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AXIO

Air Cargo World
THE SOURCE FOR AIRFREIGHT LOGISTICS

editorial

Waiting for a recovery

John W. McCurry
Editor

"Cautious optimism" has become an oft-used term in the air cargo industry, and that figures to continue in 2014. Several of our articles in this issue bear this out.

Manufacturers who use airfreight to ship their goods might have one of the best perspectives of the industry. They are also an important segment of Air Cargo World's readership. They feel the ups and downs of the sector on a daily basis. So we are glad to include their valuable insight in Air Cargo World's first shippers roundtable.

This feature includes the opinions of nine shippers from around the globe, representing some of the big names in key industries that use airfreight, including semiconductors, pharmaceuticals, medical devices and security equipment. They offer an honest outlook for the coming year. Please turn to p. 26 to get their read on the industry.

Continuing to take the pulse of air cargo, we also have our annual Air Cargo Forecast, which begins on p. 30. This year, it's written by Cathy Roberson, senior analyst with Transport Intelligence. This comprehensive industry outlook also examines the prospects for airplane builders and freight forwarders.

Latin America is a pocket of economic growth, and some of the world's leading airlines are expanding in the region to take advantage of the growing cargo landscape. The fastest growing segment here is traffic within Latin American nations. Perishables and pharmaceuticals are among the big drivers of cargo growth. Our feature, which begins on p. 22, takes a look at the Latin cargo boom.

Our Middle East/Africa news section, which begins on p. 10, includes our first interview with Nabil Sultan, the new head of cargo at Emirates. Sultan offers his perspective on his airline's growth and the prospects for the industry in general in 2014.

Another glimmer of hope for an economic recovery? Last year, FedEx set its one-day record for shipping on Dec. 10, with 19 million shipments around the globe. FedEx is predicting that it will shatter that record on Dec. 2 of this year, aka "Cyber Monday," when it anticipates moving 22 million shipments. FedEx says the 11 percent increase will be driven by online retailers.

John McCurry

Copenhagen Airport becomes DHL's Nordic hub

DHL is making Copenhagen Airport its Nordic hub, expanding its operations at the airport in Copenhagen, Denmark, and adding 85 employees.

Cargo traffic has grown at the airport by 6.2 percent year over year, due in part to DHL. The company's expansion is a sign that the Danish economy is slowly recovering, according to Copenhagen Airport CEO Thomas Woldbye.

"The markets in Denmark and Europe are beginning to recover after the crisis," Claus Lassen, head of DHL Express for Denmark, said. "Our Nordic hub at Copenhagen Airport will have a strong strategic role in the entire DHL route network. In future, CPH will be the new hub for all Nordic cargo consignments. This means that we will be handling far more parcels and cargo than we are today."

Cargo at the airport was up 6 percent for the first six months of 2013.

"The increased volume of air cargo is a clear indication that growth is picking up, and this is good news for Denmark and Danish business," Woldbye said.

He sees great potential in Copenhagen being DHL's Nordic cargo hub.

"It will give Danish companies and consumers even better opportunities for moving goods to and from Denmark quickly and efficiently, and it will help generate more growth in the Danish economy," Woldbye said. ACW

Expansion of Heathrow is winning favor again.

Is London's hub future islands in the stream?

There is nothing the British like more than good old-fashioned gossip over the afternoon teacups.

Right now, they are getting all fussed up over where London's future hub airport should be located. Up until now, the focus has been on London Heathrow as the country's prime aviation gateway. But to expand, develop and retain that mantle, it needs to build a third, if not a fourth, runway. Prior to the last British election, the incoming Conservative Party promised to veto any proposed such third runway expansion.

Game over for LHR? Not so fast. Now a newly-convened Airports Commission has been set up to examine the question of the capital's future airport needs, including the possibility of pouring more concrete at Heathrow.

Expansion of Heathrow is winning favor again, if only because it provides a relatively quick and cheap fix, particularly compared to the terrifying costs of some of the new build and, some would say, fantasy proposals being put on the table.

London's maverick mayor, Boris Johnson, steps forward. He has been championing the cause of a "floating airport" in the Thames Estuary, complete with half a dozen runways. But the so-called "Boris Island" has been in dispute. And now even the mayor himself has backed off the idea in favor of another Thames Estuary concept airport to be built on a site further upstream.

Located on what is know as the Isle of Grain, this airport would provide four runways at an expected cost of 44 billion pounds (US$70 billion), but would require less infrastructure costs due to its closer proximity to central London. The project, known as Thames Estuary Airport, which could be in place by 2029, is also close to the logistics cluster created with the opening of the new Thames Gateway port.

And just to muddy the Thames waters still further, a more recent third alternative island airport proposal has been outlined located further down-

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stream. The consortium, which is led by the Thames Estuary Research and Development Company (Testrad), insists it could put the so-called six-runway London Britannia Airport on the map at a cost of 44 billion pounds (US$70 billion), with an eventual capability of handling 220 million passengers a year.

If you are not yet confused over the teacups, then you soon will be.

London's airport landscape has been through a radical overhaul in the last couple of years or so. The once-mighty British Airports Authority (BAA) previously ruled the roost, owning all three of the London gateway airports of Heathrow to the west of the city, Gatwick to the south and Stansted to the north.

The British Government ordered BAA to break up this monopoly, forcing it to sell both its Gatwick and Stansted operations. Gatwick is now in the hands of a group of international investment funds, of which Global Infrastructure Partners is the largest shareholder. In the meantime, the ownership of Stansted has more recently been transferred to Manchester Airports Group.

Not surprisingly, both newly independent ventures want a slice of the action and have pitched their own proposals to the Airports Commission. Both airports are single-runway operations. Gatwick is precluded from further runway expansion before 2019, but says it can quickly add a second runway by 2025.

It perhaps recognizes that it can never take on the full mantle of London's hub airport, so argues instead for what it describes as a "constellation" of airports to serve London.

The new owners of Stansted insist they have the immediate capability of adding a second runway, with potential to add a third and fourth as and when needed.

Reflecting its diminished kingdom, BAA has since reconfigured itself as Heathrow Airport Holdings and is now busy beating the drum in the call for its particular expanse of concrete to remain the UK's hub airport and where future expansion should rightly be focused.

Amid all this, Mayor Johnson continues to hedge his bets and backs London Stansted as his favored alternative choice for expansion of an existing site. His thoughts on London Heathrow? He wants the government to buy it back for 15 billion pounds (US$24 billion) and then bulldoze the site in favor of 100,000 new homes for Londoners. Ironically, the flagship British airport is owned by a consortium of interests from Spain, Qatar, Canada, Singapore and China.

The UK airfreight community has largely avoided getting involved in this spat up to now, but bodies such as the Freight Transport Association have made it clear that they favor the single-hub concept and an early investment decision. The argument, they say, should not be about one or other London airports competing with one another, but rather ensuring that the UK has a hub capable of competing with its European rivals of Frankfurt, Amsterdam and Paris.

"We are always open to the possibility of an airport elsewhere in the future, but Heathrow is our main hub airport now, and as it is full, the need for a third runway is obvious, and so we welcome any proposal for enhanced investment in capacity by Heathrow," Chris Welsh, FTA's general manager of global and European policy, says.

The Airports Commission is set to come back with its proposals by 2015 – plenty of time then for another cup of tea. ACW

Air France-KLM to stay in freighter business

By Martin Roebuck

The Air France-KLM group (AF-KL) has pledged to remain in the maindeck cargo business, despite further reductions in its freighter complement. In a media briefing at Amsterdam's Schiphol Airport, Erik Varwijk, executive VP of Air France-KLM-Martinair Cargo, said that over the next two years, the group will shed four of its current 14 freighters.

By 2015 there will be eight KLM and Martinair freighters based at Schiphol and two Air France freighters based at Paris Charles de Gaulle. Air France is phasing out its last B747s while Martinair is losing a B747-400ERF, operated on lease from KLM, and an MD-11 freighter.

KLM's B747-400 combi fleet, of which 15 are currently operational, will also be phased out between 2016 and 2020. They are due for retirement, and neither Boeing nor Airbus is bringing new planes of this type to market. "We are still contemplating how we deal with that," Varwijk admitted.

However, he affirmed that "It's not the right thing to do to lose all our maindeck capacity. It's important in our product offering and important to our relationship with freight forwarders."

The remaining freighters will be operated direct rather than sub-contracted as, for example, IAG Cargo does. Whichever way AF-KL approached this, capacity would still be tight at times of peak demand, while in a weaker market it would still face the same issues of maintaining rates and yield.

"We believe operating freighters ourselves is important," Varwijk said. "We can dictate changes to schedules as little as two days ahead if we need to—it's part of our agility."

However, the scale of the problems confronting AF-KL's cargo operation

was starkly underlined in the first-half figures. An improvement on the bottom line, with half-year losses reduced to €100 million (US$135.6 million) compared with €174 million (US$236 million) in the first six months of 2012, was "not because of the market but because our unit costs are down," Varwijk said.

This has been partly achieved by cutting the workforce. A further 300 cargo personnel are to lose their jobs over the next year, in addition to 200 redundancies already announced.

While the entire West European cluster of major airlines—British Airways, Iberia and Lufthansa as well as Air France and KLM—faces intensifying competition from Asian and Middle Eastern rivals, the particular challenge of operating twin hubs with many duplicate functions, only 300 miles apart in Paris and Amsterdam, is becoming ever clearer.

The AF-KL group has 50 B787 and A350 passenger aircraft on order, as well as more B777-300ERs on the way. While these will partly replace retired planes, they still represent a significant increase in belly capacity—not least because the 777 has 10 pallet positions and this twice the cargo capacity of a 747-400, comfortably carrying 30 tonnes.

Yet it was an unwritten condition of the merger—not to mention the expectation on the French and Dutch travelling public—that Air France and KLM would separately serve many of the same destinations.

Even in a buoyant market, that would be a big ask for the cargo sales teams, but Varwijk reported that "Conditions continue to be harsh. Everyone is hoping for an uptick."

There was some seasonal optimism around the launch of new technology products in the fourth quarter, but he admitted: "We don't know if [peak season] will be better than 2012."

Speaking exclusively to Air Cargo World after the main briefing, Varwijk said: "There is more clever planning by shippers, so even if there is a new PlayStation or smart phone coming on the market, older-generation products will move by sea."

The shift in cargo flows that was already apparent ahead of the downturn may be permanent, he believes. "Europe-China and U.S.-China was booming and everybody wanted to be in it. Now there is much more capacity in the market and trade flows are shifting.


Eric Varwijk

"We're seeing a bit more north-south traffic, but some of the east-west flows may never come back. Asian carriers are increasing their share, it's a fact of life," Varwijk said.

He avoided specific reference to the growth of the Middle Eastern giants, which prompted Air France unions to write to the French government in September complaining of unfair competition. But it is clear that the rise of Emirates, Etihad and Qatar Airways, together with the Chinese carriers, could put a permanent dent in AF-KL's revenues.

"The yield loss we've seen in the last two years can stabilize," Varwijk said. He pointed out that only 50 percent of the group's cargo business is general cargo, while the rest comprises specialist products such as secure, pharmaceutical and live animal shipments.

These specialist niches are "a different proposition" in terms of the customer care required and AF-KL is seen as a market leader, Varwijk insisted. But he accepted that even specialist products can lose their premium over time and turn into commodities. "There is always smart competition who follow you," he said.

AF-KL is the largest passenger operator between Europe and China, with the most destinations and the most frequencies. By reducing its freighters, the group is behaving no differently than other carriers in Europe and especially in North America, where there is now no freighter capacity at all outside of the integrators.

On paper, only 10 percent of the airfreight shipped globally, by nature of its dimensions or hazardous characteristics, needs to be carried on freighter aircraft. However, operational logic—the possibility of multi-stop "milk runs" or the need to carry cargo to places passengers simply don't want to go—suggests that 30 to 35 percent of the market is better suited to a freighter operation.

Thus, even with a smaller fleet, AF-KL is looking at new freighter destinations. A weekly flight to Curitiba, Brazil, begins in winter season, while Shanghai, covered only by passenger services since July 2012, is to be reinstated. This, however, is more in response to the introduction of A380s on the Shanghai route, reducing belly-hold capacity, than to genuine enthusiasm about recovery in the market.

Alain Malka, exexutive VP of Air France Cargo, explained that the freighter network will be rearranged so "it is not a question of closing destinations". For example, Mexico is served by freighter seven times a week but current volumes do not merit this frequency. "We need four or five," he said.

In an interesting initiative, AF-KL is trying to counteract the trend toward cargo becoming less dense as more packaging is used to protect pharmaceuticals and IT products, for example.

This has penalized carriers because, while underlying cargo charges are calculated on a weight and volume basis, the important fuel surcharge is based on weight only. From 4 November, AF-KL will be taking volume into account in its fuel surcharge

If it succeeds, the tactic will boost revenue. The group hopes it can shift customers away from the all-in rates that have become prevalent by keeping the process transparent. Varwijk said forwarders had responded "positively", but accepts that only time will tell. ACW

worldnews

Firms forge Africa partnership

NA Aviation Services, UK and Astral Aviation, Kenya forged a new strategic partnership in Africa with the acquisition of a B747-400F on wet-lease from Atlas Air.

The launch of the B747-400 took place at Ostend International Airport in Belgium. The freighter will initially operate twice weekly on a triangle route from Ostend, southbound to Lagos, Nigeria, Port Harcourt, Nigeria, and Malabo, Equatorial Guinea, and will then fly to Nairobi, where it will uplift perishables bound for London Manston and Ostend.

"We are very excited with this new venture with our long-term partner and friend Astral Aviation," ANA Aviation chairman Andy Leslie said. "The Boeing 747 factory-built freighter with nose-loading capability means we can offer payloads of up to 120,000 kilos, as well as accepting long and oversize pieces, giving a new dimension to our business to and from Africa as well as the availability of ad-hoc charter capacity on a worldwide basis."

Astral CEO Sanjeev Gadhia said ANA Aviation Services, UK and its counterpart, Network Airline Services, have been its GSA in Europe, the U.S., the United Arab Emirates, India and South Africa, for the past 10 years. The B747 venture enables Astral to market perishable exports from Kenya to Europe, which is growing rapidly and dominated entirely by foreign carriers.

In addition, the B747F will provide inbound capacity for Astral's shipments in Europe and the U.S. for onward connectivity to its expanding intra-African network comprising of Juba, South Sudan; Pemba, Mozambique; Mogadishu, Somalia; Dar-es-salaam, Mwanza and Mtwara in Tanzania; Entebbe, Uganda and Kigali, Rwanda.

Despite air cargo's global slowdown and excess capacity creating low growth for the industry, ANA and Astral remain bullish on the trade between Europe and Africa.

