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THE LION ROARS

HOW ETHIOPIAN BECAME AFRICA'S LARGEST CARGO CARRIER

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Editor's Note

Is confidence the 'new normal'?


Randy Woods

As the afterglow of an honest-to-goodness peak season in 2014 lingers in the winter air, many businesses in the air cargo supply chain are experiencing something they've rarely felt over the past five years – confidence. Perhaps it's time for the industry to start asking: Could this return to modest, steady growth be the "new normal"?

In early January, a survey of IATA-member air cargo execs and airfreight CFOs found that 71 percent said they expected to see increased cargo demand for the next 12 months. An even larger group – 78 percent of those surveyed – said they expected an increase in profitability over the same time period, partially due to the historic drop in fuel prices. It's a refreshing change after the long years of stagnating volume, rising fuel prices and excess capacity.

Change is, indeed, happening everywhere – even here at *Air Cargo World*. Alert readers have no doubt noticed our new graphic look since we joined Royal Media Group last year. Now we are adding some new faces to the magazine, including my own. With more than a quarter-century of magazine editing experience, covering such business topics as insurance, Lean Six Sigma, entrepreneurism and solid waste management (yes, really), I joined this talented *ACW* team in September and am excited to take on a new challenge, just as the industry appears to be on an upswing.

I'd also like to introduce another addition to the *ACW* team, Linda Ball, our new associate editor. Linda joined Royal Media in December, bringing 13 years of solid reporting experience to our permanent staff of writers. We're thrilled to have her on board. Over the next few months and beyond, Linda and I hope to meet a lot of *ACW* readers at various industry events this year – specifically at AirCargo 2015 in New Orleans, the IATA World Cargo Symposium, as well as our Air Cargo Excellence Awards Dinner (aceawards.aircargoworld.com), in Shanghai, and the CNS Partnership Conference in Orlando, Fla.

Of course, without our loyal readers, this magazine could not exist. *Air Cargo World* is as much your magazine as it is ours, so I invite you to join the dialogue. If you have any comments, questions or story ideas – or if you just want to chat about air cargo – please contact me at rwoods@aircargoworld.com.

Our aim is to continuously improve this magazine as the number-one source for airfreight logistics information. We can only do that with your feedback. Together, let's make 2015 a year to remember.

Randy Woods,
Editor, *Air Cargo World*

UpFront

*As we begin 2015, we're introducing **UpFront**, a new one-page section reserved for late news items, photos, quotes and info-graphics – a quick-read snapshot that lets you know at a glance what's happening around the industry.*

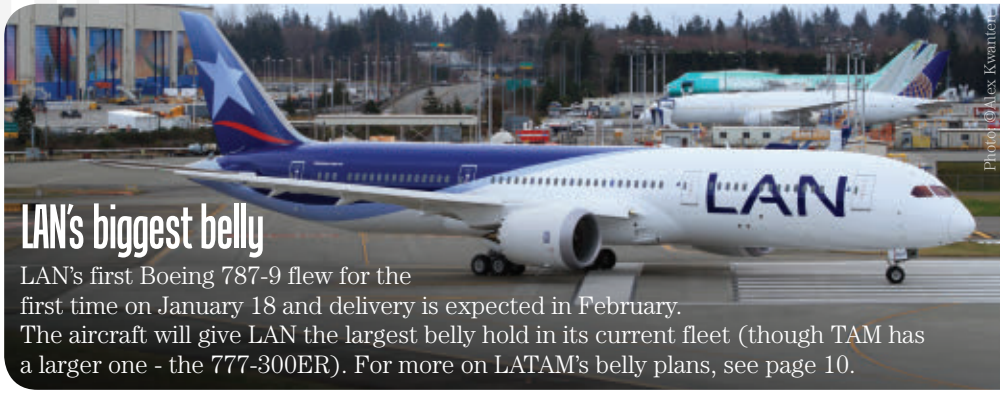


Photo: Alex Kwanten

LAN's biggest belly

LAN's first Boeing 787-9 flew for the first time on January 18 and delivery is expected in February. The aircraft will give LAN the largest belly hold in its current fleet (though TAM has a larger one - the 777-300ER). For more on LATAM's belly plans, see page 10.

UPS and FedEx survived the holidays

FedEx and UPS can breathe a sigh of relief knowing that the investments made in facilities and a larger holiday workforce resulted in fewer last-minute shipping problems compared to Christmas 2013. UPS spent $500 million to make sure 2013 wasn't repeated. Both companies built new facilities, added more holiday staff and coordinated with retailers for clarity on estimates and deadlines. Nonetheless, some retailers fell short on their promises, reflecting the difficulty of accurately calculating holiday demand as e-commerce becomes more popular.

The great French-fry airlift

The Japanese appetite for McDonald's French fries was satisfied thanks to many air cargo companies that helped get an emergency shipment of approximately 2,600 tonnes of French fries delivered to Japan's golden arches in late December 2014. The shortage was due to the ongoing labor dispute by ILWU workers at West Cost seaports. McDonald's Japan said 1,000 tonnes were sent via airfreight from the East Coast and another 1,600 were shipped by seafreight. For more on the port slowdown, see page 11.

JFK builds an Ark

The ARK at JFK, a privately-owned animal handling facility, will soon become a reality. ARK Development LLC signed a 30-year lease with the Port Authority of New York and New Jersey to develop, finance, build, operate and manage the $48 million project. The facility will be equipped to accommodate horses, pets, birds and livestock. Professor Temple Grandin, regarded as the leading authority on livestock movement, designed the livestock handling area. The facility will have every imaginable creature comfort for dogs and cats.

Photo: Martin Visser/Wikimedia

Centurion Cargo flies again

After being grounded since September 2014 for non-payment to its debtors, Miami-based Centurion Cargo is said to be back in the air again. Among the carrier's many legal hurdles, Chemoil Corp. had filed 11 lawsuits in Miami-Dade civil court claiming that Centurion and its affiliates were past due on $12.9 million in fuel bills. Previously, Chemoil had filed mechanic's liens against all 11 aircraft in the fleets of Centurion and its partner airline SkyLease Cargo.

Robin Hood Airport Doncaster Sheffield more than doubles cargo traffic

The airport, located in the center of the U.K., reported a 112 percent increase in cargo transported through its facilities, year-over-year, for 2014. Between October and December 2014, seven 747-400s operated from Robin Hood's cargo terminal. (Okay, we'll admit, we just wanted to run this cool image of this An-225 landing at Robin Hood).

Photo: © Alex Kwanten

Can ANA-Lufthansa succeed?

By Ian Putzger

All Nippon Airways (ANA) is pushing for broader global reach. On the heels of its joint-venture agreement with Lufthansa Cargo, the Japanese carrier has joined hands with United Airlines' cargo division to form a partnership.

While cargo joint ventures tend to look good on paper, they don't always unfold as planned. But the ANA-Lufthansa jv is adding a few new wrinkles to create a more symbiotic relationship. For example, both tie-ins differ from most traditional airline alliances on the cargo side in the inclusion of antitrust immunity. "This allows them to synchronize their network schedule, float common tariffs, and also carry out joint sales and marketing activities," observed industry veteran Ram Menen, who headed Emirates SkyCargo from its early days until 2013.

"Antitrust immunity is great. However, it is a very expensive and time-consuming process in obtaining all approvals worldwide because of the global nature of the air cargo business," he added.

Operational aspects aimed at achieving cost savings are secondary in such a constellation, but this does not mean there is no room for them, according to Menen. A spokesman for ANA pointed to joint activities such as co-location at a number of stations in Japan and Germany, but he confirms that the emphasis is elsewhere.

"We are not only focusing on sales activity, however. Joint sales is one of the biggest parts of the joint venture, which should be authorized through antitrust immunity," he said. The ultimate goal of the venture goes beyond joint pricing to the emergence of "a virtual airline" to control both airlines' capacity jointly.

How unfettered is each partner's access to the other's capacity? Interline agreements, which have played a core role in many alliances, are only effective if the partners have guaranteed space on each other's planes, notes Jan Krems, president of United Cargo.

