. Over the next 10 years, we estimate China's compound annual growth rate at nearly 8 percent.

In the **United States**, the outlook for business investment appears very positive.

High corporate profit margins, ample cash flow, and healthy balance sheets provide both the incentive and wherewithal for robust business spending. Thus, real GDP is on track to post a 4.5 to 5 percent gain during the first quarter of 2006, after which growth will gradually slow. The economic slowdown will reflect the ongoing cooling of the housing sector following interest-rate increases as residential investment sags and the negative impact on home prices and mortgage equity withdrawal curtail consumer spending.

For 2006, despite the sequential slowing on a quarterly basis, BACK expects real GDP in the U.S. to grow 3.4 percent, just below 2005's pace of 3.5 percent. Continued cooling should bring growth in 2007 down to 3.3 percent. For the full 2006-2016 forecast period, we see average annual growth for the U.S of about 2.8 percent after 3.25 percent in the prior 10 years.

Led by the "Big Three" **(Colombia, Brazil and Mexico)**, real GDP in Latin America grew a solid 4.5 percent in 2005.

With Brazil and Mexico, the region's two biggest economies, reaccelerating this year, the area's economic growth is likely to remain firm. Brazil's economy is being driven by lower interest rates, credit expansion, supportive labor markets and accompanying real income gains, greater fiscal spending ahead of this year's elections, and the ending of an inventory correction. Mexico is benefiting from strength in exports and manufacturing, with investment expected to pick up due to post-hurricane construction and friendly credit conditions. Latin American

economic growth overall should reach 4.5 percent again this year before decelerating to a touch better than 3.5 percent in 2007. A CAGR of 3.5 percent is expected over the forecast horizon, along with the resumption of the dollar's decline.

After years of moribund growth that slowed transatlantic air freight demand in the **European Union**, the euro-based economy appears to be improving, led by export-oriented Germany, one of the region's key markets.

The region's exports have benefited greatly from the strength of the global economy (Germany's key "IFO" survey of business conditions in March advanced to its highest level since April 1991, with strength extending across current conditions and expectations as well as across sectors). In addition, there are early signs that domestic demand is picking up in the region, with business capital spending already gaining momentum and indications that improving labor conditions are laying the groundwork for a revival of consumer spending.

The key development in Europe has been the fading of intense pressures for corporate restructuring. In recent years, corporations have acted to raise their profitability and repair balance sheets, which had been severely impacted by the excesses of the late 1990s, by restraining labor costs. Indeed, profit growth last year was the strongest in more than 10 years, helping a business capital spending recovery. A broad array of indicators from the European Commission suggest corporate hiring intentions have strengthened.

Against that positive backdrop, the potential for sustaining the recent better performance of the euro-area economy is still fragile, however, with the jury remaining out on whether household spending will improve. That said, the EU is on track for above-potential growth of 2.25 to 2.5 percent over the remainder of the year and in 2007, and is expected to realize average annual growth of some 2 percent over the forecast horizon.

Elsewhere in Europe, we see growing signs of better performance.

The United Kingdom appears to be emerging from a slowdown driven by an adjustment in the housing sector that spilled over into consumer spending, with both starting to regain a semblance of momentum. Recent economic data have been mixed, with output measures healthy but demand-side indicators weak. The robust global backdrop and a healthy housing market should push economic growth above trend by mid-2006. U.K. economic growth should rise around 2.5 percent or more this year and in 2007 from 1.8 percent last year. For the entire forecast period, CAGR for the U.K. is put at 2.25 percent.

Finally, growth prospects in "emerging Europe" are also upbeat, in part because of the better outlook for the euro area, a key market for many Central/Eastern European countries' exports. Real GDP growth in the region is forecast to remain robust this year, expanding some 5.5 percent before easing modestly to around 5.3 percent in 2007. Both projections would be close to growth of 5.6 percent in 2005. For the entire period, 2006-2016, the CAGR for the region is forecast at 4 percent.

Global Summary

Overall, we expect global real GDP growth to pick up modestly and approach 3.5 percent in both 2006 and 2007 following an increase of 3.3 percent in 2005 and a robust 3.8 percent in 2004.

Over the 2008-2015 period, global economic growth is assumed to average 3 percent, modestly above the average annual world growth rate since 1970 of some 2.8 percent. The higher expected growth rate reflects our assessment that the trend growth rate for the global economy has been raised by economic reforms, liberalization, and the globalization of numerous economies, including greater openness to trade, increased mobility of capital and labor, the widespread dissemination of technologies and know-how, and the deregulation of markets, including those in the financial sector.

