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Robert T. Convey
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rconvey@aeronautical-engineers.com



INTERNATIONAL EDITION

Air Cargo World

AUGUST 2014

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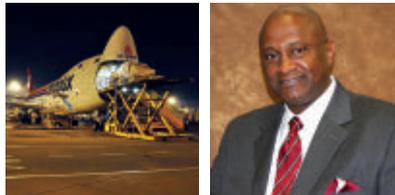
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AXIO

Air Cargo World (ISSN 1933-1614) is published monthly and owned by Axio Data Group. Air Cargo World is located at 1080 Holcomb Bridge Rd., Suite 255, Roswell, GA 30076. Production office is located at 3025 Highland Parkway Suite 200, Downers Grove, IL 60515; telephone 866-624-4457. Air Cargo World is a registered trademark. Periodicals postage paid at Downers Grove, IL and at additional mailing offices. Subscription rates: 1 year, \$80; 2 year \$128; outside USA surface mail/1 year \$120; 2 year \$216. Single copies \$20. Express Delivery Guide, Carrier Guide, Freight Forwarder Directory and Airport Directory single copies \$14.95 domestic; \$21.95 overseas. Microfilm copies are available from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. Opinions expressed by authors and contributors are not necessarily those of the editors or publisher. Articles may not be reproduced in whole or part without the express written permission of the publisher. Air Cargo World is not responsible for unsolicited manuscripts, photographs or artwork. Please enclose a self-addressed envelope to guarantee that materials will be returned. Authorization to photocopy items for internal or personal use is granted by Air Cargo World, provided the base fee of \$3 per page is paid directly to Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923, and provided the number of copies is less than 100. For authorization, contact CCC at (508) 750-8400. The Transactional Reporting Service fee code is: 0745-5100/96/\$3.00. For those seeking 100 or more copies, please contact the magazine directly. Member of Audit Bureau of Circulations Ltd.

POSTMASTER and subscriber services: Call or write to Air Cargo World, 3025 Highland Parkway Suite 200, Downers Grove, IL 60515; telephone 866-624-4457.

EDITOR

John W. McCurry
jmccurry@aircargoworld.com • (678) 775-3567

ASSOCIATE EDITOR

Adina Solomon
asolomon@aircargoworld.com • (678)-775-3568

SPECIAL CORRESPONDENT

Martin Roebuck

CONTRIBUTING EDITORS

Roger Turney, Ian Putzger

CONTRIBUTING PHOTOGRAPHER

Rob Finlayson

COLUMNIST

Brandon Fried

PRODUCTION DIRECTOR

Ed Calahan

CIRCULATION MANAGER

Nicola Mitcham
Nicola.Mitcham@aircargoworld.com

ART DIRECTOR

CENTRAL COMMUNICATIONS GROUP
centcommgrp@comcast.net

PUBLISHER

Steve Prince
sprince@aircargoworld.com

ASSISTANT TO PUBLISHER

Susan Addy
saddy@aircargoworld.com • (770) 642-9170

DISPLAY ADVERTISING TRAFFIC COORDINATOR

Cindy Fehland
production@aircargoworld.com

AIR CARGO WORLD HEADQUARTERS

1080 Holcomb Bridge Rd., Roswell Summit
Building 200, Suite 255, Roswell, GA 30076
(770) 642-9170 • Fax: (770) 642-9982

WORLDWIDE SALES

U.S. Sales

Director National Accounts
Tim Lord
tlord@aircargoworld.com • (678) 775-3565

Europe, United Kingdom, Middle East

David Collison
dci.collison@btinternet.com • +44 192-381-7731

Hong Kong, Malaysia, Singapore

Joseph Yap
joseph@asianimedia.com • +65-6-337-6996

India

Faredoon Kuka RMA Media
kuka@rmamedia.com • +91 22 6570 3081

Japan

Mr. Mikio Tsuchiya
mikio.tsuchiya@worldmedia.jp • +81-45-891-1852

Thailand

Ms. Anchana Nararidh
anchana@worldmedia.co.th • +66-26-412-6938

Taiwan

Ms. Paula Liu
pl.pl@msa.hinet.net • +88-62-2377-9108

Korea

Mr. Jung-Won Suh
sinsegi@igroupnet.co.kr • +82-2785-8222



Energy exploration offers opportunities

With the world's thirst for oil and gas running largely unabated, the exploration of these commodities continues to provide benefits for cargo carriers equipped to handle the often large and odd-sized equipment needed in far-flung locales.

Much of that equipment is manufactured in the U.S., with Houston among the world's largest — if not the largest — manufacturing centers for oil and gas exploration equipment. Nearly 500 equipment suppliers to the energy sector have operations in the Houston area, and many of them ship their products by air to oil exploration regions such as Africa and the Middle East.

At least 65 percent of the cargo handled at Houston is for the oil and gas industry and most of the charter cargo flights are related to the energy sector, according to Luis Aviles, senior executive with the airport's air service development department. "With new oil and gas developments around the world, we are sure that our numbers will continue to grow this year," Aviles says.

A growing number of air carriers and logistics firms see opportunity in Houston and are either investing in facilities or adding or considering operations in the Texas energy capital.

Lufthansa Cargo is among the carriers serving Houston that are increasing capacity. About 70 percent of its outbound cargo departing from Houston is oil field equipment. Lufthansa operates three freighter flights weekly and also uses belly capacity on its daily passenger flights. The airline's Boeing 777 freighter made its first flight to Houston last December as part of a ramping up to serve increased oil and gas demands. Lufthansa also serves other key oil and gas equipment regions, including Singapore and Oslo.

On June 15, Saudia Cargo re-launched a weekly 747 nose-loader freighter service from Houston to Saudia Arabia. The airline said Houston is a key market due to the oil industry and plans to add a second weekly flight in September.

Cargolux and Cathay Pacific are also among the carriers lifting energy production equipment out of the Houston area. Another 747 nose-loader specialist, Air-BridgeCargo, tells *Air Cargo World* that it is also considering adding a Houston route to its growing U.S. presence.

Another recent development involves supply chain specialist UTi Worldwide, which opened a global hub and freight forwarding facility focusing on the energy sector. The facility is located near Bush Intercontinental Airport.

Air Charter Service opened a Houston office in May, citing the company's increasing number of cargo clients in the oil and gas industry in the region. "Our North American operations grew by 30 percent last year, and based on the increased demand we have seen from our customers around the Houston area, we wanted to better serve them with a more local presence," Chris Leach, ACS founder and chairman, said.

In a period where carriers chase every available piece of cargo, expect more carriers, brokers and logistics firms to expand offerings in the Houston region.



John W. McCurry
Editor

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Brussels punching above its weight

The geopolitical capital of Europe it may be, but Brussels also wants to take on a more central role as a European cargo gateway.

It's a tough call, ring-fenced as it is by the heavyweights of Frankfurt, Amsterdam, London and Paris. While they push through annual tonnages measured by the million, the Belgium airport accounts for annualized figures of around 600,000 tonnes.

The fact that 40 percent of even this traffic is trucked to and from these other gateways, only serves to sour things further. Lest it be forgotten, its nearest neighbor is Luxembourg, so further opportunity for its base cargo carrier Cargolux to come and gorge itself. There is a further drawback, given that Belgium's own Liege Airport is to establish itself as a second-tier cargo hub.

But you find no dismay reflected in Brussels cargo management's attitude and business approach.

"We took a long hard reality check about four years ago to see where we stood," says Steven Polmans, head of the airport's cargo operation, better known as Brucargo. "We were still getting over the loss of the transfer of the DHL hub operation to Leipzig and our overall cargo figures were on the slide."

Polmans and his team set about rectifying that situation and, in particular, reversing the downward spiral in cargo traffic. "We took a look at perhaps what cargo products we could target and which markets we could best develop."

The answers were immediately at hand. Brussels was already establishing a name for handling pharma and perishables traffic. In terms of market penetration, the emergence of the

new Belgian carrier Brussels Airlines, was beginning to re-establish a strong link with Africa.

"In terms of halting the decline in cargo, we succeeded in holding our own through the crisis of 2010/11, saw a 5 percent drop last year, but since last October have seen 8 percent month-on-month growth, which we expect to sustain for the rest of the year," Polmans says.

Brucargo, he says, is gaining traction as airlines make greater use of more belly-hold capacity. That is certainly the case with Brussels Airlines, which has effectively rebuilt the African network of its liquidated predecessor Sabena. It now serves some 24 points out of Brussels across the continent with A330-300 equipment. The carrier's only other long-haul services are to New York and Washington, D.C.

Brussels Airlines Cargo has adopted an intuitive strategy to commercializing its cargo capacity by outsourcing the marketing of all its ex-European belly space to GSSA ECS Group, which through its affiliate Globe Air Cargo also markets ex-U.S. space.

Inbound from Africa the airline uses a mix of local GSSAs and its own cargo sales teams.

More recently, during the busier summer months, with less belly-hold capacity available, the airline has been trucking cargo to Liege in order to access the MD-11 freighter flights of AV Cargo to points in Africa.

But Brucargo is still looking to retain and build on its own freighter services. Long-term providers include Saudia Cargo, for whom Brussels is its central European hub. Other freighter operators include Asiana, Korean Air and Singapore Airlines Cargo out of Asia.

There is also one perhaps surprising source of freighter capacity at



Steven Polmans

Brussels. DHL may have departed amid some acrimony, but it still feeds flights through its former European hub.

"It is quite surprising and rewarding that today we can still count on DHL as one of our biggest freighter operators," Polmans says. "Not only do they provide a direct B767F link with their Cincinnati hub in the U.S., they also operate a B767F service to Lagos in Nigeria, which is great for returning perishables traffic."

It does not end there.

"DHL also routes an Aerologic B777F though Brussels to Bahrain and Hong Kong," he says. "So this also gives us further access to the Asia market."

And then there was Finnair Cargo. The Finnish carrier arrived in Brussels with a great flourish just over a year ago to announce that it was establishing a central European hub with its MD-11F fleet. The attraction, it appeared, was the potential strong uplift of high-yield pharma traffic.

Thus it was that Finnair Cargo started operating weekly MD-11 freighter flights connecting Brussels via Helsinki with New York JFK and Chicago O'Hare. In the opposite direction, it brought in twice-weekly freighter service to Hong Kong and Mumbai in India.

Fast forward one year, and the story is very different. All that remains of the Finnair Cargo central European hub concept are two weekly feeder services to Helsinki.

“Finnair Cargo still retains its MD-11F which operates out of Helsinki, but for the time being it is using a DHL A300-600F to provide the feeder link from Brussels,” Polmans says. “We understand it is currently reviewing its longer-term strategy in terms of capacity feed out of Brussels.”

But Polmans remains unfazed by airline comings and goings and does not rate business success by number of online carriers or volume of flights.

“I think this is where we have succeeded in our strategy of reviving the fortunes of Brucargo,” Polmans says. “We do not simply regard ourselves as a cargo gateway, but more of a cargo facilitator. How cargo arrives or departs is, in some respects, irrelevant. It is our job to make its transfer as smooth and efficient as possible.”

It is some credit to Brussels that Brucargo probably has the strongest



Brussels Airport hopes to take on a larger role as a European cargo gateway.

cargo marketing team of any European gateway, with no less than six cargo management staffers.

“What is also important is how we talk and work with our existing users and potential customers,” Polmans says. “If we launch any initiative at Brucargo, for instance, we don’t just invite the online carriers; we also invite those that are offline, because we feel they are just as important to us.”

One of the more recent initiatives

launched has been aimed at reinforcing the airport’s credentials as a pharma gateway. Brucargo has introduced what it describes as a dedicated certification program for pharma logistics.

“We are inviting the entire Brucargo community to participate in this project,” Polmans says. “It’s objective is to align and standardize the pharma handling process and at the same time, train local stakeholders through the entire cool chain at the airport.” **ACW**

Russia, EU tussle over ACC3 security regulation

By Martin Roebuck

A new air cargo security protocol enacted by the European Union on July 1 is threatening to create a trade war with Russia.