This was confirmed by the ANA spokesman. "We can sell each partner's free space on each flight, then both sales sections are now communicating like [a single company] to fit our customer space requests to our joint capacity and maximize space accommodation. In that meaning, we are going to expand our transparency in space control through the joint venture program."

At this point, the cooperation between ANA and the German carrier covers regular and express cargo. Mindful of customer interest in other segments, the pair would like to add special products gradually, ANA indicated.

The Japanese airline and its venture partners have left it open in how far product definitions should be aligned, as the SkyTeam has done with its lineup. ANA views this matter as a medium-term question to address.

Stan Wraight, executive president of Strategic Aviation Solutions International and a former executive of KLM Cargo, pointed out that the joint venture that KLM and Northwest had on the North Atlantic (which has survived to include Delta today) worked well, although both airlines sold their own products. The key element was the commercial decision to share revenues and profits, which eliminated the pitfalls of competition within the partnership, he said.

Senior Lufthansa Cargo executives have blamed the failure of the carrier's former WOW alliance (with Japan Airlines, Singapore Airlines and Scandinavian Airlines System) on the absence of a joint bottom line, resulting in a lack of cohesion that allowed the members to drift apart.

A different kind of alliance that took shape last year was the connection between IAG and Qatar Airways, which centers on the former taking block space on the Middle Eastern carrier's freighter service from Hong Kong to London, via its Doha base. This arrangement allowed IAG to return the 747-8 freighters it had leased prematurely to the lessor. To some observers this is pretty much all there is to the IAG-Qatar link, but Wraight reckons that partnership will go further.

"They trying to develop a real cargo alliance," he said, adding that others are also on the hunt for alliance partners. "It is no secret that KLM has been trying for years to do something with China Southern."

Some observers regard the central role of antitrust immunity in the Lufthansa-ANA venture as a reflection of the German carrier's approach. "This alliance is driven by Lufthansa. Lufthansa needs it to build a strategy to compete," Wraight said. The German airline has signalled its intention to form similar alliances with other partners. The alignment of ANA and United suggests a possible link between Lufthansa and United. Krems had no comment on this.

According to ANA, its venture with the U.S. airline would basically "be almost the same business program as we do have with Lufthansa Cargo." For his part, Krems sounds less sure where the journey is going. Having taken over the controls at United Cargo last year, with some issues to address, building up the ANA link is clearly not at the top of his agenda.

"We look where we can grow together," Krems added."We look at each other's network, we look at interline possibilities. How can we connect our schedules better? We do not want to move too fast, not take too big steps in the early stage." ACW

Photo: ©Edwin Leung

China Postal deepening ties with Alibaba?

With the meteoric rise of both e-commerce and express shipping across China, a distribution relationship between Alibaba and SF Express seems to be a natural fit. However, with SF Express recently showing interest in developing its own e-commerce businesses, Alibaba may consider SF Express as more of a competitor, making China Postal Airlines a more comfortable distribution option.

Cargo Facts, a sister publication to *Air Cargo World*, reported in December from the Asian Logistics and Maritime Conference in Hong Kong that an increasing amount of Alibaba shipments are now moving through Hong Kong International via China Postal, possibly at the expense of SF Express's air division, SF Airlines.

Further, according to a report in *CargoForwarder Global*, China Postal has long-term plans to become Alibaba's "main distributor" by cooperating with several cargo and combination carriers rather than operating a large fleet of long-haul freighters itself. One panelist at a recent German Aviation Press Club event in Leipzig was quoted as saying that China Postal is currently looking for a hub to handle Alibaba shipments to Europe and is considering "slipping into the role" of integrator.

China Postal Airlines currently operates fourteen 737-300Fs, eight 737-400Fs, and ACMI-leases four 757-200Fs, mostly delivering domestic express mail for China Post.

While Alibaba currently dominates the e-commerce sector in China, responsible for roughly 80 percent of all online sales in that country, SF Express is beginning to make some inroads on its market share. In 2012, SF Express launched SFBest.com, a premium food website where Chinese consumers can order fresh, hard-to-find gourmet selections and cold beverages and have them delivered directly to consumers via the cold chain operated by SF Express.

SF Express currently accounts for about 21 percent of China's express delivery market, with air cargo volume reaching 1 million tonnes per year. *–Randy Woods*

Photo ©Alex Kwanten

LATAM shifts focus from freighters to belly cargo

By Linda Ball

The LATAM Airlines Group, formed through the merger of Chile-based LAN Airlines and Brazil's TAM, is hoping a strategy of downsizing its freighter fleet while carrying more cargo in the bellies of its passenger aircraft, will ensure a profitable cargo operation in 2015.

While the United States suffered through the Great Recession, Latin America's economy from 2003 to 2010 grew at an annual rate of close to 5 percent. More than 50 million people emerged from poverty while the middle class expanded to a third of the population. However, the forecast for the region is not clear. Both the IMF and the World Bank project growth of only 2.2 percent in 2015 for Latin America. Many governments squandered their windfalls from the boom, and Brazil's loose fiscal policy will result in an economy that will be hard pressed to grow at all in 2015. Brazil's trade deficit widened to $1.1 billion in October 2014, the highest-ever for the month. Both imports and exports fell, pointing to weak activity. Also, poverty and inflation added to the problem.

So where does this leave LATAM? Andrea Paz Campos Valdes, head of corporate affairs at LAN Cargo, said that in the past few years the carrier has seen belly and freighter capacity grow in many markets, but at the same time demand has been weak in most markets, pushing cargo rates down. "We have made adjustments in rates where we operate and related to this new market balance," Campos Valdes said. "However, in the last few months, we have seen demand increase in certain markets and capacity being rationalized. We are permanently monitoring market development in order to make the necessary adjustments in capacity, itinerary and rates. We do not make across-the-board rate adjustments, but [rather] specific to certain markets and commodities."

Guido Henke, LAN Cargo's director, Europe, said there is little economic growth in many of South America's countries, since imports into Argentina, Chile and Peru have slowed down recently. This slowing of GDP growth, combined with currency devaluation in the key Latin American economies, has hurt demand for imports. For 2015, the airline predicts increased stability in the region, and believes stronger GDP growth should bump up imports, especially in the second half of the year.

> "It is true that in the future we will rely more on our belly capacity, but we still have the need for freighters to complement and support [the customer]."
>
> –Andrea Paz Campos Valdes, LAN Cargo

Prior to the merger, LAN operated a significant freighter fleet, including eleven 767-300Fs and four 777Fs, some in its LAN Cargo subsidiary and some placed with affiliated carriers throughout Latin America. These freighters carried 60 percent of its cargo, whereas TAM had no freighters and moved all of its cargo in the bellies of its passenger fleet. Post-merger, with LAN able to move cargo to and from Europe in TAM's network, the need for freighters has decreased, and LAN has reduced its fleet by leasing three of the 767 freighters to FedEx. According to Henke, only 35 percent of cargo now moves in freighters, while 65 percent is carried in the bellies of passenger aircraft.

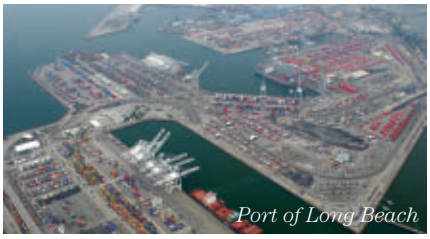
The freighter fleet will not be phased out altogether, though. Certain markets and commodities still need freighters due to seasonality or because of origin and/or destination, Campos Valdes said. "It is true that in the future we will rely more on our belly capacity, but we still have the need for freighters to complement and support [the customer]. This mix of belly and freighter capacity is an important component to our strategy"

The freighter fleet may be shrinking, but Campos Valdes said this year LAN expects to add one A350-900 and seven 787-9 aircraft to its fleet, adding considerable cargo capacity in the bellies. LAN serves Madrid and Frankfurt, while TAM, based in Brazil, serves London, Milan, Paris and Zurich. ACW

Lingering U.S. port crisis boosts airfreight

The many weeks of positive airfreight numbers during the 2014 peak season, inflated somewhat by the ongoing West Coast port crisis, were reflected in the latest figures from World ACD, showing worldwide volume growth of 4.3 percent, compared to the previous November. However, the year-over-year growth for the month was significantly smaller than the rise seen in recent months, and yields fell, year-over-year, by 4.0 percent – the largest dip since a 5.0 percent decrease in February 2014.