The increase in demand for oil and gas equipment in West Africa combined with the growth in perishables traffic from East Africa to Europe will be the primary focus for the partners. ACW

Emirates' Sultan optimistic, but realistic about 2014

By John W. McCurry
jmccurry@aircargoworld.com

Nabil Sultan describes his first months on the job as head of cargo at Emirates SkyCargo as challenging as he develops an understanding of market dynamics and demand across the globe. Sultan was named divisional senior vice president in June following the retirement of Ram Menen.

Sultan has spent the last 23 years with Emirates on the passenger side. His previous position with the airline was as divisional senior vice president for revenue optimization and distribution. A graduate of the University of Portland, Oregon, he began his career with Emirates in the IT department.

"Of course, one of the key challenges is ensuring the hub is managed efficiently, and there was a huge learning curve to understand exactly how things work," Sultan says. "To be honest, the cargo business at Emirates has been well-established over the years, and there has been sufficient investment in infrastructure and aircraft and other resources. The transition has been quite smooth so far. There have been a few hiccups, but nothing major."

Sultan's observation about air cargo's prospects in 2014 is cautiously optimistic.

"We are tracking the world economy, which has a major impact on our business," Sultan says. "I don't want to be pessimistic, but so far this year the European, and the American market to a certain extent, has been flat. We have not seen an indication of a total recovery yet, but there are some blips of markets doing well for awhile and then going down. July was good, August was not and September was good."

Sultan says some markets, including some areas of Africa, have been "quite robust." To a degree, developing markets have compensated for stagnant traditional markets.

"There are indications that 2014 will probably be a little better," he says. "At least, that's what everyone hopes. Fuel costs continue to be extremely volatile, so we hope that fuel will stabilize, and that will help the industry in a much greater way. Of course, if the economy continues

to rebound, we will start to see more growth as consumer confidence goes up. We will see how it goes."

The other industry challenges are familiar: overcapacity in established markets and political obstacles in creating new routes in some developing regions of the world.

"Some markets that offer business opportunities also have challenges politically," Sultan says. "That's quite sad because new routes can only improve the economies of those countries by building a bridge to the rest of the world. Overcapacity in some markets doesn't help anybody. Eventually, we hope there will be some rationalization and reduction of capacity in those markets."

Construction is progressing on Emirates SkyCargo's new cargo terminal and supporting facilities at Dubai World Central Al Maktoum International Airport. This will become home to Emirates' freighter operations in May 2014. Sultan says the expansion is greatly needed because Emirates is handling nearly 2 million tonnes annually at its Dubai International Airport facility.

"The investment and infrastructure is coming at the right time for us," Sultan says. "The hub is quite critical and is one of the key elements that supports our fleet and network expansion. It will have the latest equipment for cargo handling. It will be a blessing for us."

The new 700,000-sq.-m. (7,539,000 -sq.-ft.) terminal will have dedicated facilities for pharmaceuticals and perishables. It will also have 46 truck docks. Sultan says cargo will flow easily on a 24/7 basis from Dubai International Airport, which will be home to Emirates' belly cargo operation.

"We are lucky to be geographically located in almost the center of the world," Sultan says. "Dubai is a two- or three-hour flight to any of the cities of the Middle East or the Indian subcontinent. We are close to Africa and Europe, especially Eastern Europe. That gives us huge opportunities to access emerging markets when other, traditional markets slow down."

Nabil Sultan

While most of Sultan's career with Emirates has been outside the cargo realm, he says he has always had contact with cargo. He says he finds air cargo to be exciting and interesting. He acknowledges that transporting goods and services across the world is a great responsibility and says he especially enjoys the social responsibilities that sometimes come with that task.

"We work with many [non-governmental organizations] around the world, transferring medical equipment and food into troubled areas," Sultan says. "The fact that we are the hub of this day to day makes it exciting and meaningful. We have a social responsibility to take this seriously from this respect. That's the sort of thing I love about this job." ACW

AV Cargo adds converted freighters for Africa routes

Boeing's aircraft leasing unit, Boeing Capital Corporation, completed transition of two MD-11 Boeing converted freighters on multi-year leases to AV Cargo, which has begun service from its base in Liege, Belgium, on routes primarily to West Africa.

Boeing delivered the first of the cargo trijets to the operator in May. The second aircraft began service recently.

"This second delivery is an important milestone in our strategic business plan that will allow us to further penetrate and optimize our planned scheduled services, providing us with the necessary redundancy to ensure our customers with frequent and reliable services," Neil Glover, AV Cargo managing director and co-founder, said.

AV Cargo will operate its MD-11 freighters into key African cities including Lagos, Nigeria; Bamako, Mali; Entebbe, Uganda; Port Harcourt, Nigeria; Pointe-Noire, Republic of the Congo; Freetown, Sierra Leone; and Pemba Island.

"The MD-11 is the natural and logical choice to serve our niche market needs in the 65-95 tonne payload range, operating into some of the smaller and performance-challenging airports within Africa that preclude most other aircraft," Glover said.

Originally MD-11 passenger aircraft, the converted freighters feature an updated flight deck and cargo-handling system, better fuel efficiency and increased operating capabilities.

"MD-11 freighter conversion is a great move in terms of the aircraft's residual value that appeals to aircraft investors," Frank Duckstein, Boeing Capital senior director of asset management, said. "Conversion extends the aircraft's useful life beyond its passenger service and, thanks to the superior economics and operating performance, it allows us to place into service a good cargo asset despite a soft market."

Overall, Boeing has converted more than 100 MD-11s to freighters.

Simon Clark, AV Cargo CEO, said the operator's third MD-11 is expected to enter service in early 2014.

"It will reinforce our schedules services and significantly increase our ad-hoc charter capacity and complete phase 1 of our business plan," Clarke said. ACW

Kuehne + Nagel airfreight grows on ME route

The Kuehne + Nagel Group grew airfreight tonnage by 3.3 percent in the first nine months of 2013 year over year.

In airfreight, the positive business continued in the third quarter.

The European airfreight business had a good performance, and transports to the Middle East in particular grew significantly. In North America, higher volumes mainly on the South American routes resulted from new business opportunities.

There was a special focus on services for certain industries such as pharmaceutical and health care, automotive and aviation. Gross profit margin improved from 20.8 percent in the first nine months of 2012 to 21.5 percent in the same period of 2013.

The Kuehne + Nagel Group improved overall results in the first nine months of 2013 by 6 percent compared to the same period in 2012, adjusted for an antitrust fine.

While the overall turnover increased by 1.5 percent in the first nine months, gross profit improved by 2.8 percent. Net earnings amounted to CHF 442 million (US$482.3 million) ACW

Etihad meets demand for Vietnam cargo service

Etihad Airways launched daily flights to Ho Chi Minh City, Vietnam.

The inaugural flight is the first-ever commercial passenger service between Abu Dhabi and Vietnam's commercial capital.

"Vietnam is not only the 13th most populous nation, it is also one of the world's fastest growing economies. Its commercial capital, Ho Chi Minh City, is a gateway for millions of Vietnamese international travelers and a busy trading hub," Etihad Airways president and CEO James Hogan said.

Hogan said the new Ho Chi Minh City flights would meet strong demand for cargo services between Vietnam and the United Arab Emirates, the Middle East and Europe.

"The United Arab Emirates is Vietnam's seventh largest trading partner and its largest in the Gulf region," he said. "In 2012, exports from Vietnam to the UAE exceeded US$2 billion for the first time – up 82 percent on 2011 – and forecast to exceed US$4 billion in 2013. The 13.1-tonne belly-hold capacity of our Airbus A330-200 aircraft, which equates to more than 9,500 tonnes per year, gives us sufficient capacity to boost the volume and value of trade between the UAE and Vietnam and to other markets in the GCC, Europe and North America."

Hogan said he hoped the new services would also help support the UAE government's investment in infrastructure, energy, construction and tourism projects in Vietnam and encourage further such ventures in the future.

With the launch of Etihad Airways' Vietnam flights, its codeshare partner, Vietnam Airlines, will place its VN code on the Abu Dhabi-Ho Chi Minh City sector. This extends the scope of the airlines' codeshare agreement. ACW

DB Schenker has retained its five freighter routes, which include two Asian sectors.

DB Schenker keeps freighters for now

As the recent trickle of reports of improved results from Asian airports and carriers gained momentum and converged with word of charter inquiries from the likes of Apple and Sony in preparation of new product launches, the spring seems to have returned to the step of many industry executives. Suddenly, there is talk of a proper peak season out of Asia again, after many had given up the concept for dead.

Thomas Mack, senior vice president and head of global airfreight at DB Schenker, does not share this optimism. "I do not expect any large peak surge in volume," he says, adding that the much-hyped new product introductions in the smart phone and entertainment electronics segments have not had a profound effect on the market.

After declines in airfreight traffic during the first half of the year and modest gains in July, August and early September, Mack expects to see small growth for the remainder of 2013. He does not anticipate serious capacity bottlenecks. "There is still capacity in the market," he comments. Only some sectors pose challenges to find lift.

Whereas demand has staged a modest recovery after a sustained period of decline, capacity has been expanding thanks to the arrival of the 747-8 freighter and the proliferation of B777s in passenger service. The latter development has eroded demand for freighter capacity, but the volumes shipped out of Asia's major gateways, such as Shanghai and Hong Kong, cannot be carried by passenger planes alone, so there remains a need for freighters, Mack says.

So far, DB Schenker has retained its five dedicated freighter routes, which include two Asian sectors – from Hong Kong to Chicago and on to Sao Paulo, and a return service between Shanghai and Frankfurt. When the first of these contracts expire in 2014, they will come under critical scrutiny, Mack says – not that he questions the concept, but to see if they remain attractive on price.

"It is still a unique selling point if you have dedicated capacity. The quality differential is there. It is only about cost," he explains.

DB Schenker has reduced its block space agreements and fixed allocations to take advantage of better pricing on an ad hoc basis. However, this has not removed traffic from the group of preferred carriers that the company uses. Shifts have been within this group, as some of these carriers responded faster than others to changes in the market, Mack says.

On the intra-Asia lanes, he has noticed a shift from electronics to con-


"The Boeing 747-8F is an exceptional aircraft and a stair-step improvement in freighter technology. Ours are delivering enhanced revenue payloads and operating efficiencies for our customers and driving growth in our core ACMI business."
—William J. Flynn, President and Chief Executive Officer, Atlas Air Worldwide
Operator of the world's largest fleet of Boeing 747 Freighters
WE COULDN'T SAY IT ANY BETTER.
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sumer goods. In part this is driven by the rise of online shopping, a sector that Mack views as hugely promising in the future. To some extent, though, the growth of consumer goods' share of the intra-Asian airfreight volumes overall is due to the migration of electronics traffic to slower modes brought about by new developments there, he adds.

"Today, there is regular trucking between Singapore and China, which did not really exist two years ago," he says.

Rail freight, on the other hand, has not made much headway within Asia, whereas it has grown from China to Europe. In August, DB Schenker ran its first train service from Zhengzhou, China, to Germany, opening a new connection to central Europe with a 15-day transit window.

There is also a rail-air service, which moves the cargo by land from China to Central Asia for transit to freighter flights to Europe. Mack calls it a niche product with negligible volumes so far. The yield erosion in airfreight over the past two years has narrowed the price differential, undermining the appeal of the slower alternative, he says.

Predictably, pharmaceuticals have been going strong for DB Schenker in Asia and look set to continue their momentum. The much-hyped aerospace industry in China, on the other hand, is not yet an engine for growth in airfreight.

"I don't see yet much shift of aerospace production to Asia, but it will happen," Mack says.

In the coming year, the logistics firm is looking to boost its footprint in Asia further.

"We will continue to expand our network in Asia," Mack says.

In some locations, new branches will open up, in some countries where it is today represented by local agents, the logistics giant is looking to establish its own country organization, often by taking over the existing partner, he adds. ACW

Learning to fly in American Samoa

By Adina Solomon

It's Sunday, and Tony Feist talks with a fishing ship captain, who is on a satellite phone in the Pacific Ocean.

Feist needs to airfreight parts to American Samoa in order to fix the captain's boat. It costs about US$50,000 (37,550 euros) a day for a fishing boat to sit in port, so he needs to work quickly. Hawaiian Airlines and Pacific Air Cargo, the only airlines that fly to American Samoa, have just three flights a week to the small Pacific island.

"Before that captain is pulling into the port, we're landing in American Samoa and delivering within an hour and a half of arrival," Peter Lamy, president of American Worldwide Agencies (AWA), says.

Feist deals with phone calls like this one on a regular basis as president of Island Cargo Support (ICS), which specializes in air and oceanfreight to the Pacific Islands. Los-Angeles-based ICS is a division of freight forwarder AWA.

Both AWA and ICS were founded a year ago.

"The Pacific Islands are such a niche market," Lamy says. "Basically anything that's consumed on-island has to get there, and we're involved in transporting that, whether it be ocean or air."

ICS has ULDs on every flight into American Samoa, a U.S. territory of 55,000 people. In addition to fishing boats, the company services hospitals, schools, government agencies, relief organizations and family-owned businesses.

ICS also works with StarKist, a producer of seafood products. Its tuna cannery is the largest employer on American Samoa and one of the largest production facilities in the world. Tuna is the island's main export.

"You're here in the States, and you have all these luxuries like liquor stores and department stores," Feist says. "We pretty much have our hand on everything you can think of."

As a forwarder, ICS does about 90 percent of the airfreight in American Samoa. It's the largest airfreight forwarder in the island, moving 15 tonnes of air cargo a week.

Feist has been working in freight forwarding with Pacific islands, especially American Samoa, for 15 years. Even though ICS has a monopoly, Feist stresses keeping the market and prices fair for people.

"A lot of companies that do ship in there, to them, it's just another destination, but for us, it's everything, so we keep it very fair for our clients," he says.

Feist takes trips to American Samoa to meet clients in person and even has dinner in their house.

"They're not your typical clients," he says.

It takes a special understanding to ship to American Samoa and other islands in the region, Lamy and Feist explain.

"It's a difficult market for a lot of people," Lamy says.

For instance, AWA ships to Australia, where there are multiple flights and different ways to route the cargo.

"But for American Samoa, it's limited and it's very time-sensitive because not only is it you don't have a lot of choices, but the cost can go through the roof very quickly on the goods that go down there," Lamy says. "It's about consulting the people down there and knowing their needs, whether it's going to be ocean or air."

ICS must assemble the goods in Los

Angeles from around the U.S. – where most cargo bound for American Samoa originates – provide inventory and then export it.

At ICS, Feist leads a four-person operation that focuses only on the Pacific Islands.

"It doesn't mix well with general freight forwarding, so having a division strictly dedicated to that market has made a big difference," Lamy says. "I don't think the staff at Island Cargo Support could probably do very good on a European market. They wouldn't know how to sell that or work that, just as I don't think many people would know how to do [Feist's] market."