Regulation EU 1082 stipulates that an airline can only transport cargo into an EU member state if its airport operation at the final point of departure for Europe has been certified by an independent validator as meeting required security standards.

Airlines know the regulation as ACC3 (“air cargo or mail carrier operating into the EU from a third country airport”). Intra-EU movements are exempt.

Airport handling facilities in three countries that are in the European Economic Area, but are not EU members – Norway, Iceland and Liechten-

stein – are assumed to be compliant with the regulation, as is Switzerland, which is outside the EEA but has a similar agreement with the EU.

Also exempted are 12 additional countries assessed as having safe procedures and appearing on an EU green list, which includes the U.S., China and Japan.

Airlines’ facilities at all other airports with direct connections to EU countries must now undergo an audit by a validator, who is accredited by an EU member state. Validators assess aspects such as perimeter fencing and cargo screening procedures.

The International Air Transport Association, the sole authorized trainer of validators at its headquarters in Geneva, estimates that more than

1,000 locations worldwide are affected. IATA is pressing the European Commission for information on how many locations have so far been certified, but Mike Woodall, IATA’s project leader, independent validation and regulatory engagement, says no figures have yet been provided.

Following the completion of IATA’s latest course last week, Woodall told Air Cargo World that 100 validators have now been trained, of whom 95 have been accredited by their national regulatory authorities and are ready to conduct assessments.

While this number may sound low, Woodall pointed out that in many cases, a validator can assess multiple airlines and handlers during a single visit to an airport. A handler or forwarder



providing screened or secured cargo to carriers can apply for EU validation in its own right, avoiding the need for multiple inspections on behalf of each carrier, and thus becomes RA3 certified (referring to “regulated agents in third countries”).

The majority of carriers serving Europe either fulfilled the requirements ahead of the regulation’s entry into force or, where they were validated close to the deadline, may have suffered from backlogs within national regulators themselves, Woodall says. The workload fell disproportionately among EU member states, and the harder-pressed jurisdictions, such as Germany, “may be sitting on hundreds of validation reports,” he said. In these cases, temporary clearance has been granted.

Woodall is not aware of any immediate effect on cargo flows in respect to those carriers that have not yet been certified at all points of origin. “No one has been told, ‘You can’t bring in your cargo.’ The regulators have accepted ‘objective reasons,’ problems beyond a carrier’s control, which have prevented some from complying with the new requirements,” he says.

In some cases, a reluctant third country may have denied a validator an entry visa, or denied access to screening facilities. But even where an airline could put forward no objective reason for non-compliance, he says, “There has been no guillotine. The authorities at the point of entry into the EU have taken a reasonable, adult approach, asking carriers what are their plans, milestones and timelines to achieve compliance.”

The new rules were drawn up following the failed Yemeni printer cartridge bomb plot in 2010. The issue for Russian carriers flying cargo into Europe, such as Volga-Dnepr, Aeroflot and Transaero, is that Russia is not on the EU’s green safe country list. Facilities at Moscow’s Sheremetyevo International Airport, the main hub for Volga-Dnepr Group’s AirBridgeCargo (ABC) and Atran subsidiaries, therefore need certification under EU 1082.



Russia is not on the EU’s green safe country list for the ACC3 security regulation. That means facilities at Moscow’s Sheremetyevo Airport need certification.

This clearly rankles the Russian government, which argues its airlines and airports meet the existing security standards of the International Civil Aviation Organization. The country’s ambassador to the EU stated to a news agency that it “does not intend to undertake additional inspections.”

This standoff threatens a significant and fast-growing trade lane. Russia exported US\$6.2 billion (4.5 billion euros) worth of goods to EU destinations by air in 2013 and its airfreight imports were almost double this figure at US\$11.8 billion (8.6 billion euros).

Russia’s Ministry of Transport is reported to have requested talks with the European Commission. If no compromise is reached, at a time when political tensions are already running high thanks to the crisis in Ukraine, there are fears of retaliatory measures against carriers operating into Russia from or via the EU.

“Volga-Dnepr Airlines continues its operations to European countries in the ordinary course,” Andrey Matveev, corporate communications director for Volga-Dnepr Group, tells *Air Cargo World*. “The company sent the ACC3 status request to LBA [the German civil aviation administration], the authority in charge for oversight of VDA’s European operations, in order to extend the period of mandatory compliance with EC requirements by at least half a year, as there remain certain discrepancies between Rus-

sian and European law in this area.”

Confirming the granting of a six-month grace period, Woodall says, “We understand that the Russian authorities and the EC are continuing their discussions. Our position is clear. We don’t want our members to be penalized if they are caught in the middle of a political dialogue.”

Russia is not the only country to express concern about Europe’s unilateral action.

Woodall says EC representatives were recently forced to travel to Senegal for a meeting with the African Civil Aviation Commission, which IATA also attended. “There was recognition from the [European] Commission that its communication strategy could have been better. There is now a greater level of understanding,” he says.

IATA acknowledges that the new rules may be seen as an imposition in countries where the country itself carries out air cargo screening. It is encouraging government representatives to attend carrier validations to allay their concerns.

For their part, EU validators must accept that they are guests of foreign governments and have no automatic right of entry, Woodall concludes. “But they are not inspecting a state or an airport. They are not there to judge but are simply fact-finding, gathering evidence on individual carriers’ arrangements.” **ACW**

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Qatar spends big at Farnborough

By John W. McCurry

Qatar Airways made the biggest news, cargo-wise, at the recent Farnborough Air Show, with the announcement of its intent to order four Boeing 777 freighters with options for four more. The planes have a combined value of about US\$3 billion (2.2 billion euros).

Qatar Airways and Boeing also finalized an order for 50 777-9Xs. The 777X order was first announced as a commitment at the 2013 Dubai Airshow and was part of the largest product launch in commercial jetliner history. In addition, Qatar Airways announced a commitment for 50 additional 777-9X purchase rights which if exercised, could take its 777X order tally to 100 airplanes, valued at around US\$40 billion (29.5 billion euros) at list prices.

"Qatar Airways continuously builds upon its successful fleet program, and this latest announcement demonstrates our investment in quality equipment to deliver our signature five-star service," Akbar Al Baker, CEO of Qatar Airways, said. "The Boeing 777 is a key component of our fleet and we look forward to building on this with the next-generation 777-9X."

"Qatar Airways took delivery of its first 777 a few short years ago, and we are honored to see this partnership continue to grow and strengthen," Boeing Commercial Airplanes president and CEO Ray Conner said. "Today signifies a new chapter in our relationship, with Qatar Airways' endorsement of the 777X as well as their ongoing confidence in the value of the 777 freighter. These orders validate the market-leading role that the 777 and now the 777X will continue to play in the Middle East's passenger and cargo market."

Also in the region, Air Algerie an-

nounced an order for two Next-Generation 737-700C (Convertible) airplanes, valued at US\$152 million (112 million euros). The order continues Air Algerie's fleet renewal and expansion following January's order for eight 737-800s.

The addition of 737-700Cs to the Algerian-flag carrier's fleet will provide the airline with increased flexibility depending on passenger and cargo demands.

"The 737-700C will provide our fleet with flexibility, and enhances our ability to carry cargo on important routes," Mohamed Salah Boutif, CEO of Air Algerie, said.

The 737-700C is a derivative of the 737-700 with strengthened wings, a main-deck cargo door and an in-floor cargo-handling system. In an all-passenger layout, the 737-700C can carry up to 140 passengers, while the all-cargo layout provides up to 40,000 pounds (18,200 kilograms) of capacity.

"With an expanding route network, coupled with the growth of the cargo market in North Africa, the 737-700C provides Air Algerie with the flexibility to maximize its revenues across both its passenger and cargo operations," said Van Rex Gallard, vice president of sales for Africa, Latin America and the Caribbean, Boeing Commercial Airplanes.

Emirates' new route

Emirates will commence services to Budapest starting Oct. 27. Emirates will operate a wide-body A330-200 aircraft. With markets in Asia playing an increasing role in Hungary's foreign economic growth targets, Emirates expects to see strong demand for this new service, especially to countries like Thailand, China, Sri Lanka and the Indian Ocean Islands.

Budapest currently has the fifth



Qatar Airways CEO Akbar Al Baker (left) and Ray Conner, CEO and president of Boeing Commercial Airplanes, shake hands after completing aircraft deal.

largest economy in Central and Eastern Europe. The UAE is Hungary's largest Arab trading partner with annual trade between the two countries pegged at around US \$1.2 billion.

Emirates SkyCargo will offer 12 tonnes of cargo capacity in each direction. Popular export commodities from Hungary are expected to be machinery, spare parts and foodstuff. The cargo division expects to transport garments, raw materials and electronics.

CEVA opens energy facility

CEVA Logistics opened its City of Energy hub in Jebel Ali Free Zone in Dubai. The 27,000-square-meter (290,720-square-foot) facility will be dedicated to the warehousing and handling of oil and gas products for the energy sector.

The City of Energy will house CEVA's oil and gas customers and will be home to CEVA's dedicated oil and gas and project logistics team.

"The City of Energy was established to serve as a catalyst for the growth and expansion of our oil and gas expertise in Middle East and Africa," Hakan Bicil, CEVA's commercial officer, said. "We are very optimistic about the progress of the region and the acquisition of new customers and business this year as Dubai continues to be an attractive logistics hub for local and regional companies." **ACW**

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Cargolux is running three weekly flights into Hanoi and Ho Chi Minh City.

Air cargo sets sights on Vietnamese exports

In a long-anticipated move, Vietnam Airlines has submitted its plan for an IPO to the national ministry of transport. The listing is meant to generate funds for the overdue expansion of the carrier's long-haul network. In recent years, Vietnam Airlines has added narrowbodies to its fleet, but the last wide-body aircraft it took on board arrived nine years ago.

The B787-9s and A350-900s that management aims to add in the coming years would help Vietnam Airlines take a bigger bite out of the country's galloping exports, which have largely gone to international rivals. In the first six months of this year, Vietnam's exports have gone up 14.9 percent year over year, significantly above GDP growth.

"The export market is fueled by a few sectors, particularly the garment and textile industry. A lot of foreign buyers are sourcing more and more from Vietnam. We have seen a lot of foreign investment in electronics over the last few years as well, which is driving a very strong growth for the export market. In terms of countries, both U.S. and EU are going strong for Vietnam," says Charles Kaufmann,

head of operations and value-added services at DHL Global Forwarding, Asia Pacific.

Exports to the EU climbed 12.8 percent in the first six months to US\$13.1 billion (9.6 billion euros), according to the General Statistics Office of Vietnam. The U.S. ranked second with US\$13 billion (9.5 billion euros), up 19.5 percent, while the ASEAN market ranked third with US\$9.6 billion (7 billion euros), having risen 4.8 percent. Exports to China climbed 20.8 percent to US\$7.4 billion (5.4 billion euros).

A considerable factor behind the rise in exports has been the shift of production from China. "In speaking with our customers, we understand manufacturing is shifting primarily due to cost pressures," says Thomas Lehmann, senior vice president for airfreight, South Asia Pacific at Kuehne + Nagel.

This process was cast in doubt after China moved a drilling rig into waters also claimed by Vietnam in May, which led to widespread protests in Vietnam. At least 15 foreign-owned factories were set on fire and others were attacked in anti-China protests. Observers say the

factories that were targeted either belonged to Chinese firms or had Chinese characters in their logos. Some Taiwanese investors have reportedly withdrawn from Vietnam in the aftermath and one Hong Kong-based executive says that plans for a new production plant have been held back, but overall, the incident seems to have had little lasting effect.

"At the very beginning, there were some strikes at the industrial parks and some Taiwanese investors stated to withdraw. However at the moment, everything seems fine and all factories are back to normal operation. Cargo output was down for 1-2 weeks only and after that has been increasing until now," Kevin Shek, vice president Asia and Pacific at Cargolux Airlines, says. "The airfreight market in Vietnam is seen to keep improving and growing at around 25-30 percent in general for the next 12 months."

The Bank of Vietnam devalued the Viet dong by 1 percent in early June, which should have a positive effect on exports in the second half of the year, Kaufmann points out, adding that measures taken to hold down inflation should prevent an effect on that side, although imports have become more expensive.

