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New Air Cargo Screening Mandates: The Next 50%

April 14, 2009 at 2:00 PM EST

The airline industry recently met the government's deadline to screen 50% of all cargo aboard passenger aircraft, and is now facing the challenge of meeting the 2010 deadline for 100% screening. Initial reports are somewhat optimistic about the impact on the supply chain, but a number of critical issues remain to be addressed:

- Will the industry be able to maintain its effectiveness and efficiency as the 100 percent deadline nears?
- How will the new ruling impact businesses and consumers dependent upon just-in-time delivery?
- What innovative operational, security and financial steps are being taken to adapt to the 100 percent screening environment?

The Webinar will feature insights on these issues from aviation and security experts, including presentations from a panel discussion held at AirCargo 2009 and newly released interviews with the panelists by Paul Page, editorial director of *The Journal of Commerce*. The Webinar will be released on April 14th, 2009 at 2:00 PM EST and will be available on demand at www.aircargoworld.com/screening.

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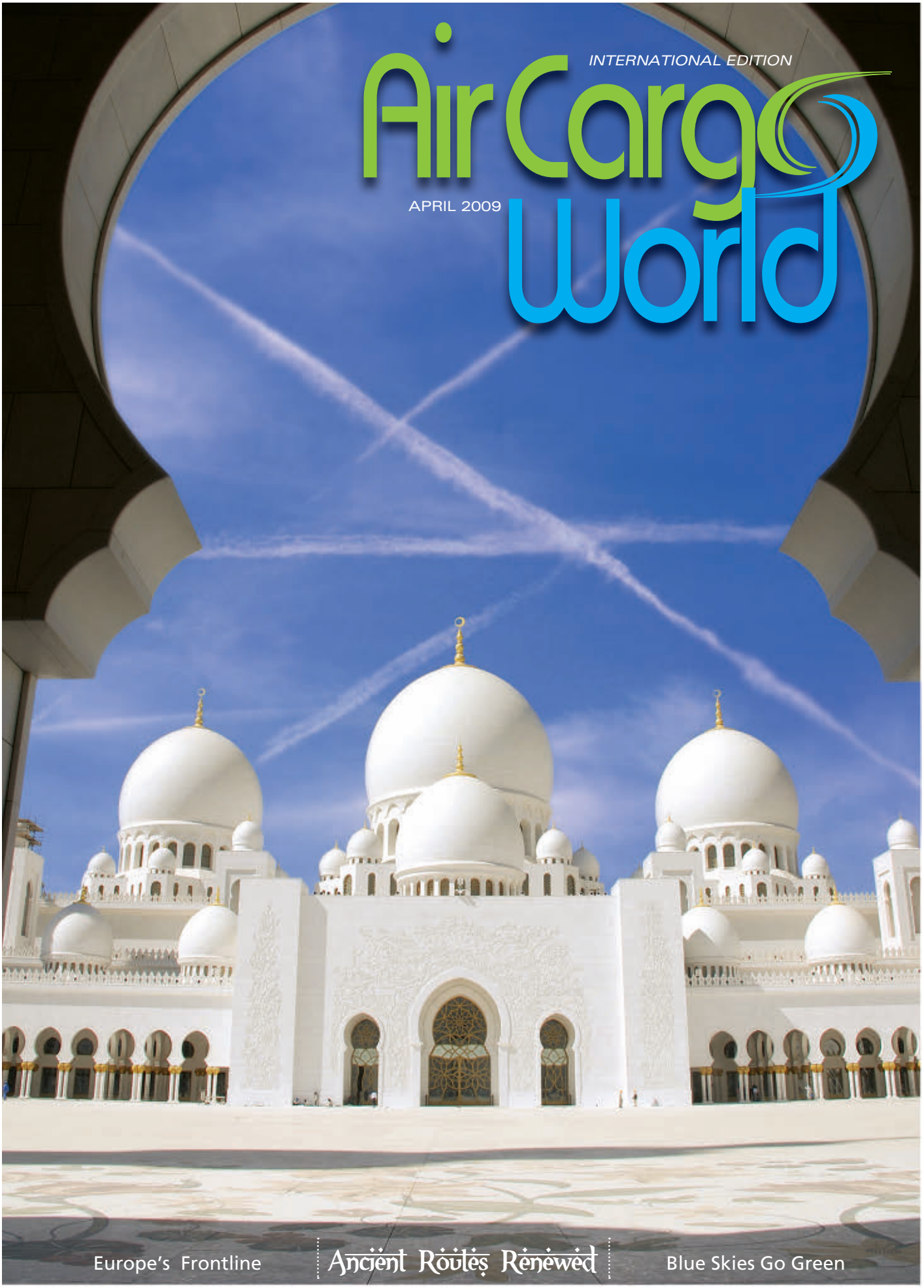
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Bridging the world

Air Cargo World

viewpoint

Greening the supply chain – it begins with changing light bulbs. OK, cliché aside, there are business cases to be made for green initiatives - many of which have grown from the grass roots demands made on companies by environmentally concerned customers, and like-minded employees - to become business strategies that can lower costs and create competitive advantages.

Shan Hoel has a 14-year career with TransGroup Worldwide Logistics and directs the company's EPA SmartWay Transport Partnership participation.

Today, the green movement is reaching the highest corporate echelon and is effecting change from boardroom decisions to manufacturing and logistics processes across entire supply chains. Regardless of whether one views global warming and environmental issues as bogus, or as an inconvenient truth, one undeniable fact has emerged – climate change is real, at least in the sense of business climate change.

Regardless of whether one views global warming and environmental issues as bogus, or as an inconvenient truth, one undeniable fact has emerged – climate change is real, at least in the sense of business climate change.

The business cases for green initiatives exist largely in the ability to translate them into making economic sense. In many instances, this is comparable to the business case for lean distribution strategies – just substitute energy and fuel consumption costs for inventory carrying costs.

In other words, just as money is left on the table when a company carries excess inventory, money is also left on the table due to excess fuel and energy usage.

The good news is that any size company can realize bottom line value by implementing green strategies that improve efficiencies and conserve fuel and energy. It can literally be as simple as changing lights.

For example United Stationers, a wholesale distributor of business products, took advantage of a Sacramento, Calif. conservation incentive program to retrofit the lighting systems in two of its distribution facilities. They replaced 800 metal halide high-bay lights with new technology replacements that provided better light at less than half the energy consumption. The ROI was less than 18 months and the savings improve the company's bottom line to this day.

While this example just involves changing the lights in two facilities that are part of a larger supply chain, many green initiatives can tie in with transportation and logistics activities to improve efficiencies and bottom lines across the entire enterprise.

Additionally, green initiatives are so important to many companies that, all else being equal, they choose material and service providers based on their ability to support and enhance those initiatives. Thus, green-differentiated supply-siders can gain a competitive advantage.

The convenient truth is that logistics companies leading the way may not only benefit by capturing value through cost savings and competitive advantage opportunities, but may even enjoy the corollary benefit of achieving a more favorable public image – but that's another story. ACW

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Senators Call For Financial Crisis Prosecutions

U.S. Senators Byron Dorgan and Maria Cantwell have asked U.S. Attorney General Eric Holder to investigate and prosecute any criminal behavior relating to the global financial crisis.

In their letter to the Attorney General the senators said, "More than $9 trillion has been committed, pledged or loaned in response to the ongoing financial and economic crisis. On top of that, more than $10 trillion in stock market wealth has been lost, as has more than $6 trillion in housing wealth.

"In addition, millions of jobs have been lost and many millions of people have lost their homes to foreclosure. While this financial wreckage can be attributed in part to bad decisions and incompetence, it is also clear that some of the conduct and activities were simply illegal. It must all be thoroughly investigated and, where appropriate, prosecuted.

"Our country is at an economic precipice and those who brought us here must be held to account," the senators added.

The move follows a declaration by U.S. Treasury Secretary Timothy Geithner to persuade insurance giant AIG to reimburse taxpayers for the $165 million in bonuses the company is paying to some its employees.

According to New York Attorney General Andrew Cuomo, AIG has paid bonuses to more than 400 people. In a letter to Congress, Geithner claimed the Administration couldn't block the payments because they are based on contracts signed before the U.S. government provided AIG with $173 billion to avoid bankruptcy.

In December 2004, AIG agreed to pay $126 million to settle charges brought by the Securities and Exchange Commission (SEC) and U.S. Department of Justice arising out of the company's offer and sale of an earnings management product.

The SEC said at the time, "This action is a message to insurance companies and others that sell structured finance or other products to public companies that are designed for no purpose other than to improve those companies' accounting results."

TSA To Miss 100 Percent Screening Deadline?

The U.S. General Accounting Office (GAO) says the Transportation Security Administration (TSA) cannot verify that 50 percent of all domestic air cargo on passenger aircraft is being screened prior to shipment.

In testimony before the U.S. House of Representatives Subcommittee on Transportation Security and Infrastructure Protection, Ed Kelly TSA General Manager Air Cargo, acknowledged to Homeland Security Committee Chairman Bennie Thompson that until the data is available later this month, he couldn't prove compliance.

Stephen Lord, GAO Director of Homeland Security and Justice Issues also noted the TSA would not meet the August 10, 2010 deadline when 100 percent of all inbound air cargo to the U.S. must be screened.

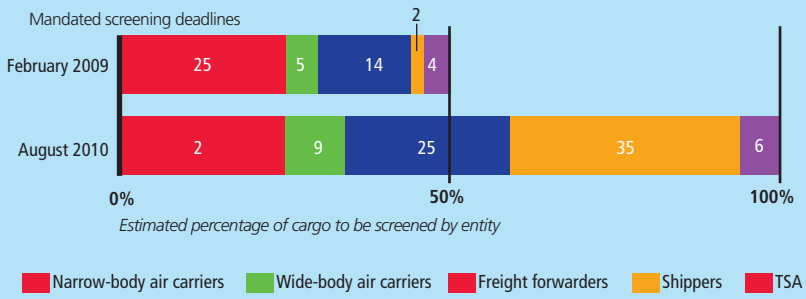
Lord said this was due to existing inbound screening exemptions and to challenges TSA faces in harmonizing the agency's air cargo security standards with those of other nations.

Asked by Subcommittee Chairwoman Sheila Jackson-Lee how much cargo is exempt, Lord said that of the annual four billion pounds of air cargo outbound and three billion pounds inbound, the TSA doesn't know how much is exempt and even if it did the information could not be revealed at the hearing because of its security implications.

The GAO report notes that future harmonization screening procedures with foreign governments "may be challenging" because some countries do not share the U.S. view of air cargo security threats and risks.

"If TSA were to impose a strict cargo screening standard on all inbound cargo, many nations likely would be unable to meet such standards in the near term. This raises the prospect of substantially reducing the flow of cargo on passenger aircraft or possi-

TSA's breakdown of air cargo screening on passenger aircraft as of February 2009 and August 2010



Source: GAO analysis of TSA information

"If TSA were to impose a strict cargo screening standard on all inbound cargo, many nations likely would be unable to meet such standards in the near term."

bly eliminating it altogether.

"According to TSA, the effect of imposing such screening standards in the near future would be, at minimum, increased costs for international passenger travel and for imported goods, and possible reduction in passenger traffic and foreign imports," explained Lord.

Brandon Fried, Executive Director of the Airforwarders Association (AFA), clarified to the House Subcommittee that a significant barrier to 100 percent compliance is the lack of TSA-approved pallet screening technology. He urged the TSA to work with its science and technology office and vendors to speed up the approval process. "In the absence of that, we urge Congress to allocate additional funds for the canine program, as it is an effective stopgap solution," said Fried.

Noting that 25 percent of approved screening facilities in the U.S. are members of the AFA, Fried urged Congress and the TSA to maintain the Certified Cargo Screening Program (CCSP); provide funding mechanisms for participants to reduce the barrier to participation; and resist any further moves away from a risk-based approach to cargo security.

"We believe that the following three elements need to be put in place in order for CCSP to be a viable security program: the appropriation and availability of additional federal funding or incentives for eligible participants; the encouragement of all entities involved in the supply chain as full participants in the act of screening; and the availability of efficient and cost-effective solutions to screening for all TSA-certified Indirect Air Carriers (IACs) and other qualified participants."

Fried added that the AFA supports "some airport screening by airlines and the Transportation Security Administration (TSA), but those options must work."

The 225-member Air Cargo Security Alliance (ACSA) proposes cargo screening by the TSA. In written testimony to the House Subcommittee, ACSA wants a federal air cargo screening program that will operate in conjunction with the CCSP at all American airports. The program would be funded by a $0.05 per pound security surcharge modeled on the passenger screening program currently operated by TSA.

Asked by Chairman Thompson about the difficulties he had encountered in getting on to the TSA's Qualified Product List (QPL), Frieghtscan CEO Andre Johnson admitted that, "Our initial entre to the QPL process was frustrating. The roadmap to presenting our technology to the TSA was not clear, and we couldn't get specifications for what threats we had to detect, or various other critical pieces of information we needed to complete our development.

"We fully support and understand the need to protect sensitive information. However, a defined QPL process, without classified data, would have accelerated our ability to get details about our technology to TSA for evaluation and our efforts to bring CargoVizion to the cargo industry. We eventually decided that we could not afford any more delays, and so we validated the technology internally and presented that information to the TSA in the hopes it was in a format they could accept."

Johnson said after his company had convinced the TSA that it had a potentially viable solution for cargo screening, "the pace picked up significantly. Since then, we have had a number of very constructive calls and we are finalizing a cooperative research and development agreement to test and validate the equipment."

In its testimony, the Air Transport Association echoed the call from the AFA for the use of more dogs to check pallet-sized shipments as well as more funding to expand the CCSP program throughout the supply chain.

Hearing additional testimony from the International Air Cargo Association's Chairman Jack Boisen, Jackson-Lee requested a list of approved technology vendors from the TSA in order to speed up the process of pre-clearance compliance. Chairman Thompson added that while security on U.S. passenger aircraft was paramount, if the 100 percent deadline could not be met by the TSA, then "if we have to push (the timetable) back, so be it." ACW

FedEx Net Profit Drops 75 Percent

FedEx Corp. says revenue for its 2008/09 third quarter ending February 28th was $8.14 billion – down 14 percent from $9.44 billion in the same period last year.

Operating income dropped 72 percent to $182 million and net income was $97 million – down 75 percent from last year's $393 million.

Despite DHL's exit from the U.S. domestic market, FedEx Express had a 15 percent decline in domestic package revenue on three percent lower volumes due to reduced fuel surcharges, weights and rates. International volumes were off 13 percent worldwide and revenue dropped eight percent again due to lower fuel surcharges plus unfavorable exchange rates.