China, in particular, but also India, Brazil, Russia, and a number of countries in Central/Eastern Europe have been key players in boosting the potential rate of growth of the global economy. ■

Region Focus:
Europe

Flying Through

Management changes, Swiss integration and a pricing probe take a toll on profitable Lufthansa

It is never an easy ride for Lufthansa Cargo. The German air freight power should be in celebratory mood, having just reported a 2005 operating profit of $130 million, a big jump over $40 million the previous year. The solid financial results came despite sky-rocketing fuel prices and 1.7 million tonnes of cargo business that was virtually the same as the previous year. Yet Lufthansa achieved a 10 percent improvement in freight yield.

Why the glum faces at Frankfurt then?

Because shortly after Chairman Jean-Peter Jansen delivered his end of year report he was clearing his desk, citing reasons of ill health. Out the door with him has also gone Stephan Gemkow, board member for finance, who is taking on the role of chief financial officer for the entire airline. The carrier has had to rebut speculation of boardroom rifts, which has hardly helped to settle the mood at Lufthansa Cargo headquarters.

With executive board member Stefan Lauer appointed interim chairman of Lufthansa Cargo and senior vice president of corporate finance, Roland Busch, was drafted to replace Gemkow on the Lufthansa Cargo board.

Thrown into this mix of uncertainty is that Lufthansa Cargo is among the carriers being investigated for alleged price fixing on cargo surcharges. The airline has been quick to issue vigorous denials of any wrongdoing, although it has not quite managed to state so directly. In a tersely worded statement, the carrier said: "Antitrust authorities are currently investigating possible antitrust law violations in the air cargo industry. As a result of the ongoing investigations, no further information with regard to the proceedings can be provided."

In some respects, Lufthansa Cargo is at the eye of the surcharge price fixing storm. After all, its fuel price index published on the company Web site is used by many airlines as the trigger for imposing surcharge hikes.

The carrier's popularity has not been improved by reports in the United States that the airline was discussing a deal with investigators in which it would provide evidence on other carriers on the guarantee of immunity from any action against itself.

"No comment," was all Nils Haupt, head of corporate communications at Lufthansa Cargo, said in response to these reports.

Jansen hardly cooled the flames when he suggested Lufthansa Cargo's improved results were partially attributable to the timely imposition of fuel surcharges. "We owe much of our improved results in … difficult market conditions to our rigorous cost management," he said.

Jansen also said the airline now achieves about half of its revenues from business generated by the inner sanctum of 12 forwarders that make up its Global Partnership

Changes

by Roger Turney

Program. In a sign of the growing weight of Asia-Pacific traffic, which now makes up nearly half of the revenue tonne-kilometers for Lufthansa flies, Nippon Express became the first Asian member last year.

As to the future, Jansen warns: "Although industry experts are expecting growth rates in the air cargo business to average 6 percent over the next five years, the market will be characterized by a growing imbalance in trade flows, high fuel costs and increasingly fierce competition."

Other uncertainties in the market Jansen cited include continued consolidation among forwarders, security issues and yield stabilization.

And the airline itself is seeking to recover some of its luster since Korean Air replaced Lufthansa in 2004 as the world's leading international freight airline.

Certainly in the last year Lufthansa Cargo has been working to stabilize and harmonize its own operations, mainly through an increasingly disparate array of deals, joint ventures and partnerships.

Like many air cargo players, Lufthansa Cargo is pinning a lot of its future on the explosive China market. Jade Cargo International, the carrier's joint-venture China-based cargo airline launched in partnership with Shenzhen Airlines, is finally about to go "wheels-up."

The joint venture was due to launch more than a year ago, but the proposed startup with chartered or leased A300-600 freighter equipment was initially turned down by Chinese authorities. A revised start date of autumn 2005 was also missed.

But now Jansen says the launch is definitely on for this summer. Just to ensure there is no further questions about the use of leased or chartered equipment, Jade Cargo International has gone into the market and ordered six 747-400 extended-range freighters for delivery over the next two years.

"With the delivery of these six new freighters, Jade Cargo International is destined to stake a leading position in the rapidly growing Chinese air freight market," said Jansen. "In harness with this new Chinese carrier, Lufthansa Cargo will be able to significantly expand its inner-Asian network and profit from rising demand for services from China to the U.S. and Europe."

Probably the understatement of the year, but there can be no doubting the impact this move is likely to have and the significant gains for Lufthansa Cargo from being on the "inside track" in such a vital market.

Lufthansa Cargo is also using Asia as a model to speed up its integration with Swiss WorldCargo. Lufthansa purchased Swiss last year. As a first step toward creating synergies on cargo operations, the two carriers concluded a comprehensive capacity sharing agreement that includes selected space on eastbound Asian routes of either partner.