Lehmann notices a decline in imports and is bracing himself for a possible further decrease, but overall, the balance between inbound and outbound flows remains comparatively healthy, Shek says.

Cargolux is running three weekly flights into Hanoi and one to Ho Chi Minh City. "Our export production from both of these markets is very stable and growing steadily," Shek says.

Not surprisingly, other carriers have also put capacity into the market, above all the Middle Eastern airlines. Lehmann says lift out of Hanoi is up 20 percent. Growth in capacity has outstripped the rise in traffic, which has adversely affected rates, Shek says.

So far, Vietnam's major gateways have been able to cope with the

rise in traffic, but there is room for improvement, especially at Hanoi, which is too small and not considered to be on par with international standards, Lehmann says. He adds that a clear improvement has been noted in Ho Chi Minh City.

Kaufmann says DHL Global For-

warding Vietnam recently became one of the first few agents with a consolidated warehouse in the cargo terminal in Ho Chi Minh for export shipment. "Our future plan is to set up a consolidated warehouse in Hanoi when the terminal is able to provide warehouse space to forwarders," he says.

Kuehne + Nagel has no immediate plans to expand in Vietnam, but has its eyes on the market for the longer term.

"We consider the country an important link in the chain of providing seamless, integrated transportation services to our global and regional clientele," Lehmann says. **ACW**

Asia Pacific freight demand sees healthy growth

Airfreight markets had a healthy growth in demand in May, according to preliminary traffic figures released by the Association of Asia Pacific Airlines (AAPA).

International air cargo demand, in freight tonne kilometers, increased by 4.7 percent in May, with export shipments by air to the U.S. and Europe gaining momentum. Offered freight capacity registered a 4 percent increase.

As a result, the average interna-

tional freight load factor edged 0.5 percentage points higher to 64.9 percent in May compared to the same month last year.

The number of international passengers increased by 6.9 percent in May.

"During the first five months of the year, Asia Pacific airlines carried a combined total of 103 million international passengers representing 5.5 percent growth, whilst air cargo demand grew by 4.4 percent in the same period. The growth in demand seen in

both the passenger and airfreight markets reflects generally positive economic sentiment in global markets," Andrew Herdman, AAPA director general, said. "Nevertheless, pricing remains very competitive across all segments of the industry, and the recent jump in oil prices above the US\$110 mark is another cause for concern. Asian carriers continue to carefully manage capacity in line with demand growth, keeping a tight rein on costs to maintain profitability." **ACW**



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World's busiest passenger airport turns to cargo

By Adina Solomon
 asolomon@aircargoworld.com



Miguel Southwell became Hartsfield-Jackson Airport's permanent general manager.

Near the magazine-covered coffee table and plush armchairs, the waiting room of the Hartsfield-Jackson Atlanta International Airport executive office has something else: a glass case filled with model planes, mostly of cargo carriers. A photo spread of Car-golux's inaugural flight to the airport in 2007 rests against the wall.

The model planes, the photos – they all seem to signify Hartsfield-Jackson's latest ambition: attracting cargo.

"That side of the business is the one

we're really looking forward to growing," Miguel Southwell, Hartsfield-Jackson's general manager, says. "We are the busiest passenger airport, but every one of those passenger planes, they carry cargo in their belly."

Southwell is familiar with cargo. He joined Atlanta's Department of Aviation in 2013 as the deputy general manager of commercial operations. Prior to that, Southwell was the deputy director of business for Miami-Dade Aviation Department, including Miami International Airport. He worked for Miami-Dade for 12 years.

Southwell has served as Hartsfield-Jackson's interim general manager since January, but once he was chosen in May to serve in the post permanently, Atlanta officials pushed airfreight to the forefront.

"I'm confident that Miguel Southwell is the right executive to continue Hartsfield-Jackson's dominance as the world's busiest airport, and grow its capabilities as a leading global cargo hub," Atlanta Mayor Kasim Reed says in a statement. "His experience in Miami, and prior experience in Atlanta, is the right fit to carry out my vision for our airport to be the nation's leader in the logistics and air cargo space."

Hartsfield-Jackson stands as the world's busiest passenger airport, with 58,000 direct jobs, but now it wants to turn its attention to freight.

"At about 10:30 at night, when those passenger planes stop flying, the engine begins to sputter because we don't have a robust cargo activity at nights, which is really the jobs that are done from between 10:30 at night and 6 in the morning," Southwell says. "So the challenge for us, from a cargo perspective and a jobs perspective, is really to get that cargo operation going in a very strong way."

Hartsfield-Jackson has mostly belly cargo, he says. FedEx, DHL and Atlanta-based UPS and Delta Air Lines all operate at the airport. Delta has the largest privately operated cargo facility at Hartsfield-Jackson. There is also freighter service, led by Lufthansa, but also including Atlas Air and IAG Cargo, among others.

The airport's cargo fell by 5.8 percent in 2013 compared to the previous year. In 2012, it was down only 1.4 percent.

Southwell plans to concentrate on the perishable airfreight segment, especially pharmaceuticals since many pharma companies are in Atlanta.

"That is the area of focus that you'll be seeing for us over the next few years – trying to understand how we can get much of those perishable shipments through Atlanta as opposed to the other major international gateways, which are Miami and New York and LAX," Southwell says.

But there are a few challenges, he admits. Hartsfield-Jackson must build the



Hartsfield-Jackson International Airport is working to develop its cargo business, especially perishables and pharmaceuticals. The airport has mostly belly cargo.

proper relationships with companies.

“When you’re dealing with the perishable industry, with so much of it coming from Latin America and some of it from the African continent, there are pre-existing relationships that influence the current flow of those goods through other airports, and we have to build those relationships,” he says.

Hartsfield-Jackson also needs to improve infrastructure for maintaining the cool chain.

“We have some work to do in building that infrastructure, but we should be ready by the end of the year,” Southwell says.

He gives an example of where the cool chain infrastructure is lacking.

“Should you find pests, any kinds of pests, on any one of those shipments, currently that treatment is done where it is tented on the outside of the building,” Southwell says. “If it’s very cold, then of course it could impact the shelf life of, say, cut flowers. If it’s very

warm, it could do the same thing. And so we have to improve our fumigation facilities.”

The cargo facilities also aren’t centralized in one area – there are north and south cargo facilities – so federal agents must travel to each facility to carry out inspections, Southwell says.

The airport is now in talks with a local research company to identify markets, shippers and potential airline partners. Once the research is completed by the end of the summer, Hartsfield-Jackson will talk to the potential partners.

“We have begun that conversation with distributors on a very peripheral level because we don’t yet have the information from the research to present to them for the business case,” Southwell says. “We know the business case is there. It’s really a matter of presenting it to them and inviting them to be our partners.”

In the meantime, Hartsfield-Jackson is wasting no time to push that business case. The airport recently began an air service incentive program. The program waives landing fees for one year for airlines starting international routes not already served from Atlanta, as well as provides cargo carriers the opportunity to qualify for a waiver of aircraft parking fees at the airport’s cargo areas.

Additional incentives are offered to carriers starting service to one of the five major emerging economies – Brazil, Russia, India, China or South Africa – while carriers starting service to Africa, Eastern Europe or Southeast Asia also receive extra consideration.

“It’s not just about the direct jobs on the airport. It’s how do you use the airport as a tool to create jobs and as a foreign direct investment here in Atlanta, and we know that cargo air service can help,” Southwell says.

Then there is the obvious fact: At-

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lanta must vie for air cargo when Miami, with all its international freight connections and cool chain infrastructure, operates in the same region.

Southwell says 80 percent of the perishable goods coming into MIA drive past Hartsfield-Jackson on their way to the Northeastern U.S.

“One day extra that you can cut out of the transportation means an increased shelf life for that good, those flowers [for example], and therefore increased profitability for those flowers,” Southwell says.

While MIA’s biggest strength lies with Latin America and the Caribbean, it should be noted that Hartsfield is targeting cargo growth in Eastern Europe, Asia and parts of Africa – far

from Miami’s area of forte.

Back at home, Hartsfield-Jackson remains supportive of Delta as Atlanta’s hub carrier nixes its cargo head position starting Aug. 1.

“I’m sure those moves that are made have nothing to do with the demotion of the role of cargo at Delta, but really to streamline the organization and to increase profitability,” Southwell says. “We fully intend to work with Delta as a part of our air cargo development strategy. In fact, it would be difficult to have a robust cargo growth strategy without having Delta as a partner.”

Over and over, as relentless as the sound of plane takeoffs in the distance, Southwell uses the term “war

for jobs” to explain the airport’s push for cargo growth.

“Building the cargo business to have direct jobs on the airport is just a piece of it. Equally important is actually building air service routes, including air cargo routes, to international commercial centers around the world,” he says. “We know that when corporations from foreign destinations are looking to expand to the United States, that typically among their top two criteria for choosing which U.S. city in which they may operate, just to be able to compete, is access to non-stop air service to that particular destination to move both their people as well as their goods.” **ACW**

Going hog-wild to revive cargo in Wilmington, Ohio

By Adina Solomon

asolomon@aircargoworld.com

The town of Wilmington, Ohio, with just 12,000 people, took a hit when DHL closed its U.S. hub there in 2009. At its peak, the company employed 9,000 people.

“The loss was very troublesome, and the community is still recovering,” Kevin Carver, executive director of Wilmington Air Park, says. “We are engaged every day trying to redevelop the Air Park.”

After it left, DHL donated the airport and much of the grounds to the Clinton County Port Authority. The Port Authority is responsible for the creation of jobs in Wilmington, which is in Southwest Ohio, about halfway between Columbus and Cincinnati on Hwy. 71. Columbus and Cincinnati are each 50-60 miles (80-96 kilometers) away from Wilmington.

DHL’s former property became the 1,900-acre Wilmington Air Park.

The Air Park, which has two parallel runways of 9,000 feet (2,743 meters) and 10,701 feet (3,261 meters), is close to a major highway system. Because there are no passenger jets,



Wilmington Air Park in Ohio has two parallel runways for cargo charter flights.

it’s also relatively easy to get into and out of the airport due to the low volume of air traffic, Carver says.

The Air Park has quite a few tenants, including Air Transport Services Group, an air cargo transportation provider for air carriers, and its subsidiaries, cargo airlines ABX Air and Air Transport International. There is also an MRO provider.

“We have a very robust agriculture community. There are a lot of agribusinesses that are engaged in raising livestock,” Carver says. “There’s been a lot of work done on genetic background of these animals, if you will, to

ensure they’re strong, healthy stock.”

In the last year, the Air Park has had an increase in special cargo, predominantly livestock purchased in Southwest Ohio. There is a quarantine facility five miles (eight kilometers) down the road from the Air Park.

Hogs make up much of the livestock, and they travel on 747Fs and MD-11Fs to Brazil, China, Russia and Poland.

Wilmington Air Park also sees aviation-related cargo and equipment, Carver says.