Overall revenue was $5.05 billion for the business segment, off 18 percent from last year's $6.13 billion. Operating income was $45 million, down 89 percent from $425 million a year ago.

Conversely, FedEx Ground increased volume two percent and revenue four percent from $1.72 billion to $1.79 billion in the quarter.

Operating income was $196 million, up 15 percent from $170 million a year ago. The company says the result was due primarily to growth in its Home Delivery service.

The company also reports a 14 percent revenue increase in its SmartPost product with daily volumes growing 44 percent - partially as a result of DHL's domestic market exit.

FedEx Corp. Chairman, President and CEO Fred Smith commented, "While we are gaining market share in all of our transportation segments, the downturn in our industry and the severity and expected duration of the recession require that we take additional actions."

FedEx will now reduce capacity at its Express and Freight business segments, introduce more pay cuts, layoff more staff, streamline IT systems and review purchasing policies.

This is expected to result in a fourth quarter charge of $100 million in order to help reduce overall expenses by $1.0 billion in the next fiscal year.

"Our goal when we implemented compensation reductions in January for U.S. salaried personnel was to both protect our business and minimize the loss of jobs," said Smith. "With industrial production and global trade trends worsening since (the) last quarter, we are applying these additional measures to continue to secure as many of our jobs as possible during this downturn." ACW

IN THE NEWS...

Boeing says December 2008 was the worst monthly decline in air cargo since the company began keeping detailed records. Air cargo overall fell 24.2 percent that month compared to December 2007. Boeing notes that while **IATA** reported a 22.6 percent drop in cargo in December, the figure is smaller than its own estimate due to the fact that IATA does not include the U.S. domestic market. In December, U.S. air imports overall declined 28.7 percent and air exports overall dropped 18.3 percent. U.S. air exports to Asia plummeted 28.4 percent year-over-year in tonnage while air imports from Asia dropped 33.1 percent. U.S. air exports to Europe fell 15.3 percent year-over-year in tonnage and air imports from Europe dwindled by 23.4 percent. U.S. air exports to Latin America dropped 10.6 percent for the month and air imports from Latin America fell 26.8 percent compared to December '07…**Boeing Commercial Airplane Company** President and CEO Scott Carson admitted the airfreight business is in short-term freefall but said he expects cargo traffic to rebound quickly once economic activity gathers speed. "Our customers are struggling, this is no secret," Carson told a gathering of analysts at a recent conference sponsored by J.P. Morgan in New York. "Airfreight like freight traffic everywhere appears to be in a short-term freefall." But the Chicago-based aerospace manufacturer expects to see traffic "return fairly rapidly" in an economic upturn...**MyUS.com**, a global packaging and mail forwarding service, has signed a new three-year contract with DHL for global express delivery. Bradenton, Florida-based MyUS.com receives packages on behalf of international purchasers and then consolidates, repacks and ships to its customers worldwide. MyUS.com says it has seen a substantial increase in its service from customers in Brazil, France, Greece, Japan, Netherlands, Norway, Russia, Saudi Arabia, Turkey, Australia and the U.K...**UPS** has expanded its early morning delivery territory in the United States, bringing to more than 23,000 the number of zip codes with guaranteed early morning delivery service. UPS claims it now delivers by 8:30 am to more businesses and zip codes than any other transportation carrier. …**ABX Air Inc.** plans to lay off 347 employees at its Wilmington, Ohio, base, bringing the total to about 2,450 over the last six months. The cargo airline operated a sorting and shipping operation at the Wilmington Air Park for DHL Express...The **American Trucking Association** is forecasting by 2020, total U.S. freight tonnage will grow over 26 percent and total freight transportation revenue will grow 68 percent. Air cargo tonnage is estimated to grow from 14.5 million tons in 2008 to 22 million tons in 2020. The motor carrier share of total tonnage will rise gradually from 68.8 percent in 2008 to 70.9 percent by 2020. Rail's overall share (carload plus intermodal) of total tonnage will slip slightly from 14.9 percent to 14.7 percent by 2020…**Alaska Air Cargo** claims to be one of the first to introduce a quality control and training program to ensure Alaska salmon will be maintained at temperatures between 32 and 40 degrees in order to arrive as fresh as possible at grocery stores and restaurants across America…**American, Delta and United** have announced capacity reductions and said further cuts would be made if soft demand continues. ACW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No Quick Return For Cargo Says IATA

As the global economy plunges into its deepest recession since the 1930s, IATA Chief Economist Brian Pearce suggests air cargo volumes will take three to five years to return to 2007 levels.

Speaking at the IATA World Cargo Symposium in Bangkok, Pearce said with bank losses of $3.6 trillion and the new $2 trillion U.S. bailout yet to start credit flowing again, World GDP is expected to fall to -1.9 percent this year.

Pearce thinks a global recovery will be determined by how quickly Western countries recover from being over-leveraged; a domestic demand replacement for export-led economies like China; the imposition of capacity and infrastructure charges; the use of debt-financing; the reaction to climate change policies; exchange rates and an opportunity for more balanced trade flows.

A key question, he asked, was whether the recent slump in air freight is cyclical, to be reversed in time, or structural as a result of what some are calling 'de-globalization'. Or isolationism.

The Dutch ING bank group says any move toward de-globalization is dangerous, as global problems require global solutions.

Pearce said there are some "tentative signs" in forward-looking indicators that the slump in air cargo volumes may have reached bottom. The confidence of manufacturers in the US and Europe has improved in the past two months – this usually suggests a similar move in air cargo volumes two to three months later.

He added, "This means airfreight shrinking by 'only' 15-20 percent rather than the 20-25 percent recently experienced. Even so this would be an improvement."

If there is a silver lining in the recession, Pearce thinks it is due to an overall drop in costs.

"Wages and labor costs had been under upward pressure during 2007. There are now signs, particularly in the U.S., of a slowdown in wage growth. Aircraft leasing costs and purchase prices are likely to fall sharply as new aircraft production exceeds demand," he noted. ACW

Cathay Looks For New Markets

Cathay Pacific's freighter network is still growing, but the slump at home has slashed fleet growth.

Despite this, on March 6 the airline added two North American points to its global freighter network with the launch of all-cargo service from its home base via Anchorage to Miami and on to Houston. The new operation is going to run three times a week using B747-400ERF aircraft.

Stephen Wong, Cathay's vice president of cargo for the Americas, sees good potential in both new U.S. destinations. Miami was picked to develop the airline's share in flows between Asia and Latin America. Cathay has been interlining such traffic over other U.S. points – chiefly Los Angeles, New York and Atlanta – but the sheer number of Latin freighter links out of Miami offers more options to Cathay and its customers, often with better transit times, he said. Houston was covered through road feeder links to the airline's Dallas/Ft Worth freighters so far, but the local market is strong enough to warrant direct freighter flights, he added.

Not long ago, the new service, launched with a freighter that Boeing delivered in February, would have been another step in a seemingly unstoppable expansion propelled by an insatiable appetite for lift in the Pearl River Delta.

Today it is more of a balancing act between capacity and demand, an effort to tap into more markets in order to attain halfway decent yields with a fleet of freighters kept at level strength.

The world's manufacturing floor in southern China, which pushed Hong Kong to the top of the global air cargo league, is suffering a painful contraction. By some estimates between one-third and half of the factories in the Pearl River Delta have shut down dur-

ing the past year. Hopes for a resurgence after the lunar New Year holiday disappeared for thousands of migrant workers who had no jobs to return to.

The slump has taken a huge chunk out of Hong Kong's airfreight throughput. Hong Kong Air Cargo Terminals (HACTL), which handles over 70 percent of the airport's cargo volume, recorded a 29.7 percent drop in tonnage in December, followed by a decline of 30.9 percent in January. Exports handled by HACTL were down 32.6 percent in January, as exports to North America fell 36.7 percent, while exports to Europe were off 28.2 percent.

Hopes for a resurgence after the lunar New Year holiday disappeared for thousands of migrant workers who had no jobs to return to.

The full extent of the downturn is reflected in the fact that imports sank 34.7 percent, which points to weaker appetite of Chinese consumers for goods from overseas but even more to a decline in components feeding China's production lines. In turn, this does not augur well for exports out of Hong Kong in the coming months.

Having trimmed cargo capacity by 14 percent in December, Cathay cut back further in January with the decision to park three converted 747-400 freighters for a year. Further reductions in lift come through the accelerated retirement of the older 747-200 and –300 freighters. Elsewhere such cutbacks would leave a gaping hole in the freighter lineup, but Cathay is getting three 747-400ERFs this year, plus several converted 747-400 cargo planes out of a total order for 12. On top of this the airline is in line for ten B747-8 freighters. Originally the first of these was scheduled for delivery this year, but that has been pushed back to 2010 at least. On balance, Cathay aims to keep its capacity more or less unchanged this year.

The addition of Miami and Houston continues Cathay's recent strategy of spreading the network to boost loads on the freighters. In Asia Cathay started a twice-weekly B747F run from its home base to Ho Chi Minh City and Jakarta in January, and in February it doubled the number of freighter flights to Milan to six frequencies per week.

Wong said that no further expansion in transpacific freighter activity is on the radar for the remainder of this year.

The decision to park three converted freighters means that Cathay can use modern, more efficient aircraft in the current climate and will be able to bring in the sidelined planes at short notice once the market picks up, he remarked. If the market stays depressed for much longer, though, the airline may take more freighters out of action. Management has not ruled out such a step.

What certainly will not be needed for some time is the third cargo terminal at Hong Kong International Airport, which Cathay is due to establish. Eager to rein in its handling costs at its home base, the carrier had lobbied aggressively for the third cargo building at the airport, arguing that HACTL could run out of capacity as early as 2009, a claim that had been vigorously opposed by the handling firm.

The fall in throughput has pushed that scenario some way into the future. In January Cathay and the airport authority agreed to postpone the completion of the new terminal by up to 24 months, which means it may not be ready before 2013. ACW

Despite an economic slump, DNATA handled a record 115 tonnes of chocolate from East London, South Africa late last month in anticipation of Mother's Day. Valued at $354,000, the single shipment arrived on a 747 freighter and was quickly covered in thermal blankets to avoid melting in Dubai's 34C/93F heat. The sweet team included: (from left) Yousif Ibrahim Al Mulla, Cargo Supervisor,Bobby Ninan, Terminal Services Manager, Khalid Hussain, Mohammad Shareef and Samuel Masila Muema, Cargo Supervisor.

IN THE NEWS…

Cathay Pacific Airways and **Dragonair** report a 16.7 percent drop in cargo and mail traffic for February 2009 compared to the same month last year. The two airlines carried a total of 100,906 tonnes of cargo and mail. Cathay announced 2008 results that showed the airline lost HK$8.46 billion ($1.08 billion) following fuel hedging-related losses and weak passenger traffic, a record annual loss for the airline. Airline officials expect 2009 to pose further challenges with passenger and cargo demand likely to weaken… **Maximus Air Cargo**, the Abu-Dhabi-based heavylift airline, reports revenues of $110.8 million in 2008 - up 134 per cent from $47.3 million in 2007. Freight-tonne kilometers grew to 347,785 – up 156 per cent from 135,996 in 2007. The airline expects sales of $130 million in 2009, according to President and Chief Executive Fathi Hilal Buhazza…**DB Schenker** has created a separate company, **Schenker Saudi Arabia LLC**, to directly support its customers in Saudi Arabia and expand its Middle East network. Creation of the Riyadh-based company means Schenker operates directly in Saudi Arabia from another three offices in Dammam, Jeddah and Al Jubayl…**DHX-Dependable Hawaiian Express**, a California-based freight forwarder specializing in serving Hawaii, Guam and the nations of the South Pacific, has appointed **Pacific Forum Line, Ltd**. its exclusive agent on the island of Tonga. Pacific Forum Line, which was established to help facilitate trade among the islands of the South pacific, is owned by the governments of Australia, New Zealand, Fiji, Tonga, Samoa, Niuen, Papua New Guinea and Nauru… **Singapore Airlines Cargo** began service to Sao Paulo in Brazil, Quito in Ecuador, and Bogota in Colombia in February. The carrier signaled plans to play an important role in connecting the expanding Latin American market with other major markets in Europe, Asia, North America and Australia…**South African Airways Cargo** has joined IATA's Cargo 2000 initiative. The national carrier joins a list of 72 international airlines, freight forwarders and airports that now support to the program. Among them are companies such as GAC Logistics and Etihad.…**Boeing** projects five-percent growth in the Middle East and North Africa in 2009. The company says it continues to gain market share in the Middle East and claims to have cornered over 40 percent of the business to date. The manufacturer expects airlines to purchase 29,400 aircraft in the next 20 years with about 1,580 delivered to the Middle East. Such purchases are expected to be split 50-50 among replacement and growth-oriented aircraft, Boeing officials said…**Oman Air** will place nine new aircraft into service to Europe and Asia as part of an expansion plan to serve 40 destinations by the end of 2009. Peter Hill, chief executive of Oman Air, said the aircraft would serve routes to Paris, Frankfurt, Colombo and Maldives. The state carrier will also add service to Kuala Lumper in 2010. The carrier will take delivery of four Boeing 737-800s and four Airbus A330-300s in the next few months. ACW

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New Air Cargo Screening Mandates: The Next 50%

April 14, 2009 at 2:00 PM EST

The airline industry recently met the government's deadline to screen 50% of all cargo aboard passenger aircraft, and is now facing the challenge of meeting the 2010 deadline for 100% screening. Initial reports are somewhat optimistic about the impact on the supply chain, but a number of critical issues remain to be addressed:

- Will the industry be able to maintain its effectiveness and efficiency as the 100 percent deadline nears?
- How will the new ruling impact businesses and consumers dependent upon just-in-time delivery?
- What innovative operational, security and financial steps are being taken to adapt to the 100 percent screening environment?

The Webinar will feature insights on these issues from aviation and security experts, including presentations from a panel discussion held at AirCargo 2009 and newly released interviews with the panelists by Paul Page, editorial director of *The Journal of Commerce*. The Webinar will be released on April 14th, 2009 at 2:00 PM EST and will be available on demand at www.aircargoworld.com/screening.

PARTICIPANTS:

The Honorable Asa Hutchinson
Former Under Secretary of the Department of Homeland Security and Chairman of the Safe Commerce Coalition

Dave Brooks
President
American Airlines Cargo

Brandon Fried
Executive Director
Airforwarders Association

Chris Connell
President
Commodity Forwarders Inc.