Lufthansa Cargo is offering customers of Swiss WorldCargo guaranteed space on flights out of Frankfurt to Shanghai, Tokyo, Osaka, Nagoya, Madras and Tehran. It seems likely such a deal might be extended to include Lufthansa Cargo flights out of Munich. Customers of Lufthansa Cargo are already able to access Swiss WorldCargo capacity on flights from Zurich to Frankfurt, Karachi to Zurich and Montreal to Zurich.

"This agreement with Swiss WorldCargo shows how rapidly we are putting our collaboration into practice," says Andreas Otto, head of marketing and sales at Lufthansa Cargo.

"Over the next few months we will be unveiling further actions that we are taking to provide our customers with an enhanced product and services portfolio."

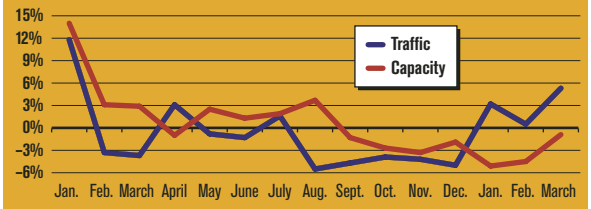
But Swiss WorldCargo's ability to bring excess cargo capacity to the table is obviously limited, having difficulty in even meeting its own demands. Cooperation on other fronts also seems to be patchy. A


Jansen

"We owe much of our improved results in ... difficult market conditions to our rigorous cost management."

Lufthansa Cargo

Monthly year-over-year percent change in cargo capacity and traffic



Source: Company reports

joint sales operation has been established in Canada and Swiss WorldCargo has, in some markets, switched from using GSAs to using the local Lufthansa Cargo sales force. But in other important markets, such as Asia, Swiss WorldCargo appears resolved to keeping its own sales operation in place.

There will obviously be other synergies to be achieved between the two operations in terms of joint purchasing activities, common ground handling initiatives and road feeder services, but Lufthansa Cargo has to be mindful of not throwing out the baby with the bath water.

Despite its reduced circumstances, "Swiss" remains a powerful market brand and has successfully retained and built upon its reputation as a premium product provider. Lufthansa Cargo risks alienating that elite hierarchy at its peril.

Lufthansa Cargo has also taken steps to strengthen its position in North America.

Previously, the carrier focused its sales effort on just two U.S. gateways: Los Angeles and New York. Now the airline is managing an expanded sales operation via the four gateways of New York and Los Angeles, plus Atlanta and Chicago.

Frankfurt Blackout

One consistent thorn in the side of Lufthansa Cargo, and one that is beginning to weigh more heavily, is the question of its position at Frankfurt airport.

Lufthansa warns that Frankfurt may lose its status as an elite cargo hub if its enviro-friendly government pursues its intended policy of banning night flights. The heated political debate is coming down to the wire and Lufthansa Cargo is getting more worried, running out of both arguments and runway space at Frankfurt.

"Lufthansa Cargo needs night operations, as logistics needs speed," says outgoing Lufthansa Cargo Chairman Jean-Peter Jensen. "We are still hoping that an agreement will be reached on a practicable night-flight ruling. Night flights are indispensable for intercontinental air freight operations."

The German carrier further argues that it is today in head-to-head competition with the integrators, whose entire business model is based on night-time operations.

But the integrators are not at Frankfurt. UPS has its European hub just up the road at Cologne and will be joined on German soil by DHL when it transfers its European hub from Brussels to Leipzig in 2008.

That move by the Deutsche Post-owned integrator is expected to only load further pressure an Lufthansa Cargo to transfer some of its freighter operations out of Frankfurt. The intercontinental joint freighter deal struck between DHL and Lufthansa Cargo two years ago now accounts for a third of the German carrier's MD-11 freighter operations around the globe. Surely, some suggest, this would be an ideal opportunity for Lufthansa Cargo to establish a central European hub at Leipzig and free itself from the shackles of Frankfurt.

Lufthansa Cargo, however, refuses to speculate on such a move or to hint at any idea of a compromise over Frankfurt.

"An absolute night flight ban at Frankfurt would threaten the very existence of Lufthansa Cargo," says spokesman Nils Haupt. "Should an absolute night flight ban be unavoidable, then Lufthansa Cargo would look for alternatives within Germany, or outside Germany." ■

"The new U.S. gateway concept sets out clear regional responsibilities and offer customers an enhanced, personalized service," said Jurgen Siebenrock, Lufthansa Cargo's vice president of sales for the Americas. "Every gateway now has its own regional distribution network, which will concentrate on secondary markets and smaller customers. The aim is to tap profitable niche markets with a good yield trend."

The airline immediately dispatched new sales managers to Atlanta and Chicago to put the concept into effect. North and South America combined generate around 20 percent of Lufthansa Cargo traffic revenue.

"The U.S. gateway concept has worked out very well, achieving better results, helping streamline processes and providing high customer satisfaction," says Haupt. "No further developments in the U.S. market are currently under evaluation."