Today, the Air Park employs 1,100 people, a little more than one-tenth what DHL had employed. **ACW**



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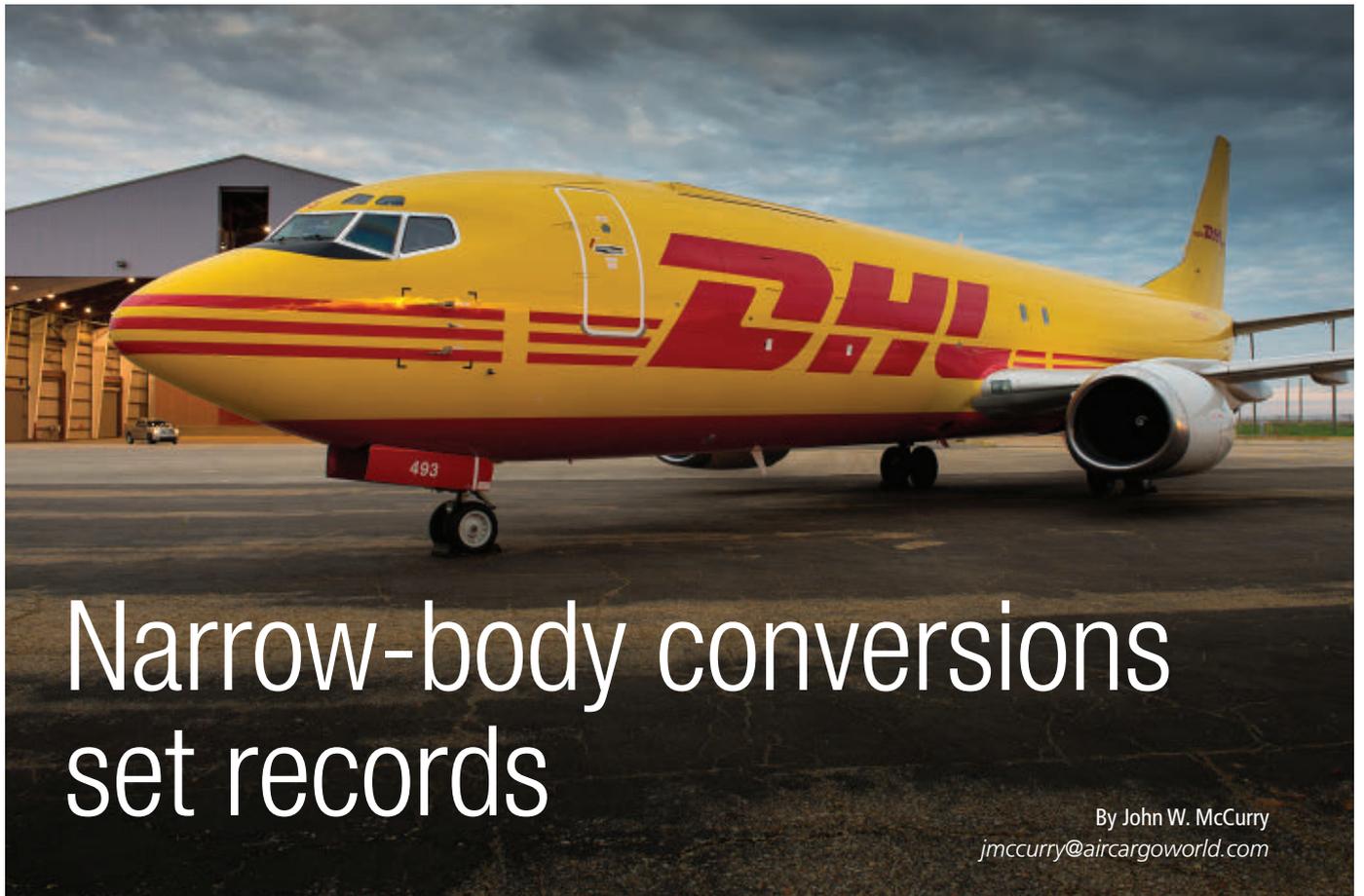
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Narrow-body conversions set records

By John W. McCurry
jmccurry@aircargoworld.com

The 737 freighter conversion market has been strong for the past few years and specialists in this niche say the trend will continue.

Narrow-bodies, with their promise of fuel efficiency, continue to rule the highly competitive market for freighter conversions. Companies that specialize in the 737 conversion niche agree that the market is at an all-time high. With no factory-built 737 freighters on the market, this is entirely a conversion realm. A lot of the demand is coming from start-up cargo carriers around the globe.

Miami-based conversion specialist Aeronautical Engineers Inc. (AEI) and Tampa-headquartered conversion and MRO company PEMCO report thriving narrow-body business.

"The 737-400 is the darling of the hour," says Robert Convey, AEI's vice president, sales and marketing. "Demand is strong and orders continue to come in. We have 12 in the works right now and our backlog is pushing 20. We are full up this year, and it looks like that for most of next year."

AEI is on track to deliver 30 freighters in 2014, and Convey estimates the company will complete 25 to 30 conversions in 2015.

The conversions lines have been busy for the past few years at PEMCO. The company converted 19 aircraft last year and expects to top that figure by the end of this year.

"We continue to receive a lot of interest in classic freighters," says Kevin Casey, PEMCO's president. "The business volume for narrow-bodies continues to be very high."

PEMCO converted a record number of aircraft in 2013 (19) and is on track to exceed that number this year.

"It's indicative of a rising tide float-ing all boats," Casey says.

An advantage of the conversion of 737-300s or -400s into freighters is that a carrier can obtain a freighter in the US\$6 million-8 million (4.4 million-5.9 million euro) price range that can be flown for 20 years, Casey says. This can result in a fuel savings

of US\$1.5 million-2 million (1.1 million-1.4 million euros) annually over 727s or DC9s, he says.

AEI has launched a freighter conversion program for Bombardier's CRJ100 and CRJ200 aircraft and has orders for 2015.

"Unlike the other conversion houses, we have been aggressive in adding more products," Convey says. "Our plan is to have enough diversity in our conversion offerings that we should always have one or two types of aircraft being converted in decent numbers."

AEI recently added a fifth conversion line in Dothan, Ala., giving it 12 overall.

"The market is at an extremely high point," Convey says. "The question is how long will it last? We are certainly in a bubble and have been for a year and a half. We are just about sold out for this year, and most of the first quarter of 2015 is booked."

PEMCO's Casey notes that predicting demand for freighter conversions



Carrie Shiu



Robert Convey



Kevin Casey

is not a precise science with demand typically not projected far in advance.

“The air cargo industry is a bit of a reactive industry and as such, you don’t see long-range planning for the next airplane. What we have now is a broad realization that these airplanes are available and affordable at a price that enables airlines to make a good living. We’ve been converting 737s

since 1991 and to do 20 or more in a year is certainly a high-water mark. It’s a bright bloom of the sun before it drops below the horizon. We have the expectation that it will last at least another year or two at this level.”

Wide-body market sluggish

Israel Aerospace Industries (IAI), one of the world’s largest aerospace

companies, does conversions of 767s through its Bedek Aviation Group. Jack Gaber, senior vice president, marketing and business development, says that while demand has been down, he does see hints of life in the market. IAI will do six 767 conversions this year.

“There are some signs that this economic crisis might be at an end.

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Jack Gaber

It's not sustainable yet and I don't know if it's safe to say there's a recovery, but we are definitely seeing positive movement," Gaber says. "We have had more inquiries in the last three months than we have had in the past year."

IAI has the capability to perform 737 conversions, but is not presently doing so.

Boeing expects to perform six 767 conversions this year, which is capacity. It is also offering 737 conversions, but is targeting the second half of 2017 for those conversions, according to Carrie Shiu, director, product marketing, Commercial Aviation Services.

"There is a lot more optimism with our customers this year than last year when there was a lot of uncertainty in the long-term trend of the market," Shiu says. "Quite a few are looking into long-term plans for growth or replacements."

Shiu says e-commerce will be among the drivers for the 737 market.

"For Boeing, we believe that our strength getting into the narrow-body market is the same as we have in the medium and large market," she says. "We know this industry and have always worked closely with customers. Of course, we provide more offerings that are unique to OEMs [original equipment manufacturers]. We do a lot more technical work."

EFW, the Germany-based joint



Gary Warner

venture between Airbus and ST Aerospace, which converts Airbus planes into freighters, will do two conversions this year and has a backlog of five aircraft.

"The conversion market in our midsize category is still very weak and for large freighter is more or less not existing due to overcapacity of freighters," says Wolfgang Schmid, vice president sales, marketing and customer support. "On single-aisle aircraft, the demand is still higher."

Schmid says the integrators still have "a lot of appetite" for new and converted planes by FedEx and DHL.

"The market did not change very much in the past year in terms of conversions in the wide-body segment," Schmid says. "But we see slight improvements, which will result in more conversions when the overcapacity is consumed by some retirements and replacements."

Schmid says there is growing interest in EFW's new A330P2F programs with the first aircraft entering into service in 2017.

"Although not many are ready to commit for such aircraft today, we see our program being perfectly scheduled for future demand," he says.

Portland, Ore.-based Precision Conversions went through a restructuring earlier this year and is now a division of Precision Aircraft Solutions, which also includes other services such as engineering and



Wolfgang Schmid

program development. Precision converts 757s and has three in process. The company develops conversion kits and works with MROs around the world for the conversion process.

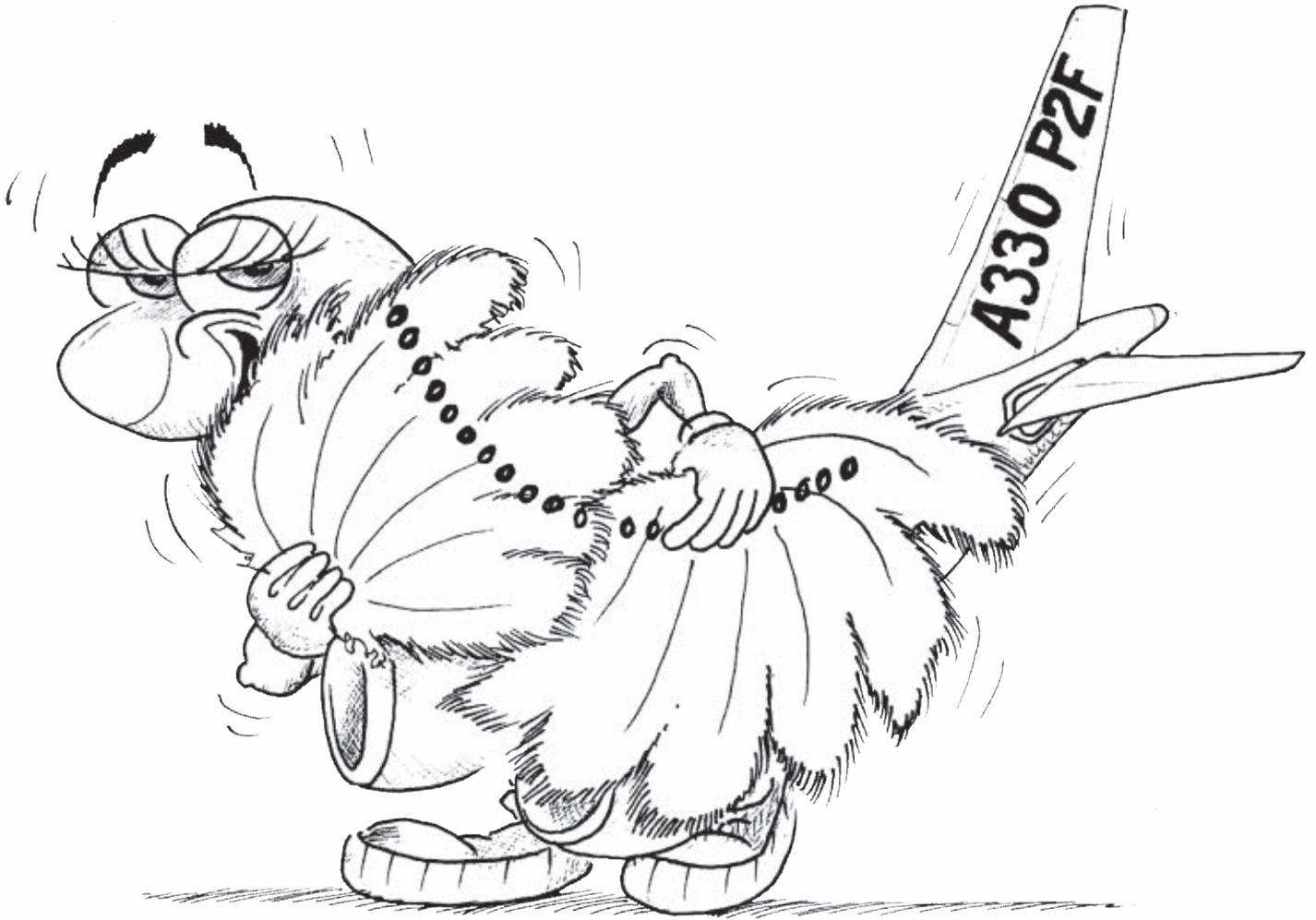
"You have everything from stick build all the way through to the OEM approach," Gary Warner, president of Precision Aircraft Solutions, says. "We are in the middle, but slightly closer to the OEM approach. We tend to use modules. Customers clearly want to see that you have a competent approach... We are about to see some pretty good years in terms of 757 aircraft."