He says cargo into American Samoa remains consistent because everything on the island must be brought in, and almost all of it is sourced from the U.S.

"They still have to eat. They still have to clothe themselves. They still have to run their businesses. So everything comes in on a regular basis," Lamy says.

ICS has proven successful. After just a year in business, ICS has tapped out the American Samoan market. Lamy looks to growth on other islands such as Guam, Fiji and Christmas Island – "some of these more difficult islands that your multinationals don't take a lot of interest in."

Both Feist and Lamy take pride in their knowledge of the American Samoan and Pacific island cargo markets, mentioning the importance of their relationships with clients more than once.

"We have a deep understanding of what their requirements are," Lamy says. "It's just not another shipment. It's just not another urgent shipment. It's very, I suppose, personal." ACW

New cargo service brings pharma, garments from China

China Southern Airlines launched a new freighter route from Hangzhou, China, to Los Angeles.

The new route is operated by a B777-200 freighter, providing 90 tonnes of capacity weekly. The flight goes from Guangzhou, China, to Hangzhou and finally to Los Angeles. The total transportation time from Hangzhou to Los Angeles is about 12 hours.

Garments, fabrics, mechanical parts, chemicals and pharmaceuticals are exported to the U.S. from Hangzhou and its neighboring cities of Xiaoshan, Shaoxing, Ningbo, Jiaxing, Huzhou and Taizhou.

The launch of China Southern's new freighter service will provide a direct channel for high-end shipments to destinations in the U.S. West Coast. ACW

FedEx begins cold facility construction

FedEx Express is beginning construction on a new temperature-controlled facility and heavyweight pickup and delivery operation at the FedEx Express World Hub in Memphis, Tenn.

The 88,000-square-foot (8,175-square-meter) facility will interface with Memphis hub operations.

"At FedEx, we offer an outstanding customer experience for those shipping time- and temperature-sensitive goods," Richard W. Smith, managing director, FedEx Express Life Sciences and Specialty Services, said. "With our new, world-class cold chain facility, we will be able to better manage health care products and other perishables in the event of unforeseen delays, such as clearance holds or inclement weather, and give our customers the peace of mind they deserve when shipping sensitive goods."

The new facility, which is scheduled to be complete and in operation by the fall of 2014, offers temperature-controlled rooms for frozen, cold and controlled room temperature products. There are also flexible walls that allow precise temperature control and segregation of commodities and real-time CO2, humidity and temperature monitoring.

The features of FedEx's new building will lead to more precise temperature control of shipments once they leave the aircraft and travel through the Memphis hub.

The FedEx Express cold chain facility is being designed and constructed by Indiana-based engineering and architectural firm MSKTD and Associates, Inc. ACW

In June, the Inter-American Development Bank announced it will lend money to Bolivia to upgrade the infrastructure and equipment at two regional airports, including Cobija in the Pando department.

Transport development unlocks Latin growth

By Adina Solomon
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Transportation, including air cargo, can improve Latin America's economy – but right now, it is an obstacle to growth in the region.

"Our transportation and our cargo logistics are not up to par. There's a lot of room for improvement," says Esteban Diez-Roux, principal transport specialist at the Inter-American Development Bank (IDB). "To have inefficient transport systems, this obviously puts in a very big additional burden, so transportation is actually one of the biggest impediments for growth in the region."

Established in 1959, IDB is the largest source of development financing for Latin America and the Caribbean. The organization lends money to governments in order to promote economic development, including initiatives in transportation and aviation.

This year, IDB, which is headquartered in Washington, D.C., has spent more on transportation than on almost any other sector, totaling more than US$1.2 billion (884 million euros) year-to-date.

Diez-Roux says Latin America needs to focus on developing its transportation.

"Making sure that we have efficient transportation systems, and the cost of getting things in and out as low as possible, would make the region a lot more efficient and more productive," he says.

Historically when it came to transportation, IDB mainly used to finance roads. That changed about a decade ago.

"We're starting to focus much more on other types of transport, especially on logistics, and when we talk about logistics, obviously we have to talk about different modes of transport," Diez-Roux says. "Logistics and cargo platforms and airfreight play an important role."

IDB has financed airport infrastructure projects in Quito; San Juan, Puerto Rico; Costa Rico and Bogota, Colombia, which has relatively large cargo movements for Latin America, Diez-Roux says. IDB has also supported projects for air sector reform.

In June, IDB announced that it will lend US$73.5 million (54.4 million euros) to Bolivia to upgrade the

infrastructure and equipment at two regional airports, Trinidad in the Beni department and Cobija in the Pando department. This will enable the airports to offer international service.

Diez-Roux says logistics costs in Latin America are higher than most other countries in the world.

"For Latin America, it's actually even more serious because we're pretty far away from all the big centers of consumption or production in the world, so basically, the stuff that we export or import tends to travel long distances," he says.

At the same time, Latin American air transport has mushroomed over the past few years, Diez-Roux says. This could potentially benefit air cargo development in the region.

"There's been an incredible explosion. Theoretically, we should have capacity to improve air cargo. There's a lot of excess belly capacity, empty belly capacity, in these planes that could be used to transport cargo," he says. "There's a lot of room for growth." ACW

Boeing to expand Montana manufacturing facility

Boeing will expand its manufacturing site in Helena, Mont., by nearly 50 percent to support demand for airplanes and new work for the Boeing 787-10 Dreamliner.

The nearly US$35-million (26.2-euro) expansion will add more than 55,000 square feet (5,100 square meters) of manufacturing space, bringing the Boeing Helena facility to 167,099 square feet (15,524 square meters).

"Our further investment in Montana is testament to our Helena team's ability to deliver on their commitments and establish themselves as a reliable, globally competitive supplier to our commercial airplane programs," Boeing chairman, president and CEO Jim McNerney said.

Construction will begin this fall on the south side of the existing facility, with estimated completion by the fourth quarter of 2014. Boeing expects the expansion and increased work to add 20-25 people to the 144-person workforce.

"Boeing Helena has a great future ahead in support of unprecedented production rates," Eric Smith, director and site leader, Boeing Helena, said. "This expansion ensures we have the stable workforce, skills and now the manufacturing space we need to support production requirements and take on new production for the 787-10." ACW

Etihad, Cathay Pacific add Los Angeles service

Two airlines are adding service to Los Angeles beginning June 1, 2014.

Etihad Airways will launch direct flights to Los Angeles from Abu Dhabi.

Cathay Pacific Airways will add a fourth daily direct flight to Los Angeles, along with three additional direct flights to Chicago beginning Aug. 2, 2014. This will bring the number of flights to Chicago to 10 a week.

Los Angeles, with a metropolitan population of more than 18 million people, is the second largest city in the U.S. It has strengths in business, international trade, technology and medicine.

"We are delighted to add Los Angeles, a major U.S. and global destination with a significant metropolitan population and growing economy, to the Etihad Airways' network in 2014," James Hogan, Etihad Airways' president and CEO, said. "The expansion of the U.S. network also will be of considerable benefit to the growing commercial and cultural ties between the U.S. and UAE, with trade between the two countries set to increase beyond the current annual level of USD$22.5 billion."

For Etihad Airways, Los Angeles will be its fourth U.S. destination, joining Chicago, New York and Washington, D.C. Etihad will deploy a Boeing 777-200LR on the route.

Cathay Pacific's fourth Los Angeles frequency will be operated by Boeing 777-300ER aircraft.

"North America is an important market for Cathay Pacific, and we are pleased to be able to expand our services further and provide even more options for travelers," John Slosar, Cathay Pacific chief executive, said.

FedEx Express is beginning construction on a new temperature-controlled facility and heavyweight pickup and delivery operation at the FedEx Express World Hub in Memphis, Tenn. ACW

American Airlines begins Orlando cargo service

American Airlines Cargo began offering full cargo service to and from Orlando, Fla.

American offers regular connections between Orlando and its five hubs: Dallas/Fort Worth, New York-JFK, Los Angeles, Miami and Chicago O'Hare. Air General will act as American's handler in Orlando.

Earlier this summer, American expanded cargo service into and out of Indianapolis, New York – LaGuardia, San Diego, Atlanta and Liberia, Costa Rica. More cities are expected later this year. ACW

TIACA commends ICAO resolution on aviation emissions

The International Air Cargo Association said the agreement by 191 countries at the International Civil Aviation Organization General Assembly in Montreal to develop a global market-based measure for aviation emissions from 2020 is a major breakthrough.

"We must not underestimate the importance of this agreement. Business is changing, and companies are being forced to deal with harsh economic realities while also working to achieve a sustainable future," Doug Brittin, secretary general of TIACA, said. "Collaboration on the development of necessary global standards is essential to achieve the clarity international businesses need and to remove unnecessary additional processes and costs that inevitably arise when organizations are forced to comply with a raft of different national and regional regulations."

Prior to the ICAO meeting, TIACA urged the 191 states to reach a single and sustainable agreement to help aviation achieve carbon neutral growth. TIACA also endorsed a resolution by members of the International Air Transport Association for the implementation of an aviation carbon neutral growth strategy by 2020.

Under the terms of the ICAO Resolution agreed in Montreal to develop a global measure for aviation emissions, governments will spend the next three years leading up to the scheduled ICAO General Assembly in 2016 on technical discussions.

"As we have continuously stressed, the aviation industry is highly committed to more efficient operations and has a long history of investing in tangible improvements such as more efficient aircraft fleets and the development of alternative fuels, as well as a wide range of other green initiatives applied on the ground," Brittin said. "This will continue apace because greater efficiency means lower cost and in a highly-regulated industry forced to operate with such low financial margins, this is the ultimate incentive for airlines. The global economy needs a vibrant and profitable airline industry to stimulate growth and, in turn, the industry needs regulators to work alongside it to ensure the aviation industry can continue to fulfill its vital role." ACW

Companies scramble to stay ahead in Latin America

By Adina Solomon
asolomon@aircargoworld.com

Lufthansa Cargo is expanding its Latin American services with new freighter service to Lima, Peru, in October, with stops in Quito and Aguadilla, Puerto Rico.

Brazil is booming, due in part to the upcoming World Cup and Olympics. Mexico's economy is expanding. Colombia, Argentina and Chile are getting a heaping helping of growth.

The question for airlines and forwarders is not why they should increase air cargo infrastructure in Latin America. The question is why wouldn't they.

"Certainly we will want to grow our business in Latin America," says Rodrigo Casal, regional commercial manager for Latin America at IAG Cargo. "We see that there is great potential."

IAG Cargo began offering cargo services between Quito and Madrid in late October. During the same month, the airline also increased its freight capacity between Rio de Janeiro and London.

IAG Cargo operates more than 96 wide-body flights to Madrid and more than 28 flights to London each week, all coming from Latin America. The company's biggest presence is in Brazil, Argentina, Colombia and Ecuador.

Lufthansa Cargo is expanding its Latin American services with new service to Lima, Peru, in October, with stops in Quito and Aguadilla, Puerto Rico. The route is flown twice a week with MD-11 freighters.

"While historically the growth of Latin American economies has been very volatile, the predominant direction has still been only one way, and that is up," Andreas Otto, executive board member product and sales of Lufthansa Cargo, says.

Otto says the fastest-growing segment is intra-Latin-American traffic.

"Despite the current worldwide economic slump, most of Latin American economies are still growing healthily on average," he says. "Favorable demographics with young populations, as well as more people accessing the middle class and getting

access to credit, will provide lots of economic growth for years to come."

DHL Express, a division of Deutsche Post DHL, has invested millions in its Latin American operations in the past few months, including for its Mexico City hub, its Colombia hub, a new distribution center near Santiago and a new operations center in Guadalajara, Mexico.

"The borders within the Americas have become friendlier," says Mike Parra, senior vice president network operations for DHL Express Americas.

He says South American air cargo will continue to develop.

"We see continued growth into the South, primarily Argentina, Chile, with the e-tailers growing and the demand of B-to-C business – business-to-consumer business," Parra says. "We're seeing growth specifically into Chile as a result of that."

Inbound into Latin America, DHL Express' biggest trade partner is the Asia Pacific, especially China, Parra says. After that comes Europe and the U.S. Outbound from Latin America, the company's biggest trade lane is the U.S. and China.

Cathay Pacific Airways hopes to capitalize on that same Asian trend. The airline, which has seen little cargo growth throughout 2013, launched its first-ever destination in Latin America with a Hong Kong freighter service to Guadalajara, the Silicon Valley of Mexico.

The route launched in October with a B747-8F, which has a 130-tonne payload.

"Trade between Asia and Mexico has been steadily growing, and Cathay Pacific sees our HKG-GDL service as a means of servicing the demand on the lanes between Asia and Latin America," Mark Sutch, Cathay Pacific general manager, cargo sales and marketing, says.

Sutch says the airline is starting with twice-per-week service to Guadalajara, later increasing the frequencies as the company gains a better understanding of the market.

"Latin America and Asia both have many growing economies," Sutch says. "With the GDL service, we also have the ability to serve other destinations further south in countries like Brazil through our extensive interline relationships and thereby strengthen the flow of goods from Latin America to Asia."

Free trade agreements have helped facilitate greater opportunities for Latin American airfreight, Otto and Parra point out.

"Lots of Latin American countries are signing free trade agreements amongst themselves or with bigger economic partners like the U.S. or the EU," Otto says.

Andreas Otto

Mark Sutch

Mike Parra

For example, Colombia and Peru recently signed a free trade agreement with the EU. And the Pacific Alliance creates free trade between Chile, Peru, Colombia and Mexico.

"These are some of the fastest growing economies in the region," Parra says. "With the Pacific Alliance, we're going to see a lot more happening into those markets."

DHL Express has invested millions in its Latin American operations in the past few months, including for its Mexico City and Colombia hubs and a new distribution center near Santiago.

And Latin America is churning out more than fruits and vegetables.

Casal of IAG Cargo says its core business is perishables, but the pharma industry has swelled.

"We also see that the pharma industry is growing at a fast pace, and we want to take part in it," Casal says. "We have taken steps to ensure that we are in the market by opening stations in Latin America that are capable of handling the pharma business with our Constant Climate product."

DHL Express' fastest-growing product both into and out of Latin America is consumer technology, Parra says.

Lufthansa is shipping mostly consumer technology, semi-finished auto and machinery parts and pharma into Latin America, Otto says. The majority of the airline's freight out of Latin America is perishables, though pharma and auto parts have been growing in importance.

On its Guadalajara flight, Cathay Pacific expects to carry a mixture of high-tech, perishables and automotive parts. Sutch also mentions the growing pharma export market.

"The perishable market ex-GDL is large and has potential to grow in Asia as the Asian markets demand a greater choice of fresh food products," Sutch says.

Casal says the Chinese market has provided a significant boost to the Latin American fruit industry.

"It can be made an argument that Asia is buying more perishables or more fruits from Latin America, but I have noticed that China in particular is buying more and more fruits and berries and asparagus from Chile, Peru and Argentina," he says.