But Lufthansa Cargo has suffered one major setback in its forays in the United States.

A year ago it was gloating over the marketing deal it had struck with US Airways to buy up all of the American carrier's cargo belly hold space out of Europe.

Said Gemkow at the time: "This deal has provided us with an extra 110 tones capacity on the North Atlantic and also significantly, provides us with direct lift out of points in Europe, such as Madrid, Paris and Amsterdam."

So enthused was Lufthansa Cargo that it even talked of buying-up all of US Airways' international cargo capacity and perhaps its domestic capacity as well.

But that particular bubble has been burst with the merger between America West Airlines and US Airways and the decision by US Airways to operate as a low-cost carrier.

The deal with Lufthansa Cargo was firmly parked as of the end of 2005 when officials on the America West side, now running the cargo operation, decided to take capacity management back in-house. ■

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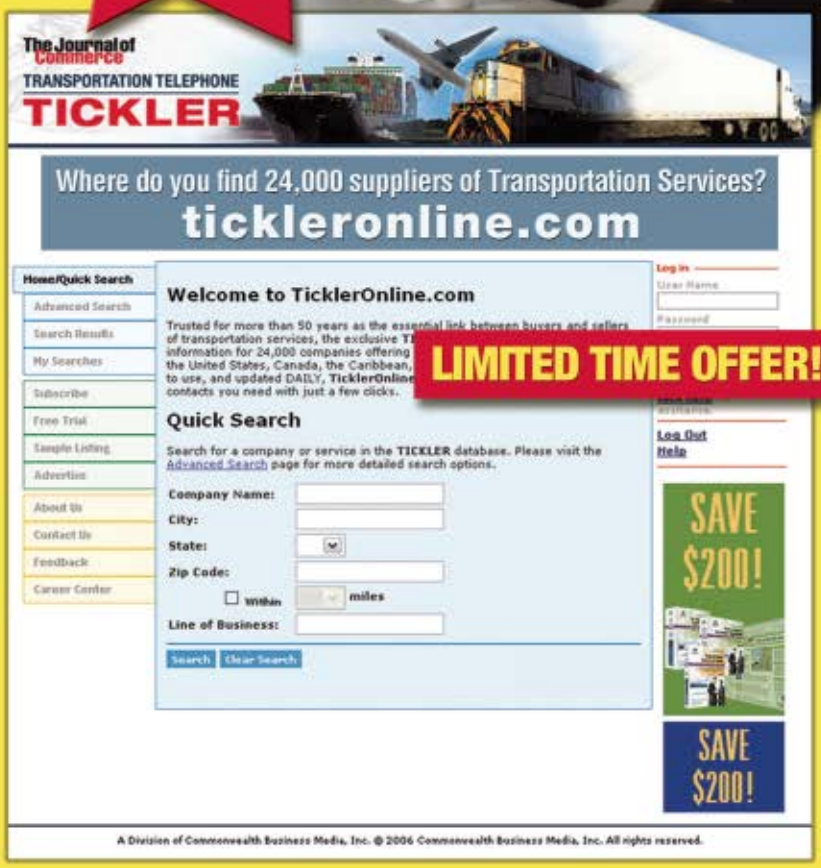

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People

Airlines

CSA: Czech Airlines named **Vladimír Pern** cargo manager for the carrier. Pern, 37, had held several management positions in 13 years at forwarder Cechofracht and holds a business master's degree from a joint program of the Czech Management Center and De Paul University in Chicago.


Quin

Aero Group: The Michigan-based cargo charter airline named **David S. Quin**, a veteran of expedited transport at CNF companies, vice president of sales and marketing for its premium transportation management service. Quin launched the critical shipment Emery Expedite! Business at the former Emery Worldwide in 1995 and was president of the operation now called UPS Expedite. He started his career at CF Air Freight in 1978.

Kitty Hawk: The Dallas-based all-cargo airline named technology industry executive **Melvin L. Keating** to the board of directors. Keating, 59, is president and CEO of Alliance Semiconductor and has worked as a strategy consultant at Warburg Pincus Partners. He was also president and CEO of Sunbelt Management, the largest landlord of Target Stores. Kitty Hawk also named **Mike Coe** regional hub manager at Dallas-Fort Worth, where Kitty Hawk opened a trucking hub. Coe had been been manager of field operations in Fort Wayne, Ind.

bmi: bmi cargo named **Darren Beamer** special products sales manager based at the British airlines's London Heathrow Airport base. Beamer has worked in the cargo industry for several years and joined the British combination airline in April 2003.

Integrators

TNT: The express carrier named **Dirk Gerber** air hub manager for Dubai. Gerber had been TNT's operations manager in Frankfurt and has a degree from Germany's State Business School for Freight Forwarders.