Precision, along with its Goodyear, Ariz.-based partner AeroTurbine, is performing the first full freighter conversion of a winglet-modified 757-200 aircraft for Canada's Cargojet, which plans to use the freighter for long-distance routes. While the majority of 757 feedstock now becoming available already have winglets, the capability to add them in the conversion process is an important development in the market, Warner says.

"Because of the feedstock and the age of planes, winglets are becoming important to people," he says. "In the coming months, we will see more conversions along these lines."

Looking to the future, Warner says Precision will explore other wide- and narrow-body conversions, ranging from the 737 next generation aircraft to the A320. **ACW**

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Changes for some, big growth for others in North America

By John W. McCurry
jmccurry@aircargoworld.com

Will the road less traveled, as mentioned in the Robert Frost poem, make all the difference for Delta Air Lines' cargo operation? That remains to be seen, but the two men charged with moving cargo forward at the Atlanta-based airline believe so.

With the retirement of Tony Charaf, Delta's cargo chief, on Aug. 1, the carrier is realigning cargo, putting it under the passenger operations, or in Delta's parlance, Airport Customer Service. Ray Curtis, Delta's vice president global cargo sales, will head that side of the business while Scott Barkley, managing director, global cargo operations, will oversee operations. Curtis says Charaf's retirement afforded Delta an opportunity to step back and assess its cargo operation.

"It was an opportunity to align our activities," Curtis says. "Cargo has remained intact."

Barkley says the change gives the airline an opportunity to improve synergies.

"When you have an operation that was kind of siloed and you convert it to an operation that is working

toward common goals, it gives us a chance to look at how we can get better," Barkley says. "Cargo operations and airport operations are now both taking on the same goal structure and working toward the same end. That wasn't the case before."

Curtis says it all fits in with Delta's pattern of doing things differently, such as purchasing its own oil refinery. In fact, Delta CEO Richard Anderson read Frost's poem, "The Road Not Taken," during a recent company leadership conference, for emphasis.

"We are not doing things as a company that the rest of the industry is doing," Curtis says.

Delta's two cargo leaders say the changes will have no effect on its developing joint venture with Virgin Atlantic Cargo, nor its involvement with the SkyTeam Cargo alliance.

Curtis, who previously worked in cargo at Northwest and United, says cargo operations were structured similarly during part or all of his stints at those two airlines.

"I lived through very successful

times for customers and employees," he recalls.

As for Delta's 2014 operations thus far, Curtis says after a sluggish first quarter due largely to difficult weather around the U.S., he is cautiously optimistic that the market is stabilizing and seeing growth in some areas, particularly in perishables. He says Delta has benefited from a strong cherry season in the Pacific Northwest and a strong salmon season in Alaska.

"The auto industry is seeing some strengthening with auto parts coming in from Japan and Europe," Curtis says. "We are seeing opportunities to capitalize on strengths in this area."

Delta's joint venture partner, Virgin Atlantic, reports that 2014 got off to a positive start in the region with tonnage up 8 percent during the first four months, building on a 5 percent gain during 2013. John Lloyd, director of cargo, says yields for U.S.-Europe and Europe-U.S. are in line with 2013.

"The increase in passenger demand obviously brings extra belly-hold cargo capacity onto the market and this



Virgin Atlantic Cargo has seen its New York-London load factors boosted by an increase in



perishables traffic in 2014.

is putting more pressure on average yields, but our analysis shows we are continuing to out-perform the market,” Lloyd says. “I am confident we will have a good year in terms of our North American cargo business because we have a good quality service and customers that value the service reliability and network we offer.”

Virgin’s New York-London route has had strong load factors this year, above industry average. Lloyd says this has been buoyed by an increase in perishables bound for Amsterdam and Brussels.

“We have a very fast transfer service through London onto both connecting international flights and our road transport network into Europe, and that is a big advantage because for other carriers, London has a reputation for being a bottleneck. Outbound traffic from London has also been strong to JFK with revenue and tonnage up 13 percent so far this year and, again, a good percentage of this is cargo has originated in mainland Europe.”

Regarding the changes at Delta



Denis Ilin



John Lloyd



Rafael Figueroa



Lise-Marie Turpin

and the joint venture, Lloyd says, “We literally just started working with Tony [Charaf]. We’re sad to see him go. He’s retiring and that’s his choice. Good luck to him. It’s all systems go and we have some plans to implement...A lot of work is going on at the moment with them [Delta]. By the end of the year or early next, both of our systems will work together. It will be seamless to book on each other’s metal.”

Lise-Marie Turpin, Air Canada’s vice president, cargo, says the airline is performing well overall this year, particularly on the East and West coasts where perishables are driving business. On the West Coast, cherries are again giving a temporary boost.

“Central Canada, depending on the manufacturing sector, has had its ups and downs,” Turpin says. “Canada has lost some of its manufacturing

the last few years and there has been a bit of a downturn in Ontario.”

Turpin anticipates continued growth into various Asian markets as well as from North Atlantic routes.

“There’s good demand going toward Asia in general and some good performers in the North Atlantic. We introduced a new route in mid-June to Milan and we’ve had very good response. It’s the only direct route between Canada and Milan, and we are very excited about it.”

Air Canada will soon unveil a plan to upgrade its cool chain facilities in its Toronto hub. Turpin says Air Canada needs to be in the perishables game in a big way.

“Everyone has conceded that we are under threat by other modes of transportation, so if we are to retain traffic, one of our better shots is retaining pharma. We need to elevate



Ray Curtis



Scott Barkley

our game and provide higher levels of service.”

The start of 2014 saw the addition of five 787-800 aircraft to Aeromexico’s fleet, and that has given cargo a decided boost, says its new cargo chief.

“That made the start of the year interesting,” says Rafael Figueroa, CEO for Aeromexico Cargo. “Our capacity increased almost 40 percent for long-haul routes. They make a very reliable service. Mexico City is so high in altitude that we sometimes have problems with capacity for outbound products. This has improved our reliability and our customers have responded very well. We are above our yearly growth objectives. We grew 11 percent last year and are 7 percent above plan for this year.”

Aeromexico has expanded its frequencies to Europe and Asia. It also added a 737-700 flight to Quito, Ec-



AirBridgeCargo, with several new flights, has big expansion plans for North America.

uador, and added regular operations to Rio de Janeiro.

“Even when we do not add routes, we are flying more efficient planes out of Mexico City. We are replacing our Embraer 145s with 175s and 190s. We are using these smaller planes for smaller hubs in and out of Mexico City. This is a commercial strategy by Aeromexico to become more efficient in the way we fly.”

Figueroa says Aeromexico continues to derive a boost from its membership in the SkyTeam alliance. It has positioned the airline’s brand globally, he says. Figueroa moved from Aeromexico’s passenger side in January, and he finds the transfer challenging.

“The cargo world is a very interesting business. We found many things that can be improved and we are working hard to improve them. In the Mexico market, we are the carrier that has grown the most. We are very positive and working hard to make Aeromexico the best-run company.”

AirBridgeCargo’s executive president Denis Ilin is quite pleased with his airline’s performance this year. All-cargo ABC has expanded in the region this year – and there is more to come.

“We are over-performing in terms of our budget targets, and we are significantly better than we expected in both volume and yield,” Ilin says. “It’s a positive surprise.”

Ilin describes AirBridge as a modest player in the market since it start-

ed serving Chicago three years ago, a route that has been increased to five times a week this year. That will increase to seven flights in September.

One of the carrier’s key markets is from the U.S. to Russia. Volume has grown 12-13 percent a year.

“We launched a Dallas online station in April, and since we were expecting growing competition in the Chicago market, we considered Dallas a fallback scenario and it really played well. We had 134.6 tonnes of gross weight in the first flight. It’s a healthy number for a 155-tonne aircraft. Dallas is screaming for more capacity.”

Some of the market drivers for AirBridge include its nose-loading capacity for loading oil and gas equipment bound for Russia, along with John Deere tractors.

“It’s all this big and oversized stuff that flies on 747s. Most goes to Russia and we are pretty happy with it,” Ilin says.

One of AirBridge’s strong points, he says, is that it can flight equipment from the U.S. to remote locations in Russia for 48-hour delivery. No other carrier does that, he says.

Ilin says North America is a natural area for ABC’s growth.

“The U.S. is a little bit underserved by us. We see clients in Asia who say they want more flights to the U.S. At the moment, we are increasing just to seven due to our own capabilities. I can easily fill up another two planes, but we cannot go too far.” **ACW**

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Air Iceland transports fresh produce to Greenland. The island nation has no roads between towns, so cargo must move by air or sea.

Keeping the world's buffet cool

By Adina Solomon
asolomon@aircargoworld.com

Countries around the world are lining up, plates in hand, for the air cargo buffet.

Air shipments of perishable food are strong, especially in Asia, whose growing middle class hungers for imported seafood, produce and more. WorldACD reported that in April, world air cargo volumes of non-pharma perishables grew over 12 percent year over year.

In order to satiate demand around the globe, companies must maintain a proper cool chain.

Fish out of water

Air Iceland has laid the groundwork to move Greenlandic seafood, and in a few months, operations finally begin, thanks to a change in Euro-

pean Union food regulations.

"There's a lot of demand all over the world for fresh seafood," Ingi Thor Gudmundsson, Air Iceland's director of sales and marketing, says.

Air Iceland has routes from Reykjavik Airport in Iceland to four cities in Greenland, including Nuuk, the capital and largest city in the country, with about one-third of Greenland's 57,000-strong population.

Gudmundsson says Air Iceland moves a lot of fresh produce into Greenland, but the airline needs cargo to fill the planes' bellies on the return trip to Iceland. The answer is seafood, Greenland's main export.

Air Iceland will focus on markets in the UK, U.S. and Canada, transporting haddock and halibut in the beginning. Gudmundsson says the airline

plans to eventually increase frequency to some destinations in Greenland.

"The demand is there," he says. "It's just a question of frequency because we know the demand has become to have seafood on each plane, the demand is so high."

In order to maintain the cool chain for the seafood, Air Iceland made an agreement with Greenland's airports, stipulating that the airports will have cold facilities on the property. Reykjavik Airport also has cold infrastructure.

Salmsped, a forwarder in Oslo specializing in seafood, sees growth of its own. Every month, the company moves 40,000 tonnes as part of Norway's thriving seafood business, Lasse Wangen, Salmsped's marketing manager, says.

The forwarder flies salmon – among the country’s biggest exports – trout, white fish, scallops, mussels and live king crabs.

“The cool chain is thoroughly maintained throughout the whole packing process,” Wangen says.

Salmosped is flying more salmon to the U.S. this year compared to last year, and it also moves seafood to the Middle East. But the biggest market is Asia, including Japan, Hong Kong and Southeast Asia.

In order to reach global destinations, most of Salmosped’s seafood is delivered to Oslo Airport, with some trucking to other European airports.

“Oslo is picking up in pace and becoming a more important airport in Europe,” Wangen says.

Ten years ago, most seafood had to be trucked to airports outside of Norway, but now the majority flies from Oslo, he says.

Live lobster requires special precision in order to maintain the cool chain, Geoff Irvine, executive director of the Lobster Council of Canada, says.

If the lobsters are to be shipped immediately, they go by truck to a processor for grading. Then the lobsters are packed in plastic foam boxes with ice packs and sent to an airport, usually Halifax Stanfield International Airport, which features the new Worldwide Perishables temperature-controlled facility.

“Since it’s a live product, temperatures are important,” Irvine says. “We’ve done a lot of training on handling and proper husbandry and proper temperature control because a lobster, you can’t get back vigor. It’s just taken away by handling and temperature changes.”

May and June are the busiest times for fishing lobster in Canada. After July, lobsters go through their molt cycle, losing their shell, so there’s no fishing.

“That’s why we need to store product to keep our markets going,” Irvine says.