The bottleneck at U.S. ports could be inferred most dramatically in World ACD's figures for the trans-Pacific market. While air cargo revenues for North American exports to the Asia Pacific region fell 9 percent from October to November 2014, shipments from Asia Pacific to North America skyrocketed by 17 percent over the same period, with yields improving by 9 percent.


Port of Long Beach

Meanwhile, the port crisis continued into January as federal mediators began a series of talks between the International Longshore and Warehouse Union (ILWU) and the dockworkers' employers, represented by the Pacific Maritime Association (PMA). The ILWU claims that the main source of the months-long congestion felt from Los Angeles to Seattle was a series of "managerial mistakes" by PMA, eventually leading to a severe shortage of truck chassis.

PMA countered that the near-gridlock conditions at the ports stem from deliberate work slowdowns on the part of ILWU members since November, causing a shortage in the number of qualified crane drivers. PMA claimed that the average number of crane operators in the Seattle-Tacoma and Los Angeles-Long Beach yards fell from 110 to just 35 per day at the terminal yards.

–Randy Woods

Three An-124s, one job

Nine oversize power substations were successfully moved from Porto, Portugal, to Buenos Aires, Argentina, in December, using three An-124-100 aircraft operated by Antonov Airlines.

Konstantin Vekshin, vice president for Bertling Air Freight Charters, said three of the aircraft dedicated to one project doesn't happen very often, but time constraints and the delicate, high-tech equipment required extra care.

The pressure-sensitive substations traveled without incident from manufacturer Efacec's plant in Portugal to the Buenos Aires-based end user, Edesur, an Argentina utility. "This was a one-of-a-kind job," Vekshin said. "Both the manufacturer and the end-user made the right decision. They just didn't want to take a chance. This is very expensive equipment."

–Linda Ball

South Suburban Airport project inches forward

Citing congestion and lack of adequate facilities at O'Hare and Midway airports in the Chicago area, the state of Illinois continues to move forward on a long-delayed plan to build a regional airport near the small town of Monee, Ill., located about 45 miles south of the city.

Under the plan, the project would transform the existing Buld Field airport into what will be called the South Suburban Airport (SSA) and extend the runway, with the aim of attracting cargo flights to the region. The site in Will County, Ill., is near the largest rail intermodal terminal in the Chicago area. The county, developers said, also has 165 million square feet of warehouse space.

The plan has the backing of local government and U.S. Congresswoman Robin Kelly, but there are many hurdles to overcome. For instance, no air carriers have expressed interest in moving away from the freight-handling infrastructure around O'Hare. In addition, about 94 percent of cargo currently flying to O'Hare is carried in the belly of passenger aircraft, which are not likely to switch their routes to a rural airport.

So far, the state of Illinois has acquired 3,500 of the 5,800 acres needed to accommodate the SSA project, which is slated to start construction in 2016 and be completed by 2019.

–Randy Woods

Photo: Alec Wilson

Mideast carriers begin move to all-in pricing

By Randy Woods

The days of the much-vilified fuel surcharge in the airfreight industry may be numbered. Less than two weeks after Emirates' freight division said it will return to a simplified "all-in" rate structure and was dropping various surcharges, Qatar Airways Cargo announced last month that it will take a "phased approach" to transition its pricing structure to a "one-rate basis."

According to a Qatar Airways statement from Jan. 12, the carrier said it "recognizes that current surcharge conventions expose the supply chain to significant price volatility." As a result, the airline will replace its existing rate structure, beginning in April, and will "abolish" its current fuel and security surcharges, while keeping other ancillary charges in place.

Qatar's decision was preceded by a Dec. 31, 2014, announcement by Emirates SkyCargo that it would eliminate surcharges for fuel, security and other variables – a move that was praised as long-overdue by many forwarders and shippers. SkyCargo said the single-charge structure would begin Feb. 1 for airfreight shipments to and from Europe, and March 1 for all other Emirates flights.

SkyCargo's single rate will be based on weight and will include fuel and security fees folded into one price. Along with added fuel and security fees, the new policy will also eliminate surcharges for various other criteria.

Forwarders and shippers have called for the end of surcharges for years, partly because their complex structure makes it hard to quote a definite price for customers, and partly because forwarders' do not receive commissions on the added surcharges.

With crude oil trading for under US$47 per barrel as of mid-January – a six-year low – there is no longer a justifiable need for a fuel surcharge, forwarders have argued. However, neither Emirates nor Qatar Airways made mention about the reduction of its base rates or changes to the mechanism of the all-in price structure in case oil prices spike or an international event raises security concerns.

Despite this uncertainty, the reaction by shippers and forwarders to SkyCargo's announcement has been positive.

"We welcome any simplification of the pricing structure and have long since asked airlines to rid themselves of surcharges," said Lucas Kuehner, global head of air freight for Panalpina. "This is about going back to basics and what our customers want, since they look at all-in cost when making freight decisions. So we encourage other carriers to do the same."

By removing surcharges, all-in pricing, "takes complexity out of sourcing on the one end and invoicing to the customer on the other," Keuhner explained. "The more carriers that switch to this model, the more this holds true, of course."

Robert Keen, director general of the British International Freight Association (BIFA), was a bit more muted in his reaction. The Emirates SkyCargo decision, he said, is "a step in the right direction, provided it leads to the transparency that freight forwarders require." He also applauded SkyCargo for providing "simpler and more transparent cost structures," adding that SkyCargo's decisions could be a response to "previous comments that freight forwarders stop accepting at face value opaque and unjustified surcharges."

Panalpina's Kuehner said he expects the SkyCargo decision to lead to more transparency across the industry. "It is the fuel surcharge mechanisms that are not transparent today. Different airlines factor in different elements for fuel surcharges. With all-in rates you are left with only one figure to compare: overall costs. That's what matters in the end, and it just makes it so much easier. The key is rate validity going forward and how airlines intend to manage the risk of fuel price fluctuations."

Shippers appear equally pleased about the pricing changes. Joost van Doesburg, freight policy manager of the European Shippers' Council, said the switch to all-in pricing is "definitely a positive step in the right direction that other carriers must follow." Ship-

> "We welcome any simplification of the pricing structure and have long since asked airlines to rid themselves of surcharges."
>
> –Lucas Kuehner, global head of air freight, Panalpina

pers, he said, consider surcharges the "number one topic the air freight industry should change," stemming mainly from the distrust of certain carriers that developed during the surcharge price-fixing scandal.

The all-in pricing, "will improve stability in the airfreight market," van Doesburg added. "The current surcharges system is everything except transparent. In a future without surcharges, shippers and freight forwarders would know the costs of shipments in advance instead of when the invoice arrives."

TLF Overseas, a French freight forwarders organization, issued a statement after the Emirates announcement urging other carriers "to follow suit." Fuel surcharges, the group said, were originally intended to be temporary, but ended up becoming "permanent and uncorrelated to the variation of the oil prices … Air carriers were indeed more likely over the past 13 years to increase their fuel surcharge as soon as the oil price rose rather than granting cuts when it decreased." ACW

Qatar Airways Cargo adds three destinations

Qatar Airways Cargo expanded its network in early December by starting service to Lagos, Nigeria; Accra, Ghana; and Guangzhou, China. All three destinations are being served by A330 freighters, with twice-weekly service to Lagos and Accra, and three times a week to Guangzhou.

Doha-based Qatar Airways took delivery of two A330-200Fs from Airbus in late November and early December, adding them to its existing fleet of three A330-200Fs and seven 777Fs.