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Senior Manager
Global Logistics Security
Pfizer Pharmaceuticals

For more information, please contact Steve Prince, Publisher, Air Cargo World, at sprince@aircargoworld.com or 770-642-9170

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Lufthansa Flexible As Markets Weaken

Lufthansa Cargo AG, which has already introduced shortened working hours and slashed capacity to meet weakening demand, will operate with "the maximum possible flexibility" to counter worsening market conditions, the head of the cargo unit says.

The Frankfurt-based subsidiary of Lufthansa has seen the downward trend of January and February, when it posted volume declines of almost 25 percent, continue in recent weeks, said Lufthansa Cargo Chairman Carsten Spohr.

"The global economic crisis has severely affected the global air cargo industry since the final quarter of 2008," Spohr said in comments last month accompanying his unit's 2008 results.

Lufthansa Cargo posted a 2008 operating profit of $215.3 million, an increase of 20.9 percent, and revenues of $3.8 billion, up 6.3 percent from 2007.

During the past year, freight and mail tonnage fell by 6 percent to 1.7 million tonnes. Available tonne-kilometers rose by 2.8 percent to 12,584 million freight-tonne kilometers. However, sales fell two percent to 8.283 million freight-tonnes kilometers transported so that the cargo load factor dropped to 65.8 percent.

"The global economic crisis has the entire international airfreight business firmly in its grip," said Spohr. He predicted that 2009 revenues would fall "perceptibly" and said operating profits would be "well below" earlier levels due to the "difficult business environment."

Lufthansa has already introduced shortened working hours for both pilots and ground crews in its cargo division, and cargo managers there have taken a voluntary 10 percent pay cut.

Spohr, who along with other top Lufthansa cargo officials have signaled their intent to take additional steps beyond cuts in freighter capacities as well as staff and materials costs, said 2009 would pose "the biggest challenge for many years.

Lufthansa's CEO and Chairman of the Executive Board Wolfgang Mayrhuber recently noted that the carrier's focus "is on strict cost management – measures to secure the result are being implemented in all of our business segments."

Cargolux Adds An Italian Wing For More Lift

Oh no, not the launch of another Italian cargo airline! Haven't we had enough with the rise and fall of the Roman Empire's previous attempts under the guises of Ocean Airlines and Cargoitalia?

Even basket-case national carrier Alitalia has chosen to offload its freighter operations as a lost cause. We are promised a comeback of Cargoitalia and the Alitalia MD-11 freighter fleet in the reincarnated form of Alis Aerolinee Italiane, but let's wait and see.

More reassuring is the confirmation of the imminent launch of a new Italian cargo airline. Even more reassuring, perhaps, for the more skeptical observers, is the fact that this will not be a very Italian operation. In fact, operations have already started with the launch by Cargolux of a weekly B747-400F rotation between Milan, Chicago and New York.

It is the prelude by the Luxemburg-based all-cargo carrier to an all-Italian offshoot. This cross-border foray will see the setting-up of Cargolux Italia based in Milan. A separate air operating licence and full certification is being sought from Italian civil aviation authorities for the new airline.

In some ways the move by Cargolux is not surprising given the recent open skies agreement between the US and Europe that allows EU airlines to fly from any member state to any point in the US. It gives complete freedom for Luxembourg's Cargolux to launch US services from Italy in its own right.

But the airline's rationale for the start-up of Cargolux Italia goes much wider.

As Robert van de Weg, Senior Vice President for sales and marketing explains: "In theory all European air agreements, like the recently signed accord with the US, should now be negotiated at EU level. In reality, many are still being negotiated on a country by country basis and by having our

own airline operation in Italy it means that we will now be able to access individual accords signed by that country."

The airline is anxious to establish Cargolux Italia as the genuine article and not just a ghost carrier. To that extent it is even planning to dry-lease in its own equipment.

Surprise, surprise - the new Italian-carrier has managed to secure its first B747-400F from an airline based in Luxembourg.

According to van de Weg, a second aircraft may follow shortly.

But in reality, Cargolux Italia is but a passing distraction from the main job in hand for mother airline Cargolux. And that is surviving the current turmoil that is bestriding the global economy.

"We have taken a big hit like all other freighter operators," admits van de Weg. "That has been a 20 percent decline in cargo volumes in recent months, which climbs to as high as 26 percent in our biggest market of Asia."

The impact on the airline's operations in the US, he says, has been less marked, with exports, in particular, holding up. But this, he admits, comes against the background of a market that was already weak.

As a pure freighter operator he says the airline has gained some, "backswell" from the impact of new U.S. security measures for belly hold cargo.

So what is the Cargolux survival strategy?

"As a small airline we feel we are agile and flexible enough to work with the current market conditions and adjust our operations accordingly," says van de Weg. "Although we have adjusted our rates, we will not drop them to below uneconomic levels, but rather adjust our schedules, which we are literally doing on a weekly, if not daily basis."

Yes, Cargolux is pulling flights, but van de Weg insists not in a way that seriously impacts its service levels. "As an example we have 14 scheduled flights a week from Hong Kong to Europe, (but) it does not affect our customer bases greatly if we let them know one of those services has been cancelled."

Polet Airlines based at Chertovitskoye Airport in Voronezh, Russia, has signed a lease with Ilyushin Finance for three IL 96-400 freighters. The first aircraft was delivered in March. A second arrives this month and a third in May. The company has options for three more for delivery by 2011. The aircraft, a derivative of the IL 86 with modern avionics and upgraded engines, can carry up to 92 tonnes on transcontinental routes.

"As a small airline we feel we are agile and flexible enough to work with the current market conditions and adjust our operations accordingly."

Interestingly, van de Weg modestly describes Cargolux as a "small airline". Others may take issue with that tag being attached to a company that now flies no less than 16 B747-400Fs. Some may also argue that an asset-laden airline may find it tougher to outrun the current economic decline than a variable cost logistics service provider.

It is a point that van de Weg is prepared to argue.

"If there has been a overall 20 percent decline in traffic volumes - and capacity is also reduced by the carriers to the same extent - then we should be able to get some equilibrium back in the market in the second half of the year."

But to expect them all to reduce their capacity to actual demand is a big ask of the airlines. Even van de Weg sounds a skeptical note when he admits that rather than less capacity in the market, there are even more cargo carriers on the horizon - including the European start-up Air Cargo Germany.

Cargolux too will be upping the ante with the progressive introduction of a brand-new fleet of B747-8Fs from 2010 onward. Deliveries of the new aircraft will be nearly a year behind schedule. Some observers say such news will quietly please some airlines that are less than anxious to take on additional capacity.

That is not how it plays with Cargolux.

"We are very anxious to get hold of these new aircraft. They offer improved uplift and greater economy," says van de Weg. One of his concerns is that Cargolux is already committed to off-loading some of its existing B747-400F fleet in anticipation of the arrival of the new B747-8Fs.

"We could find ourselves in the position of having an actual capacity shortfall, with the need to lease in short-term lift." ACW

IN THE NEWS...

The **Transported Asset Protection Association** (TAPA) says the global recession will lead to an increase in cargo crime. Preliminary 2008 statistics for Europe, the Middle East and Africa (EMEA) show 3,756 incidents with a total loss value of more than $213 million. ...**DHL**, which has been trying to hire rival UPS to sort and fly DHL packages in the United States, is now in talks with Ohio-based

partners **ABX Air** and **ASTAR Air Cargo**, according to US press reports. DHL began talking with ABX and ASTAR after an agreement to negotiate exclusively with **UPS** expired at the end of January. The move means that ABX and ASTAR might continue serving DHL if the company is unable to reach an agreement with UPS... **DHL** will cut its investments this year by 20 percent to less than $1.76 billion. Last quarter 2008 sales fell 3.3 percent to $17.6 billion. Cost-cutting helped EBIT reach $3.03 billion. The company reports a full-year net loss of $2.12 billion compared with net earnings of $1.73 billion in 2007. Sales for 2008 grew 0.8 percent to $68 billion...Parent **Deutsche Post World Net** CEO Frank Appel said that **DHL** will take the name Deutsche Post DHL as part of a strategy to make the mail and logistics company "fit for the future."... **Swiss International Air Lines** (Group)

achieved earnings before interest and taxes (EBIT) of $425.6 million for 2008, a 6.5 percent drop from the previous year. Total operating income increased 7.6 percent to $4.4 billion in the same period despite record fuel prices for the first nine months of 2008 and unfavorable currency movements...Ulrich Schulte-Strathaus, Secretary-General of the **Association of European Airlines (AEA)**, has condemned any increase in European air navigation and landing charges. "The least we expect is that governments will not approve any increases of fees and charges for airports, air traffic management and security services during the current economic crisis"... The **AEA** has hailed the decision by the **European Commission** to suspend airport slot utilization provisions during the current economic crisis. The association called the temporary suspension of the 'use it or lose it' rule beneficial for consumers, the environment and all airlines... Bidders for London's Gatwick airport have been given until the end of April to finalize offers for the asset valued at up to two billion pounds Sterling ($2.8 billion). Britain's second busiest airport, which carried more than 34 million passengers last year, is attracting interest from Global Infrastructure Partners, a joint venture between **General Electric** and **Credit Suisse**, which owns London City Airport. Others are **Citigroup** unit **Citi Infrastructure Investors**, with Vancouver Airport Services and **John Hancock Life Insurance Company** bidding jointly as **Lysander Gatwick Investment Group**... **British Airways World Cargo** will continue operating its longhaul freighter program from London Stansted. During an evaluation procedure, BA investigated a number

of options, including a possible relocation to Kent International Airport...**Air Freight Consolidator** and Swedish airline **Nord-Flyg** have signed a new pact to run cargo from Maastrict and Weeze airports to Madrid-Barajas, via Baden-Airpark in southern Germany. The new service will use a Bombardier Dash 8-Q400F short to mid-range freighter with a nine tonnes load capacity...**FedEx Express** was cited as a great place to work in the "Best Workplaces in Ireland 2009" list produced by the Great Place to Work Institute, Ireland. It marks the fourth time FedEx Express has been included in the list...**IATA** Director General Giovanni Bisignani called U.S. plans to implement 100 percent cargo screening "misguided" and urged supply chain industry officials to mount a strong effort against the tighter screening rules set to begin in August 2010...**Airports Council International Europe** says the number of air passengers in January fell 10.7 percent from a year ago, while freight traffic down by 23.6 percent. The group monitors traffic at 101 European airports. The figures released last month show Europe is faring worse than many other regions...**TNT** has expanded its integrated road-ferry express service linking Malta and the EU to an additional 75 countries worldwide. The company says it will benefit Asian exporters who serve Maltese industry as well as Maltese importers of electronic, eco-friendly and household goods. ACW

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German Transport Industry Faces Tough Times

The German supply side transport market is facing a tough next six months as demand remains weak according to a survey of 300 top executives from the country's transport and shipper industry.

The amount of goods are expected to drop, compared to previous quarters, for almost every form of transportation including inland navigation, air and maritime as well as those carried via road or rail, the latest Transport Market Barometer says.

The one bright spot in the survey concerns demand for services in the courier, express and parcel sector, which the industry experts tagged "stable," according to the survey released last month by the Centre for European Economic Research (ZEW) in Mannheim.

Expectations regarding the development of levels of transported goods "are predominantly pessimistic," the center says. This outlook mirrors experts' views on further developments of business activities and external trade as they are essential factors affecting the demand of transport.

In contrast, the outlook for the sector combined transport as well as courier, express and parcel (CEP) services "are not as pessimistic," the center said in a summary of survey results.

Predictions concerning prices marked another noteworthy change, according to the transportation survey. "All the participating experts retracted their expectations regarding price developments over the coming six months, as compared to the previous quarter."

The most striking findings of the price development: rates are expected to remain largely stable in the rail freight and CEP-services sector, while they are expected to shrink significantly in the air and maritime transport sectors.

Decidedly lower fuel expenses are one reason for the change in industry officials' outlook on pricing. However, "it is problematic for companies in the transport industry to pass on higher costs to their customers by calculating higher road charges or by increasing the costs for the raising of capital," the center says. This is because there is a shortage of demand, which leads to rising competition on the market.

In the past, expectations about the different transport markets were rarely this inconsistent, the group said. "This is partly due to the fact that fundamental determining factors develop into different directions: fuel expenses are now, after a peak in the summer 2008, decreasing and the stagnating or shrinking demand faces significantly differing competitive environments."

The transportation survey, which has been conducted every three months since 1998, seeks to gauge the development of Germany's transport markets. The experts are asked to assess whether transport volume and transport prices will rise, fall or remain unchanged.

They also make predictions about developments in the air and sea freight sector from Germany to other European countries, the route to North America and the Asia/Pacific region.

A separate survey by ZEW, released in mid-March, suggests investors are more optimistic about prospects for the German economy, Europe's largest. The data from that survey showed that the research group's economic-sentiment index rose to -3.5 points, from - 5.8 points in February. The March reading in the survey of 290 analysts and investors, predominantly in Germany, was the highest since July 2007.

In that survey, the research group credited the European Central Bank's monetary easing for the change, as well as falling prices for raw materials and food.

There were other signs that U.S. and other governments might be making headway in battling the worst recession since World War II. In mid-March, US Federal Reserve Chairman Ben S. Bernanke predicted the U.S. economy would begin to recover by the end of 2009.

In a recent visit to Washington for talks with US government and automotive industry officials, German Economy Minister Karl Theodor zu Guttenberg also expressed optimism about overcoming the global economic crisis.

Guttenberg defended his country's role in the process, saying Germany is doing its part, and warned against "finger pointing" over countries' differing responses.