DHL: DHL Express named **Charles Brewer** executive vice president of U.S. air products and services. A 21-year industry veteran, he had been managing country operations in Malaysia and earlier held positions in the Asia Pacific region and the United Kingdom. DHL also named **Tom Hickey** vice president of fashion and retail. Hickey had been at APL Logistics, where he was vice president of their American Consolidation Services. He worked for GeoLogistics before that and was also a vice president at MCS, a subsidiary of Mitsui OSK Lines.


Hickey


Phelan

DHL Global Mail: The postal services unit of DHL named **Joe Phelan**, president and chief operating officer for the United States, to the position for the Americas and named him to the group's board. He joined the company in 2004 and helped integrated three Deutsche Post postal operations into the DHL Global Mail business. He was at American Airlines before that as managing director for Europe and vice president of cargo operations.

TNT: The company nominated **R. King**, a leader in the Hong Kong business community, to its supervisory board. King, a standing committee member of the Chinese People's Consultative Conference of Zhijiang Provincial Committee, is a professor at the Zhejiang University in Hangzhou, China. He is former president and CEO of Sa Sa International Holdings, a cosmetics discount chain, former chairman of ODS System-Pro Holdings of Hong Kong, and managing director and chief operating officer of Orient Overseas International.

Third Parties

EGL: The forwarder named **Charles H. Leonard** chief financial officer, replacing Elijio Serrano, who left the company last year. Leonard had been senior vice president and chief financial officer of the general partner of TEPPCO Partners, a publicly traded pipeline limited partnerships, for 15 years.

UTi Worldwide: The logistics company promoted **John Hextall** to executive president and global leader of client solutions and delivery. The announcement came as UTi said Executive Vice President **Alan C. Draper**, who is also president of its UTi's Asia-Pacific region and a member of the board of directors, will retire June 30. One of the original founders of the company and a veteran of 27 years with some of UTi's predecessor businesses, Draper will give up his board seat but retain a consulting relationship with UTi on Asia-Pacific operations.

GeoLogistics: The forwarder named **Francesco Motka** managing director for Eastern Europe and CIS operations. Motka had been at region-

People

al director of Schenker, where he was managing director in India and later set up air and sea operations in Finland, the Baltic States, Poland, Ukraine, Kazakhstan, Uzbekistan and Russia.

Lynden International: The Seattle-based forwarder named **Michael Goldsmith** a regional business development manager for the trans-Pacific, a position based in Los Angeles. Goldsmith has spent six years in transportation and foodservice, most recently with forwarder Phoenix International. Lynden also named Nick Karnos a senior account executive in Anchorage. Karnos had been with Northern Air Cargo and has 18 years' experience in Alaska transportation.

DVB Bank: The German financial house specializing in global transport moved Senior Vice President Mark Haines to head a new Singapore-based Asia desk for its mergers-and-acquisitions group. Haines had been with JP Morgan Chase for 20 years in London and New York.

Cargo Connection Logistics: The company named **David Quach** president of Cargo Connection Logistics-International, a newly-named and restructured division that will be based in San Jose, Calif. The unit, which had been called Mid-Coast Management, will focus on developing Pacific Rim business.

Trans Global Logistics: The U.S. division of the Hong Kong-based forwarder named **Dominic Janusky** vice president of business development in the U.S. Midwest. The 20-year logistics industry veteran started his career as a ramp manager at American Airlines. He later worked at the Fritz Cos. and Air Compak International and more recently was at FedEx Trade Networks for 10 years.

Associated Global Systems: The New York-based forwarder named **Joanne Schultz** marketing manager. She had been marketing manager at Telrad Connegy, a communications and software firm.

Associations

Airforwarders Association: The American forwarding group named **Roy Hecteman**, a vice president at Integres Global Logistics, to its board of directors. A 31-year freight industry veteran, Hecteman came to Integres from Circle International, where he was senior director of gateway operations.

AEMCA: The Air Expedited Motor Carriers Association named Sterling Transportation President **Keith Davis** to its board of directors. Davis is a past vice president of the Los Angeles Air Cargo Association.

ACI-NA: Airports Council International-North America, reorganizing under new head Greg Principato, named **Steve Martin** chief financial officer and vice president of policy and planning and **Charles Chambers** senior vice president of security and economic affairs. Martin is a former director of financial development at the U.S. Department of Transportation who worked as a consultant with Leigh Fisher Associates for 10 years. Chambers was a senior vice president at InterVISTAS-ga Consulting.

Technology

SITA: The airline industry communications provider designated **Francesco Violante** chief executive officer as it prepares a restructuring. The SITA board is voting in June on a plan to combine the SITA SC airline communications operation with SITA INC, a technology services business. Violante, 55, has led SITA INC for two years.