The Lagos route will cater to the city's high-value exports of petroleum and petroleum products, as well as cocoa and rubber. The city imports textiles, manufactured goods, food, machinery and transport equipment. Major exports from Accra include agricultural produce, oil, gold, cocoa, timber, tuna, bauxite, aluminum, manganese ore, diamonds and horticultural products, while imports include capital equipment and refined petroleum.

The new China route, which began Dec. 4, is the first cargo service between Guangzhou and Qatar Airways' Doha hub, and also the carrier's first scheduled cargo flight to South China outside of Hong Kong. Qatar selected Guangzhou because of its geographical location, but also for the advanced facilities, equipment and support at Baiyun International Airport's International Cargo Terminal 1.

Guangzhou is a major manufacturing city, exporting high-tech products, biotech, aerospace technology, software and automobiles, while importing garments, auto parts, fashion accessories, pharmaceuticals and perishables.

Qatar also expanded its service to Erbil, Iraq; Kolkata and Delhi, India; and Istanbul, Turkey. Additionally one more frequency was added on the Houston-Liége-Doha run, and more frequencies are expected for Brussels, Chennai, Johannesburg, Nairobi and Shanghai. *–Randy Woods*

Photo: Martin Visser/Wikimedia

Brussels Airlines boldly goes where others fear to fly

By Roger Turney

Brussels Airlines Cargo is winning plaudits from world health and aid agencies for its response to the ongoing Ebola epidemic, which continues to plague West Africa. While other carriers withdrew or redirected flights, the Belgian national carrier, Brussels Airlines, has maintained a full schedule, particularly to the worst-hit countries of Liberia, Guinea and Sierra Leone.

As a result, the airline's cargo division, Brussels Airlines Cargo, has seen unprecedented demand. Its Brussels hub has become a major feed point out of Europe for the flow of medical supplies and other relief goods. Although much of the belly-hold capacity was withdrawn from these markets by other airlines, some main-deck capacity has been maintained by carriers such as Cargolux and Lufthansa Cargo. But this has not been enough to relieve the pressure on Brussels Airlines Cargo, which operates A330-300/200 aircraft on its African routes.

Photo: ClipperArctic/Wikimedia

Brussels Airlines is a partial outgrowth of it's predecessor, former Belgian flag-carrier Sabena, and flies much the same route network, with a diverse array of African destinations from Kinshasa to Marrakech.

It has left the airline little option but to charter in its own main-deck capacity to ease the pressure on its Brussels hub. MD-11F capacity has been accessed using neighboring Liege airport in Belgium to facilitate these flights.

The decision by Brussels Airlines not to desert its single most important long-haul market at its time of greatest need has come at some cost to the carrier. It has had to bring in extra staff to screen passengers departing the worst-affected countries. Crew changes have been adjusted to avoid overnight stops in high-risk countries.

Some of these additional costs have been recovered by increasing cargo rates on certain routes to West Africa, generated by the high demand for lift. But the efforts of Brussels Airlines and Brussels Airlines Cargo are seen as a genuine humanitarian gesture to maintain faith with its local market. Nonetheless, the carrier is projecting a strong financial return when it posts its annual results in March, with cargo volumes expected to be well in excess of the 27,000 tonnes uplifted in 2013.

Not that Brussels Airlines Cargo is badly in need of a fix to bolster its cargo revenue returns. Load factors on southbound African services regularly exceed 90 percent. On northbound routes, a now-year-round demand for perishables, such as pineapple and mango for the European market, ensures load factors of over 70 percent. The only constraint on growth appears to be the belly-hold capacity available to Brussels Airlines Cargo. The airline's long-haul fleet-mix of three A330-200s and five A330-300s has a capacity limitation in the range of 10 to 12 tonnes per flight.

The airline is expected to increase capacity in the medium term if, as hinted, it leases further long-haul aircraft.

But if there is one thing Brussels Airlines has been careful to do, it is not to over-reach. It is a bitter lesson learned from the bankruptcy of the former Belgian national carrier Sabena in 2001. The new national carrier of today, launched by a group of 40 Belgian investors, emerged initially as SN Brussels Airlines in 2002. By 2006 it changed its name to Brussels Airlines, after the merger with Brussels-based short-haul European carrier Virgin Express.

Perhaps the greatest fillip the carrier received was the acquisition of a 45 percent stake in the airline by Lufthansa in 2009, paving the way for the Belgian flag carrier to join the Star Alliance. The German carrier has had the opportunity to take up the remaining 55 percent since 2011, but has thus far not exercised that option.

Even so, the reincarnation of the Belgian carrier is still very much about the ghost of Sabena and the legacy of its African network, with the new carrier even adopting the IATA code of its predecessor.

At its inception, the new airline was launched with about half of its staff drawn from the ranks of Sabena. Im-

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portantly, this included many outstation managers with vital knowledge and expertise of the African market, such as Brussels Airlines Cargo's incumbent cargo boss Herman Hoornaert.

Before taking on his current role in 2011, Hoornaert headed up the airline's cargo sales operation in Africa. It's a unique archive of market knowledge, which has enabled the airline to fully recover the presence in the African market of its luckless predecessor and grow it further to the 19 points served today.

Brussels Airlines Cargo, though, may be said to have a somewhat perverse approach to marketing its services. In normal circumstances an airline would expect to take charge of cargo sales in its home market and resort to using a general sales agent (GSA) in its outstations. Brussels Airlines Cargo has reversed that strategy. It has taken the decision to outsource sales in its home European market to a GSA, while in Africa it has retained responsibility for marketing nearly all inbound capacity, with a couple of GSA exceptions.

The GSA responsibility in Europe has been handed over to ECS Globe Air Cargo, part of the French-owned ECS Group. In the case of the airline's only other long-haul services, to New York and seasonally to Washington, the GSA option has been taken in both directions, which again has been provided by ECS Global Air Cargo. The U.S. market benefits from a high demand for pharma traffic out of Brussels.

Brussels Airlines Cargo admits it was a big ask – and risk – for both parties to hand over the entire belly-hold capacity to a single GSA in Europe. It is a risk, though, which has paid dividends for both parties and resulted in an even closer working partnership.

Being largely responsible for its own cargo sales in the African market has helped Brussels Airlines Cargo develop its "Fresh to Shelf" product to ensure perishables are delivered to European markets in prime condition via its Brussels hub. The airline works closely with major African exporters and European wholesalers, recognizing that margins are tight, so it rarely imposes fuel surcharges on this traffic.

But this has not stopped other predator carriers, notably from the Arabian Gulf, from trying to undercut Brussels. Brussels Airlines Cargo has held its ground on price, the company reports. Small consolation when considering the health crisis in the West Africa market. **ACW**

City Link faces layoffs

City Link, one of the United Kingdom's largest parcel delivery services, was placed in administration – similar to a Chapter 11 bankruptcy in the U.S. – on Dec. 24, 2014. On New Year's Eve, the company announced that about 2,000 employees would be "made redundant" and laid off.

Coventry-based City Link has ceased to accept new parcels from customers. Its depots were to remain open into early 2015 with a substantially reduced staff to allow patrons to retrieve about 40,000 uncollected parcels. Customers who placed parcels with City Link on Christmas Eve were urged to pick them up. Rival parcel delivery firm APC Overnight pledged to offer up to 100 positions at its national sorting centre in the city of Cannock, as well as other depots across the U.K., giving priority to laid-off City Link employees.

City Link, founded in 1969, had suffered several years of losses until 2013, when it was purchased by private equity firm Better Capital LLP. After investing more than $40 million to restructure the company, Better Capital was unable to turn City Link around.

Since Dec. 24, the business of City Link has been managed by joint administrators Hunter Kelly, Charles King and Tom Lukic of Ernst and Young. *–Linda Ball*

Will Amazon deal save or doom Royal Mail?

In a deal that could have long-term consequences for the future of express delivery in the U.K., recently privatized postal carrier Royal Mail entered into a partnership with its largest competitor, Amazon, to join its new "click-and-collect" parcel service, called Local Collect.