"Germany does indeed contribute significantly to overcoming the world crisis," Guttenberg said during his first U.S. visit since taking office in February. "What certainly doesn't help is a culture of finger- pointing. The responses have to be different." ACW

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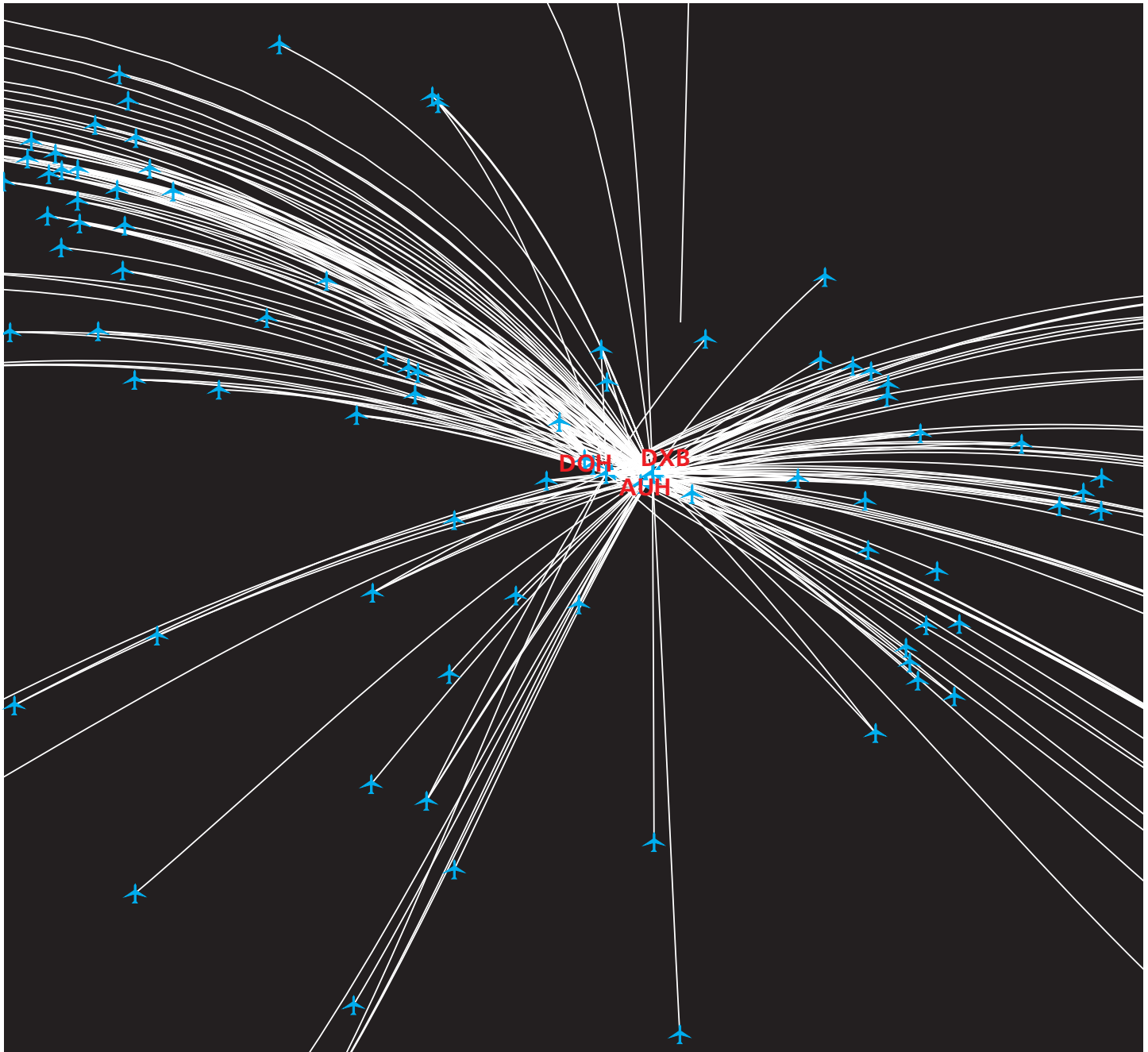

OLD TRADE Routes Echo ANEW

Airline Axis Shifts South?

Whether the growth of air cargo traffic through the Middle East over the past decade signals a clear-cut shift of global trade routes or a balancing of such routes is debatable, one thing is clear: air cargo traffic through the region is exploding.

According to analysts and industry officials, the growth is keyed to several factors: geographic proximity and aggressive Middle Eastern airlines that have stepped up smartly to meet the increasing capacity demand; liberalization allowing greater penetration of European and Indian markets; and a shift in worldwide manufacturing.

Strategically located between Europe and Asia, three Middle Eastern airlines are taking advantage of growing capacity demand for cargo and passengers throughout Asia and are now expanding in Africa and India.

These carriers – Emirates, Etihad and Qatar – are "basically living off the Indian subcontinent to Europe," said David Hoppin, a principal with MergeGlobal.

"What you are seeing is the growth in traffic between India and Europe and the lack of direct services allowing the hubs in the Middle East to penetrate the market. And the reason for not having direct India-Europe traffic is because until recently the Indians have had a very restrictive regulatory regime," Hoppin explained.

Most of the transient cargo traffic is east to west, from India, Singapore, Malaysia, China and other Asian manufacturing centers through the Middle East and on to Europe, carrying cargo ranging from computers and electronics to apparel and perishables.

"Manufacturing primarily takes place east of Dubai," said Ram Menen, Emirates Airlines senior vice president for cargo. "We have about 5.8 billion people in about eight hours flying distance. Two thirds of those live east of Dubai, and two thirds of those live in fast growing economies."

As for the west to east market, "there have always been some markets where most of the carriers have found an imbalance between trade flows," said Des Vertannes, executive vice-president cargo for Etihad Airlines.

"Trying to fulfill a lot of the capacity that flies, for example, into China, has been well documented.

"Fortunately we don't have too much exposure on those routes as yet because most of our flights are into the Asian sub-continent. We do very well with personal effects that go into those routes, so we are not quite as exposed as some of the airlines which have greater density and frequency into those markets," Vertannes noted.

In today's economic climate, in which most airlines around the world are either delaying or canceling orders for new aircraft, these three major airlines are bucking the trend and ordering hundreds of new airplanes that will significantly increase capacity through their hub airports.

Despite the global recession, Abu Dhabi, Dubai and Qatar have large construction projects under way, requiring a massive influx of foreign workers and investment. In Dubai there are some 3.62 million expatriates, most involved in construction. This compares to only 864,000 nationals, according to a published report. Returning home, these workers provide a huge "back haul" west to east in personal effects.

At the end of its 2008/09 fiscal year ending March 31, Emirates had 132 aircraft flying to 101 destinations in 61 countries. Qatar currently flies 62 aircraft with plans to boost its destinations from 83 to 150. Etihad had 42 aircraft at the end of 2008 including three freighters serving 53 destinations.

A fourth all-cargo carrier, Midex Airlines, entered the picture last year flying out of Abu Dhabi's Al Ain airport. While not having the belly capacity of the others, it operates six A300B4-203Fs and a 747-200F. It currently has flights from Bombay, Madras, Dhaka, Colombo, Beirut and Damascus connecting through Abu Dhabi to Paris-Orly Airport, where freight is trucked throughout Europe.

The amount of capacity flying out of Dubai, Abu Dhabi and Doha means that it is cheaper to transship goods through these hubs than to fly point-to-point. They also provide greater frequency than many point-to-point operators and reduce the possibility of cargo sitting in a warehouse awaiting the next flight.

Also, in many cases, particularly from the Indian sub-continent and southern Asia, it's much cheaper to use ocean traffic to ship goods to Dubai's Jebel Ali seaport and combine it with an add-on freight rate to the final destination.

Scheduled Freight Capacity at Select Hub Airports (Total ATKs)

Widebody Aircraft Only

Airport	Code	2003	2004	2005	2006	2007	2008
Amsterdam	AMS	5,347,579,228	7,135,528,856	7,602,534,763	7,171,919,428	7,996,969,808	8,284,350,178
Paris Charles De Gaulle	CDG	4,087,267,301	4,732,317,905	7,130,899,017	6,685,067,820	7,099,411,591	7,041,363,351
London Heathrow	LHR	5,569,844,119	6,048,693,328	6,416,582,244	6,599,031,727	6,970,356,000	7,276,073,991
Frankfurt	FRA	6,235,936,585	6,786,077,345	7,165,086,288	7,335,030,069	8,220,226,738	8,818,375,309
Abu Dhabi	**AUH**	**1,090,689,188**	**1,380,081,809**	**1,776,863,549**	**1,437,632,007**	**1,524,136,639**	**1,424,995,894**
Doha	**DOH**	**236,573,647**	**285,639,062**	**376,309,862**	**582,097,901**	**923,057,445**	**1,098,912,187**
Dubai	**DXB**	**3,967,006,071**	**6,624,643,712**	**8,170,083,229**	**7,233,309,743**	**7,831,900,025**	**7,778,371,846**
Hong Kong	HKG	5,337,701,739	6,455,176,062	7,796,919,020	8,057,650,084	9,070,657,892	9,657,454,127
Tokyo Narita	NRT	6,776,280,865	7,260,153,961	7,571,734,539	7,921,124,965	8,517,643,546	8,031,800,821
Shanghai	PVG	2,386,882,935	3,683,152,696	5,985,151,217	6,058,796,344	7,315,197,689	8,260,995,539
Singapore	SIN	4,151,204,197	4,777,543,385	5,016,831,235	5,012,345,678	5,123,672,990	5,304,511,343

Source: OAG estimate March '09 based on scheduled departures; includes all freighter aircraft as well as belly cargo capacity

Airfreight To and From U.S. (lbs).

Airport	Code	2004	2005	2006	2007
Amsterdam	AMS	774,615,558	791,318,467	864,195,252	857,435,819
Paris Charles De Gaulle	CDG	781,342,661	793,009,662	797,739,318	760,609,253
London Heathrow	LHR	985,011,302	980,705,844	989,552,354	981,308,704
Frankfurt	FRA	972,642,803	968,033,650	903,887,084	967,026,262
Dubai	**DXB**	**10,473,580**	**12,709,844**	**36,265,080**	**61,818,709**
Hong Kong	HKG	611,075,805	730,300,250	808,593,094	883,402,302
Tokyo Narita	NRT	1,859,908,281	1,769,626,478	1,675,175,347	1,630,080,091
Shanghai	PVG	332,478,971	559,878,273	793,879,445	812,699,104
Singapore	SIN	14,501,222	17,387,822	18,911,803	19,993,125

Source: OAG March '09

In southwest Asia, India has become a major manufacturing country despite little infrastructure and restrictions that have inhibited development of its own air cargo industry.

The Middle East, and particularly Dubai, is the best distribution point to and from India, said Menen. "It is easy to come into Dubai and be transshipped into India because of the infrastructure."

Liberalization is also making the north-south routes more lucrative for the transient carriers flying out of the Gulf region.

"Both Emirates and Etihad – and to a lesser degree, Qatar Airways – have now developed their networks to a level where they can effectively exploit opportunities much more effectively than they could have, say, three years ago," according to the Centre for Asia Pacific Aviation.

"As a result, they now enjoy an extensive permutation of new city pairs each time a gateway is added. Many of the European routes they feed have previously been heavily protected by restrictive bilateral agreements that did not allow access by sixth freedom carriers like the Gulf Co-operation Council (GCC) airlines.

"This means that as the key European gateways - and many smaller ones - are opened up, their potential for network growth is higher."

The Centre also notes that with delivery of new ultra-long haul aircraft, the GCC airlines "possess exceptional advantages: geographic centrality, the ability to access almost any point in the world non-stop with their next-generation aircraft and their integral role in a wider 'Dubai Inc.' – type strategy.

"So, as the regulatory restrictions on gateway access are removed, their upside grows exponentially. They are able to grow new markets, as well as diverting traffic from national point-to-point operators, as well as from other, longer-established sixth freedom operators."

One area that is increasing transient cargo through the Middle East is Africa. "Africa is going to be the next frontier in the next five to 10 years," Menen claimed.

Vertannes said that Etihad is "continuing to look at various opportunities" which include Africa. The airline currently operates into Khartoum, Addis Abba and Tripoli in North Africa with its freighters, as well as Lagos in Nigeria. "On the passenger side we operate into Casablanca as well. So Africa is already a very key component of our route network."

Emirates operates into 14 African destinations, from North Africa to Cape Town, while Qatar virtually duplicates Emirates route map into Africa with 13 destinations.

"I think that Africa is a huge market," Vertannes said. "It continues to have opportunities simply because of the fruit, vegetables and flowers that exist in those parts of the world."

And those are the commodities that the mature markets of Europe still depend on he noted. Then there are the African-based companies and traders coming to the UAE to buy all sorts of commodities that they can't acquire in their markets: "So we carry the trader traffic that goes into these consolidations.

"We are and have been a very efficient transient station," Vertannes added, "but as the activity in Abu Dhabi continues to develop apace, we are now beginning to see a rise in more terminating traffic. So I expect to see a slight shift towards increasing O&D business in the future."

Also, both Emirates and Etihad are sponsors of major sporting events that provide major O&D passenger and cargo traffic from around the world.

Dubai hosts, among other major sporting events, the annual Dubai Desert Classic golf tournament and Abu Dhabi is sponsoring this year's final Formula One racing event. Vertannes expects "this is going to be a huge, huge event in November."

Together with established markets, deliveries of ultra-long range aircraft such as the B777-200LR (*pictured*) will enable new routes linking the oil industry's supply chain both up and downstream for GCC airlines.

"Given that the oil and gas sector is a huge element of the GDP in this part of the world, it is a major opportunity," Vertannes concluded. ACW

Europe's

Forwarders Survive In Credit Desert

New FRONTLINE

Times are tough for European airfreight with falls of 25 percent in volumes at the continent's key hubs in December and January, and economic data suggesting that worse could be on the way.

Frankfurt airport, for example, saw tonnage plummet 26 percent in December and 23.5 percent in January, while Amsterdam saw a 23.9 percent fall in December. Carriers are suffering similar tonnage falls – Air France-KLM saw a 20.4 percent fall in traffic in December and 23.3 percent in January, while Lufthansa fell 21.4 percent in December and won agreement from its worker's council in late January to put its staff on short time working.

Meanwhile gloomy statistics on manufacturing output and orders are easy to find. A mid-February report by the Confederation of British Industry says UK manufacturing orders had fallen to a 17 year low, while the country's Society of Motor Manufacturers said UK vehicle production had fallen 47.5 percent in December.

German engineering organization VDMA said orders to its mainly small to medium-sized members – often considered the bedrock of the German economy – fell 40 percent in December, while German GDP is estimated to have fallen as much as two percent in the fourth quarter, far more than expected.

These are the headline figures, but what do they mean out on the frontline of the air cargo industry – in the offices of freight forwarders across the continent? Our survey found agents candidly admitting the extent of the crisis, but by no means bowed by it. There was widespread consensus that this was a time for creativity and new thinking, and to take the innovative steps necessary to be ready for the upturn.

What is certainly clear is that airfreight volumes for European forwarders have taken a big dive. Paris-headquartered SDV says its air freight business is down 20 to 30 percent on the main lanes such as Asia and the US, while


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JAS Worldwide in Italy cites falls of 30 percent from the US and Japan, but only 10 percent from the rest of Asia.