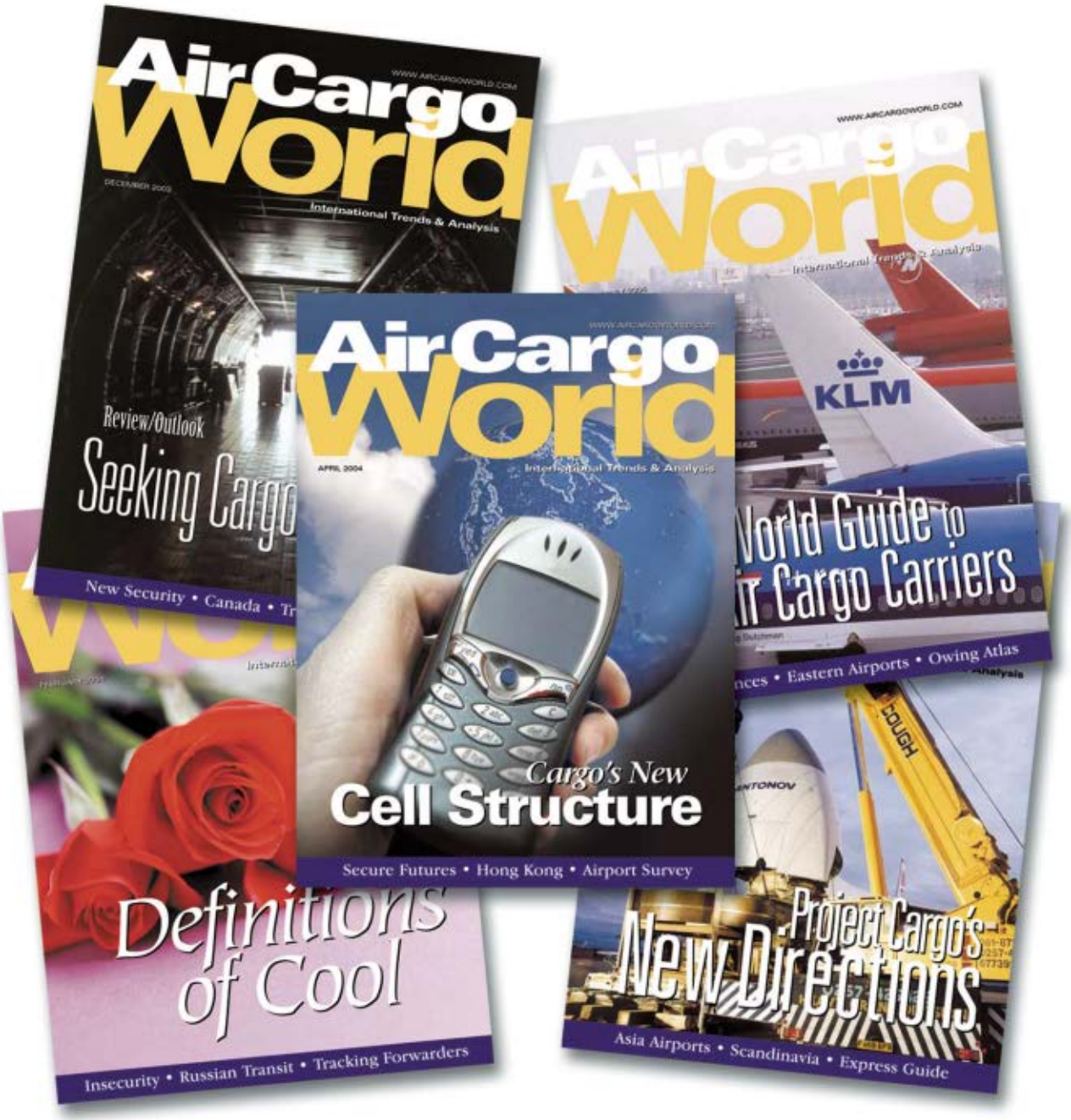

Beatson

Descartes Systems: The Canada-based supply chain technology provider named freight industry veteran **David Beatson** to its board of directors. Beatson, a former president and CEO of Emery Worldwide and Circle International, has been working as a consultant on strategic planning and mergers and acquisitions since leaving as head of North America for logistics provider Panalpina early last year.