Long-term storage ranges from sophisticated pounds that help mim-



Driscoll’s sells raspberries, along with blueberries, blackberries and strawberries. The company uses air to move its fruit around the world. Photo courtesy of Driscoll’s.

ic lobsters’ hibernation state in the ocean, to a more typical concrete reservoir containing refrigerated water.

Canada exports lobster to 50 countries, Irvine says. The biggest markets are the U.S., China, Japan, South Korea and Hong Kong; Europe follows behind. In 2013, the EU and Canada reached an agreement on the elements of a trade agreement, so Irvine hopes for a free trade agreement to be finalized with the EU in the future. He expects this to increase European lobster sales.

Irvine says the big growth area is Asia, especially China. Canada signed a free trade agreement with South Korea in March, the country’s first with an Asian country.

“The impact on air cargo would be the requirement for more air cargo as we develop those Asian markets because generally, they like live lobster rather than processed lobster, and that needs to go by air,” Irvine says.

Canada’s lobster industry also wants to target India.

“We’ve had some initial discussions with what’s happening in India, and the real challenge there is the cold chain. They just don’t have a very advanced yet system of cold storage and handling,” he says. “Big time opportunity though, considering how many people are there and the growing wealth.”

Produce

Driscoll’s export berry business is burgeoning. The California-based berry company sells raspberries, blueberries, blackberries and strawberries – its biggest seller.

“A lot of that is driven by the associated health benefits of each of the berries,” Tom Shepherd, supply chain at Driscoll’s, says.

The company airfreights berries to Asia, Europe and the Middle East, with Driscoll’s export product representing about 5 percent of its business, Shepherd says. Berries are grown in the U.S., Mexico, Morocco, Spain, Chile and Northern Central Europe, among other places.

Shepherd says maintaining temperature consistency is important.

“Once that cool chain is broken, there’s a cumulative effect that begins to take place,” he says. “One of the real challenges for us is just eliminating those process gaps, those breaks in cold chain,” such as when berries sit at the airport after they’re offloaded from a plane.

There are more handoffs with airfreight compared to trucking, meaning more chances for the berries to be in and out of refrigeration – and more entities involved.

“Getting all those companies aligned and making sure there is kind of again an aligned purpose and an aligned focus is probably about the

most challenging part of the whole air cargo cold chain challenge,” Shepherd says.

The shift of seasons leads to a lot of transport between countries. During the summer, Driscoll’s doesn’t transport many berries to Europe because of the large local supply. During other parts of the year, the berries come from the U.S. Once the U.S. season winds down, the Mexican berry season starts, and Driscoll’s starts exporting from there, Shepherd says.

“Our air program will help supplement that seasonally when the berries aren’t available out of those locations,” he says. “We really want to do everything that we can and stay focused as we can, that the berries the consumer takes off of the shelf at the store level, that temperature consistency has been maintained from the time that the berries are picked.”

Greenland has a different challenge for produce. Because there are no roads between towns, cargo in Greenland must move by air or sea, Air Iceland’s Gudmundsson says. At times, sea isn’t an option when cities close down due to ice.

“Sometimes when the ships can’t come in, the demand for fresh vegetables, fruit and produce, they increase,” he says. “That’s why we are moving a lot of volumes into some cities in the winter time.”

Chris Connell, president of Commodity Forwarders, Inc., says the Los Angeles freight forwarder of perishables, transports produce such as cherries, peaches, nectarines, grapes and berries – and a good portion goes by air to Asia, Australia, the Middle East and Latin America.

“Demand for a higher-quality piece of fruit is, luckily, there,” Connell says. “Cool chain is still a big key because you can put all this investment into growing to harvesting to packing to trucking to an airport or seaport, and a big part of this now is: How do we get it to its final destination as close to the quality that it was before it left?”

Connell says evolving regulations can prove a barrier for transporting



Canada exports lobster to 50 countries, says the Lobster Council of Canada’s Geoff Irvine. The biggest markets are the U.S., China, Japan, South Korea and Hong Kong.

produce across countries. For example, two years ago, Chilean blueberries didn’t require fumigation before arriving in the U.S.; now they do.

“All these complications adding other steps to the process aren’t just financial barriers,” he says. “They’re also process barriers that have to be worked through, and whether it’s price or less quality of a piece of fruit or veg on the shelf, either way there will be an effect to the market.”

Shepherd says another aspect of managing the cool chain is choosing an air carrier. In general, cargo carriers tend to be better positioned to manage temperature, he says.

“There’s certainly a wide variety of performance levels from a cold chain standpoint between air carriers,” Shepherd says.

Liquids

Even soft drinks need the cool chain.

DHL Global Forwarding works with some of the world’s leading soft drink manufacturers, says Frank Cascante, DHL Global Forwarding Americas’ regional sector head for business development for consumer and perishables verticals.

Soft drink companies have two types of liquids that use the air-freight cool chain: concentrates for the elaboration of soft drinks, and special ingredients for the formulas used to flavor the drinks.

“In any good cold chain, it’s not

only how well you keep the temperature, but it’s also how well you maintain the chain of custody, which is the transfer points,” Cascante says. “Are you checking the temperatures? At every port when it enters, make sure you’re transferring that data, make sure the shipment is flowing smoothly.”

He says some flavor ingredients use insulation wrapping and gel packs to keep the product within 10-15.5 degrees Celsius (50-60 degrees Fahrenheit). Other concentrates need to be kept even colder at -4 degrees Celsius (24.8 degrees Fahrenheit), so DHL uses insulated, temperature-controlled shipping devices that work with fans and dry ice.

Liquids used for soft drinks ship from manufacturing sites in the U.S., Latin America and Northern Europe to large manufacturing bases in Argentina, Brazil and Mexico, he says.

These air shipments run at a high price. For instance, Cascante says a 5-liter (1.3-gallon) drum of concentrate can cost US\$25,000 to ship.

“It also requires a great deal of customer care because you’re dealing with a very expensive concentrate, be it flavoring or otherwise, that you have to make sure that it gets there within 1-2 days to an inbound manufacturing site,” Cascante says. “In many cases, it could be a manufacturing site that needs to release a new type of product, so it’s so critical for that to be there.” **ACW**

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Cargo Chat: Dan McHugh

Dan McHugh is the CEO of Southern Air, a U.S.-based ACMI (Aircraft, Crew, Maintenance and Insurance) operator. Prior to his appointment as CEO in 2009, McHugh was the CEO of DHL Express Asia. Southern Air recently navigated its first year since emerging from restructuring, and in March, the company entered a multiyear agreement with DHL Express to provide five Boeing 737-400s. McHugh spoke with Air Cargo World about Southern Air's future.

What is the outlook for Southern Air?

Even with the reduction in the U.S. military business, which is a material impact for the entire industry, I am personally very, very confident in our future without the U.S. military business because we repositioned. So everything goes in cycles, and you need to continue to innovate and ensure that you focus on costs. This is a very, very capital-intensive, cost-intensive business, so you need to be the low-cost player.

I look at Southern Air – we came out of bankruptcy, our financial restructuring, one year ago, and we moved our company to the greater Cincinnati area, the CVG, which is Cincinnati-Northern Kentucky. We completely re-staffed our organization for the most part. We have exceptionally high-quality organization, and we in the meantime have been awarded the new DHL 737 network. So again, I don't want to knock on wood and jinx anything, but we've done a tremendous amount in the last year, and we've really repositioned our business, and I'm very confident about the future.

What is the outlook for the worldwide ACMI market?

You really got to think about it in terms of what type of aircraft you're flying. The international air cargo market, you got to have big, wide-body airplane. You either have to have a 777, or you have to have a 747-8 or the 747-400. The MD-11s are, for the most part, way past their efficiency. And one could argue that the 747-400 is as well, and that's why you see so many of these aircraft that have been grounded in the last year. So you got to ask the question why, and it's really because of efficiency. Four engines vs. two on the 777, for example. Older vs. newer – newer is more reliable. And they're both two-man cockpits, but the fact that you just have efficiencies with the 777 that you don't have with 747s. Now there are 747-8s that are being delivered by Boeing to the people like Cathay, Korean Air, etc., and Atlas as well. I think Atlas has got a unique 747-8. But those aircraft can only be used in the big, main pipelines of international air cargo – Shanghai to Chicago, Hong Kong to Amsterdam. It's got to be the big, kind of meaty, wide pipelines. And therefore, it's only those carriers who really serve those types of pipelines. The 777, in contrast, is a large aircraft, has the range and has a smaller

payload definitely, but more than enough of a payload, and I think that's the difference. And it has two engines vs. four engines.



The second is that the ACMI market is, over the last 10 years, there has been a bit of speculative nature for it where people saw the demand exceeded supply. Companies would go out there and spec an airplane – they'd go in and lease an airplane knowing that they were able to put it into a contract with the same duration or greater, and make some money out of it. Well, no one's going to be specing airplanes, especially 747-400s, anymore, and I doubt if anyone's specing 747-8s. I think there's opportunities in the 767 market. We certainly have found that the 737 is an ACMI opportunity for us with DHL.

What sectors of the market are gaining importance for Southern Air?

People come to me and say, "You are now very, very focused on DHL, and aren't you worried about that?" And I say it's the eggs in the basket type of question, right? And my response is I love the basket. It's the best basket. If you're in our business, it's the best basket in the world to be in. Why? Because this comes back to the

"I don't want to knock on wood and jinx anything, but we've done a tremendous amount in the last year, and we've really repositioned our business, and I'm very confident about the future..."

sectors. The integrators and international supply chains will continue to grow at double-digit. It's a growth part of the industry. So the integrator sector, those who serve the integrator sector should have, let's call it, above-market opportunity. The integrator market is growing faster than normal air cargo. And if you're doing business in the integrator sector, you should have above-average growth opportunity. **ACW**

Cargo theft and the *Durunna v. Air Canada* case — some points to ponder on liability

The 2013 case of *Durunna v. Air Canada* brings up several issues that affect both the consignor and consignee. *Durunna* was a case where a consignment of 10 laptop computers carried by air from Canada to Nigeria disappeared during carriage. The defendant Air Canada invoked the limitation of liability of the carrier guaranteed by the Montreal Convention of 1999, whereas the plaintiff claimed the total value of the computers along with shipping costs.

On the flimsiest and most tenuous of reasons imaginable, the court awarded judgment to the plaintiff *Durunna* as claimed, on the grounds that Air Canada did not give sufficient notice to the plaintiff of its limitation of liability, and therefore the limitation provisions of the Convention did not apply.

For one, there is no provision in the Montreal Convention that requires notice by the carrier to the consignor that limitation of liability provisions would apply to the carriage of cargo. More compellingly, Article 9 of the Convention is explicit in that even in the absence of documents of carriage of whatever nature, the contract of carriage will remain valid and that limitations of liability will apply. The only window of opportunity the plaintiff would have had to justify his claim for the full value of cargo would have been for him to show that he had declared the value of the cargo as a basis for compensation for loss, as was decided in the 2003 case of *MDSI Mobile Data Solutions Inc. v. Federal Express*, where the plaintiff had declared the value of cargo as US\$214,000, which the court interpreted to have replaced the limited liability of 250 francs per kilogram.

The *Durunna* decision, which was incorrect, focuses our attention to a more serious issue: cargo theft that leaves the hapless consignor with compensation of 17 Special Drawing Rights per kilogram under the Montreal Convention – unless the consignor makes, at the time of delivery of the cargo to the carrier, a special declaration of interest at delivery to destination and pays a supplementary sum if required. It is only this measure that obligates the carrier to pay the declared sum, unless the carrier proves that the sum is greater than the consignor's actual interest in delivery at the destination.

Unlike in the context of liability for damage sustained by the passenger or his checked baggage, where a two-tier liability system operates where the carrier's liability exceeds the 100,000 Special Drawing Rights of the first tier, unless the carrier proves that the damage was not due to the negligence of the carrier or his servants or that



Dr. Ruwantissa Abeyratne
President/CEO, Global Aviation
Consultancies Inc

there was negligence on the part of the plaintiff or other wrongful act or omission of a third party. There is no such stringent onus placed on the carrier in case of loss or damage to cargo.