Surprisingly in Germany, at the heart of the continent's industrial powerhouse, Frankfurt-headquartered Quick Cargo Service reports falls of just 15 percent. Its customers are the small to medium-sized German engineering firms mentioned above, but Managing Director Stephan Haltmayer says so far the fall in business from these firms has not been as bad as expected.

"At some points rates have to go up, or carriers will stop flying."

One reason for this might be because they have a good order backlog – 6.2 months worth, according to the VDMA in mid-February.

There are other bright spots. Both QCS and JAS say South America is less badly affected, while for SDV the 15 percent of its business that is with Africa has also proved relatively robust, with only a 10 percent fall so far.

"Africa does not buy a lot of consumer goods, so they are less impacted by the global downturn," says Herbert de Saint Simon, SDV's CEO. "They are still living off their oil and copper exports, and though prices are down there, we are still sending a lot of equipment linked to those activities."

Business related to big industrial projects is also relatively robust in other parts of the world, Saint Simon says. "When you are working to implement a new factory or gas field, then the work does not suddenly stop," he points out.

What certainly has been hit, agree all forwarders, are consumer goods, though even here business is not necessarily disastrous. Seko Synergy, the UK franchise of the US Seko forwarding brand, grew rapidly serving the fashion and retail trades, though it has also now diversified into oil and gas and pharmaceuticals.

One might expect the fashion and retail business to be sharply down, but Dave Emerson, one of its directors, says much of it has simply shifted to sea freight. "Customers are being careful with their money. They are all saying, yes we need it, but if it takes two or three weeks extra, we don't care," he says.

As a result, Seko has seen a rise in its ocean freight business both inbound and outbound. Fabulously low rates are now available: Emerson says it is now cheaper to ship a 40 foot container from Hong Kong to London than it is to truck it 100 miles within the UK.

Of the forwarders talked to by *Air Cargo World*, Seko was the only one to see such a major shift to ocean, however. Saint Simon at SDV says that companies who use airfreight tend to do so because they have no alternative, and he doesn't expect to see a major change in this as a result of the downturn.

In any case, airfreight rates are also hitting rock bottom, with carriers so far failing to cut capacity as fast as demand. Emerson says the whole airfreight market has become a spot market as a result, with contract rates "thrown out of the window", and Haltmayer agrees. "Airlines are running after us like crazy," he says. "There is no negotiation anymore and some airlines will even give you bonuses for giving them just ten tonnes."

This, he says, has enabled forwarders to make some short-term gains, because in some cases they have agreed contract rates with shippers, but can get much lower rates from airlines. "So there is less freight, but the margin is higher."

Paul Parramore, chief operating officer for Netherlands-based Rhenus, which incorporates the former Road Air, is worried by the low rates, however. "The low price is nice for the present, but it is not sustainable," he says. "At some points rates have to go up, or carriers will stop flying."

Saint Simon agrees, and sees an even bigger danger. "These are spot rates, and the market will come back to normal sooner rather than later. But in the meantime, these rates might get used in tenders and this is destabilizing. Forwarders should tell shippers that they cannot guarantee these rates in a yearly contract, but this industry is not always very prudent in that respect."

All the forwarders expect 2009 to be a tough year and are hoping – rather than being confident - that 2010 will see an upturn. Both Haltmayer and Parramore point out that shipper inventories are being run down to the bare minimum at the moment, which will give a role for airfreight when the upturn comes.

"There are no big credit lines, so exporters and importers will make

small and frequent shipments when the recovery comes," Parramore adds. He expects a pronounced bounce as a result, but Haltmayer is less sure. "The market will take time to go back to where it was a year ago. I don't think we will regain the business as fast as we lost it," he says.

One gets the sense that if a recovery does not come within a year, some forwarders may face tough choices. All those that *Air Cargo World* spoke to insisted that they had made no staff lay-offs so far, but Haltmayer makes it clear that his reasons are that he expects a recovery before the end of the year. "If we lay off people now, we might find we have to take them on again in six months."

During a tough 2009, what strategies can forwarders adopt? One is to keep a tight lid on credit. "We have to watch who we advance charges to, in case they go bankrupt," says Haltmayer. Having said that, he reckons QCS is well placed because it owns it offices, cars and computers. "If you are a company with no assets who is leasing those things, then you are less well placed. Banks will not extend you credit," he says.

For Seko Synergy, the secret of survival is to be broadly based. "If you are reliant on airfreight, then you are in trouble," says Emerson. His company makes a lot of its money from web fulfillment, contract logistics and multi-channel distribution for its fashion and retail clients. It provides all the back end services for online retailers, for example. "That is a profitable business and it is still seeing good growth," he says. "My pipeline of new business opportunities has never been as good as it is now."

Other forwarders even see opportunities in the downturn. Saint Simon says that when money is tight, shippers look for new solutions for their supply chain, and the forwarder that can provide that can win new business. "The successful strategy is to be as imaginative as possible – not just offering low rates, but looking at the supply chain in a different way," he says.

A downturn can also be a good time to push through change, while business volumes are not so high and staffs are not so busy. Rhenus is due to open a major airside facility in the Schiphol South East cargo village in July, and is working on a new method of pre-clearance in tandem with Dutch Customs. It will use the advanced manifesting information that is required by EU law for security reasons to pre-clear cargo while it is in the air.

Rhenus will also be working directly with a ramp handler to have its cargo delivered straight from an aircraft to its new facility, so cutting out ground handlers. "This is the time to make changes in this business," Parramore says. "Shippers are not going to pay more, so we have to be more efficient and eliminate cost. We have to find new ways of working so we can compete with ocean and the integrators, or this industry will not have a big future." ACW

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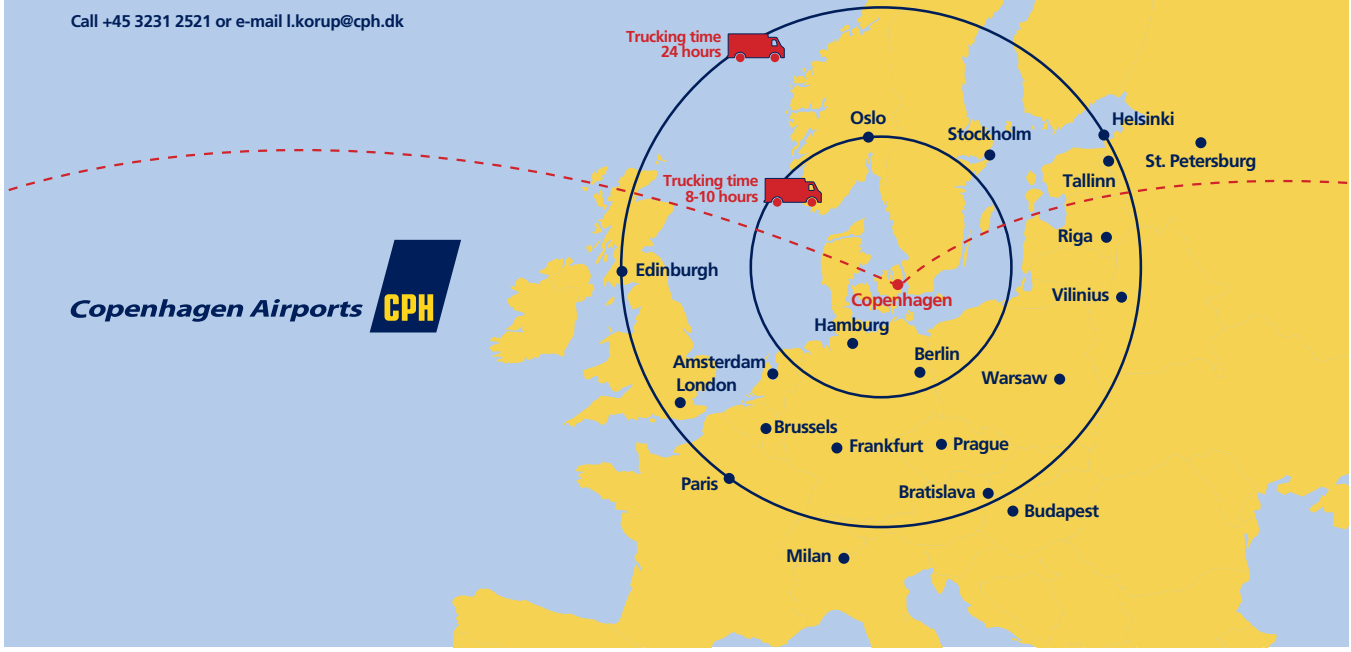


Cargo Charters

Ply Niche Expertise in Promising Market

The air cargo charter market is not immune from the financial volatility buffeting the global economy. But it is proving an opportunity for many players to demonstrate their skill, expertise and knowledge of niche markets to ensure project cargoes and urgent shipments are delivered on time.

Texas-based Air Charter Guru, not surprisingly, specializes in handling project cargo for the oil and gas industry. But according to Jeff Alan, president, its scope now extends way beyond organizing ex-US charters.

"It may be a US oil or gas company we are acting on behalf of, but the project cargo being moved can be between any two points around the globe, such as a recent movement between Italy and Saudi Arabia."

Alan says most of his charters involve B747F charters and says charter rates have fallen off by 30 percent in recent months. "I believe you can just about name your price if you want to access capacity around the Pacific Rim."

He says the fall-off in business demand has also eased access to heavier lift.

"You use to have to wait up to 30 days to be able to charter AN-124 capacity, but that has come down to almost instant access in today's market."

And in today's more demanding market the charter broker needs to come up with more pricing alternatives says Harry Steiner, managing partner of US broker, The Charter Store.

"What the charter broker needs to be able to offer is different pricing solutions, which can often entail different routing solutions to a charter," says Steiner. "The customer will often only think in terms of moving a shipment from A to B, whilst a broker may suggest that if could be cheaper to move the shipment from A to B via C."

Thinking Outside the Box

Steiner says that a combination of commercial and charter lift can also have a significant impact on pricing. "This is where the knowledge and expertise of the charter broker comes into play in being able to think outside of the box."

Steiner says The Charter Store is heavily involved in charter work to Iraq and more lately Afghanistan in sourcing support equipment charters.

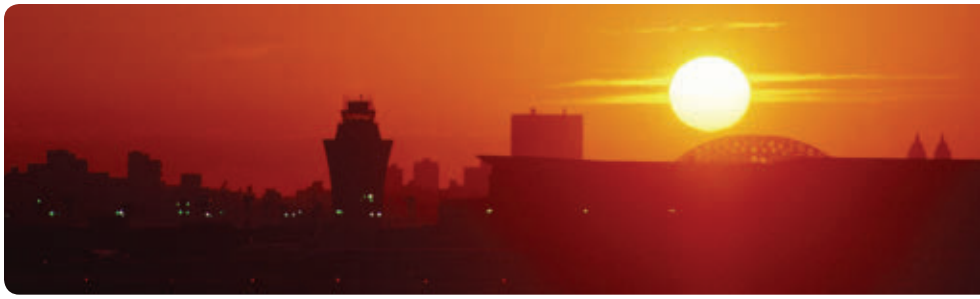
"With the new military build-up in Afghanistan we are expecting a heavy demand in the next few months for all sorts of construction equipment and supplies," says Steiner. "Although many of the main contractors are US companies the cargoes can be sourced from points as far apart as Eastern Europe and Asia."

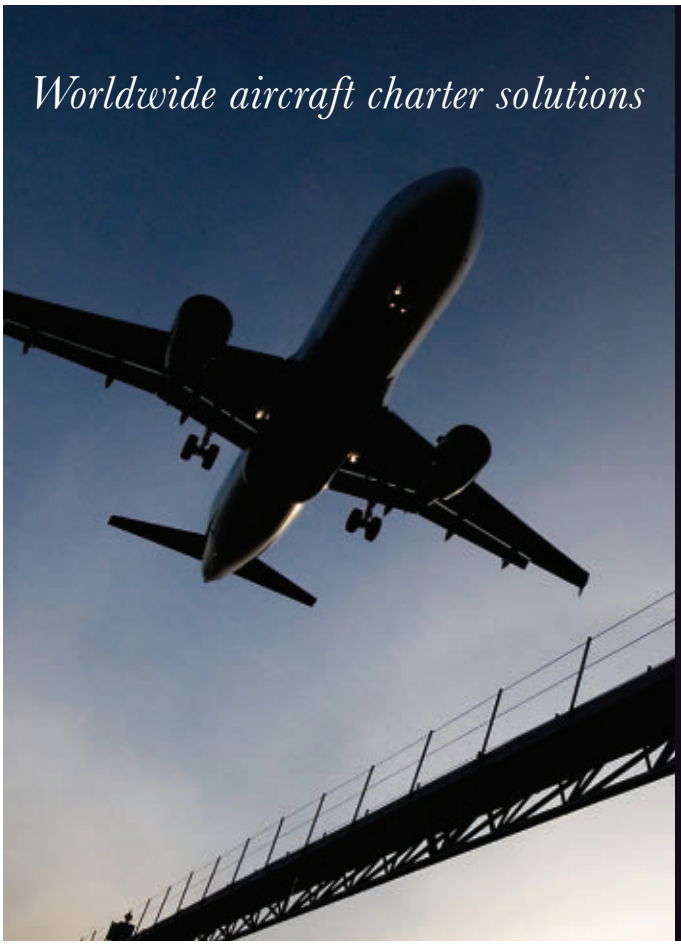
As the parent company of North American Airlines and World Airways, Global Airline Holdings has a sustained record of operating passenger flights for the US military. But through its World Airways subsidiary it is now seeking to build up an equally substantial reputation in the ACMI market for freighter aircraft.

"To that end, we have now extended our fleet to nine MD-11Fs, two B747-400Fs and two DC-10Fs," reports Jeff Sanborn, director of marketing for Global Airline Holdings. "The two B747Fs and three further MD-11Fs were just added in recent months, with the MD-11F capacity coming from Gemini."

The company, he says, aims to provide ready-made access to a range of capacity, with the major scheduled carriers the target customers. In recent months, World Airways has operated extended contracts for carriers such as Lufthansa Cargo and Air France Cargo.

"Typically, a contract would run for about a year," says Sanborn. "But we can cut these up into three month segments, if this suits the carrier better."





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AVIENT

Now may not be the best time to be jumping into the ACMI freighter market, Sanborn agrees, but he is optimistic about future prospects.

Charter Sector 'More Robust'

"What is important to us right now is to establish a presence in this market, and with our track record, we believe customers will recognize that we are here to stay."