Under the agreement, Amazon will gain access to the 10,500 post offices Royal Mail operates across the country, providing convenient, secure distribution points at which customers can pick up packages ordered online. Local Collect will be similar to the service offered by U.K.-based Collect Plus, which delivers parcels to a network of convenience stores, newsstands, supermarkets, and gas stations.

The Royal Mail agreement will make it easier for Amazon to grow faster in the U.K. without incurring the added costs of last-mile delivery to customers' doorsteps. And for Royal Mail, the benefits are… well, unclear at the moment.

In November 2014, Royal Mail reported that Amazon's own parcel delivery network would reduce its annual growth rate from 4 to 5 percent annually to just 1 to 2 percent. While its share price was still trading above its IPO price from October 2013, Royal Mail saw its operating profit plunge 21 percent in the six months ending Sept. 28.

Amazon's more rapid growth in Great Britain will most likely come at the continued expense of Royal Mail, which currently has less-convenient hours, is mandated to keep costs down and lags behind other click-and-collect services in IT and logistics services.

However, Martin George, chief commercial officer of the U.K.'s Post Office, said the Amazon agreement meshes well with its plan to modernize state-owned postal locations around the country. Today, about 2,000 post offices are now open on Sundays, while other postal stores are open an additional 85,000 hours each week, nationwide. *–Randy Woods*

Transaero Airlines receives government bailout

Russia's second largest airline, Transaero Airlines, has been guaranteed a three-year, 9 billion-ruble (US$164.8 million) bailout by the Russian government.

TASS Russian News Agency reported that Prime Minister Dmitry Medvedev signed a resolution on Christmas Day to support Transaero in light of the economic situation in Russia. TASS also reported that inflation in 2014 in Russia was 11.4 percent.

The government will cover up to 100 percent of Transaero's liabilities with a three-year loan from VTB Bank, which is 60.9 percent government-owned. The loan is strictly for payment of the airline's operating costs, and its use will be monitored by the Ministry of Transport. Russia's government said this will not be an extra burden on the budget until 2017 since Transaero's guarantee-secured liabilities only become mature after Jan. 1, 2017.

Transaero currently operates 103 aircraft – 53 of which are widebodies – including two Tu-204C freighters – and has four A380s, twelve A330s, and eight A320s on order with Airbus, as well as four 747-8Is on order from Boeing. There has been some speculation that the carrier's precarious financial situation may force it to cancel the A380 and 747-8 orders, but, so far at least, no announcement has been made.

In 2013, Transaero carried 70,000 tonnes of cargo overall, a 5.9 percent increase over 2012 figures. According to *Air Cargo World*'s sister publication *Cargo Facts*, Transaero Airlines launched the first scheduled freighter service in its history in early December, operating the Tu-204Cs on a Beijing-Novosibirsk route.

Photo: Oleukhin Fedor

Transaero's diverse fleet includes only two freighters (Tu-204-100Cs), but it operates a variety of wide-bodies including the non-ER 777-300.

"We have overcome the crises of 1998 and 2008. We have great experience of finding a way out," Transaero CEO Olga Pleshakova told Russian news agency RIA. "As then, all our actions are aimed at safe and reliable transportation, as well as increasing the availability of air travel, which is affected by the current exchange rate."

Russia's third-largest airline, Utair, has also asked the Russian government for help. It owes 13 billion rubles ($214 million) to banks. It plans to cut its current fleet of 68 aircraft by 40 percent, as it cannot meet its lease obligations. Vice-Premier Arkady Dvorkovich told TASS that the airlines must look for ways to eliminate losses in the next few months. *–Linda Ball*

Cargo Chat: Mohamed Ebrahim Al Qassimi

In June 2013, Abu Dhabi-based Maximus Air, one of the largest specialist cargo operators in the Middle East, grounded its fleet of five A300-600s, terminated its ACMI-lease contracts and began restructuring. This year, the all-cargo charter airline has re-emerged with plans to offer door-to-door delivery for cargo of almost any size, plus freight forwarding services for air, sea and land transport modes. Air Cargo World *caught up with the new Maximus Air CEO, Mohamed Ebrahim Al Qassimi – a co-founder of Air Arabia and former advisor to GE Aviation – to discuss the new "one-stop-shop" forwarding venture and some of his expansion plans for what looks to be a busy year.*

Why did you decide to enter the forwarding market with this new door-to-door service?

The rationale behind this new venture is based on the fact that, up until very recently, freight forwarders have been the oil that keeps global supply chains running. They are a vital component in ensuring that international trade maintains pace with the increased speed in which business transactions and the worldwide transportation of goods now takes place… While the freight forwarding market dipped 3.3 percent last year, the forecast through to 2017 remains bright, with a 6.7 percent CAGR being projected by [market research firm] Transport Intelligence. Like Maximus Air, many in the freight forwarding industry are looking at ways to adjust their business models to reflect the changing nature of the global economy, and maximize their share of this global growth.

Does the move into freight forwarding signal a shift away from air cargo flight operations for Maximus?

No. Air cargo operations were what Maximus Air was founded upon and will remain a core part of our business operations. This is our bread and butter, if you like, and we see no reason to change something that isn't necessarily broken. We are encouraged by the positive economic forecast that has been predicted by IATA, and we are targeting 20 percent growth over the coming few years. We will have to work hard to achieve this, as with any company seeking to achieve double-digit growth, but the opportunities are most definitely there… Middle Eastern cargo airlines continue to outpace global markets. Regional carriers recently reported 7.8 percent growth and IATA have also said that robust growth in global air freight industries is very promising.

Maximus is currently operating one An-124 and two Il-76s – all ACMI-leased from Ukraine Air Alliance. Will there be any changes to this fleet arrangement?

We are always looking to add new aircraft to our fleet but, like always, we will only do so if we think it will add a new dimension to our offering and maximise the potential for creating new cargo flows and revenue streams by doing so. This is a vital part of our new growth strategy, but for now our plans are focused on consolidating business and creating demand-driven services that are good for business.

Does Maximus Air have any other expansion plans for 2015?

We want to hit the ground running and start the year… but we are also aware of the need to ensure business operations are sustainable, both in the short-term and from a longer perspective. As such, expansion is something we will be looking to achieve through a number of phases staggered across the year. However, while carriers outside the Middle East continue to face the combined challenge of overcapacity [and] weak demand … our approach is more about sustainability than it is about being overly cautious.

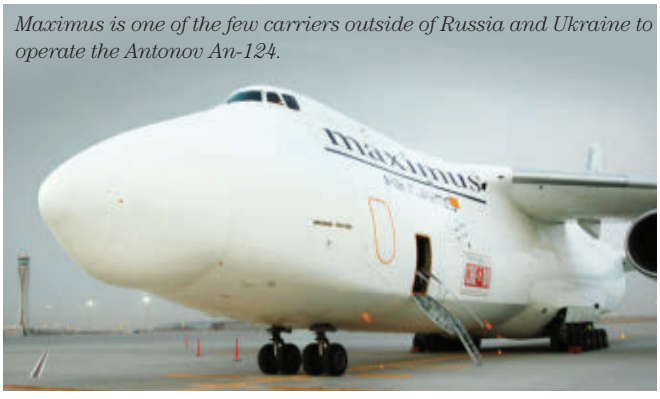
Do you plan to return to ACMI operations or scheduled service?

Not at this point in time. But who knows? The ACMI industry is definitely changing, and the motivation behind ACMI customers' decisions to lease freight aircraft has changed dramatically. Whereas before companies might have leased a freighter to test out a new service before committing to the purchase of a new aircraft, for example, the ACMI customer mix has diversified to include airlines, freight forwarders, and charter brokers, etc. This presents fantastic growth opportunities if you get it right, but at this point in time it is not something that we are actively looking into.

What are some of the growth markets you see ahead?

Some of the main drivers in African markets have been urbanization and stability. While not directly linked to air freight, these two factors have enabled economies to grow, and have prompted increasing demand for the import and export of wholesale, retail and manufactured products, which accounted for over two-thirds of the continent's GDP in recent years. Africa is also home to five of the world's dozen fastest-growing economies and has seen 6 percent growth in demand for air cargo in 2014 – second only to the Middle East. Linking the supply chains between these two key regions therefore holds many benefits for our business operations, as regions like Latin America and others are struggling to reverse 6 percent *negative* growth in FTK.