But the perishable market is evolving as source markets change, Casal says.

"For example, five years ago or six years ago, you see that Chile was the only country producing and exporting blueberries in large quantities," he says. "Now Argentina is one of the biggest producers."

Some of the biggest challenges for companies who want to move Latin American air cargo are the constant changes to regulatory and Customs affairs, the whims of weather in the perishables business and intensifying competition.

But even with the hurdles standing in their way, non-Latin-American companies continue to expand airfreight services in the region.

In addition to expanding frequencies to Guadalajara, Cathay Pacific is considering adding Mexico City to the route in the future.

"Further south in Latin America, there may well lie opportunities in Brazil and other strong emerging economies," Sutch says. "As we operate into Mexico, we will build our interline relationships with South American carriers and further strengthen our proposition to our clients."

Lufthansa Cargo now serves 10 Lat-

Rodrigo Casal

IAG Cargo began offering cargo services between Quito and Madrid in late October. It also increased its freight capacity between Rio de Janeiro and London.

in American destinations with scheduled freighter services, and four to five more with seasonal and ad-hoc flights.

"Lufthansa Cargo has all major airfreight markets in the region covered for now," Otto says.

DHL Express is planning air service in Campinas, Brazil, beginning February 2014, Parra says. It is also expanding its Central American hub in Panama.

"Our expansion is being driven right now basically by the inbound volume and demand from a changing customer base," Parra says. "Our customer base has gone from a B-to-B business base to a business-to-consumer model, so where we see ourselves delivering today, is we're going into parts that are less business-centric and more residential-centric."

Parra says small- to medium-size entrepreneurial businesses are growing.

"There is still significant potential," Otto says, "for further development of airfreight volumes to and from Latin America." ACW

Economic malaise tempers outlook of shippers

By John W. McCurry
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Shippers of air cargo are hopeful but realistic about the prospects for an industry rebound in 2014. That's the gist of opinions offered by readers responding to an Air Cargo World survey. Sustained improvement depends on the growth of the U.S. economy, they say. Global challenges include too much capacity and lack of infrastructure in some areas of the world.

Some shippers say they are shifting to oceanfreight while others say they will keep the same mix or even increase their airfreight shipments. The comments of these shippers, who represent manufacturers in North America, Europe and Asia, offer a look at how companies approach decisions related to airfreight.

Here is the panel of nine shippers for our virtual roundtable:

- Lars J.T. Droog, supply chain manager, EMA for Tosoh Europe B.V., a regional office for Tosoh Corp., a Tokyo-based chemical manufacturer.
- KSTS Vera Prasad, associate director, international logistics and supply chain management for Dr. Reddy's Laboratories, a generic pharmaceutical manufacturer in Hyderabad, India.
- Yuji Shimono, managing director, Japan for Smiths Heimann a division of Smiths Detection, a security technologies firm in Urayasu, Chiba, Japan.
- P.J. Moffett, director of global logistics and customs compliance for Quality One Wireless, an importer of cellular phones and wireless products based in Hauppauge, N.Y
- Fred Savage, manager, corporate logistics & distribution, KBA North America, the Dallas-based U.S. headquarters for Germany-based KBA Group, a manufacturer of commercial and newspaper web presses.
- Bob Scribner, director, global logistics and trade compliance at Fairchild Semiconductor, a semiconductor manufacturer in South Portland, Maine.
- Peter Scheerhoorn, distribution manager for Nucletron, a Veenendaal, Netherlands-based division of Elekta, a manufacturer of radiotherapy equipment.
- Nicholas Lam, operations manager for Converse at the company's Singapore location.
- Walid Khoury, managing partner at ALS Logistics Solutions, a manufacturer of material handling systems based in Dubai.

How do you feel about the airfreight industry going into 2014?

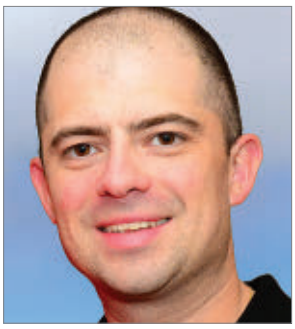
Droog: The overall feeling is a bit sad, but I do hope that the airfreight industry as a whole will pick up. When the economy will accelerate, shippers will definitely need air capacity. Big threat for the full freighters is the increased cargo capacity of the modern passenger aircraft (e.g. B777).

Prasad: It is going to be tough, but everyone needs to have their own strategy and path.

Shimono: As the U.S. economy recovers, the total volume of airfreight moving out of Asia Pacific region will increase over the previous year. However, a recent trend of airfreight shows growth to be minimal, and we do not expect a big increase in volume. It will be more or less recovering the decreases the industry experienced in last couple of years.

Moffett: Mixed emotions. We're always looking to get off of airfreight considering our product margins are so tight. However, oceanfreight still hurts us in our time to market. I will also be looking for new deferred services from the Pac Rim to the East Coast to try and shave a few dollars.

Savage: As a purchaser of these services, I particularly don't feel great about the upcoming year as I see the industry taking a hit in the reduction of capacity and increasing



P.J. Moffett
Quality One Wireless

Peter Scheerhoorn
Nucletron

Walid Khoury
ALS Logistics Solutions

Yuji Shimono
Smiths Heimann

Nicholas Lam
Converse

Lars J.T. Droog
Tosoh Europe

Bob Scribner
Fairchild Semiconductor

Fred Savage
KBA North America

KSTS Vera Prasad
Dr. Reddy's Laboratories

rates. This, however, will not alter my shipping plans as I have to depend on this type of service but cannot always pass any additional cost on to my customers, thus reducing my bottom line proportionately.

Scribner: I see the airfreight industry more or less aligned with the global economy with a strong tie to U.S. and China's economic health. That being said, the behavior of the industry is not easily predictable either. Moving into 2014, I suspect we'll see similar things as early 2013: reactions to no/slow growth will be tightened up supply with static pricing and larger, more sophisticated players will be investing in more customer-focused services in the B2B technologies.

Scheerhoorn: It is my belief that based on the economical situation, it will become tougher for airlines to survive. Still, they have the possibility to earn money if they deliver products to the market that truly emphasize the speed from "at-airport drop-off until from airport collection." Teaming up with brokers/agents to provide a lean supply chain and eliminate costs and upgrade to airspeed will make a difference and keep competition of other modalities out.

Lam: 2014 indicates to us that there is a slowdown, i.e. only key materials and required products will be airfreighted. Planners are putting place reviews of requirements as well as restrictions on when airfreight is used in order to optimize the dollar earned.

Khoury: I believe that we are expecting a growth of around 6 percent from the previous year.

Do you anticipate increasing your air shipments in 2014?

Droog: Within our organization, I already see an increase in the number of air shipments. Main reasons are 1) higher (unexpected) demand and 2) increase in number of sample orders. Hopefully, the sample orders will lead to purchase orders, which are needed urgently.

Prasad: On paper, this is a big no, but in reality and with difficult supply chains, we might end up doing more than anticipated air shipments.

Shimono: No. We have a new manufacturing site set up last year in Malaysia where it is close to a growing market of Asia Pacific

Moffett: I expect our air shipments to remain the same.

Savage: Yes, I can foresee an increase of 5-7 percent because of the unwillingness of my customers and my company wanting to carry any unnecessary inventory, thus it requires that I import spontaneously to meet the demand for replacement parts when needed, and this will again add to my cost of doing business.

Scribner: No, I do not see an increase in air shipments. Likely it will move in the other direction, but not due to unhappiness or cost of airfreight but rather related to some supply chain decisions around warehouse locations.

Scheerhoorn: Yes, I do. I see however a tendency that capacity is reduced (on certain routes) and the capability and willingness of airlines to transport "dangerous" products is declining. Not for all airlines, of course, but when it seems to become difficult, the easy way out is non-acceptance of the shipment or, worse, a complete embargo by the airline.

Lam: No for now. The only reason we would see any increases will be contributed by any major deficiencies on supply of natural raw materials causing delays in manufacturing.

Khoury: Prices for air transportation are much lower than before and with Africa opening its airspace, we are expecting steady growth for the years to come.

What do you see as the biggest issues facing the airfreight industry?

Droog: The diversity of the local, regional, global security measures will increase costs and will increase the risk on delays in the supply chain and risk on damage due to additional handling (needed for the security checks – not applicable for security checks done with dogs).

Prasad: The space constraint, demand vs. supply gap and the price for that gap one has to pay. There has to be a level playing field.

Shimono: The erosion of freight charges caused by overcapacity in practically every market. I believe it is a perennial challenge for the industry.

Moffett: I see regulation on shipments with batteries being a major hurdle. Lithium ion batteries power so many items. There are conflicting views on hazmat or non-hazmat categorizing of these items.

Savage: Too many providers with capacity, so I think there will be a shrinking of capacity and an increase in the cost of importing/exporting throughout the system. I hope not, but there is only so much freight and too many service providers, so ultimately you have to have a cleansing of the system, and that will allow planes to fly with maximum cargo and reduce the overhead of the carriers, but the elimination of competition will allow for increase rates.

Scribner: Too far behind in the IT world. Not enough visibility and communication tools. Airfreight industry needs to get closer to a lights-out style of oversight. I do not like spending so much people resources chasing shipments, documents, clearances, etc.

This activity needs to be online and transparent everywhere.

Scheerhoorn: Several issues, but as we ship a niche product (radioactive sources for medical use) these issues are not interesting for the broad public.

Lam: Ability to standardize [electronic data interchange] connectivity amongst providers. Providers today offer EDI linkup, but they are not riding on a standard platform. We tried to implement across three major sources for us, however, none was successful as each required customized EDI connectivity.

Khoury: Most airports' infrastructure are not modernized enough to cope with the growth. Travelling to the sub-continent will prove this. We are recently witnessing changes in this region and more investments made into infrastructure.

What are your primary considerations when deciding how to ship your products?

Droog: Service (urgency), costs and limitations with respect to carriage of dangerous goods.

Prasad: What is at the destination and its projected sales, the stock in transit and the stock at the manufacturing facility.

Shimono: The delivery time requirement of our products to the end users.

Moffett: Time to market, plus cost plus how many do we "risk" ship in advance.

Savage: We normally look for the closest airport to our customer that has POE availability throughout the weekend and then we look at price. Service is the primary driver behind our decision whether to ship via air or sea, along with some other variables such as size of shipment and customer need timelines.

Scribner: (1) Quality of service (deliver what you promise), (2) cost and (3) ease of doing business.

Scheerhoorn: Reliability, speed (including handling and transfer) to ensure that what we promise our patients is also delivered on time, every time.

Lam: Profit, time, place, need, marketability, global events.

Khoury: The most important is the airline base and the hub through which they are flying to.

Do you plan to shift any shipments from airfreight to oceanfreight?

Droog: No, the majority of our shipments are already shipped as ocean freight. Some of our chemicals are not allowed to be transported by air and for the commodity goods, airfreight is just too expensive

Prasad: Yes, a lot of products are being moved to the double category of being readied to be shipped both by air and sea at the same time, their packing configurations is being changed and a lot of harmonization is being done to this effect.

Shimono: We obviously try to avoid shipping our products by air as much as possible.

We use airfreight only when necessary to meet our delivery commitment to the end users.

Moffett: We plan on using our West Coast distribution hub for oceanfreight from the Pac Rim. It keeps the cost down as well as the transit times down.

Savage: No, we do not plan to shift any shipments because of the time requirements of our products and our customer timelines, which change daily, and oceanfreight will not work for 90-plus percent of our shipments.

Scribner: No.

Scheerhoorn: No, oceanfreight is no option for the radioactive sources. Shipment of these has to be done in a short timeframe. For other types of products, such as large equipment, we could consider it depending on the final destination.

Lam: Yes, as much as 75 percent of current airfreight is the target. We analyzed that as much as 75 percent of airfreight today can be replaced by a better-planned oceanfreight scheduling.

Khoury: Depending on the availability of flights or ships and delivery to clients, we cannot decide which shipment can be shifted yet. Most probably, we would shift from oceanfreight to airfreight. ACW

Global airfreight market sees sluggish growth begin in 2013

By Cathy Roberson
Senior Analyst
Transport Intelligence

The airfreight market has been limping along for the past couple of years due to slowing global trade and the shift of some commodities to sea transport. Based on International Air Transport Association figures, the airfreight market contracted 1.5 percent in 2012 and 0.7 percent in 2011. Although airfreight capacity was reduced throughout 2012, the decline in volume was greater, which led to a slight decline in load factors for the year.

However, not all was gloomy in 2012. Middle Eastern and African airlines noted cargo growth of 14.7 percent and 7.1 percent, respectively. This growth was attributed to shifting trade lanes favoring Africa and Asia, particularly China, which was in search for alternative trade partners as its largest partners, Europe and the U.S., were experiencing sluggish economic growth.

Bright spots are now appearing as the European and the U.S. economies strengthen. Recent IATA data shows that global freight tonne kilometers (FTKs) have slowly been increasing since the beginning of the second quarter of 2013. Surprisingly, it is not the Asia-Pacific airlines that are leading this improvement. Instead, it is European and Middle Eastern airlines that have been carrying the majority

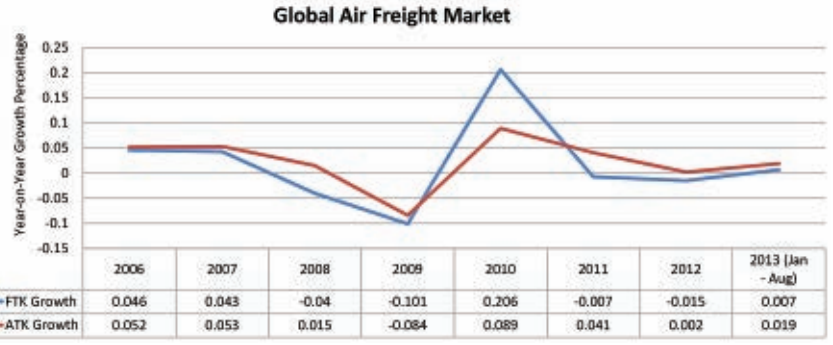
of the increase in air cargo volumes.

Still, Europe's largest cargo airline, Cargolux, reported a 3.5 percent decline in tonnage for the first half of 2013, but its cargo load factor improved from 69.1 percent for the first half of 2012 to 70 percent for the same period in 2013. To manage its capacity better, it is retiring two of its 18 MD-11 freighters and took delivery of its first Boeing 777F in October and its second one in November. It is also expanding its network with new routes to the U.S., Mexico, South America and China.

Meanwhile, Abu Dhabi's Etihad Cargo noted a 23-percent increase in tonnage for the first half of the year as well as record months in July and September with tonnage increases of 37 percent and 42 percent, respectively. Strong demand from Hong Kong, China, India and Germany were noted.