At the heavy end of the cargo charter market, Polet Airlines says it is more or less business as usual for its AN-124 mammoths.

"We have seen some fall-off in business," says Polet Marketing Director, Milenko Strika. "But this is compared to the last two years of very heavy demand."

He says the airline expects to see a continuing call for the unique lift capabilities of the AN124 where manufacturers and construction companies will be working to even tighter cost and time constraints.

Polet currently has four operational AN-124s, with additional IL-76F lift available for military and humanitarian aid work. But the fleet mix has taken a significant step change with the acquisition by the airline of three factory new IL-96-400 freighters.

According to Strika, the new aircraft will offer a lift capability in the range of 90 tonnes.

But even ahead of their arrival, Polet has decided not to offer the new IL-96F lift to the charter market. "We believe the market conditions are not right at the present time for these aircraft to operate in the charter market," says Strika. "We therefore plan to offer the capacity for schedule carrier work"

Leading UK charter broker Air Partner says its decision to more actively develop its cargo charter business has paid dividends.

"We have seen a 30 percent increase in commercial revenues from this side of the business in the last six months of 2008," says Richard Smith freight manager for the Air Partner Freight division.

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Global Aviation Holdings Poised for **Future Growth**

A fresh new name – Global Aviation Holdings, Inc. – now identifies the parent company for World Airways and North American Airlines. The name and new corporate appearance also are being supported by a new marketing message: "Customized Air Transport". The descriptive name better explains Global's business platform, and will be identified consistently by a modern logo and corporate identity program.

Global Aviation Holdings is a leading international cargo and passenger charter company providing a wide range of aircraft through its subsidiaries, North American Airlines and World Airways.

The Global Aviation fleet has been built to accommodate future demand, with two excellent fleets at subsidiaries World Airways and North American Airlines. Global Aviation now has more than 30 aircraft ready to serve passenger and freight needs, in addition to supporting its extensive U.S. military business.

Potential customers are able to contact Global Aviation and receive the best solution for their needs, depending on requirements such as aircraft size and availability. The company is focused on growing its commercial cargo and passenger business, and this is an appropriate time to launch the marketing and branding efforts in a much more structured way that will be meaningful to all commercial customers.

Global Aviation Holdings Inc., is based in Peachtree City, Ga. North American Airlines, founded in 1989 and based in Jamaica, N.Y., operates passenger charter flights using B757-200ER and B767-300ER aircraft. World Airways, founded in 1948 and based in Peachtree City, Ga., operates cargo and passenger charter flights using DC10-30, MD11 and B747-400 aircraft.

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Aircraft used range from the giant Antonov 225 to Learjets and turbo props, which can be airborne within an hour. Advice is offered on the most efficient, dependable, cost-effective and flexible charter solutions available to meet requirements, based on aircraft location, size and availability.

Air Partner Freight is a division of London Gatwick-based Air Partner, a provider of aviation services for 50 years to industry, commerce and governments. The company's 250 specialists in 22 offices worldwide have the necessary resources and backup to meet any request, however simple or complex.

The Group's real-time database features global aircraft availability, costing structures and operational characteristics, plus information on aircraft capabilities and airfield infrastructures, even in isolated areas. Surface transfers are minimized by identifying the most suitable and closest airports to departure points and destinations. This ensures the smooth and punctual delivery of loads.

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AIR PARTNER FREIGHT

Air Cargo's **Heavyweight Champ**

Established in 1988 Polet Airlines has come a long way to be one of the major cargo aviation companies, well known as a heavy-weight operator.

Operating with Antonov 124-100, Ilyushin Il-76 and Ilyushin Il-96-400, company has seen a steady growth over the past decade and gained valuable experience in transportation of extra heavy and unique shipments.

AN-124 - capable of transporting up to 120 tons of cargo or 750 cubic meters of cargo - twelve 20 foot or six 40 foot standard sea containers. Capable of kneeling on the nose wheel or main undercarriage in order to bring the sill height to within 1.4M of the ground and operates in every geographical location.

Poletâ€™s client database includes more than 1000 official organizations and companies representing all areas of industries, as well as providing services to numerous Ministries of Defense.

Polet Airlines has international licenses for all markets and the reputation of a serious and reliable partner offering services of the highest standards and remaining an important player in the air cargo market for many years.

With the Air Launch Aerospace Corporation program, Polet Airlines is developing a space transportation system for spacecraft insertion into the near-Earth orbits using launch vehicle ejected from the Antonov AN-124-100 aircraft.

Additional to cargo and Air Launch program, with SAAB-2000 Polet Airlines is increasing every year market share in passenger transportation section as well. With strong coverage of Russian network, new international destinations are constantly introduced.

POLET FLIGHT POLET AIRLINES

"The cargo charter sector appears to be more robust than the scheduled side of the airfreight business and we have seen continued demand from the oil and gas and high technology sectors." Smith says the company has also been able to develop business in niche areas such as movie projects and rock star tours.

The reduction in scheduled carrier business, he says, has impacted charter rates, with more and more mainstream carriers looking for work for otherwise idle aircraft. "That has had the inevitable effect on rates, which have easily fallen by between 20-30 percent."

Carriers Eye New Opportunities

Niche market expertise is coming to the fore for cargo carriers like Avient. It operates regular scheduled cargo services from Europe to points in West and Central Africa, with a fleet of three Zimbabwe-registered DC-10Fs.

Managed from a UK base, the airline is also able to offer charter capacity on an ad hoc basis.

Says Simon Clarke, chief operating officer: "Although we offer the DC-10Fs for charter work in all markets, in reality most of our ad hoc work is to Africa, with business maintaining some strength."

Knowledge of the African market is proving the company's greatest strength in these testing times, says Clarke. "We are aware that other operators have been casting around looking for more work, but most do not seem keen to get involved in the challenges that the African market can present."

Even with an extensive scheduled network to maintain, Clarke says that charters now represent around 40 percent of its business. "Our customers know that we are small and flexible enough to work around our schedules to meet the demands of charter work," says Clarke.

The airline is now looking to acquire its first more modern MD-11F capacity with two aircraft expected to join the fleet, but Clarke says the carrier, even with the additional lift, will retain its existing DC-10F aircraft.

Lufthansa Cargo Charter believes it offers the unique combination of being a neutral broker in partnership with a mainstream cargo carrier.

"Lufthansa Cargo, with its global sales network, is in effect our front office

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through which most of our business is generated," explains Christian Fink, managing director of Lufthansa Cargo Charter. "But from that point on we act with complete neutrality in sourcing the appropriate capacity for a project."

In fact, the company now sources less than five percent of its capacity from the mother company, with many projects now demanding the outsized lift of the AN-124.

The charter market, says Fink has been under pressure for sometime previous to the more recent overall economic downturn.

"What we are now seeing is a massive reduction in scheduled cargo lift on most trade lanes," says Fink. "What we are doing is watching closely to see how this balances out when the upturn does come."

Fink believes inevitably in some markets there will be an over compensation in capacity reduction, which could see some carriers looking for additional short-term lift. "This is where we need to be ready to react quickly."

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Air Charter Guide

In the meantime Lufthansa Cargo Charter says its also has exclusive marketing rights for an IL-76F based in the Arabian Gulf.

"It has given us an opportunity to focus on business opportunities in the Middle East," says Volker Dunkake, head of global sales and services at Lufthansa Cargo Charter.

So far, we have generated very strong business with the IL-76F, to the extent that we are sold out for some months ahead."

TNT Aviation has enjoyed strong success over the years in marketing the excess capacity of its integrator parent, TNT Express. More to the point, it has been making available a freighter fleet, which is busy by night, but idol through most of the day.

"This provides us with the opportunity to market an extensive fleet of BAe-146F, B737F and A300F aircraft for daytime charters throughout Europe," says Sandrine Raet, charter sales assistant at TNT Aviation.

As a fully-fledged operator of four B747-400 freighters on long haul sectors between Asia and Europe, Raet adds that, technically, she can also add this aircraft into the charter portfolio.

According to Raet, the company operates intra-European charters for a range of regular clients to maintain production lines and delivery schedules, with business currently holding up.

But, its greatest individual success has been in the transport of racehorses, using primarily BAe-146 aircraft.

"We also use the B737F aircraft for more distant charters and have our own stock of horse stalls for both aircraft," says Raet. "There are also instances where we are being called on to use the larger A300F aircraft for this type of work." ■

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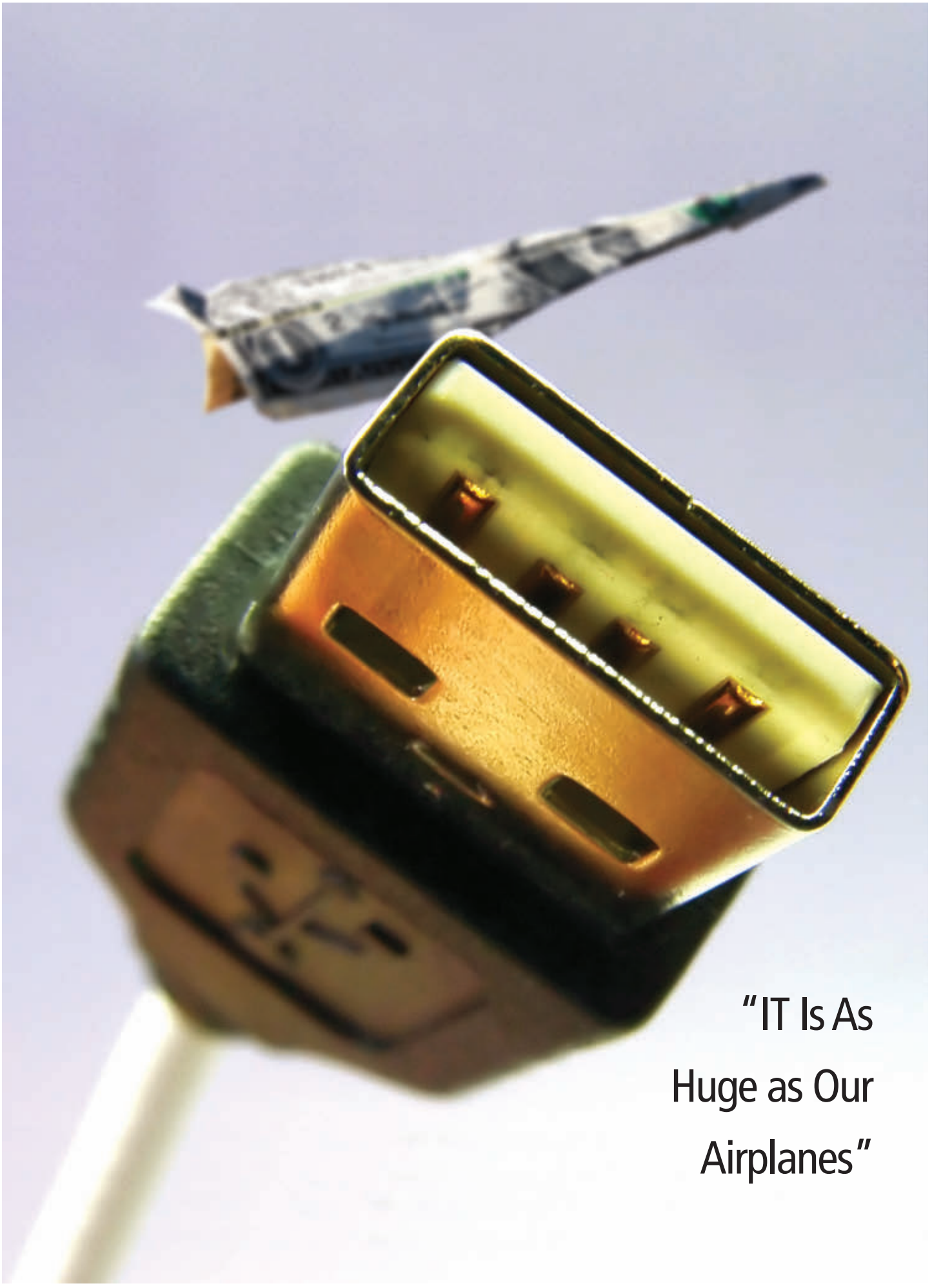

"IT Is As Huge as Our Airplanes"

Invest Sooner Or Die Later

Many air cargo airlines reeling from the global economic slump and trade freefall are continuing to spend on information technology to keep pace with rivals and secure a spot in a tricky market.

Pressures to enhance efficiency, reduce risk and get a better handle on business performance are nudging global cargo players to expand their information technology systems despite harsh market conditions.

Regulatory compliance issues and consumer concerns about the environmental and social accountability of cargo players and their supply chain partners could extend this trend, say analysts.

The move by cargo carriers to stick with their IT commitments stems from the view that "they can't get too far behind or they'll lose business," according to Evelyn Sahr, a lawyer at Eckert Seamans Cherin & Mellot, LLC in Washington D.C.

Sahr summed up one international client's outlook this way: "Those types of expenditures must be made. There's a lot of IT requirements not only with respect to customers but also the government in terms of transmitting information to Customs and others, and we have to stay on top of that."

Nathan Smith, an aerospace and defense analyst at the global consulting company Frost & Sullivan, hailed the invest-now approach. "There is no better time than now for industry players to look at their IT systems. To retain a competitive edge and remain successful, it's necessary to stay abreast with the leading edge of technology."

Airlines must enhance profits and revenue come what may, Smith said. As a result, successful carriers are investing in cargo revenue management systems for maximum optimization.

Ram Menen, senior vice president for cargo at Emirates Airlines, which replaced its legacy systems over two years ago and recently unveiled a cargo handling facility, made this blunt assessment. "To me, IT is as huge as our airplanes."

Menen, who has more than three decades of experience in the air trade sector, noted that major structural changes would occur as the industry passes through the global economic downturn. "As we go forward, information will be the key to the efficiency of the supply chain. "

Two critical elements are inventory management and logistics. In a globalized world where cargo moves across borders, the only way to do that with ease is with complex information systems.

"The downside (for those) not embracing IT will be that when we come out of this downturn, they will still be lagging behind - if they are still around," he added.

Emirates executives who had taken steps to adjust the carrier's global route network and downsize capacity, including last year's sale of three A310-300 freighters, were surprised by the scale of the automotive industry collapse. Menen explained that in this situation "you are no longer managing your business with a long-term plan. You manage it one day at a time based on the fact that you want to be there in the future and are determined to be there in the future."

The current economic climate and the rising cost of transporting goods have changed the supple chain landscape, said Frost & Sullivan's Smith. Today, "it is becoming less common for manufacturers to build for inventory or shipment while build-to-order is becoming more common." These changes now necessitate a more rapid delivery process since warehouses will have little or no inventory.