ACW



Maximus is one of the few carriers outside of Russia and Ukraine to operate the Antonov An-124.

THE LION ROARS

HOW ETHIOPIAN BECAME AFRICA'S LARGEST CARGO CARRIER

By Randy Woods

On the nose of every Ethiopian Airlines aircraft, near the cockpit window, there is an image of a golden lion rearing up on its hind legs. The painted logo – based on the "Lion of Judah" that used to be on the Ethiopian flag – is small and subtle, but it is a symbol of prestige and strength that has been associated with the country for centuries.

For most of the airline's 70-year existence, Ethiopian Airlines resembled this quiet, inconspicuous lion logo, slowly growing its fleet of propeller-driven and jet aircraft and adding routes across the continent. Today, however, the golden lion is in full-throated roar, growing by an average rate of 20 to 25 percent per year since 2005 – expanding more in the last 10 years than the previous 60 combined.

"We are now the fastest growing, largest and most profitable airline in Africa, by far," says CEO Tewolde Gebremariam, who has served continuously in various roles at the airline for 30 years. Gebremariam, a soft-spoken, balding man with a wide smile, started at Ethiopian Airlines as a transportation agent in 1985. Since then, the deceptively quiet executive has proven to be a ferocious competitor in the air cargo market, shepherding Ethiopian's rapid growth into a US$2.3 billion African powerhouse. In 2013-14, the airline reported net income of $228 million, making it the most profitable carrier in Africa.

In a continent that is often racked with economic strife, famine, internecine war and a centuries-long legacy of colonialism, Ethiopian Airlines, the nation's flag carrier, has managed to not only survive but thrive where so many other cargo carriers have struggled or expired.

Nick Fadugba, CEO of consulting firm African Aviation Services Ltd. and former secretary general of the African Airlines Association, has followed the arcs of many African carriers over the years and has seen some patterns emerge among those that did not survive. "The main reason why few cargo airlines have been successful in the past in Africa is that they lacked the critical combination of an efficient fleet, viable route network, strong customer base, strategic partners and adequate financial resources."

Ethiopian, he added, has been cognizant of all of the above.

The Addis Ababa-based carrier was one of the first in Africa to understand the benefits of generating revenue from both cargo and passenger operations. "From day one," Fadugba said, Ethiopian has been driven by its "Pan-African vision and unswerving commitment to bring Africa together by developing comprehensive air links throughout the continent. It now has the best route network in Africa."

Eyes on the horizon

In 2010, just before Gebremariam made the leap from COO to CEO, and just after the airline started a massive fleet modernization plan involving the orders for 35 new aircraft, Ethiopian embarked on an ambitious 15-year development strategy, called "Vision 2025." The ultimate goal of the airline's strategy was clear: "To become the most competitive and leading aviation group in Africa by providing safe, market driven and customer focused passenger and cargo transport, aviation training, flight catering, MRO and ground services by 2025."

Since crafting that statement, every decision at Ethiopian has been based on the Vision 2025 principles. "Unlike many in the industry, [Ethiopian is] an airline that plans long term," Gebremariam said. The Vision 2025 roadmap has enabled the carrier "to tap into the market opportunities by leveraging our internal strengths and external opportunities."

Gebremariam is also well versed in the cautionary tales from other failed African airlines that grew too fast or failed to keep up with the market. "Aviation is a capital-intensive industry with no or little return on investment," he said. "If you look at the last 40 years of return on investment of the global airline industry, it is actually destroying wealth. In such a low-margin industry, high performance and stringent cost management are critical."

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Being progressive in its growth strategy has been one of the keys to the carrier's success, Fadugba says. "Over the years [Ethiopian] has invested heavily in modern aircraft, aviation maintenance and training facilities, and human resource development."

Armed with this knowledge, the Vision 2025 goals under the Ethiopian CEO include the following:

- Increasing its overall fleet to 120 aircraft and the number of destinations to 90 worldwide
- Carrying more than 18 million passengers and 720,000 tonnes of cargo per year
- Operating 20 freighter aircraft and serving 37 freighter destinations globally
- Creating multiple hubs in Africa

Now a full five years into the 15-year plan, Ethiopian is either approaching or has surpassed most of its cargo benchmarks. Besides its main hub at Bole International Airport in Addis Ababa, it now has a European hub in Liège, Belgium, and a West African hub in Lomé, Togo. There are plans to eventually establish a Southern Africa hub in Malawi and a Central Africa hub in the Democratic Republic of the Congo (DRC).

The airline now has 76 aircraft, including eight dedicated freighters: four 777Fs, two MD-11Fs and two 757-200Fs. (Ethiopian recently lost its only narrow-body freighter, a 737-400F operated by subsidiary ASKY Airlines, when it slid off the runway last month at Accra, Ghana, in a non-fatal accident). The freight division, Ethiopian Cargo, serves 24 global freight destinations (15 in Africa, seven in the Middle East and Asia, and two in Europe), with a current annual uplift of around 200,000 tonnes. The airline also has four more 777Fs on order from Boeing.

State owned, not state run

If there's a red flag to be found concerning the management of the carrier, it comes from a pay grade above and beyond that of the CEO. Ethiopian Airlines is a state-owned carrier, originally established nearly 70 years ago, in December 1945, at the request of Emperor Haile Selassie I. Students of aviation history know that government interference in Africa does not always breed success (read: South African Airways, Air Namibia, Air Zimbabwe), especially in countries like Ethiopia, with a recent history of military junta governments and Soviet influence in the 1970s and '80s.

"Yes, Ethiopian is a 100 percent government-owned airline," Gebremariam admitted. "But there is a clear separation between the function of ownership and management."

"To their credit, successive governments of Ethiopia have allowed the national airline to be run by competent management and dedicated staff," Fadugba agreed.

Like a well-run sports franchise, Ethiopian Airlines has an owner that provides funding when needed, but stays out of the way on business decisions, leaving management to be run by professionals. "The government is of great support to the airline, with its general oversight role, but fully respects the sacrosanct principle of the independence of the airline," Gebremariam said.

70 Years of Service

1945

Ethiopian Air Lines Inc. is founded at the request of Emperor Haile Selassie I in a joint venture with TWA. Service begins a year later with Douglas DC-3s.

1958

Long-haul services begin using Douglas DC-6Bs; becomes IATA member in 1959.

1963

Jet service begins with two Boeing 720Bs. Two years later the carrier becomes a share company and changes its name to Ethiopian Airlines.

1989

Cargo Management Department established.

2005

Becomes launch customer in Africa for Boeing's 787 Dreamliner.

2010

"Vision 2025" 15-year development strategy begins.

2011

Joins Star Alliance; named "African Cargo Airline of the Year."

1956

National Airline Training Project set up in Addis Ababa to train local pilots and technicians, which eventually becomes the Ethiopian Aviation Academy.

1962

Hub established at newly-opened Bole International Airport.

1971

Colonel Semret Medhane named general manager, the first Ethiopian to hold the position.

1982

Ethiopian becomes the launch customer for the Boeing 767-200ER. Deliveries begin in May, 1984.

1998

The route network is extended to North America, first to Washington, D.C., and later to New York.

2009

Orders 35 new aircraft, including five 777-200LRs, twelve A350-900s and ten 787s. An order for four 777Fs follows in 2011.

What's good for Ethiopian is not always great for the freight forwarding community, which naturally wants to find the best cargo handler at the best price. At Ethiopian's Addis Ababa hub, Ethiopian is pretty much the only game in town.

"They have sort of a monopoly at the Bole cargo terminal," said Brook Befekadu, general manager of Addis Ababa-based freight forwarder Green International Logistics Services. "No one else is allowed to do cargo handling there."

Despite this lack of unfettered choice, Befekadu said the carrier does provide excellent services at competitive rates. "Ethiopian has a very good connection with the rest of Africa," he said. "We like to use them because if you have a shipment going to the States, there is a direct flight to Dulles Airport. With all the other carriers, you have to first go through Frankfurt or some other hub first before going to the U.S."