Still, IATA cautions that a sustainable global recovery depends on the improvement of Asia-Pacific airlines, which make up about 38 percent of the global airfreight market. So far this year, this group of airlines have reported an almost 2-percent contraction in tonnage. The Association of Asia Pacific Airlines' director general Andrew Herdman says the decline in airfreight demand this year is a result of "lackluster trade growth and relatively weak markets for electronic products and other high value goods normally shipped by air." Still, Herdman notes there are signs that the slump in airfreight may be bottoming out, at least in volume terms, "but surplus cargo capacity will continue to exert downward pressure on rates."

Asian airlines are cutting capacity, routes and diversifying commodities in attempts to return to profitability. For example, in 2012, Cathay Pacific carried 5.3 percent less cargo than it did in 2011 and as a result, total revenue declined 7.3 percent. The Asia-Europe market has particularly hurt Cathay Pacific. As of early 2013, the airline has cut freighter frequencies to Europe by 63 percent to 11 flights per week from 30 flights per week in 2008. It also plans to target high-value goods, perishables and pharmaceuticals to improve revenue and margins.



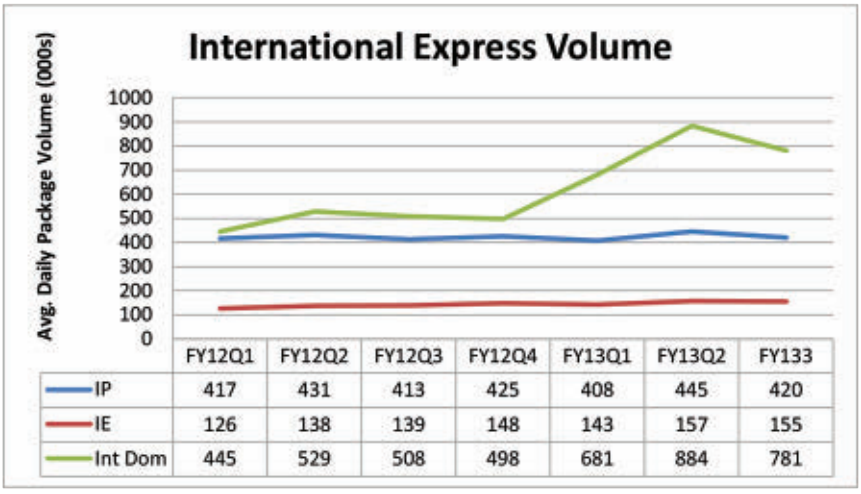
	2006	2007	2008	2009	2010	2011	2012	2013 (Jan - Aug)
FTK Growth	0.046	0.043	-0.04	-0.101	0.206	-0.007	-0.015	0.007
ATK Growth	0.052	0.053	0.015	-0.084	0.089	0.041	0.002	0.019

Source: IATA

Meanwhile, U.S.-based FedEx announced plans to restructure its Express division. Like many other airfreight providers, FedEx Express has seen a shift from its premium products to its economy products. Comparing average daily volumes for each of the international express service offerings, it appears International Economy has steadily increased each quarter since the beginning of fiscal year 2012, with a slight dip in the third quarter. International Priority has remained fairly steady for the same comparable time period. International Domestic, on the other hand, has increased greatly since first quarter of fiscal year 2012, but a sharp drop in average daily volumes was noticeable on a quarter–to–quarter comparison from second quarter to third quarter of the present fiscal year. This drop may be due to declining demand within the domestic European market.

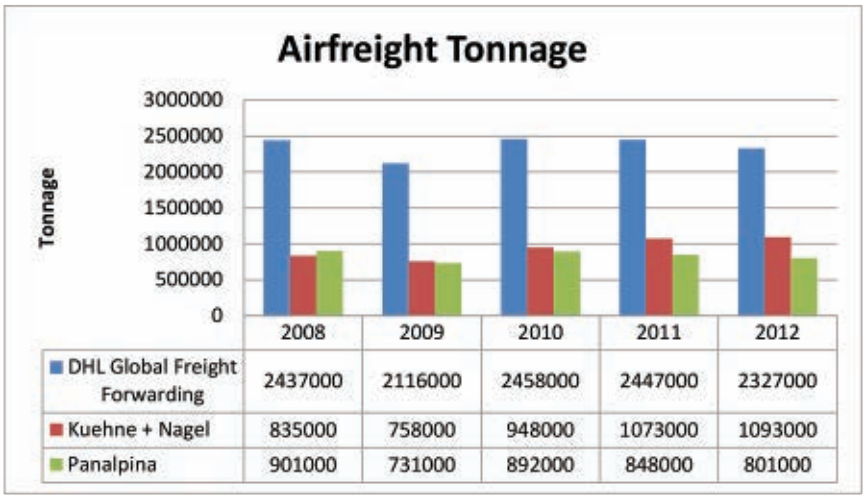
FedEx also has removed aircraft from its fleet, including A310s and MD10s. It is also accelerating the retirement of 66 further MD10 and A310s, although it has not given a timeline for this process.

Although this represents a substantial proportion of FedEx's 368 large jet aircraft fleet, the move is, in part, a restructuring of the fleet renewal program that will see the older aircraft replaced with newer Boeing 757 and 767s. These models are, according to FedEx, are either larger or 30 percent more fuel efficient than the aircraft types they replace.

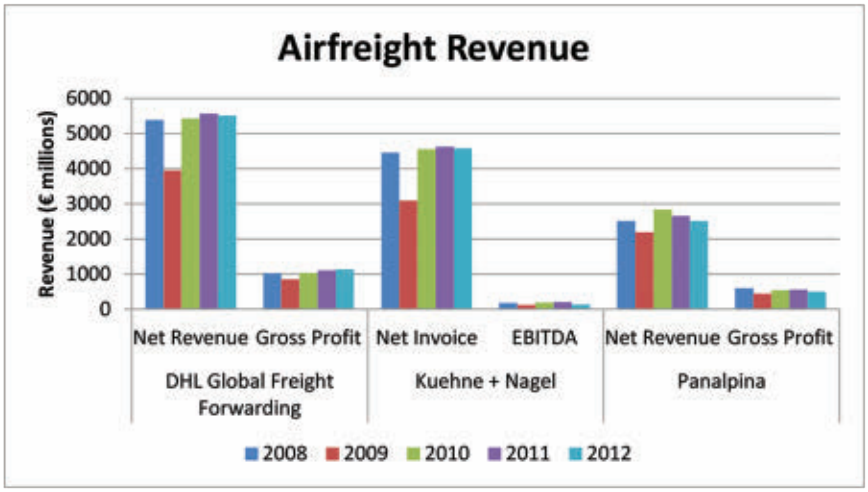


	FY12Q1	FY12Q2	FY12Q3	FY12Q4	FY13Q1	FY13Q2	FY133
IP	417	431	413	425	408	445	420
IE	126	138	139	148	143	157	155
Int Dom	445	529	508	498	681	884	781

Source: IATA



	2008	2009	2010	2011	2012
DHL Global Freight Forwarding	2437000	2116000	2458000	2447000	2327000
Kuehne + Nagel	835000	758000	948000	1073000	1093000
Panalpina	901000	731000	892000	848000	801000



Source: Transport Intelligence

Freight Forwarders

The state of the global airfreight market has also had a negative effect on freight forwarders. Even though the 2012 total freight-forwarding market increased 3.1 percent, the growth was solely due to the increase in seafreight forwarding, which grew at 11.5 percent. On the other hand, the global airfreight forwarding market declined 4.2 percent.

As a result of this shifting mode preference, new service offerings were developed. For example, to attract airfreight, temperature-controlled services targeting the perishables and pharmaceutical industries are on the rise whereas for more cost conscience shippers, less-than-container loads for oceanfreight or a combination of modes such as air and sea are also being introduced.

Prior to the 2009 recession, airfreight demand remained strong for freight forwarders. However, since the recession, volumes have declined. Meanwhile, revenue (expressed in euros) has increased thanks in part to fuel surcharges and rate hikes. Rationalization of service offerings and efforts to improve gross margins are underway for many forwarders.

DHL recorded strong growth through 2010, according to the tonnage chart. However, the company has yet to return to the levels it had enjoyed prior to the economic upheaval. For 2012, revenue declined 1 percent year-over-year due to a 5.3-percent decrease in volumes. The volume decrease was attributable to the decline in demand from the technology sector.

Kuehne + Nagel appears to have taken market share from rivals as its volumes have surpassed pre-recession and have grown further. However, for 2012, the company has not been able to use its leverage to drive down prices from airlines faster than its customers looked for lower costs. As a result, revenue grew below the market while EBITDA declined more than 9 percent as a result of a European Union anti-trust fine.

Panalpina has struggled with declining volumes as well as revenue. For 2012, airfreight volume, net revenue and gross margin declined — a concern for the company since this is the largest reporting segment.

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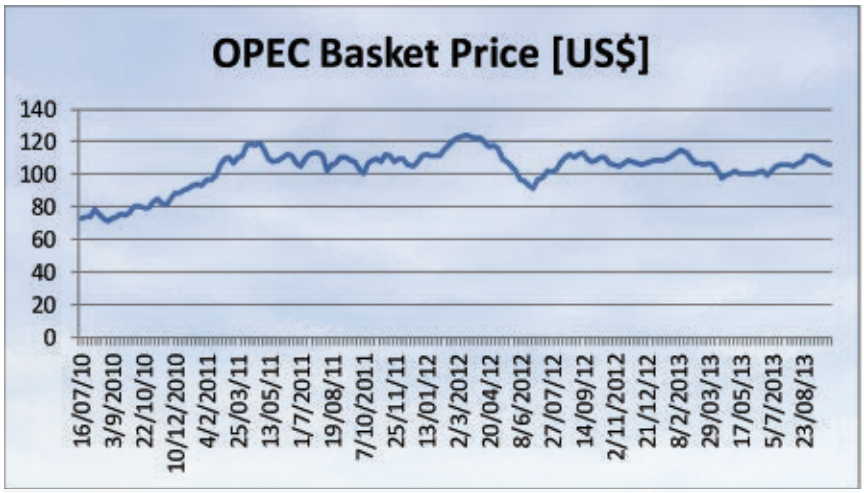

Source: OPEC and Ti

Outlook

The outlook for the global airfreight market hinges on continued global economic improvements. However, growth will likely be slow much like what many economies are experiencing.

The EU emerged from its recession during second quarter of 2013, but its economy remains fragile. The U.S. has experienced a slow but steady improvement in its economy. However, the effects of the government shutdown and a resolution to its debt ceiling issue will likely result in a further slowdown, if not a complete halt, to

The rise of intra-Asian airfreight

Airbus' new Cargo Global Market Forecast predicts that worldwide airfreight traffic will grow by an average of 4.8 per cent annually over the next 20 years, almost doubling the required global freighter fleet to nearly 3,000 aircraft. Airbus says projected growth is driven by numerous positive global trends in economic activity, including world trade, private consumption, and industrial production.

The forecast shows that the overall worldwide air cargo demand by the year 2032 will require around 2,700 new and converted aircraft. Over half of these will be needed for fleet replacement — driven by current old aircraft retirements — with the remainder being for growth. Of these 2,700 aircraft, 870 will be factory-built freighters worth approximately US$234 billion, while around 1,860 will be converted from passenger aircraft. A further 175 in 2032 will be aircraft which are already in service as freighters today. Belly freight usage in passenger aircraft is taken into account — which will remain largely unchanged at around half of commercial airfreight on international traffic.

"Looking forward after a difficult few years, world trade is showing improvements and diverse emerging markets will call for increased flexibility in air cargo transportation — for which mid-size freighters will be the primary means to achieve this," says Andreas Hermann, Airbus' vice president and Head of Freighters. "This is why Airbus forecasts that the core of future freighter requirements will be in the mid-size category, where modern-technology freighters will play a large part in future fleet replacement and long term growth."

Airbus also makes these observations about the drivers of airfreight growth:

- Similar to the economy, much of the growth in the general airfreight market is being driven by emerging markets.
- Within the mature markets, which have continued to struggle, economic growth is expected to return in late 2013.

Airbus says the global freighter fleet will nearly double by 2032.

- With an even higher correlation to air transportation, worldwide trade is expected to grow at 3.8 percent per year over the next 20 years.
- Industrial production is expected to nearly double over the next 20 years.
- Industrial production in emerging markets has more than tripled in the last 20 years and will nearly triple again in the next 20 years.
- In advanced markets, industrial production has grown by 30 percent over the last 20 years and will grow by 50 percent in the next 20.
- The middle-class is expected to reach 5 billion people by 2030, 3.5 billion of them living in the Asia-Pacific region, which will boost private consumption within the region.

Airbus forecasts an average annual freight traffic growth rate of 4.8 percent over the next 20 years. China is the largest driver of air cargo growth, currently representing 15 percent. By 2032, it will be 22 percent of the global market.

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[Airlines and Destinations]

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China 45, Japan 27, Asia 37, America 22, Europe 26, Russia 15, Oceania 10, Middle East 6, Africa 2

www.airport.kr/eng/business

Airbus: New Freighter Aircraft Deliveries by Region				
Region	**Small**	**Medium**	**Large**	**Total**
Africa	0	8	10	18
Asia/Pacific	0	81	196	277
CIS	0	13	8	21
Europe	0	47	78	125
Latin America	0	26	2	28
Middle East	0	21	55	76
North America	0	217	109	326
Total	**0**	**413**	**458**	**871**

Source: Airbus

any economic improvements over the next few quarters.

Meanwhile, Asia has had to look elsewhere for trade partners and is focusing on emerging markets such as those within Asia, Africa, the Middle East and South America.

The volatility of oil prices has been a challenge to airline profitability. Boeing says fuel costs have surpassed labor as the largest segment of airline operating cost at 34 percent today compared to 13 percent in 2002. Unfortunately, oil prices will likely continue to fluctuate with each political or natural conflict. But rising shale oil production in the U.S. is moderating projections. As a result, oil prices are anticipated to fall to an average of US$105 (77.82 euros) per barrel on lower geopolitical risk and the U.S. energy outlook.

Because of the unevenness of regional economic improvement, IATA's outlook for 2014 may be a bit optimistic. The organization anticipates global airfreight tonnes to increase 3.5 percent over 2013. IATA cites improvements in consumer and business confidence being the predecessor for improvements in industrial production, which is an important driver for airfreight growth.

Airplane Manufacturers

For Airbus and Boeing, the outlook is promising. Boeing expects a long-term demand for 35,280 airplanes. Forty-one percent of this total is anticipated to replace older, less efficient airplanes. For this same period, nearly half of the world's air traffic growth will be driven by Asia-Pacific. Boeing expects the air cargo market to grow 5 percent annually for the 20-year period. The growth in the global air cargo market will be led by Asia-Pacific, where the company anticipates air cargo to outpace the global rate, growing 5.8 percent per year for the same period.