"Time of delivery will play an integral role in the supply chain process as well as in capacity management. It will also be "an essential task for cargo airlines, freight forwarders and trucking companies," according to Smith.

Ambreesh Mahajan, CEO of Travel and Leisure Services at WNS Holdings, a business process outsourcing company whose clients include Air France-KLM, Federal Express and UPS, said he is beginning to see some airlines migrate to newer, more sophisticated software platforms.

Many airlines have dated cargo revenue accounting software so there is an opportunity for them to move their software onto a new platform, he said. Three or four airlines seem interested in going forward but "no timelines have been defined," he added.

But the disintegrating global economy may delay some decisions. Until October of last year many customers were gung-ho to upgrade their platforms, he said, but that mood has cooled considerably in 2009. "The feeling of gung-ho-ness is not there any more," Mahajan noted.

Dreary market conditions are forcing cargo airlines to focus on market, operational and resource planning to limit losses and maximize revenue as an unprecedented drop in global cargo traffic has carriers scrambling to find ways to do more with less.

"Each airline has its own plan and mandate as to what they think they need to get; they are reevaluating everything and shutting down stations that they find unprofitable," Mahajan explained. And those are the kinds of things that can mean "big, big money."

Philippe Tesler, co-founder and head of business development at Paris-based Enablon, a leading corporate social responsibility software provider, said one of the pressures facing cargo airlines and their partners today is the consumer. "More and more customers of these companies are requiring their suppliers to demonstrate that they are more sustainable and more respectful of social and environmental issues," he explained.

As evidence he cited the growing frequency of clauses in procurement contracts that speak to environmental, governance and social issues. "If they want to stay competitive and be in the game, they need not only compete on costs and on value and on time, but they also need to compete on attributes which they didn't try so well (such as) environmental and social issues."

Another development heightening cargo carriers' interest in Enablon's software solutions is the price of energy.

As the cost of a barrel of oil skyrocketed last year before dropping to more rational levels in the first quarter of '09, many of these companies "had to take a hard look in the mirror" and figure out ways to lower such costs. Now, with the expectation of price rises in the next 12 months, Tesler noted "it's clear to everyone that the era of cheap oil is behind us."

"The downside (for those) not embracing IT will be that when we come out of this downturn, they will still be lagging behind - if they are still around."

For the past 18 months he's seen companies analyzing their data to determine why they have better energy efficiency in one part of the world versus what's happening in another region. "So this is where it is going to analytics, which is basically once you have the information, you can start benchmarking your operation and your fleet" and so take steps to lower energy costs, he added.

The steep cargo traffic drop has airlines checking markets carefully to ensure correct fleet assignments on each route. The carriers are also viewing labor and aircraft requirements closely; making crucial decisions on airport operations, yield management and aircraft maintenance, and eyeing customer service.

And many players are grappling with security issues.

"There's a burden on them, so how do they put new processes into their businesses and be smart about capital investment with regard to the various devices that are needed," asks Keith Winters, chief operating officer and executive VP for Crane Worldwide Logistics in Houston.

One big issue in the security arena is to try and keep costs under control with the customers, the forwarders and the indirect air carriers who are doing some screening prior to arrival at their freight facilities, explained Winters, whose company's August foray into the crowded global logistics market barely beat the global economic meltdown.

Acknowledging the challenge of building a new business in this shaky economic landscape, Winters called the market response to his company's offerings positive. "We are new. We don't have a ton of legacy issues with regards to back office processes and we've built our facility to have more velocity, so we don't have 300,000 square foot facilities like some of the larger competitors."

Crane uses a single source supply chain management system - unlike other providers' multiple legacy systems that can lead to difficulty "from time to time" in communicating with the airlines as a single interface.

Robert Caton, vice president of leasing and marketing director for AMB Property Corp., said most air cargo customers he knows are intent on slashing operational expenses to weather the downturn.

Airlines will look at more fuel-efficient aircraft as one mechanism to reduce operational cost. They will also take a more conservative approach to capital deployment to the point "where there has to be an overwhelming dollar value savings on any new investment."

Other companies are stretching out the life or use of existing equipment to avoid a high capital cost replacement "with the philosophy of keeping immediate costs and capital expenditures low."

Caton also said his company is seeing cargo carriers reduce their transit routes and being selective in determining airports they service. While the immediate benefit to carriers is a reduction in fuel consumption, he noted an opportunity for additional cost savings in landing and handling fees by utilizing strategic gateway airports. ACW

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Business or the Environment: No Longer an

In the middle of a global financial collapse, how can a business justify spending on environmental initiatives that do not have immediate impact on the bottom- line?

It feels, in some ways, irresponsible to be laying-off workers on the one hand and spending money to reduce carbon emissions. Are not people more important than carbon?

Of course people are more important than chemicals, but the distinction between the two is not as clear as it might first appear. The same carbon molecules that cause climate change also are the building blocks of life.

With its four valence electrons (the outermost electrons of an atom that help determine how an element reacts chemically with other elements), carbon bonds well with other elements and enables the creation of the complex molecules without which life would not exist. So, how we manage carbon is at the root of how we manage life itself. No small responsibility that.

It gets more confusing as other barriers and distinctions are also breaking down. The neat compartments of economics, environment, and energy now flow into one another - climate change is rightly described as the greatest market failure of all time.

Having failed to price the environmental cost of carbon emissions into the costs of products and services, we have now accumulated a debt that stretches out across generations to come.

This challenge is not a business challenge, nor is it correctly characterized as an environmental issue. Similarly, it would be wrong to say simply that it is about energy for it cuts across all realms of how our carbon-based species acts in the world.

That short term profiteering in the subprime market has saddled us with staggering debts should serve as an abject lesson in the interconnectedness of seemingly disparate events. A narrow focus on short-term returns and defraying debt

Loess Plateau, China o

Option

Companies and people who can navigate this tough terrain will emerge as leaders in the emerging new economy, based on ecosystem principles of sustainability and adaptability.

Jonathan J. Halperin

ever more off into the future has predictable consequences that are now upon us. The bill always comes due.

Who would have thought that the sale of tract homes outside of Phoenix would lead to the collapse of the financial system in Iceland? The economy is an ecosystem and all parts are connected. And it is also an energy system – consuming, generating, and shifting energy flows with every step, flight, movement and delivery.

And there are limits to what any system can handle – be it biological ecosystem limits, regulatory limits on markets, or capacity constraints on energy. Ignoring limits never works; respecting them drives business innovation and entrepreneurship.

While it is hard to see it when we are immersed in the details of everyday life and work, we are at an historic juncture. Past performance is not any longer a good indicator of the future.

The compass has shifted, new rules are being written, and once powerful incumbent firms are collapsing. It is as if a forest fire is sweeping through the economy, causing havoc and destruction even as it blows seed pods into the wind and generates carbon-based ash to help them germinate.

In the natural world, an intrinsic balance exists and nature's power of adaptation and self-repair are enormous. Given a tiny crack, a ray of light and a drop of water a seed will sprout, green will creep back over brown, and life will endure.

We have seen this at scale on the Loess Plateau in China, the birthplace of the Han Chinese and the headwaters of the Yellow River.

Over the course of ten years a ravaged and denuded area the size of Belgium has been returned to full ecosystem function. Water infiltrates into the ground rather than pulling topsoil into the river; canopy has been restored; groundcover has taken hold; and fruit production is underway. The human species has worked together with the natural world, of which we are a part and on which we rely, and performed a feat no one would have believed possible.

Acting responsibly across the environmental, energy, and economic nexus is good business – and especially so at this moment when the paradigms of unlimited consumption and growth are collapsing.

Companies and people who can navigate this tough terrain will emerge as leaders in the emerging new economy, based on ecosystem principles of sustainability and adaptability.

We have choices to make – as leaders, as organizations, and as a species. Will we build walls and barriers – a proverbial Maginot Line – to keep change at bay; or will we design bridges and links to enable our children and grandchildren to look back with pride at our work with pride?

It is a choice we each make every day. ACW

Jonathan J. Halperin is the Executive Director of The Campaign for Climate Stability, Ecosystem Restoration and Poverty Eradication – a project of the Environmental Education Media Project, www.eempc.org

Logistics activities contribute roughly five percent of the 50,000 mega-tonnes of carbon dioxide emissions generated annually by all human activity, according to a World Economic Forum (WEF) report on supply chain decarbonization.

Billed as the first research effort of its kind, the report readied by the Geneva-based non-profit with support from the global consulting giant Accenture, quantifies and ranks opportunities to reduce supply chain carbon intensity.

The report, "*Supply Chain Decarbonization*," also examines the role that the logistics and transport sector plays in reducing emissions, both in its own operations and by swaying shippers and buyers to make vital supply chain improvements.

Opportunities that start from the logistics and transport sector represent 60 percent of the total 1,440 mega-tonnes CO2 abatement potential, the report says.

"By sizing decarbonization opportunities and focusing on commercial needs, the report helps the move from anecdote to action," said Sean Do-

Steps to Slash Supply Chain Emissions

World Economic Forum
KEY RECOMMENDATIONS

Shippers and Buyers

- Understand and reduce carbon impact of manufacturing through alternative sourcing
- Plan to allow slower and better optimized transport
- Reduce packaging materials
- Develop carbon labeling, standards, auditing tools and use
- Work on product labeling, standards, auditing tools and use
- Increase shared loading

Policy-makers

- Reflect cost of carbon in energy tariffs
- Support carbon measurement and labeling standards
- Build open carbon trading systems
- Invest in infrastructure and flow management
- Facilitate recycling along the supply chain
- Encourage environmental refitting of buildings

herty, Head of Logistics and Transport Industry at the WEF. His organization, formed in 1971, seeks improvements through global partnerships to shape agendas for change.

According to the report, the five opportunities with the greatest carbon-dioxide abatement potential are: clean-vehicle technologies (175 mega-tonnes CO2 abatement potential; de-speeding the supply chain (171 mega-tonnes); packaging design initiatives (132 mega-tonnes); optimized networks, (124 mega-tones); and energy-efficient buildings (93 mega-tonnes).

"Clearly, the logistics and transport sector can contribute a great deal to the reduction of carbon emissions and obtain strategic business benefit from doing so," said Narendra Mulani, managing director of Accenture's Supply Chain Management practice, and project advisor.

However, "the greatest strides will be achieved by collaborative end-to-end supply chain optimization that includes shippers and buyers" in addition to logistics and transport providers, Mulani added.

Overall, the logistics and transport sector has a carbon footprint of around 2,800 mega-tonnes, according to the report. The figure was obtained by using OECD (Organization for Economic Co-operation and Development) emissions data, combined with Greenhouse Gas Protocol emissions factors and other data points. The authors excluded passenger transport emissions and built in emissions from warehouses and sortation facilities.

In absolute terms, road freight is the greatest part, at around 57 percent of the total, with ocean freight at 17 percent, the report says. But assessed in terms of emissions intensity per tonne-km, airfreight is considerably more carbon intensive than road, the report said.

Along with identifying opportunities, the report makes recommendations for logistics and transport providers – as well as for shippers and buyers – to decarbonize the extended supply chain. Among the steps logistics and transport providers can take are:

- Adapt new technologies industry-wide
- Improve training and communication industry-wide
- Switch modes where possible
- Develop recycling offerings;
- Develop home delivery offerings; and,
- Promote carbon offsetting of shipments.

The authors see carbon abatement remaining relevant in an economic downturn "and possibly even being more desirable." As much of managing carbon emissions is about reducing energy consumption, supply chain decarbonization often brings with it additional economic benefits, the report says.

"This makes now the time for the foremost companies to work together to bring about change," according to Accenture. To achieve the substantive change necessary, three main groups - logistics and transportation providers, shippers and buyers, and policy makers (both governmental and non-governmental), must "collaborate across geographies and organizations." ACW

(One mega-tonne is one million tonnes).

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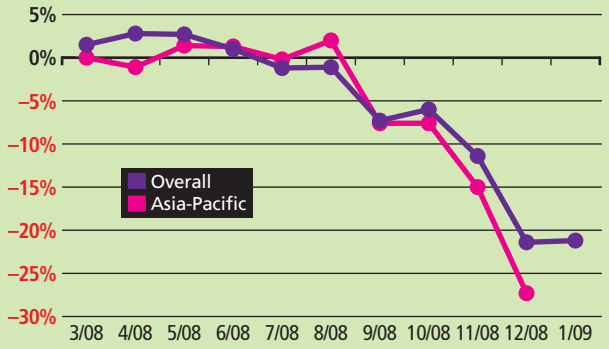
CARRYING EUROPE

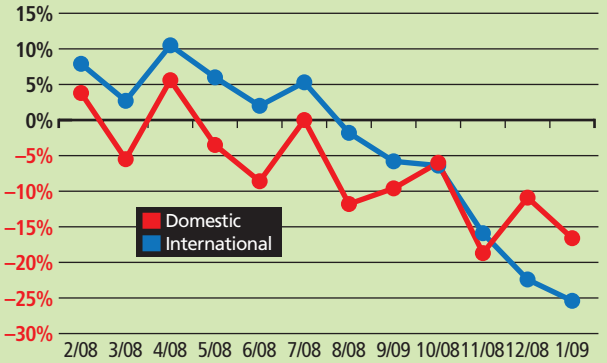
Monthly year-over-year percent change in overall freight traffic and Asia-Pacific freight traffic for European airlines.



Source: Association of European Airlines

U.S. AIRLINES

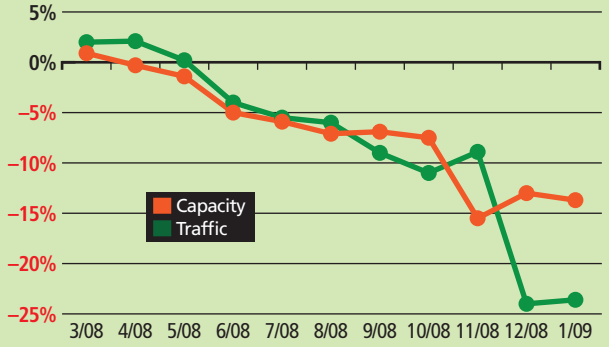
Monthly year-over-year percent change in domestic and international cargo traffic for U.S. airlines.