> "Addis Ababa puts us in the middle of the major East-West trade lane, giving us a natural edge on the competition."
>
> –Tewolde Gebremariam, CEO, Ethiopian Airlines

Kidist Berhanu, owner of Kidist Berhanu Custom Clearing, agreed that Ethiopian "charges a fair price" and makes it easy for her to arrange shipments of spare parts or perishable goods to most regions of the world.

Right place, right time

Befekadu also said he and other forwarders at Green International said they would like to see larger warehouse space at Bole. Although the airport underwent an expansion in 2006, boosting its annual capacity to 350,000 tonnes and enough room for 180 pallet positions, cargo containers often still get left outside, exposing them to potential damage.

Although Befekadu said he did not see any evidence of change yet at Bole, Ethiopian is already responding to the need. Gebremariam signed a deal with the French Development Agency last year to construct a new air cargo terminal at Bole with an annual capacity of 1.2 million tonnes of both dry and perishable freight. Construction has recently started and is scheduled to be completed in two phases, Gebremariam said. The first phase, which will be completed in 2017, is being built with an outlay of US$150 million he said.

This is yet another example of Ethiopian's "ability to accurately read the changing market and implement business plans successfully," Fadugba said.

With a B.A. in economics from Addis Ababa University and an MBA from the Open University in the U.K., Gebremariam is well equipped to master the intricacies of global commerce. Yet

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he attributes a significant amount of his success to simple geography. "Addis Ababa puts us in the middle of the major East-West trade lane, giving us a natural edge on the competition," he said. "We are located right in the middle of the fastest-growing trade lane in the world between China, India, Africa and Brazil, and are tapping into this opportunity."

The timing of the airline's recent growth spurt also coincides with a surge in Africa's overall economy, which has averaged continent-wide GDP growth of 5 to 6 percent over the last decade. "The African air cargo market represents just 1.6 percent of the world's total freight traffic, but encouragingly grew at a faster rate than the global average in 2014," Fadugba said. "Barring political unrest or economic setbacks in major African markets, the region's air cargo market should see steady growth in 2015."

These rosy forecasts have attracted much attention from large European, Middle Eastern and Asian carriers seeking to capitalize on Africa's rise to prominence. As more competitors sought routes to Africa, Gebremariam seized the opportunity to join the Star Alliance in 2011, paving the way for Ethiopian to sign code-sharing agreements among a network of 26 other carriers that serve more than 1,300 destinations in nearly 200 countries.

Africa first

Based on this phenomenal growth, Ethiopian is a carrier with clearly global ambitions, but it has never forgotten where it comes from.

"We know the African continent, our home market, better than anyone else," Gebremariam said. "We have been in Africa for the last 70 years, in good and bad times, and believe that Africa should not just be a consumer base for the global economy, but should also have its own indigenous and globally competitive industries that reap the benefits of Africa's growth."

One of the fruits of this philosophy is the airline's Ethiopian Aviation Academy, a training institute launched by the carrier in 1956 as an example of self-sufficiency and professionalism on a continent that was finally beginning to break the chains of colonial rule. The academy provides intensive training for cabin crews, marketing, ground operations, pilots, aviation maintenance technicians and leadership.

The academy "has been the bedrock of our success," Gebremariam said, by providing a steady supply of skilled manpower. Over the last five years, Ethiopian has invested about US$80 million in expanding both the scope and scale of its training facility. "Today, thanks to this investment, its annual intake capacity of trainees has increased from 250 to around 1,000," he said. Following the Vision 2025 strategy, the carrier plans to quadruple the annual capacity yet again to 4,000 students, "half of whom will come from other African countries."

Another goal of Gebremariam's tenure is the development of a strong intra-African air network, like the one pioneered by pan-African airline Air Afrique, which went bankrupt in 2002 (see sidebar). In an effort to recapture the spirit of Air Afrique, Ethiopian Airlines has purchased a 40 percent stake in ASKY Airlines, a private regional carrier launched in 2010 and based at Lomé-Tokoin Airport in Togo.

Filling in where Air Afrique left off, ASKY is "providing critically essential air connectivity for West Africa," Gebremariam said. ASKY operates three 737-700s and four Dash-8-400s, serving 22 scheduled destinations across West and Central Africa. The regional carrier plans to gradually add non-West African stations in Europe and the Middle East.

Ripe market for perishables

Today, much Ethiopian's cargo growth is being driven by the country's booming perishables export market, including such time- and temperature-sensitive goods as flowers, fruits, meat and vegetables. As the country prepares to scale up its

perishable exports, Gebremariam is ready to grab the lion's share of this lucrative market.

"We are responding by expanding our capacity to handle such cargo by investing in a perishable cargo cold room" at the new cargo terminal now under construction, he said. The airline also plans on heavy use of its 777Fs, "which have the ability to maintain cold temperatures of up to 4 degrees centigrade."

On the import side, Ethiopian is benefiting from the booming oil sector in other parts of Africa, as an increasing amount of oil drilling and exploration equipment flow through the hub at Bole. The petroleum business is also creating a larger middle class, which is developing a taste for high-value goods, such as medical equipment and electronics.

"The increased volume of trade resulting from huge investments [in Africa] by China and India is causing the cargo traffic between these regions to thrive and has increased our market share in the cargo business," Gebremariam said.

So far, 2015 is looking at least as bright as 2014 at Ethiopian Airlines. Last month, with the help of Keuhne + Nagle and DHL Global Forwarding's Starbroker subsidiary, Ethiopian Cargo launched four-times-a- week 777F service between Bole and Brussels Airport, bringing mostly flower shipments to Europe and carrying back general freight to Ethiopia. Later this month, Ethiopian will begin service to Goma, DRC, which will be the carrier's 50th destination in Africa.

"We have managed to successfully tap into the opportunities of Africa, which is now the second-fastest-growing region in the world" Gebremariam said. "The employees and management of Ethiopian have a strong sense of ownership towards the airline and work tirelessly to ensure that it shines high in the sky." ACW

Africa's Fractured Skies

Ethiopian Airlines may be doing well compared to most others on the continent, but because it is an African carrier, it is always fighting an uphill battle, even on its home turf.

While many other airlines around the world have been able to set up various types of "open skies" agreements, allowing cross-border traffic to take place with certain regions, this route liberalization has never taken root in Africa. In 1999, the continent came close, when 44 countries signed what is known as the Yamoussoukro Decision (after the Côte d'Ivoire city in which it was drafted), pledging to remove their restrictions and allow open access to carriers from other African nations. The treaty, however, has never been ratified after 16 years.

As a result, "gaining market access within Africa can often be more difficult for African airlines than foreign carriers," noted aviation consultant Nick Fadugba.This failure to cooperate is "the major obstacle for the growth of the African aviation industry," said Ethiopian Airlines CEO, Tewolde Gebremariam. "Generally speaking, aviation is not treated as a strategic sector – as an enabler of investment, trade and tourism growth."

In addition, aviation in Africa "is being taxed like tobacco and alcohol," he said. The price of jet fuel is twice the global average, and other fees for overflying, aircraft landing and parking are exorbitant. "We are facing unfair competition from Gulf-based airlines, which have access to government subsidies and to cheap fuel," he added.

Gebremariam said he hoped to see a renewed political commitment to liberalization of the skies from the continent's leaders, in accordance with the African Union Agenda 2063. "We are lobbying for the creation of a single African air space and for aviation to be treated as a strategic sector by mobilizing the African Union Commission, industry actors and governments."

Photo: ©Rainer Bexten

KEEP COOL and CARRY ON

Some modal shift may be inevitable, but a renewed commitment to quality can keep high-value pharma cargo flying

by Randy Woods

No matter how cool we keep the supply chain, how fast we fly or how low fuel prices go, in this cost-conscious economy, there is no competing with one of the oldest and slowest forms of transport: seafreight.