Borkowski

Wingspeed: The provider of communications systems for airlines named **David Borkowski** vice president of world wide sales. He had been director of sales and business development for the Americas at Rockwell Collins and earlier worked at carriers including Federal Express, Northwest Airlines, Braniff and Midway. ■

Advertiser Index



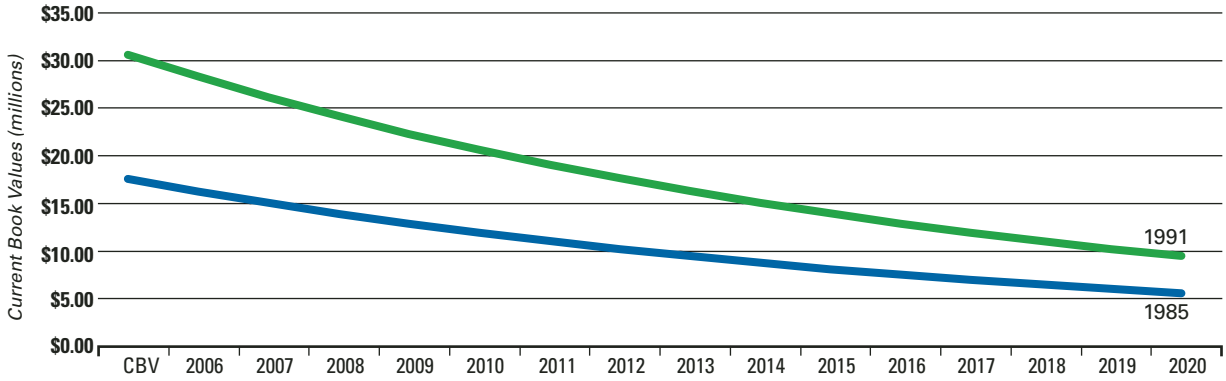
BACK Aviation Aircraft Report

The first commercial 747-200 went into service in 1971 and the last production 747-200 rolling off the line in 1991. Today, the 747-200 is used primarily as a freighter configuration aircraft serving Asia Pacific markets. The 747-200 has a structural maximum takeoff capability of nearly 833,000 pounds. The basic configuration has capacity for up to 29 main-deck positions (96x125 inches) for about 20,700 cubic of volume while the lower deck accommodates 30 lower-deck positions with up to 6,050 cubic feet of volume.

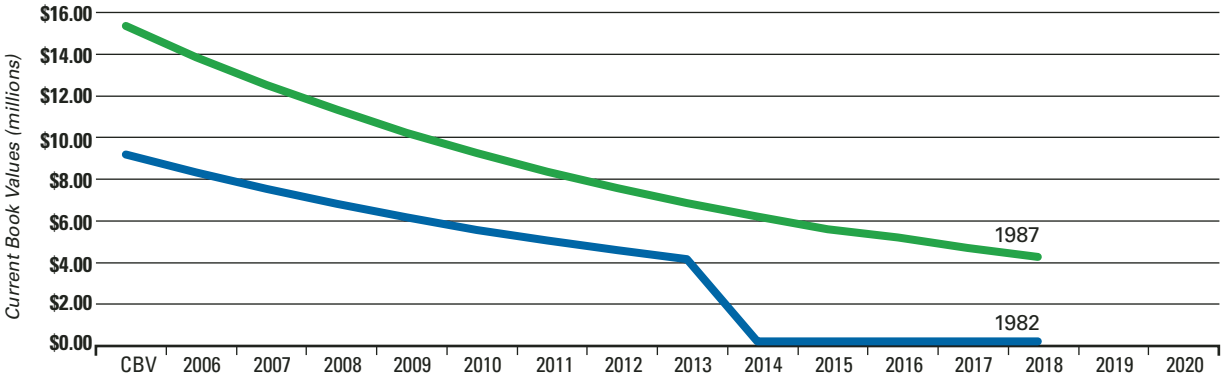
In total, the 747-200 freighter has 24,885 cubic feet of cargo volume, including bulk positions, about 9 percent less volume than the 747-400 freighter.

The 747-200 has a structural maximum payload capability of approximately 112,000 kilograms (nearly 248,000 pounds). With maximum payload, the 747-200 freighter is able to cover approximately 3,600 nautical miles. ■

Freighter Values



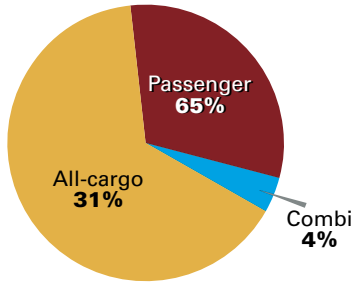
Passenger Values



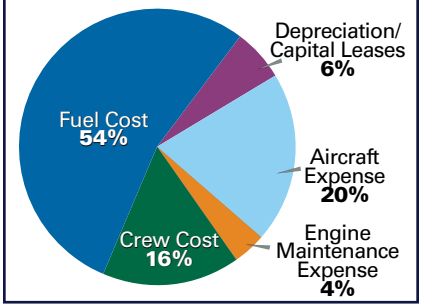
Source: BACK Aviation Solutions

BOEING 747-200

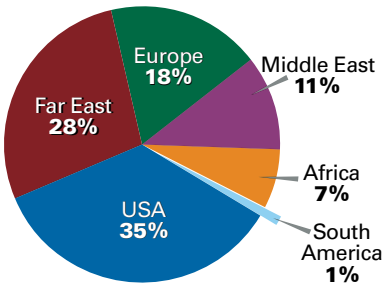
Fleet by Type
(Active / On order)