Source: Air Transport Association of America

CARRYING ASIA

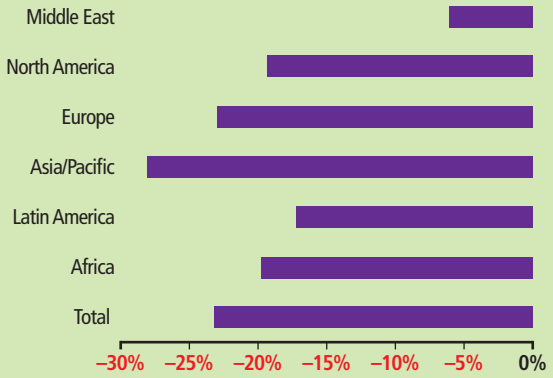
Monthly year-over-year percent change in capacity, in available tonne kilometers, and traffic, in freight tonne kilometers, of Asia-Pacific airlines.



Source: Association of Asia Pacific Airlines

SHARING MARKETS

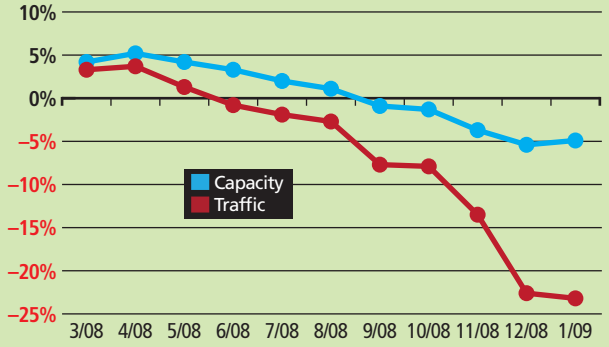
International air cargo year-over-year change
January 2009 vs. January 2008.



Source: IATA

CARRYING INTERNATIONAL

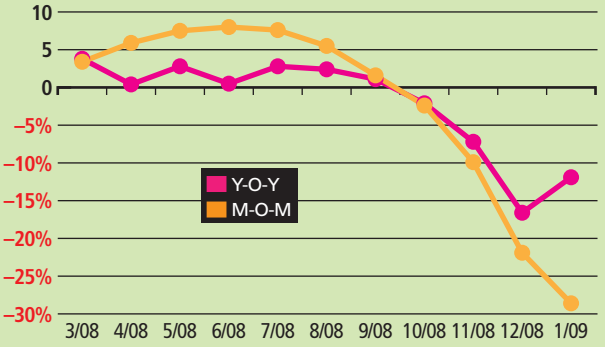
Monthly year-over-year percent change in total scheduled international freight traffic and capacity worldwide in freight tonne-kilometers and available tonne-kilometers.



Source: IATA

SEMI CONDUCTORS

Worldwide monthly year-over-year percent change in sales of semiconductors and month-to-month percent change.



Source: Semiconductor Industry Association

AIRLINES

Atlas Air Worldwide Holdings, Inc. has named **Edward J. McGarvey** Vice President and Treasurer. McGarvey joins AAWW from HSH Nordbank, where he was Senior Vice President, head of Aviation Americas, responsible for finance and business development for the bank's aviation finance unit. Prior to HSH Nordbank, McGarvey was a Vice President at GE Commercial Aviation Services where he led sales efforts for GE's entry into the Japanese Operating Lease market.


SOLIMAN

Etihad Crystal Cargo has appointed **Albert Soliman** as the airline's new Regional Cargo Sales Manager, Middle East and Africa.

Netherlands-based **TNT** has named **Ernst Moeksis** Director of Media Relations. Moeksis will be responsible for corporate relationships with the media within Group Communications. Moeksis previously held communications posts at Siemens, the Rabobank Group, KPN, Buhrmann and the Dutch Ministry of Justice.

Advertiser Index

INTEGRATORS

Federal Express Chairman and CEO **Frederick Smith** will lead a high-level group of industry, government and academic leaders addressing topics concerning Transportation Transformation at a conference April 20-22 in Memphis. "The Global Green Initiative: Transportation in Transformation" conference will cover challenges and opportunities facing freight and passenger transporters in view of world energy, infrastructure and technology issues. New hybrid transport vehicles and software "green solutions" will also be featured as part of a technology exhibit at the three-day event to be held at the University of Memphis' FedEx Institute of Technology.

FedEx Office, formerly Kinko's, staged a one-day event last month offering to print 25 copies of job seekers' resumes for free at 1,600-plus stores. The deal covered orders placed and picked up in its stores. "The economy has affected many people in a very profound way and we want to help," said Brian Philips, president and CEO of the Dallas-based unit of FedEx. The US jobless rate rose to 8.1 percent in February as employers reduced payrolls by 651,000, according to figures from the US Department of Labor. Losses have now exceeded 600,000 for three straight months, the first time that's happened since collection of the data began in 1939.

MANUFACTURERS

Steven Chealander has joined the **Airbus Americas** leadership team as the company's vice president, technical training, at Airbus' Training Center in Miami. He will report to **Tom Anderson**, Airbus Americas' senior vice president, customer services. Chealander previously served as a member of the US National Transportation Safety Board, a post to which he was nominated by President George W. Bush in 2006. Before joining the NTSB, Chealander spent 15 years at American Airlines where he served as pilot, chief pilot, flight safety manager and manager of flight operations efficiency. Airbus' Miami facility, one of four worldwide, trains some 3,000 air crewmembers annually, mostly from North and Latin America.

Boeing has made several appointments within its Washington, D.C., Government Operations unit. **David H. Morrison**, most recently a principal at the Podesta Group, joins Boeing as vice president, Government Operations, a new position. In addition, **Sean I. McCormack**, who previously worked at the US State Department, has been named vice president, Communications. Finally, Brigadier General (Retired) **Leo A. Brooks**, Jr., will serve as vice president, National Security and Space. All three are based in Boeing's Rosslyn, Va., office.

THIRD PARTIES

Agility has appointed **Colin Ricardo** managing director for the Philippines. Ricardo was formerly with the Aboitiz Group, where he headed their logistics company 2GO. Ricardo, who has also worked for TNT and DKSN, has 15-plus years experience including senior management positions with logistics companies in Australia, Indonesia, Hong Kong, Korea, Philippines, Taiwan and Thailand. Agility Philippines offers forwarding and logistics services from its head office in Manila and nine other offices and warehouses around the country.

GAC Logistics Brazil will sponsor the premier league volleyball team, Santo André, extending its brand awareness and reach into global sports venues. Based in the São Paulo metropolitan district, the team was the natural choice and a perfect fit, company officials said.

Volleyball is the most watched and played sport in the country after football, company officials said. The move gives GAC prime-time TV exposure and follows company sponsorships in golf and race driving. The Brazilian Volleyball Superleague , in its 15th season, is the country's top volleyball league for men and women and is organised by the Brazilian Volleyball Confederation.

Trans Global Logistics, based in Hong Kong, has named **Bill Ip** direc-

tor of freight and logistics, China North Region. Ip, who will be based in Shanghai, formerly worked for Wako Logistics Group, where he served as vice president managing the company's China North Region. In his new post, Ip will strengthen Trans Global's agent network throughout key trade lanes and expand relationships with ocean carriers and 3PLS to develop new products and services. Ip has more than 31 years experience in ocean and air transportation and logistics services, all based in Hong Kong.


KYUKI

Swissport International has appointed **Toshihiro Kyuki** as new CEO of Swissport Japan. Kyuki previously served as general manager engine and component section at the aerospace department of Marubeni. He replaces **Shigeru Oshashi**, who is moving to a new position within Marubeni, a Swissport joint venture partner. Swissport International is owned by Ferrovial, an infrastructure and services provider based in Spain.

GOVERNMENT


SHAH

The U.S. Postal Service has named **Pranab Shah** vice president and managing director, Global Business. Shah previously served as USPS executive director of global business strategy and technology, leading new business development initiatives with foreign postal administrations and private integrators in Europe and Asia. Shah's new duties include international business management, financial analysis, network strategy and international operations. Prior to joining the Postal Service, Shah was a senior executive in the private sector, with 10 years of international management consulting experience. He succeeds **Paul Vogel**, who recently retired from the Postal Service. ACW

events

APRIL 5-8

Seattle: 2009 ACI-NA Airport Economics and Finance Conference, Environmental Affairs Conference, and Business Information Technology Conference. These concurrent events will take place at The Westin Seattle. For more information, go to www. aci-na.org.

APRIL 20-22

Memphis: The Global Green Initiative: Transportation in Transformation will highlight the challenges and opportunities facing freight and passenger transporters in view of world energy, infrastructure and technology issues. The event will feature high-level industry, government and academic leaders including Federal Express Chairman and CEO Frederick Smith. It will also yield a report card on the state of the transportation industry and implementation of green technologies. Organized by the non-profit Foundation for Global Mobility and sponsored by public and private entities, the event will be held at the University of Memphis' FedEx Institute of Technology. For more information visit www.gmfoundation.org.

APRIL 27-29

Houston: The 7th Annual Latin American Leadership Forum (LALF7) will host the Top 50 infrastructure projects in Latin America. The event is organised by CG/LA Infrastructure LLC. More information from 1827 Jefferson Place, NW Washington, DC 20036 Tel: (202) 776-0990 or www.cg-la.com

MAY 3-5

Carlsbad: The 2009 Cargo Network Services (CNS) conference at the La Costa Resort & Spa. Program focus includes a shipper's perspective; when the traditional business model no longer works; export risks in the USA and the new security environment. More information: Cargo Network Services Corp., 703 Waterford Way Suite 680 Miami, FL 33126. Tel: 786-413-1000. Fax: 786-413-1005. E-mail: cschmidt@cnsc.us. Visit: www.cnsc.net.

MAY 3-6

Charlotte: The 2009 International Supply Management Conference and Educational Exhibit will gather global supply professionals to discuss leadership in difficult economic times. Discussions will focus on ideas to help executives move forward and keep their organizations competitive. The event, to be held at the Charlotte Convention Center, will include talks on the headwinds of the global economy and trends that will continue through 2009, information for improving business within China, and new ideas in talent management and sustainable practices to create financial and unrealized benefits. For more information go to the Institute for Supply Management, *www.ism.ws/confplanner.*

MAY 13-15

San Francisco: ACI-NA Human Resources Conference to focus on a wide range of human resource issues in economically challenging times. Topics will include strategic staffing, health and welfare benefits, ACI global training hub and human resource finances. All sessions will take place at the Grand Hyatt San Francisco at Union Square. For more information, contact Amy Peters. Tel: 202 293-8500.

MAY 17-20

Cairo: The 22nd IATA Ground Handling Council (IGHC) Annual Meeting & 2009 IATA Ground Operations Symposium will offer sessions where key industry players will examine operational efficiencies and cost-savings measures, ramp safety, and regulations and economic conditions facing the ground handling community. For more information visit *www.iata.org/events/ighc.*

MAY 26-28

Rio de Janiero: The IATA Aviation Fuel Forum will be a platform for airline representatives, fuel suppliers and strategic partners to discuss priorities and reach consensus on actions that enhance productivity. For more information, visit *www.iata.org/ecvents/aff.* ACW

Dr. Paul Forster is the Adjunct Professor, HongKong University Business School of Science & Technology and a member of the HongKong Climate Change Business Forum. His current focus includes carbon management in the logistics industry.

IATA Turning Green?

In a small room, away from the big draws of industry economics and security at IATA's World Cargo Symposium in Bangkok last month, a handful of attendees, some excellent speakers and I, had some very interesting discussions about environment, climate change, and green logistics.

Orla Hahn of DHL spoke on how climate change has been integrated into DHL's operations through the GoGreen program. Driven from the top throughout its operations, DHL measures and monitors its carbon footprint across divisions, using internally developed Key Performance Indicators (KPI) to encourage compliance. An increasing number of supply chain customers are interested in establishing their carbon footprints and pushing information needs back onto their logistics providers.

Eric Van Steen of Accenture looked at the drivers and opportunities for decarbonizing supply chains. Accenture's studies find that while there is a high degree of concern about climate change amongst executives, there is wide variation by industry and geography. Firms with the most efficient supply chains also tend to be the firms most active in sustainability, and finding higher margins through managing energy usage. Of particular note are efforts to "despeed" the supply chain and improve network efficiency. He foresees that placing a price on CO2 emissions would have implications throughout airline operations.

Climate change has become the poster child of environmental issues.

Erik van Agtmaal of Altimedes Consulting reported on an industry commissioned project to compare the carbon footprint of cut flowers and pineapples across sea and air. Key recommendations for the industry included taking a supply chain perspective toward emissions; joining organizations representing the environmental interests of the retail industry; creating a data warehouse for aircraft emissions, and developing KPIs and standards for emissions.

Quentin Browell reiterated IATA's four-pillar strategy for addressing climate change: technology, operations, infrastructure and economic instruments. Engineering innovations, green teams, regulatory efficiency, and more effective communications are part of the strategy to support the industry.

Panel discussions covered perspectives from the electronics and food supply chains. Chusak Chuenprayoth of the Thai Fresh Fruit and Vegetable Exporter Association and Roger Yeo of the Singapore Food Industries were there to discuss the pressures on their industries to engage on issues of food miles and organics. Consumer preferences and demands make a complex set of parameters for their logistics decisions and much of the discussion tried to separate issues of bio-foods from the issues of carbon emissions.

Juergen Bellwinkel, representing Nokia, saw emissions reductions not as a commercial question but as a value question and a cultural priority. Having found standards to improve energy efficiency and reduce emissions lacking, Nokia used internal standards to increase its energy efficiency. With transportation a major emissions source, it is working with providers to reduce emissions on each leg of its supply chain. However, gaining accurate information has proven to be a problem, as tracking emissions or reporting energy usage in convenient units has not been a priority for logistics companies.

It was a long day of discussion but I came away with several thoughts. One was that green logistics, environment, climate change and sustainability make for a confusing mix of terms. While the terms are clearly related they differ in what needs to be done and in urgency.

Climate change has become the poster child of environmental issues. But while climate change is an environmental issue, it doesn't follow that the past mechanisms for addressing environmental issues are the best ones for addressing the needs of climate change. It requires a significantly different point of view.

While industry actions of the four-pillar strategy do contribute to the overall efficiency of aircraft, air cargo as a business in its own right has its own "green" issues to address within the supply chains it serves.

Some supply chains are moving toward "greening" their operations, and looking for logistics partners who understand their needs. However, not all supply chains are moving in this direction, and not all early movers will have advantages.

While building carbon management expertise now may provide future competitive advantage, turbulent times make it difficult to make long term plans. Short-term economic survival is taking precedent over long-term environmental survival. However, we live in interesting times, and next year's environmental track may just prove to be the popular choice. ACW

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