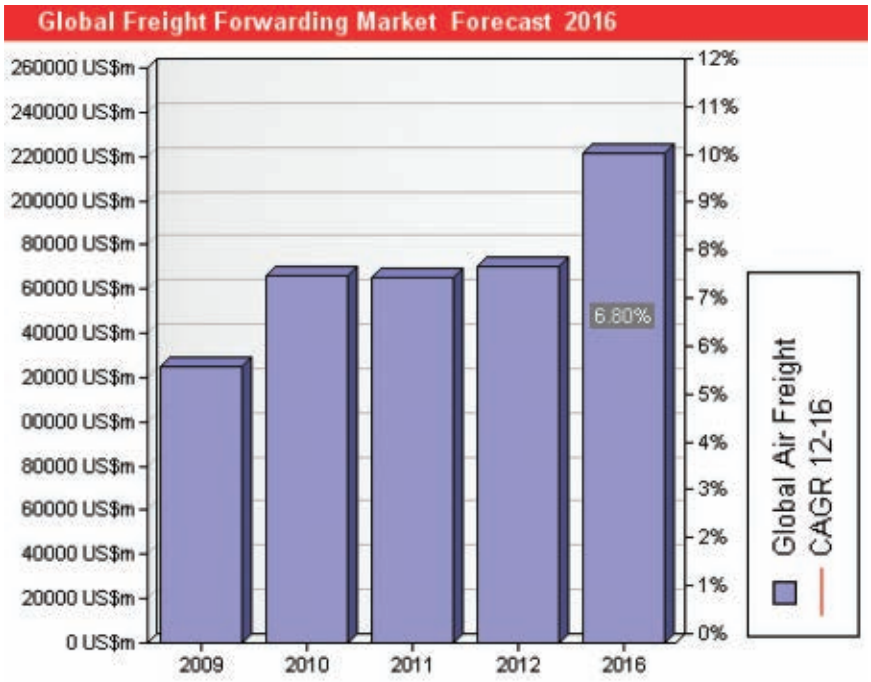
Boeing's freighter market is expected to increase by half from 2012 to 2032. Most of the demand will be for passenger airplane conversions followed by about 850 new airplanes.

Airbus forecasts worldwide airfreight to grow 4.8 percent per year from 2012 to 2032. For the forecasted period, the manufacturer anticipates a demand for 1,859 converted aircraft and 871 new aircraft for the freighter market. Its biggest market for freighter aircraft will be North America, with Asia-Pacific to grow its fleet three times in the forecast period.

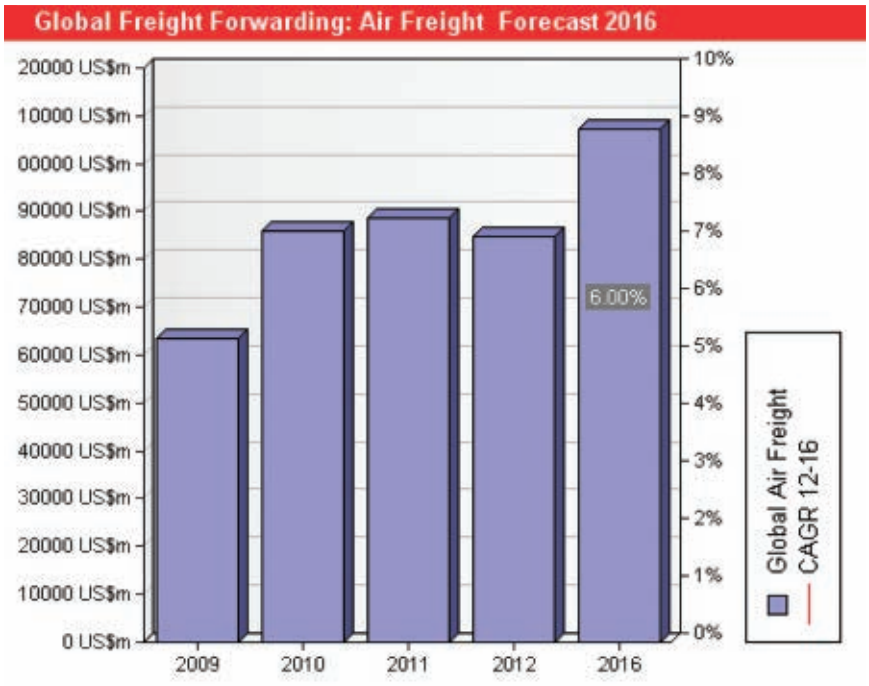
Freight Forwarders

Transport Intelligence forecasts the total freight-forwarding market to grow 6.8 percent CAGR from 2012 to 2016. The growth will be led by ocean at 7.5 percent, but air demand is expected to improve, growing 6 percent for the period.

Emerging economies are expected to play a growing role in global trade due to rising middle classes and investments in infrastructure. The Middle East has improved upon its infrastructure by expanding free trade zones to entice foreign companies to expand to the region. Africa is also experiencing growth as regions such as Asia and South America look to this region to improve and expand trade relations.



Source: Transport Intelligence



Source: Transport Intelligence

Conclusion

The airfreight market will likely remain in an uneven growth pattern for some time to come. Modal shifts, oil prices and uncertain economic conditions will continue to affect the market. "2014 will likely be another turbulent year for airfreight," Robert Van de Weg, senior vice president of sales and marketing for Cargolux, says. "High fuel prices will continue to impact airfreight demand. However, increased consumer confidence may have some positive impact. Belly capacity will continue to grow, but freighter capacity will likely reduce further. In short, the overall supply/demand situation may develop somewhat more favorably in 2014 than it did so far in 2013."

"At the moment, there is still a lot of uncertainty," James Woodrow, director of cargo for Cathay Pacific Airways, says. "What is certain is that we need some decent GDP growth for the markets to get back on the right track. Until that happens, our strategy will be to match capacity with demand. We need to make sure that Cathay Pacific is in a good position to benefit from any recovery — and we believe we are. We have made good investments in fuel-efficient freighter aircraft, expanded our network to where the demand is, including Latin America, and we can take good advantage of our comprehensive passenger network to carry cargo in aircraft bellies, which is particularly beneficial for intra-Asian traffic. We also recently opened our own cargo terminal at Hong Kong International Airport, which will significantly boost the services we provide to our cargo customers."

While there is some optimism in regards to the air cargo outlook, it is still with much caution as uncertainty still reigns over the global economy. ACW

Cathy Roberson is an experienced professional in knowledge management, combining an in-depth understanding of the supply chain industry with extensive market intelligence skills.

Before being appointed Ti's Senior Americas Analyst she spent several years at UPS Supply Chain Solutions as a marketing analyst within the Contract Logistics and Freight Forwarding groups.

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Cargo Chat: Fernando Poitevin

Fernando Poitevin, the COO of LAN Cargo, has worked with LAN Airlines since 2005. He sat down with Air Cargo World in LAN's Miami office to talk about airfreight in Latin America and how LAN's merger with TAM in 2012 affects its cargo operation.

What is the outlook of the air cargo industry worldwide?

The outlook is promising. In the last two years, the market has been down, and now it's almost flat. But we expect with the growth of the economy in Latin America, which is where we are basically operating, the volumes will at some point need to pick up. We have the Olympics in Brazil; we have the World Cup in Brazil. We base an important part of our operation on the growth of Brazil, which is our biggest market, biggest economy in the region. And we know that we will have [with] LATAM, the capacity and the assets to meet the increase in the demand. On one side, we have the passenger operation. You know that LATAM has approximately 320 aircraft today and has orders for more than 250 aircraft. Therefore, those aircraft that are going to be coming


Fernando Poitevin

to the passenger operation are going to be at the same time giving us the capacity to move the cargo in the region. Today, for you to know, we move approximately 50 percent of the cargo in the freighter aircraft and 50 percent of our cargo in the passenger aircraft. And the second alternative we have, which is the one that we always actuate, is to continue growing our freighter operation – but not at this time. At this time, we are a lot more focused on fulfilling the growth and actuating the growth we are seeking, basically using the passenger fleet more efficiently. Why? Because we just merged with TAM, as you know, and the TAM passenger network fleet is underutilized cargo-wise. Load factors in our passenger aircraft and load in TAM are low, or lower than what we are accustomed to. And we know that with this new network that we have, we too can provide much more and better connections to our customers and transit times. We will be able to fill those circuits and achieve the load factors that we need.

What are the ramifications of the ongoing emissions debate for air cargo?

They're similar to what happens with passenger. We have been, in the last five years, investing heavily in order to reduce carbon emissions, and the main and most important thing we do is to make sure we have a more-than-efficient fleet. We just made a very important investment six months ago in our cargo fleet. We introduced two new 777s to our fleet, so today, we have four, which have 15 percent lower emissions level than the other aircraft we used to fly. Therefore, we keep working on doing the business as green as we can. And that's not the only initiative. We're also working on an initiative where we just made an investment of more than $10 million in ultra-light containers. Those have a very positive and very interesting impact on the environment as well… So we know we need to work. What's going to happen in terms of the cargo emissions fees and taxes that we are going to be receiving? I think it's still unclear. What happened with European policy was somewhat withdrawn and went back. Today, it's kind of standby. So we don't know what's going to happen. We know we need to work to make sure we have the most efficient operation we can have.

What are some of the latest air cargo technology trends that you're seeing?

What we are seeing in the industry is that, as I said before, the wide-body passenger fleet has grown considerably and will keep growing in the future, and that somehow is taking some of the capacity that the only-freighter fleet used to serve. Therefore, today, freighter-only companies or either the carriers that have both freighter and passenger operations are worried and, I would say, looking very carefully at the size of the freighter-only fleet that they need to have to serve the market because the cost of the freighter fleet is very high compared to the cost of the passenger fleet for the transportation of the cargo. And that is because … the passenger fleet, it's really paying the trip with the passengers. Therefore, there's a tendency in the industry to assume that the cost of the passenger fleet are sunk already, and therefore the prices are lower there, and that is very challenging for the freighter operation. I would say that's the most important trend that I'm seeing in terms of making the companies reanalyze and reevaluate the growth strategy fleet-wise.

How do you see the role of E-freight in coming years?

That's another key initiative for us. Again, we need to be more efficient. We need to provide a better service to our clients, and we need to have a green operation. E-freight definitely addresses the three of them. We are very committed to the initiative. We are working hard with the customers. We are working as well hard with the authorities, but the trip is long. The difficulties we are facing are important. Fortunately, recently IATA has been advancing on having a comprehensive agreement to meet both the freight forwarders and the airline industries, and I think that that could be a good step to make the initiative advance quicker, I would say, in the industry. We know we need to get there — that's critical for us. But it hasn't been easy.

What specific steps are you taking to this initiative?

We are working already on the e-Airway Bill just to make it a little bit easier. Today, we already have e-Airway Bill in Chile, and we are working now to expand it to other countries.

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General Specifications	B767-300ERSF Weights & Volumes	B767-200SF Weights & Volumes	B757-200PC F Weights & Volumes
Max Taxi Weight	413,000 lb (187,333 kg)	352,000 lb (159,664 kg)	233-251,000 lb (105-113,851 kg)
Max Takeoff Weight	412,000 lb (186,880 kg)	351,000 lb (159,211 kg)	232-250,000 lb (105-113,398 kg)
Max Landing Weight	326,000 lb (147,871 kg)	283,000 lb (128,366 kg)	198-210,000 lb (89-95,254 kg)
Max Zero Fuel Weight	309,000 lb (140,160 kg)	266,000 lb (120,655 kg)	184-196,000 lb (83-88,904 kg)
Operational Empty Weight	183,500 lb (83,234 kg)	167,000 lb (75,750 kg)	116,000 lb (52,616 kg)
Total Fuel Capacity	24,140 US gal (91,380 L)	16,700 US gal (63,216 L)	11,267 US gal (42,650 L)
Fuel Burn	1,775 gal/hr (6,719 L/hr)	1,425 gal/hr (5,394 L/hr)	1,050 gal/hr (3,974 L/hr)
Max Payload-Range	125,500 lb - 3,050 nm	99,000 lb - 2,900 nm	80,000 lb - 2,500 nm
Capacity	16,034 ft^3 (454 M^3)	11,138 ft^3 (315 M^3)	8,385 ft^3 (237 M^3)

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David Ambridge

Investing in quality

When I was asked to speak about quality, I struggled to find something to say. I looked back over the last year and tried to see what had changed, and if or how quality had improved.

I started to consider the work that is being done by the Cargo Operations Advisory Group (COAG), an initiative from the International Air Transport Association to bring interested parties from airlines, GHAs and IATA together to improve the way we have done business over the last four decades.

COAG is working to develop real quality standards for our industry globally. Each country can have its own standards, but we all need to measure the same indicators and agree what needs to be measured. We at COAG are identifying what we believe to be key performance indicators.

Integrators are far ahead in terms of quality because it is a core part of their philosophy and investment. Fred Smith, founder and CEO of FedEx, said, "You have to put your money where your mouth is. There isn't a year that's gone by where we haven't invested an enormous amount into trying to make the service better."

How many airlines can honestly say the same about their business? How much do we invest in improving quality each year? My guess would be not very much.

I sit in my office for hours thinking of ways to make our business better for our customers. We analyze and learn from every mistake and come up with new systems and processes to stop errors from happening again.

Less and less cargo is being moved by air just about every year. Yet we have more aircraft flying than ever before and more parked in deserts than ever before. But I still think we have great opportunities ahead of us – if we can just understand what it is that our customers want.

This is exactly what the integrators do at yields far higher than we have in air cargo. There is little doubt in my mind that people will pay for quality. So why don't airlines also think this?

People will pay for real quality. We just need to identify what they want and then deliver it every time. For instance, why don't airlines offer money-back guarantees if cargo does not get to the destination airport on time?

We need to figure out if hours or even days can be taken out of the shipping cycle. At Bangkok Flight Services, if the airline's RCF time is actual time of arrival plus three hours, we deliver it in two hours. We do it because we want to be the best, not because we will earn extra revenue. Instead of picking the lowest common denominator, I made my own one that is higher than any airline asks for. How many other GHAs can say the same?

COAG, IATA or any other association cannot dictate service standards or the time it takes to complete certain functions, but they have the right to question. If a shipment takes six hours today, we should see if there is a way to do it in five hours in the future.

Within Worldwide Flight Services, we are being forced to improve by some airlines demanding quality. This is something that I hope to see other airlines adopt. It will force all GHAs to improve quality, especially in their worst performing stations. This is beneficial for the industry as a whole as standards are raised and service is improved.

Unfortunately, E-AWB is not growing at the rate that it should. This one initiative can take 1-2 days out of the shipping cycle and reduces costs to all parties. Information is sent in advance, allowing agents to begin Customs clearance before the aircraft even arrives.