There is no room for doubt that cargo crimes, including theft of cargo, is prolific. The Congressional Research Service Report for Congress on Air Cargo Security, updated in 2007, places the extent of cargo theft in the U.S. for all forms of transportation at US\$10 billion to US\$25 billion per annum. The same report voices concern about cargo theft rings at JFK International, Logan International in Boston and Miami International Airports. It identifies the insider threat as the most ominous where cargo workers assist in cargo theft, and calls for more background checks and the enhancement of security of cargo operations.

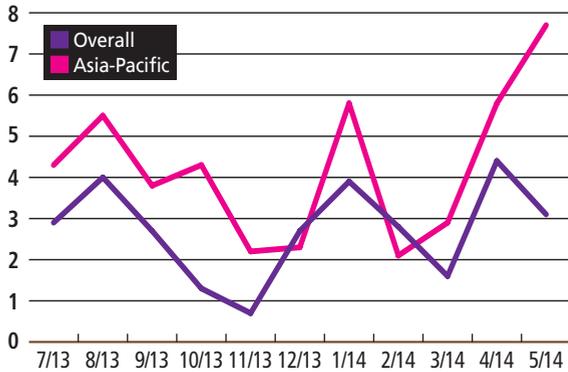
Lack of effective cargo theft reporting; weaknesses in transportation crime laws; lack of understanding of the nature of cargo carriers; and the need to improve expertise in countering cargo theft are some of the issues raised.

From the 1983 *Franklin Mint* case involving the carriage of coins valued at US\$250,000 until now, the liability regime regarding the carriage of cargo has caused much debate. The solution seems to lie both at law and at containment of the crime. It is time to take another look. **ACW**

(Editor's note: Abeyratne has worked in aviation management for 30 years and was a senior professional at the International Civil Aviation Organization for 23 years.)

Carrying Europe

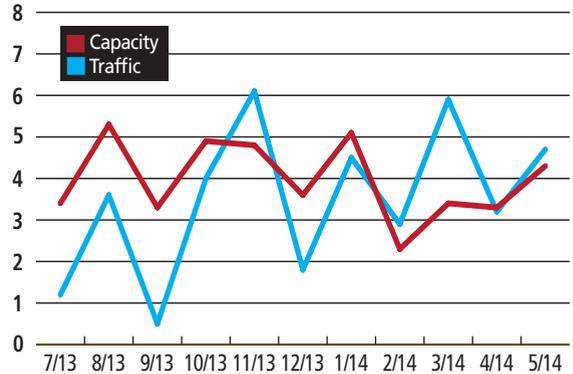
Monthly year-over-year percent change in overall freight traffic and Asia-Pacific freight traffic for European airlines.



Source: Association of European Airlines.

Total Freight Carried

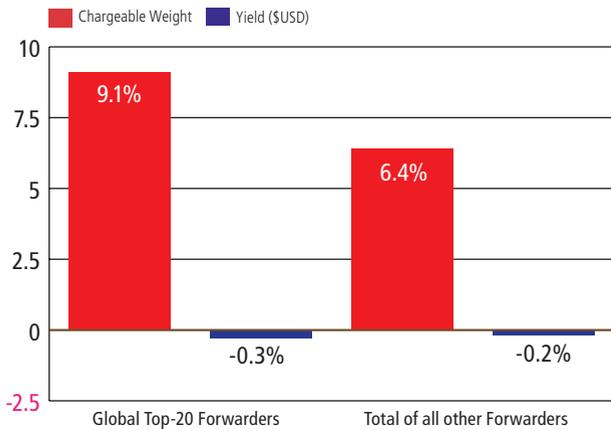
Monthly year-over-year percent change in total scheduled freight traffic and capacity worldwide in freight-tonne kilometers and available-tonne kilometers.



Source: IATA.

Sales Distribution

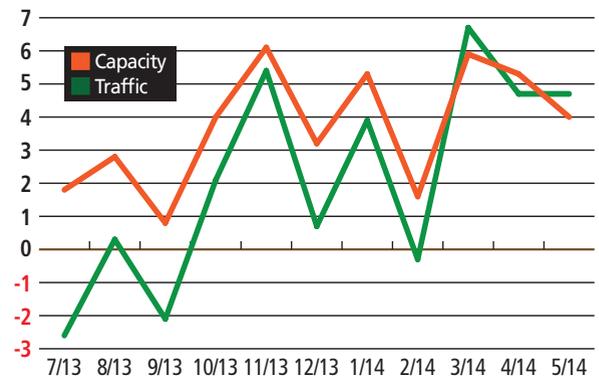
Air cargo worldwide change Year-over-Year (May 2014).



Source: WorldACD Market Data.

Carrying Asia

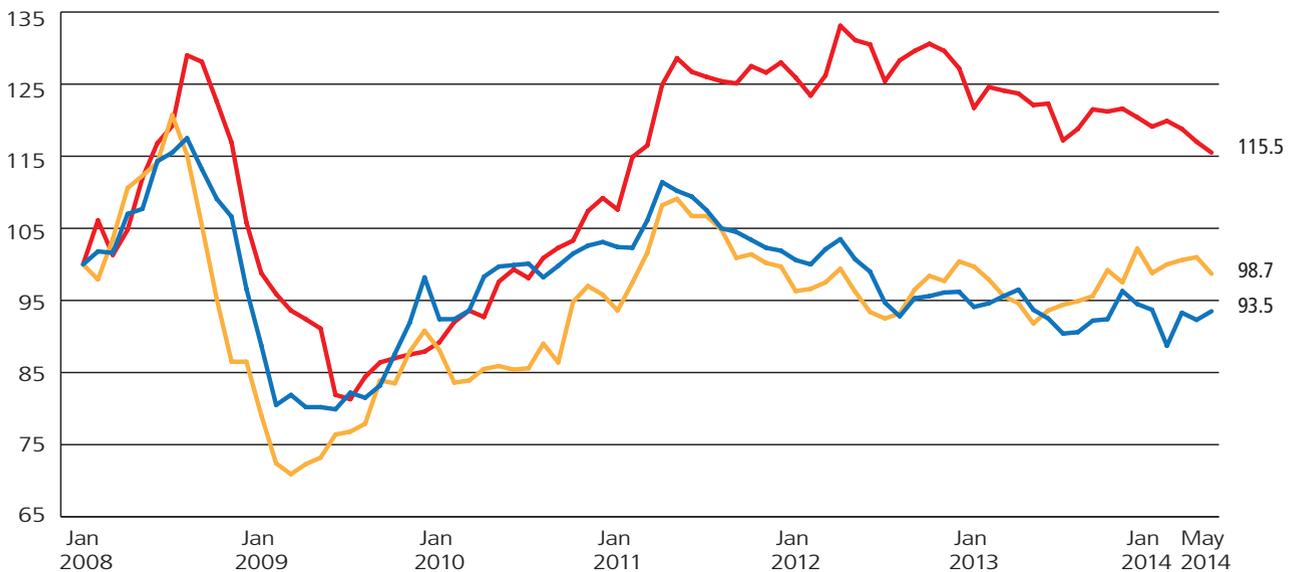
Monthly year-over-year percent change in capacity, in available-tonne kilometers, and traffic, in freight-tonne kilometers, of Asia-Pacific airlines.



Source: Association of Asia Pacific Airlines.

Yield Index Regions

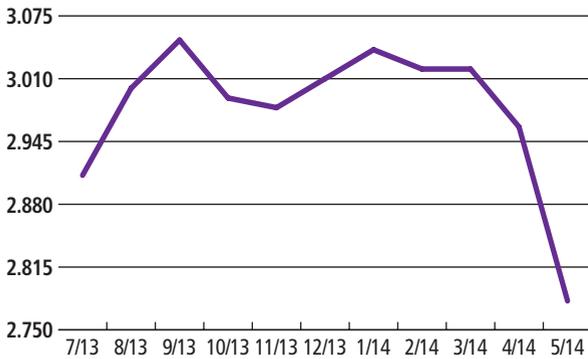
Air Cargo (USD) Yield Index (Jan 2008 = 100)



Source: WorldACD Market Data.

Fuel Cost For U.S. Carriers

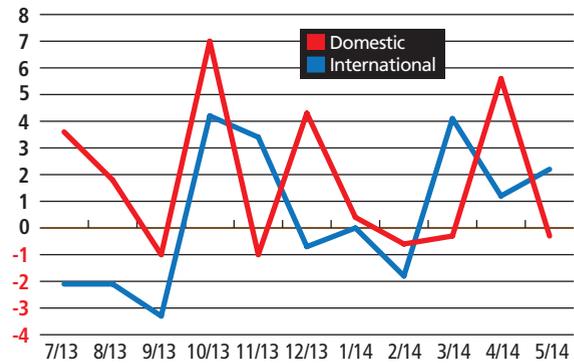
Cost per Gallon (Dollars)



Source: U.S. Bureau of Transportation Statistics.

U.S. Airlines

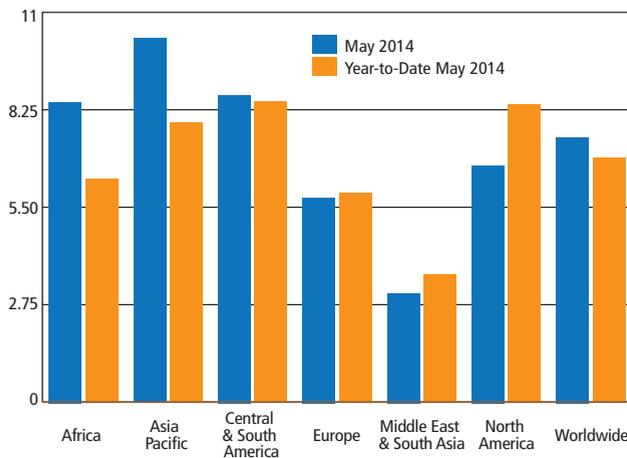
Monthly year-over-year percent change in domestic and international cargo traffic for U.S. airlines.



Source: Airlines for America.

Growth Per Region

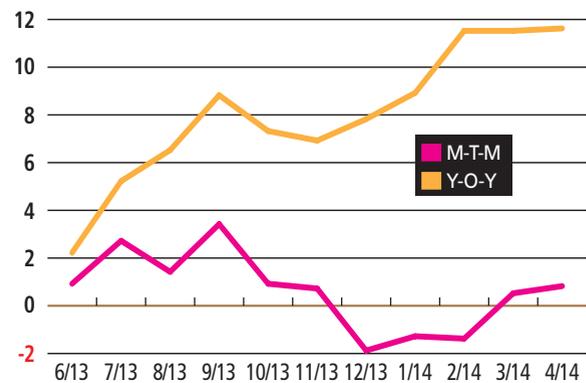
Air Cargo Chargeable Weight Change Year-Over-Year



Source: WorldACD Market Data.

Semiconductors

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



Source: Semiconductors for Industry Association.

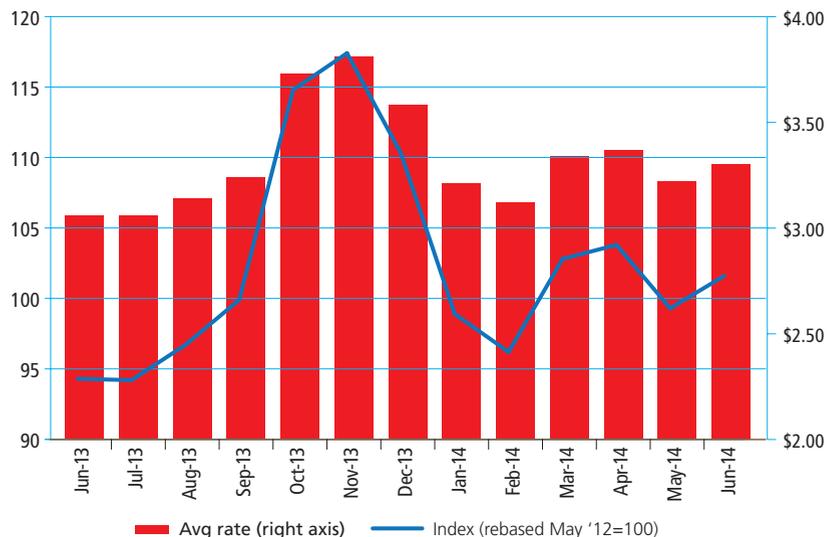
The Drewry Report:

Rates stabilize in June

East-West air freight rates stabilized in June, following the seasonal correction of May as Drewry's East-West Air Freight Price Index recovered 2.3 points in the month to 101.6 points. The uptick in pricing only partly offset the decline experienced in May, but still left the index considerably higher than it was 12 months previously by a margin of 7.3 points.