Average Direct Operating Costs
Q1 2005



Active Fleet by World Region



Operator	Equipment Type	Active In Service
Atlas Air	Cargo	11
Northwest Airlines	Cargo	14
Malaysian Airline System	Cargo	7
Japan Airlines	Cargo	7
Kalitta Air	Cargo	6
Nippon Cargo Airlines	Cargo	6
Transaero Airlines	Passenger	5
Northwest Airlines	Passenger	5
Evergreen International Airlines	Cargo	5
Air Plus Comet	Passenger	4
Tradewinds Airlines	Cargo	4
UPS	Cargo	4
Cathay Pacific Airways	Cargo	4
Polar Air Cargo	Cargo	4
Nippon Cargo Airlines	Cargo	4
Air France	Cargo	4
MK Airlines	Cargo	4
Thai Airlines	Passenger	3
Air Universal	Passenger	3
Japan Airlines	Passenger	3

Events

May 22-23

Hamburg, Germany: Cool Chain Association Annual General Meeting, looking at the direction of perishables shipping and "Controlling the Weather Inside the Box." For information, call +49 421 2581 943, or visit: *www.coolchain.org.*

May 25-26

Bangkok: Thai Airport 2006, at the Intercontinental, looks at air cargo operations as Thailand prepares to open its new Bangkok airport. For information, call +66 2 254 8321 or visit*: www.abf-asia.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 key speakers from airlines, logistics companies, government and shippers looking at new opportunities, emerging markets, changing strategies and future regulations in the world's most dynamic trading lane. For information, call (760) 294-5563 or visit*: www.joc.com/conferences/tpac/.*

June 13-14

Hong Kong: Air & Port Security Exhibition, at the AsiaWorld-Expo, looking at transportation security from all sides of trade, including supply chains. For information, call +44 208 398 3327 or visit*: www.aps-expo.com.*

Sept. 11-13

Chicago: Parcel Shipping and Distribution Forum, at the Hyatt O'Hare, packaging up shippers who get boxed in. For information, call (866) 378-4991 or visit: *www.parcelforum.com*

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.*

Sept. 17-21

Shanghai: FIATA World Congress, the China International Freight Forwarders Association hosts the annual meeting for forwarders from around the world. For information, call +41 43 211 6500 or visit: *www.fiata2006.org.cn.*

Sept. 19-22

Shanghai: transport logistics China, at the New International Expo Centre, a follow-up to the inaugural event in 2004 that features a sprawling trade fair. For information, call +49 89 949 20249 or e-mail*: henrike.burmeister@messe-muenchen.de.*

Oct. 10-11

Madrid: Sixth Air Cargo Economics Conference, with Airport Property and Facilities Day, at the Hotel InterContinental, a Euroavia-organized event looking at yield, revenue and profits. For information, call +46 33 129 841 or visit: *www.euroavia.com.*

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

Oct. 10-11

Amsterdam: Courier & Parcel Despatch Expo '06, at the Amsterdam Rai, looking at technology and operations in package delivery. For information, call +44 130 674 3744 or visit: *www.cpd-expo.com.*

Oct. 15-18

San Antonio, Texas: Council of Supply Chain Management Professionals Annual Conference, at the Gonzalez Convention Center, by far the world's best meeting focused on logistics, transportation and everything in between, with shipper case studies and analysis. For information, call (630) 645-3487 or visit: *www.cscmp.org.*

Oct. 25-27

Miami: Cargo Facts 2006, at the Loews Miami Beach, the 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@cargofacts. com.*

Nov. 16-18

Mumbai, India: **Air Cargo India 2006**, at the World Trade Center, looking at a changing market, the event is organized by the STAT Trade Times. For information, call +91 22 2757 0550 or visit: *www.stattimes.com/ACI2006.* ■

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  The shippers' perspective of the air cargo service available in four of the world's most promising markets: Brazil, Russia, India and China.
- **Cargo Airline CEOs Look at Market Access.**
- **Help! We're Drowning in Paper!**
  Paperless cargo processing could save the industry $1.2 billion a year and reduce shipping time by 25%. What must be done to effect these changes?
- **The Impact of Air Cargo on the Global Economy.**

To provide attendees with maximum opportunities to benefit from ACF 2006, there is no overlap of Forum and Exhibit hours.

Get a jump on the competition. Make your plans now to join us in Calgary.

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- Scott Dolan, President, United Airlines Cargo

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- **Gateway to Progress**
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