That is real quality. So why hasn't every airline and large global forwarder signed on? The GHAs are more than ready for this and, in some cases, offering discounts to customers using E-AWB. I was pleased to see that Qatar Airways and American Airlines are now signed to the multilateral agreement.

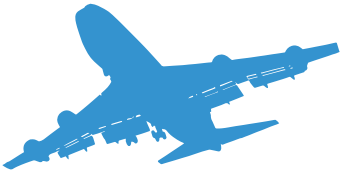
We need good leadership in our industry – an individual or group of people who will stand up and say, "This is just not good enough," and then do something about it.

I hope these people are called COAG. This group has a desire to make the airfreight business simpler, more efficient and more transparent. Standardization of procedures, processes and quality measurements are all on our agenda. We do not know how quickly we can deliver them, but we will not accept "no." Accepting that in the past has brought us to where we are today. We cannot afford to keep accepting that when we have a clear alternative. We can change this business for the better. If we don't, we will watch it fail.

That is not an option for me, and I hope not one for anyone else. ACW

(David Ambridge is general manager cargo at Bangkok Flight Services and director cargo operations for Asia and Africa at Worldwide Flight Services. This is an excerpt of a speech he gave at the Air Cargo Handling Conference in Lisbon, Portugal.)

Transformation through innovation



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- Liberalization and trade facilitation to increase the competitiveness of air cargo
- Efficiency and quality to satisfy the end customer

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IATA

Daniel W. Raab

California court denies insurer the right to sue for cargo loss

The Montreal Convention is a U.S. treaty governing international movement of cargo. Therefore, it is the supreme law of the land. By its own terms, the Montreal Convention replaces a country's own laws, and several countries have adopted the convention.

Many airway bills for international cargo shipments state that the terms of the Montreal Convention apply to the shipment, bringing some consistency to international law. It makes it easier for shippers and carriers, who must know one set of rules rather than worrying about the laws of different countries.

The Montreal Convention's standing clause, which is the clause dealing with who has the right to sue on a claim, gives this right only to the consignee and the shipper/consignor on the AWB.

Accordingly, courts have strictly construed the standing provision of the Montreal Convention. QBE Ins. LTD. v. Eva Airways Corp., 2013 (U.S. District Court for the Northern District of California) has a strict interpretation of the law on the right to bring a lawsuit. This case deals with insurance subrogation, which is the right of an insurer to bring a lawsuit against a potentially liable party after it has paid its own insured on a claim.

In QBE Ins. Ltd. v. Eva Airways Corp., QBE was the insurance company for Flexstar Technology Inc., who contracted with freight forwarder Nippon Express to transport electronics from San Francisco to Shanghai. Nippon then assigned the consignment to EVA Airways Corporation for further handling.

When the cargo was unpacked at its destination, it was determined to be damaged. As Flexstar's insurer, QBE claimed that it was the subrogated insurer of Flexstar and brought suit on its own behalf, claiming that it suffered damages because it had paid for the damaged cargo.

The court held that QBE did not have standing – the right to sue – under the Montreal Convention, because it was not listed on the AWB. The court stated that QBE did not prove that a party who does not appear on the AWB as shipper/consignor or consignee has standing to sue on behalf of the consignor or consignee.

The Montreal Convention's standing clause, which is the clause dealing with who has the right to sue on a claim, gives this right only to the consignee and the shipper/consignor on the AWB.

Additionally, the court cited the plain language of the Montreal Convention to support its finding that QBE lacked standing to sue. The convention states that the consignor and consignee are only granted the right to sue "each in its own name," rather than through a third party.

Because QBE was not listed as the consignor or consignee on the AWB, it did not have standing to sue.

Therefore, the provision regarding the right to sue under the Montreal Convention is narrowly written as interpreted by this California court. In order to have the right to bring suit under the Montreal Convention, a plaintiff according to this court, must be listed on the AWB as the consignor or the consignee of a shipment.

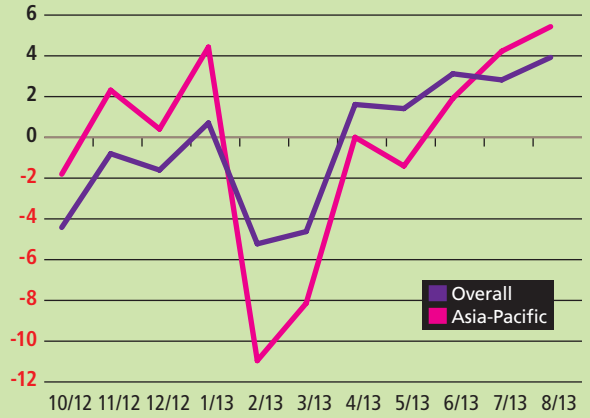
This case is a narrow interpretation of the law. The court indicated that the lawsuit should be brought in the name of the insured, who was already reimbursed for the loss and therefore had no interest in the cargo.

I do not know if this will be binding authority in all courts, but it is there for carriers to refer to in their defense of subrogation lawsuits. The lawyers who brought the lawsuit did what many lawyers have done – sue in the name of the party that suffered the loss – but in this instance, it resulted in a dismissal.

(Editor's note: Daniel W. Rabb is a Miami-based attorney specializing in transportation issues. He is the author of Transportation Terms and Conditions, Chapter 47 of the New Appleman Practice Law Guide, Chapter 5 of the Benedict on Admiralty Desk Reference Book, and a contributing author to Goods In Transit. Madiha Merchant, a 2013 graduate of the Florida International College of Law, assisted with this article.)

CARRYING EUROPE

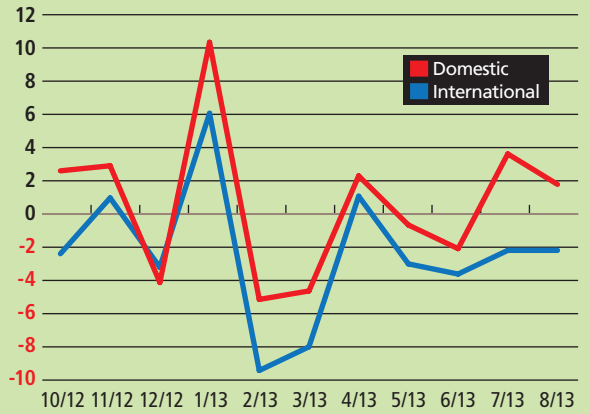
Monthly year-over-year percent change in overall freight traffic and Asia-Pacific freight traffic for European airlines.



Source: Association of European Airlines

U.S. AIRLINES

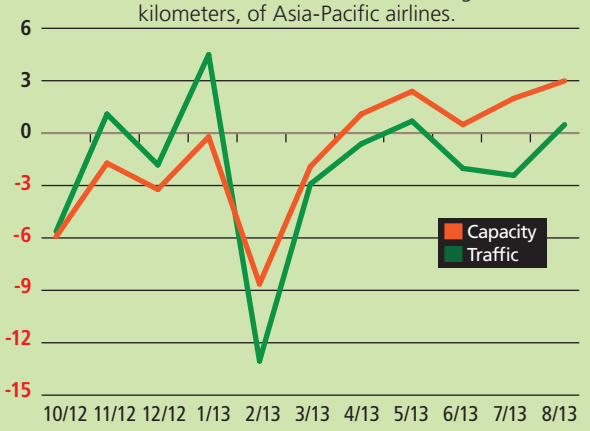
Monthly year-over-year percent change in domestic and international cargo traffic for U.S. airlines.



Source: Airlines for America

CARRYING ASIA

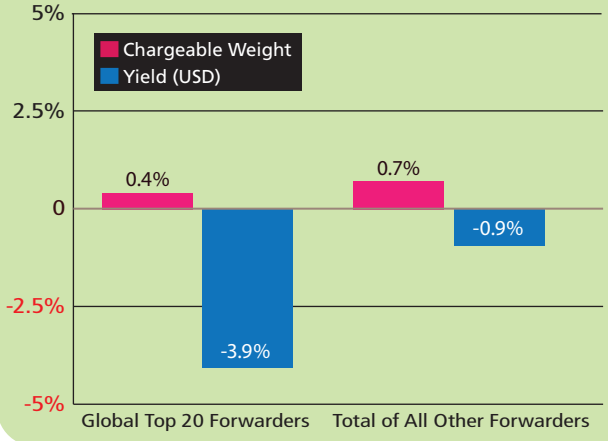
Monthly year-over-year percent change in capacity, in available-tonne kilometers, and traffic, in freight-tonne kilometers, of Asia-Pacific airlines.



Source: Association of Asia Pacific Airlines

SALES DISTRIBUTION

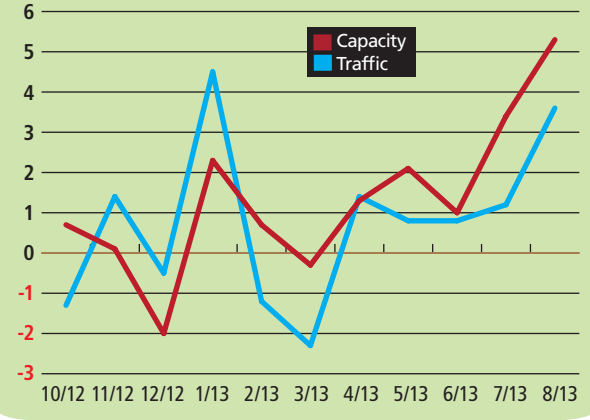
Air cargo worldwide change Year-over-Year (August 2013).



Source: WorldACD Market Data.

TOTAL FREIGHT CARRIED

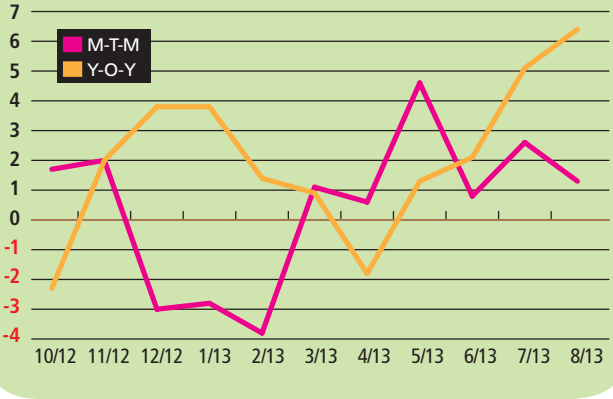
Monthly year-over-year percent change in total scheduled freight traffic and capacity worldwide in freight-tonne kilometers and available-tonne kilometers.



Source: IATA

SEMICONDUCTORS

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



Source: Semiconductor Industry Association.

Drewry: Asia-North America trade boosts recovery

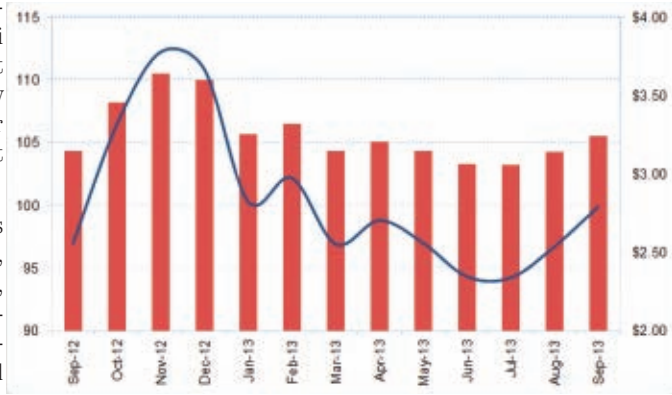
Drewry's East-West Air Freight Price Index rose for the second consecutive month in September, gaining 3.2 points to 99.9 (100=May 2012). The main driver of the index's recovery was trade from Asia to North America. Rates rose strongly on all eastbound routes, with the exception of Shanghai-Chicago where all-in pricing dipped 2.4% thanks to lower fuel surcharges.

Carriers have been reporting an uptick in liftings, supported by strong demand for recently launched consumer electronic products. The first signs of recovery in Asia-Europe rates also appeared, as pricing from Shanghai to Frankfurt jumped by 10.3%. But rates into London were largely flat, reflecting weaker consumer demand than the more buoyant Germany market.

Drewry expects airfreight rates to rise further through October, fuelled by new product launches, tighter capacity conditions following the end of the passenger tourist season and improving demand for Asian manufactured goods in North America and Europe.

(Commentary is provided by Drewry Sea & Air Shipper Insight)

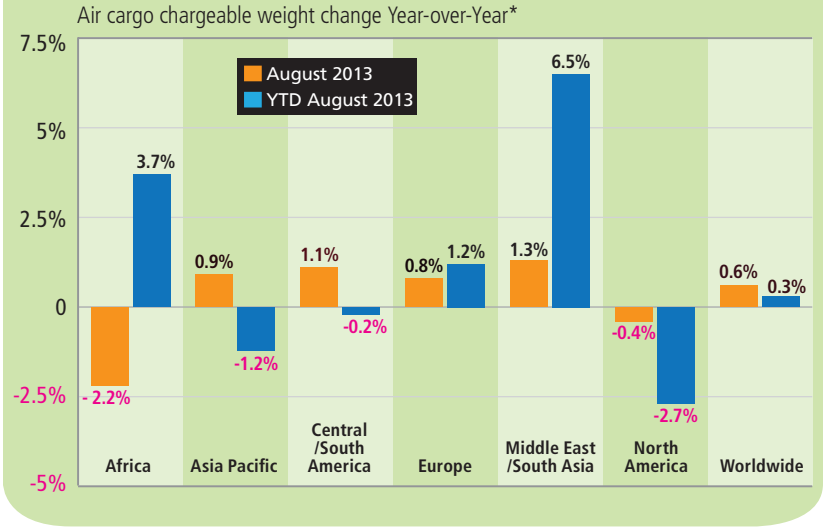
Drewry East-West Airfreight Price Index (May 2012 = 100)



Source: Drewry Sea & Air Shipper Insight

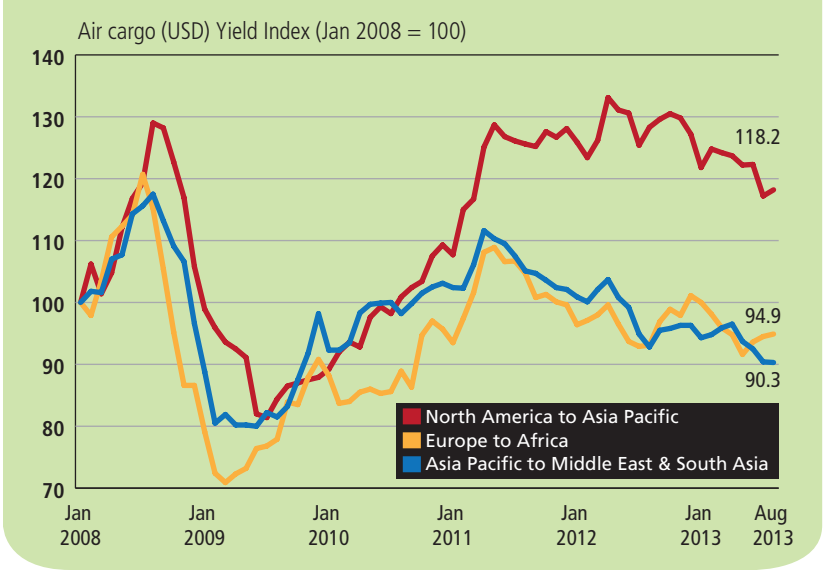
Notes: This index is a weighted average of all-in airfreight "buy rates" paid by forwarders to airlines for standard deferred airport-to-airport airfreight services on 21 major East-West routes. Rates are expressed in $/kg and include 3 components: the base rate, the fuel surcharge and the security surcharge. They exclude door delivery costs.