Drewry still expects some weakening in overall pricing over the coming months, as more seasonal belly-hold capacity from rising passenger demand comes into the market.

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



Source: Drewry Sea & Air Shipper Insight.

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AIRLINES

Thomas Murphy, executive vice president and COO of **Polar Air Cargo Worldwide**, decided to retire. Murphy joined Polar, in which Atlas Air Worldwide is the majority shareholder, in July 2009. Prior to working for Polar, he served as senior vice president, aviation Asia Pacific for DHL Express. Previously, Murphy worked at UPS and TWA. Polar is one of DHL's key partner airlines on intercontinental routes. Under Murphy's leadership, Polar's contribution to the DHL network has increased service in the transpacific and intra-Asia markets. A replacement for Murphy, who will continue to grow the relationship between the two companies, will be named.

Etihad Airways appointed **Katie Connell**, a corporate communications specialist with nearly 20 years of experience, as its head of corporate affairs for the U.S. Connell joins from Airlines for America, the trade organization for the major U.S. carriers. There, she held the position of managing director, airline industry PR and communications. Connell has also spent much of career in management communications roles at Delta Air Lines. She will be based in New York City and be responsible for building and managing the Etihad brand and reputation in the U.S.

Michael Sanfey became interim head of cargo for **Aer Lingus Cargo**, the flag carrier of Ireland. Sanfey is responsible for the management of all commercial and operational elements of the cargo business. He joined Aer Lingus Cargo in 2013 as business development manager. Sanfey has 20 years of experience in business.



SANFEY

THIRD PARTIES

Air charter broker **Air Partner** hired two new people to its freight team. **Mark Middleton** joins as director of business development for freight, Asia Pacific, and **Stuart**

Smith takes on the role of business development manager for freight, MENA and CIS. Middleton has over 31 years of experience in the aviation industry, in both the UK and Singapore. He has spent 15 years working for aircraft operators, and over 15 years working in the air charter broking industry. Smith has seven years of experience in the aviation industry, including five years in the charter broking sector as a cargo director, and two years with Qatar Airways.

Freight forwarder **Famous Pacific Shipping Group Australia** appointed **Andy Johnson** to the newly created position of customer service manager for its Sydney office. Johnson's freight



JOHNSON

career spans over 24 years in a variety of operations, supply chain, procurement and project management roles. Before relocating from the UK to Australia in 2012, he worked for IEC Europe, a subsidiary of International Express Co. Ltd. (Tokyo). One of the last assignments Andy handled before arriving in Sydney was procurement, supply chain management and operations at the London 2012 Olympics and Paralympics, for major broadcasters.

The **UPS** board of directors today named **David Abney**, presently the company's COO, as its new CEO and appointed him to the board of directors. **Scott Davis**, who has served as the company's chairman of the board and CEO since 2008, will retire from UPS and assume the role of non-executive chairman. Both moves are effective Sept. 1. Abney began his UPS career in 1974 as a part-time package loader. Over the course of his 40-year career, he held various operational positions. As COO, Abney had responsibility for UPS logistics, sustainability and engineering. Prior to becoming COO, he served as president of UPS International. Davis, a 29-year veteran of UPS, joined the company in 1986. UPS named **Brendan Canavan**, a 33-year UPS veteran, the new

president of UPS Airlines. Canavan, 53, replaces **Mitch Nichols**, who was promoted to senior vice president of transportation and engineering. Canavan returns to Louisville, having lived there from 2004 to 2007 when he managed Worldport, UPS's global air hub and package sorting facility. In addition, he oversaw the operational integration of Menlo Worldwide Forwarding and the opening of UPS's dedicated air-freight facility. Most recently, Canavan served as president of UPS Asia Pacific for the past two years. Before leading UPS Asia Pacific, he served as president of UPS's Northeast District in Europe, based in Brussels, from 2007 to 2012. Canavan began his UPS career in 1981 as a part-time package loader.



CANAVAN

Oscar de Bok became CEO for the Asia-Pacific region of **DHL Supply Chain**. De Bok fills the position vacated by **Paul Graham**, who transfers to Bonn, Germany, to become DHL Supply Chain's COO and the CEO for Mainland Europe, Middle East and Africa. De Bok was previously the CEO for DHL Supply Chain's South and Southeast Asia region, a position he had held since 2010. In his new position, the scope of his responsibility has extended to include the North Asia and the South Pacific sub-regions. De Bok has 25 years of logistics experience. **Prakash Rochlani** became managing director of DHL Supply Chain Malaysia, and he reports to de Bok. Rochlani joined Al Futtiam Exel joint venture in the Middle East in 2003, and became director of business development for India in 2008. In 2011, he was promoted to vice president business development, South and Southeast Asia.

Steve Williams joined supply chain company **Allport Cargo Services** as managing director, air-freight. He has previously served as a DB Schenker director and Panalpina's head of airfreight. **ACW**

events

SEPTEMBER 16-18

Princeton, N.J.: LogiPharma is a supply chain conference for pharmaceutical companies in North America. Now in its 13th year, LogiPharma covers a range of supply chain topics including risk management, emerging markets and cold chain. For more information, visit <http://logipharmaus.wbresearch.com>.

SEPTEMBER 17-19

Milan: The 2014 Air Cargo Handling Conference will feature panel discussions, workshops and presentations covering the most up-to-date developments in airport cargo operations. For more information, visit <http://evaint.com/our-events/air-cargo-handling-conference>.

SEPTEMBER 20-23

Chicago: 2014 will see World Routes return to the U.S. for the second year in a row after the Las Vegas event in 2013. For more information, visit www.routesonline.com/events/170/world-routes-2014/.

SEPTEMBER 21-24

San Antonio, Texas: The Council of Supply Chain Management Professionals' Annual Global Conference provides supply chain industry information with practitioners, academics and service providers. For more information, visit <http://cscmp.org/annual-conferences/annual-global>.

SEPTEMBER 23-26

Moscow: The CeMAT RUSSIA intralogistics show will have around

200 exhibitors. The 5,000 people who attended CeMAT RUSSIA 2013 came from various regions of Russia as well as from neighboring states, such as Georgia, the Ukraine and Kazakhstan. For more information, visit www.cemat.de/home.

OCTOBER 7-9

Seoul: The 27th International Air Cargo Forum and Exposition will attract people from the airfreight industry in one of the world's fastest-growing air cargo hubs. For more information, visit www.tiaca.org/tiaca/ACF.asp.

OCTOBER 9-11

Bangkok: The Freight Summit provides forwarders a networking platform. For more information, visit <http://www.thefreightsummit.com/>.

OCTOBER 12-14

Kuala Lumpur: The Freight Summit is about making it easier for independent freight forwarders to network. For more information, visit www.thefreightsummit.com/.

OCTOBER 13-18

Istanbul: Themed "Sustainable Growth in Logistics," the annual FIATA World Congress will feature regional meetings and an airfreight institute. For complete information, visit www.fiata2014.org/Default.aspx.

DECEMBER 10-13

New Delhi: With more than

11,000 visitors in 2013, CeMAT India is an international trade fair covering materials handling, warehousing and logistic services, and other fields. For more information, visit www.win-india.com.

FEBRUARY 10, 2015

Enschede, The Netherlands: The Unmanned Cargo Aircraft Conference teaches participants about unmanned cargo transport. For more information, visit www.ucaconference.com/.

FEBRUARY 25-27, 2015

Johannesburg: Air Cargo Africa is an international biennial event that showcases Africa's air cargo potential on a global scale. In its past two editions held in Nairobi and Johannesburg, the show has seen major participation from airlines and airports, particularly from Africa. For more information, visit www.statetimes.com/aca2015/.

MAY 5-8, 2015

Messe Munchen, Germany: Air Cargo Europe has more than 50,000 visitors from 110 countries. For more information, visit www.aircargoeurope.com/.

NOVEMBER 4-6, 2015

Miami: The Air Cargo Americas International Congress and Exhibition in 2013 was the largest air cargo exhibition in the Western Hemisphere. For more information, visit www.aircargoaamericas.com/.

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Collective voice speaks loudly

A friend met me for lunch after spending the morning visiting lawmakers on Capitol Hill to see if he could change a few minds about a proposed piece of legislation that would negatively affect his business. He appeared tired and I could sense lingering doubt on his part about the effectiveness of the day's efforts.

I am sure that my buddy encountered many "concerned" Hill staffers who patiently listened to his articulate and impassioned opposition to the proposed law. As the legislation enters the next drafting stage, some will probably remember him and a few may even consider his point of view. But for the most part, members of Congress and regulators prefer to listen to the views of trade associations that represent the collective opinion of large memberships. In this way, they can hear the opinions of many through as few sources as possible.

I know this to be true in the case of the U.S. Airforwarders Association. When collecting feedback on a proposed rule or new piece of legislation, legislators and regulators often come to us to get quick feedback on a policy matter or regulatory change, because they know what we say will be reflective of a vast number of airfreight stakeholders. This is why associations often keep their finger on the pulse of member sentiment by sending out a large number of surveys – I know I am guilty of this.

There are more than 7,800 associations, professional societies and labor unions in the U.S., and several of them specialize in air cargo. Most associations are national in focus, but some also consist of local and state chapters. Associations help businesses succeed by providing networking and educational opportunities. It has been said that almost 85 percent of all business failures occur in firms that are not members of their trade group. These are some of the benefits of belonging to one:

- **Education:** The air cargo industry has a number of trade associations, with each focused on specific aspects of the industry. Each provides educational and professional development materials through courses, articles, trade publications and relevant news to help members improve their businesses.
- **Advocacy:** Most forwarders who run businesses don't have the time or resources to advocate for or against legislation on their own. Associations provide this representation by determining, through its own governance processes and research capabilities, the industry's commonly held views on policy-related issues and then promoting that position. For example, the air cargo business benefited by associations advocating for a program that allowed forwarders, shippers and airlines instead of the Transport Security Administration to perform screening. This successful program continues as an effective way to accomplish an important mandate designed to keep passenger flights safe.
- **Expertise:** Access to shared knowledge is one of the



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

most valuable benefits of being part of a trade association since someone, somewhere in the air cargo industry, has already experienced and solved a problem you may have. Workshops, networking events, newsletters and blogs provide opportunities for members to spot emerging trends that benefit the bottom line.

- **New business:** Being part of an association not only improves your reputation, but could also provide new customers. As an example, shippers looking for forwarders might contact the industry trade association for the names of members who, because of their association membership, are viewed as reputable.
- **Lasting relationships:** Perhaps the greatest advantage of being part of a trade association lies in the networking opportunities and the relationships. In our industry, forwarders meet trucking companies and international agents who attend association-sponsored events. These relationships not only improve service through increased competition, but also help provide the best rates for their customers. Members gain knowledge and service improves as the association endorses higher-quality standards through process improvement.

As with forwarders, trade associations come in all shapes and sizes, each fulfilling a vital member niche. For example, large groups such as The International Air Cargo Association (TIACA) and the International Federation of Freight Forwarders Associations (FIATA) perform an important service grappling with global issues. Given the complexity of the world however, it is impossible for them to engage in every local matter. This is where specific country or regional associations shine, as they understand their local market and can get into the weeds on important local issues.

Citizens acting alone can still have an effect in Washington without belonging to an association since lawmakers generally understand the value in preserving the single voice. There may be a connection between campaign money contributed and such influence. But more often, it is the collective voice that speaks the loudest, and for small- and medium-sized business, it is trade associations that often serve as the best opportunity to make their voices heard. **ACW**

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