GROWTH PER REGION



Source: WorldACD Market Data. **including intra-regional air cargo.*

YIELD INDEX REGIONS



Source: WorldACD Market Data.

Coming in the December / January Issue of ACW:

Air Cargo Leaders

Air Cargo World will take its annual look at some of the noteworthy leaders in the industry. This year, we will profile six leaders across the sector's spectrum including executives with airlines, freight forwarders and cargo handling firms. We'll find out how they view the current state of the industry and learn why they like working in air cargo.

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15. EXTENT AND NATURE OF CIRCULATION

	Average No. Copies Each Issue During Preceding 12 Months	No. Copies of Single Issue Published nearest to Filing Date
A. Total No. Copies (Net Press Run)	21,767	21,815
B. Paid/Requested Circulation		
1. Outside-County Paid/Requested Mail	7,715	7,868
2. In-County Paid/Requested Mail	0	0
3. Sales and Other Paid or Requested Distribution Outside the USPS	4,088	4,352
4. Requested Copies Distributed by Other Mail Classes Through the USPS	39	8
C. Total Paid and/or Requested Circulation	11,842	12,228
D. Nonrequested Distribution (By Mail and Outside the Mail)		
1. Outside-County Nonrequested Copies	804	760
2. In-County Nonrequested Copies	0	0
3. Nonrequested Copies Distributed Through the USPS by other Classes of Mail	0	0
4. Nonrequested Copies Distributed Outside the Mail	8,650	8,364
E. Total Nonrequested Distribution	9,454	9,124
F. Total Distribution	21,296	21,352
G. Copies Not Distributed	471	463
H. Total (Sum 15f and 15g)	21,767	21,815
I. Percent Paid and/or Requested Circulation	55.61%	57.27%

17. Publication of Statement of Ownership for a Requester Publication is required and will be printed in the November 2013 issue of this publication.

18. I certify that all information furnished on this form is true and complete.

Signed: Edward F. Calahan,

Director, Production and Distribution

Date: 10/01/2013

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AIRLINES

David O. King has become director, cargo sales — Americas at **United Cargo**. King first joined Continental Airlines Cargo in 2006 and served as its senior manager, cargo revenue management from 2008-2010. After a year at an Atlanta consulting firm, King came to United Cargo in 2012 as senior manager, cargo sales strategy and effectiveness. In January 2013, he was appointed to lead United Cargo's postal network optimization and performance team.


KING

Virgin Atlantic Cargo promoted **Ryan Ellis** to regional sales manager, Continental Europe. Ellis joined Virgin Atlantic in 2010 as a capacity controller and in October 2010, he was promoted to the cargo sales team as an account manager in the UK. He has 12 years of air cargo experience. Ellis previously worked for ANA Aviation at London Gatwick as a cargo operations executive and, earlier in his career, held customer services and operational positions with Air 2000, Northwest Airlines Cargo and First Choice Airways. Virgin Atlantic Cargo also appointed **Neil Vernon** as regional vice president sales for the Asia Pacific region. Vernon spent 13 years as part of the bmi cargo team and has gained experience in the European, Middle Eastern, African and South Asian cargo markets. At Virgin Atlantic Cargo, he is based in Hong Kong.


ELLIS


VERNON

THIRD PARTIES

Georges Azevedo was appointed CFO at **Geodis Wilson** and will join the board of management of Geodis Wilson, the freight forwarding division of Geodis. Azevedo began his career at AT Kearney and has been with the Geodis Group since 2005. Since joining the company, he has held various positions in finance, previously working as finance director for the industrial project division of Geodis Wilson.


AZEVEDO

South Florida Logistics Services, an integrated logistics company that provides cargo handling and real estate services, named **Robert G. Richter** as vice president of business development. Richter comes to South Florida Logistics Services with nearly a decade of international commercial real estate development and brokerage experience. Prior to joining the company, he served as president of Investment Advisory Services in Panama. He was also a founding member and director of NAI Panama, a global commercial real estate services firm based in Panama City, and of GATES Builders, an international construction and development firm.


RICHTER

Walker Supply Chain Management, a global transportation and logistics firm, appointed **Giorgio Laccona** as COO and partner. A 37-year veteran of the logistics industry, Laccona is well-known and widely cited for his insights on the future of global airfreight and international transportation. As part of his appointment, Walker SCM will acquire Global Ocean Airfreight Logistics (GOAL), the company Laccona launched in 2011. He began his career in freight forwarding in 1976, when he joined the former Air Express International Corp. During his 24-year tenure with AEI, he rose to the post of senior vice president for the Americas. In 2000, when Deutsche Post World acquired AEI, Laccona remained as president and CEO for the Americas of the newly formed Danzas AEI Intercontinental. In 2001, he joined Eagle Global Logistics as COO for international operations, and then became CEO of North America for the Italian forwarder Savino Del Bene. From 2006 through 2010, Laccona helped launch IJS Global, serving as its chairman and CEO, before leaving in 2011 to launch GOAL.

Penske Logistics, a provider of third-party logistics and supply chain management services, appointed **Michael Casidy** to the newly-created position of managing director of Mexico. Casidy has been with Penske Logistics for 14 years and served in a variety of operational leadership roles. Most recently, he was based in Texas and served as Penske's distribution center management product line leader for the company's Western region. In his new role, Casidy is responsible for leading and growing logistics business in Mexico.

Scott Nordstrom has become director of business development at **Zenith Aviation**, which stocks aircraft parts. Nordstrom, a veteran sales executive, has served as vice president corporate sales and services for AvCraft Support Services, in addition to holding senior-level sales positions with several mining and heavy equipment distribution companies. He most recently was president of the International Trade Group.


NORDSTROM

PASSING

Ludwig Hamburger, **AirBridgeCargo Airlines** vice president and regional director Europe, Middle East and Africa, passed away Sept. 27 in Heidelberg, Germany, after a short illness. Hamburger was born in 1955 in Frankfurt and initially trained as a wholesale and foreign trade merchant. In 1982, he began his airfreight career at Air Canada in Germany and went on to join Air New Zealand in 1997. There, he acted as the head of air cargo for the UK and Europe until 2008 when joined AirBridgeCargo. The development of the air cargo industry was always close to his heart, and he worked actively for years within the BARIG Cargo Committee, most recently as its chairman.

events

NOVEMBER 16-19

Houston: The National Industrial Transportation League will host its Conference and TransComp Exhibition, a multi-modal freight transportation event with educational sessions and networking opportunities. The NITL will also hold its 106th Annual Meeting for members. For more information, visit *www.nitl.org*.

NOVEMBER 21-23

Istanbul: The 7th logitrans Transport Logistics Exhibition is held by Messe Munchen International and EKO Fair Limited Co. The 2012 show attracted more than 12,600 people from 53 countries, and compared to the previous event, attendance rose by 6 percent. For more information, visit *www.logitrans.com.tr/english/*.

JANUARY 22-24, 2014

Singapore: The Council of Supply Chain Management Professionals, an educational organization for the supply chain management and logistics sectors, is holding a conference to address the issues facing today's logistics managers as they confront unforeseeable events and dangers. For more information, visit *http://cscmp.org/annual-conferences/singapore*.

MARCH 11-13, 2014

Los Angeles: The International Air Transport Association's 8th World Cargo Symposium attracts more than 1,000 airfreight professionals. The event will address industry challenges such as efficiency and future investment. Air Cargo World will also host the Air Cargo Excellence Awards alongside the conference. For more information, visit *www.iata.org/events/wcs/Pages/index.aspx*.

MARCH 18-19, 2014

Atlanta: The Georgia Logistics Summit will provide networking opportunities, offer breakout sessions and host speakers from logistics companies. In 2013, the event attracted 2,000 attendees from nine countries. For more information, visit *www.georgialogistics.com*.

MARCH 30-APRIL 1, 2014

Orlando: AirCargo 2014 is a trade show and expo for the airfreight industry. More than 800 people are expected to attend. For more information, visit *www.aircargoconference.com/*.

MARCH 31-APRIL 2, 2014

Kuala Lampar, Malaysia: The 12th Airport Cities Conference and Exhibition is about airports developing both as cities in their own right and as business and tourist destinations. The event, which will be hosted by Malaysia Airports Holdings Berhad, is expected to attract more than 110 airport operators from 45 countries. For more information, visit *www.globalairportcities.com/page.cfm/link=17*.

APRIL 7-8, 2014

Stockholm: Shippers and major industry players can meet at the Nordic Air Cargo Symposium. It is the only regional event focusing on the North European air cargo market. For more information, visit *www.euroavia.com/nordic*.

MAY 1, 2014

Atlanta: There will be a Georgia Institute of Technology executive forum on how to manage risk in a supply chain. For more information, visit *www.atlantacscmp.org/pages/events/GTSupplyChainExecutiveForum.asp*.

MAY 4-6, 2014

San Antonio, Texas: The 24th Annual CNS Partnership Conference brings together more than 500 air cargo professionals. The event will focus on adapting to change and embracing technology to remain competitive. For more information, visit *www.cnsc.net/events/Pages/cns-partnership-conference.aspx*.

MAY 11-13, 2014

Dubai: The 14th Airport Show is a platform for the multimillion-dollar airport developments in the Middle East, North Africa and Indian subcontinent region. It is the largest gathering of airport decision makers, experts and suppliers in the region. For more information, visit *www.theairportshow.com*.

MAY 19-23, 2014

Hannover, Germany: CeMAT, a leading fair for intralogistics, will feature an exhibition area of more than 1.7 million square feet. There will also be forums and displays on transport logistics. For more information, visit *www.cemat.de/home*.

Michael Sonnentag joined **Purolator International**, a provider of cross-border logistics between the U.S. and Canada and a subsidiary of Purolator Inc., as branch sales manager of its Milwaukee, Wis., branch. He is responsible for the management of all sales, business development and branch operations. Sonnentag comes to Purolator from UPS, where he spent five years as a regional account manager. Prior to UPS, he spent 10 years as a business manager at the WHR Group, Inc.

Kuehne + Nagel appointed **Marcus Bennett** as national manager for its UK organization. He succeeds **Yngve Ruud**, who will move to the company's Western Europe headquarters in Hamburg. Bennett's career with Kuehne + Nagel spans 24 years. He held operational and management positions within air and road freight in Ireland before being appointed national manager, Ireland in 2003. ACW

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Brandon Fried is the executive director of the U.S. Airforwarders Association

Pharma's cargo opportunities

A recent article in an online industry publication discusses how the air cargo industry has become unreliable and is losing pharmaceutical traffic to ocean transport. It cites an analysis indicating that airfreight's share of global pharmaceutical transport has plummeted from 17 percent in 2000 to just 11 percent today. It calls for the air cargo industry and the International Air Transport Association to act urgently to prevent further mode shift of pharmaceutical traffic to seafreight, not on the basis of price but of quality.

What is not mentioned is that this may be a symptom of a larger story that is occurring in air cargo.

Throughout the past few years, airfreight has regressed to a less regarded commodity or byproduct of passenger-oriented airlines. Des Vertannes, global head of air cargo at IATA, admits that a big part of the problem was that after five years of economic stagnation, carriers weren't investing in cargo. This may be why Marcel Fujike, Kuehne + Nagel's senior vice president for global air logistics products and services, says that there is a lack of skills, training and standards throughout cool chain logistics.

Other vulnerable spots identified include handling, loading, the tarmac phase and of course, Customs clearance. Fujike asserts that seafreight is more secure because the refrigerated container is sealed and, once plugged in, remains secure throughout the journey. Of course, some airlines committed to pharma handling have distinguished themselves by investing in the product and its handling procedures.

One might chalk all this up as yet more fallout from the economic slump afflicting the air cargo industry. But a closer look at pharmaceutical shipping indicates some potential paths to increased profitability for those willing to navigate its complexities.

Let's begin with an area that airfreight forwarders are highly familiar with: regulation. Pharmaceutical industry service providers are affected by about 70 different sets of regulations. Taken individually, many of these regulatory processes appear to make sense, but cumulatively they crush initiative, efficiency and innovation. How can airfreight forwarders bring inventive thinking to pharma's challenges?

As an example, International Pharmaceutical Excipients Council Americas, a group representing drug manufacturers, recently reported that U.S. authorities are holding more excipient (inert ingredients used to make drugs) at domestic ports upon arrival for longer periods than ever. This is delaying drug production in the U.S. This is a significant issue that delays the process, regardless of transportation mode – and an area where our industry members are highly qualified to help out.

Nor should we give up on the compelling advantages of air cargo over seaborne freight vis-à-vis an industry that has distinct competitive and logistical challenges in getting its product to market, such as speed, for instance.

Another area on which to focus is temperature control, which is a primary consideration for an industry where a two-degree variation can spoil the entire lot of a product. A cold chain expert at FedEx said when temperatures slip, companies lose an average of US$150,000 on a small package shipment. For large freight shipments, these damages can run into the millions of dollars. The stakes are high with seven out of 10 pharmaceutical products predicted to require temperature-controlled transportation by 2014.

Even with air cargo's comparative advantages, we need to do more to deal with the elephant in the room – the higher degree of security inspections that air shipments face prior to departure. While seafreight containers are quickly scanned, air cargo is often screened by the piece, resulting in challenges to maintaining temperature requirements needed for certain drug products.

The resulting modal shift requires immediate action not just by IATA but other stakeholder associations as well. For example, our industry might turn to organizations such as the Cool Chain Association and its Good Distribution Practice program to help establish consistent standard operating procedures for temperature control and proper handling that appear to be absent from the airline industry.

While IATA plays a prominent role in drafting aviation standards, it is beset by the financial challenges of the airline industry. We in the air cargo industry should be looking to help them out by leveraging our member skill sets through organizations including TIACA and the Airforwarders Association, using the recently formed Global Air Cargo Advisory Group.

While the competitive issues presented by slower modes of transportation are broad-based for our industry, pharmaceutical shipping may be one area where we can show swift and measurable progress. Let's take up this challenge through our associations and working groups before more of the airfreight market share sails away. ACW