Indeed, while demand for temperature-sensitive shipping is rising and airports build larger cool-chain terminals, airfreight's share of the lucrative pharmaceutical market has shrunk from 17 percent in 2000 to just 11 percent in 2013, according to a 2014 report by research firm the Seabury Group.

Let's face it – modal shift is already upon us for transporting pharmaceuticals. This has caused alarm among some cargo carriers that have counted on gaining market share in this US$64 billion business. But with a little understanding, cooperation and agreed-upon standards among the various players in the cool chain, the airfreight world can learn from this inevitable economic reality and retain the pharmaceuticals that they still carry, which just happen to be the highest-value ones.

Shift happens

The signs of the modal shift are everywhere. In 2014, Lufthansa Cargo shipped in excess of 65,000 tonnes of pharmaceutical products, or about 8 percent of its annual carry. "In past years we had steady double-digit growth figures in tonnages," said Christopher Dehio, head of product and solutions management, temperature control, at Lufthansa Cargo. "However, in the last two years, growth was not quite as strong as in the years before."

Julian Wann, global category leader, logistics, at Big Pharma firm AstraZeneca, said that about 55 percent of its global primary volume (20 million kg) is shipped by air and 45 percent by ocean. Four years ago, nine out of every ten of his pharma products were sent by air. "A major factor for this change has been the environmental benefits of using ocean routes, as there are 90 percent less emissions on the water and the slow steaming increases this," he said.

According to some experts, this shift may have as much to do with the pharma industry as it does the airfreight business. "Over the past five years our air shipment count of pharmaceutical products has risen, but average weights per shipment have been declining," said Phil Abbate, global vice president, pharmaceutical and healthcare, for logistics firm UTi Worldwide Inc. "We attribute this shift to an increasing number of mature products that are being converted to ocean."

With more generic drugs hitting the market and some patents expiring on blockbuster medications, Big Pharma has less of a profit margin today. "This has led to an influx of procurement-driven purchases," Abbate said. "That, plus a bad economy, has driven companies to cut costs. And what's the first place you look when you're cutting costs? Move it on the ocean. One customer used to ship five to six ULDs a week – now it's all going by sea."

> "You need to know how and where your shipments are handled, including the priority given. We cannot rely on 'Don't worry, we take good care of your shipments' services."
>
> –Steef van Amersfoort, chairman, Dutch Airfreight Shippers Council

At the same time, the demand for cool-chain handling is growing. "Look at the therapies coming out today," Abbate said. "It used to be they were shipping simple molecules, but now they've turned into complex biologics, all of which need even more temperature control."

More than just price

With airfreight rates sometimes as much as 78 percent higher than seafreight rates per kilogram, cost is an obvious driver of modal shift. However, poor service, questionable cargo integrity and supply-chain transparency have become serious problems.

"The airfreight service is reliable, but not the time- and temperature-sensitive services offered by the forwarders, handling agents, airport and airlines," said Steef van Amersfoort, chairman of the Dutch Airfreight Shippers Council. "To ensure time- and temperature-sensitive services for your shipments, you need to know how and where your shipments are handled, including the priority given. We cannot rely on 'Don't worry, we take good care of your shipments' services."

Of all AstraZeneca shipments that were made last year across all modes, Wann said 80 percent of all reports of mishandled products, or "excursions," originated from the airfreight sector; about 18 percent of the excursions came from road transport and just 1 percent came from ocean vessels.

"We do a lot of prediction analysis on [excursions], and, nine times out of ten, it's because it's been sitting out on the cookie sheet in the hot sun," Abbate said. In most cases, he added, the temperature spikes could be avoided with special handling, such as added thermal tarps to insulate the containers, or ensuring that the pharma containers are loaded on aircraft first so they don't wait as long on the tarmac. "But people don't want to pay for special handling."

Despite the well-known risk of tarmac exposure, "even the most pharmaceutical-friendly of airlines will only tentatively commit to exposure under two hours," he said. "No equipment or technology has been introduced to mitigate or reduce this constraint. So far the expectation is that the shipper will bear the additional cost of packaging."

In recent years, many airports, ground handlers and cargo carriers have created high-tech cold chain storage facilities, such as Amsterdam's Schiphol Cargo, the Lufthansa Cargo Cool Chain Center in Frankfurt, LuxairCargo's Healthcare and Pharmaceuticals Center in Luxembourg and IAG Cargo's network of Constant Climate Centers.

But even these facilities aren't immune to excursions. Abbate described one case of a temperature-controlled Envirotainer that had been stored in a cool chain facility, yet still suffered an excursion. "When the shipper asked why, the ground handlers said, 'Well. There weren't any free outlets we could plug it into.'"

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What Big Pharma wants

From the perspective of the pharma companies, airfreight is just one of an array of options that can be tailored to their various needs and product lines.

Simon White, Pfizer's regional leader, quality operations, for Europe, the Middle East and Africa, said the company currently ships about 20 percent of its pharmaceutical products by air, and the rest by a mix of the other options. "We're working to reduce the amount shipped by air because we can better control the quality with other modes," he said. "With air transport there is a lot of variability in our ability to assess the quality of the service and to control handling, especially ground handling in certain destinations, such as the Middle East and countries where the government controls airports."

As a result, Pfizer mostly uses air transport for higher-value biological and vaccine products, and when the speed of air transport can help meet an urgent need, or to avoid a stock-out situation, White said.

Only about 10 percent of AstraZeneca's products are shipped via the cold chain, "but our 2014 acquisition of Bristol-Myers Squibb's interests in the companies' diabetes alliance is expected to increase that to around 20 percent," Wann said. "The number of touch points and the different parties involved are a key element in the problems that the airfreight industry is experiencing. However, we have invested a lot of time and effort into making improvements with our airfreight partners and in 2014 we saw a reduction in delays and issues."

Wann also suggests that carriers may not know the full extent of the integrity problem. "If there is an excursion in the temperature range on arrival at the destination, the delay may not be seen by the airline industry and the excursion will have to be investigated by the pharma company themselves. This does not necessarily result in a claim, but it's clear that the airlines are not always able to see the whole extent of the issue."

Reducing door-to-door transit time is often emphasized as a goal by carriers, but pharma companies say they are willing to give up a few days in exchange for safer handling. Wann said the standard six-day door-to-door shipment time would be "more than acceptable" for most shipments, provided the airlines demonstrate a consistently higher level of service with less variability.

Some of UTi's pharmaceutical clients prefer to truck their shipments to an air hub with superior handling capability, "even if it means adding a transit day," Abbate said. "For years a common practice for exporters of vaccines is to coordinate the release of shipments in order to avoid arrivals over the weekend, when there is a higher incidence of mishandling."

For pharma shipments, Lufthansa Cargo's Dehio said that "rather safe than fast" is the best policy. While airlines are good at speed, they can do little about factors such as complex customs documentation, clearance procedures and punctual pick-up – "issues that equally apply to sea and air freight," he added.

Dehio said Big Pharma should be more involved in discussions with

GDP & CEIV: Finding common ground

When the issue of bottlenecks in airfreight pharma shipments is discussed, fingers start pointing quickly, said Sebastiaan Scholte of the Cool Chain Association. "There are so many players in the wholesale supply chain, if something goes wrong, people are quick to say 'It was the customer!' or 'No, it was the airline!' We need to stop playing the blame game. There are a lot of partners in the cool chain, but they all act as one."

One way to calm the waters is to have a strong industry standard. At the moment, one generally accepted regulation is the EU's Good Distribution Practices (GDP), established in 2013. "The GDP guidelines become more and more strict and will force pharma shippers to increase their handling requirements and validation of the services and facilities used," said Steef van Amersfoort, chairman of the Dutch Airfreight Shippers Council. "I welcome the certifications as they can be used as a tool to improve facilities and services at the airports."

But some airlines question the applicability of GDP for air carriers. "The GDP guidelines apply to holders of wholesalers distribution licenses," said Lufthansa Cargo's Christopher Dehio. "Airlines are not wholesale distributers of pharmaceuticals but aircraft operators."

One requirement of the GDP is to ensure that all subcontractors handling pharmaceutical shipments must be trained, managed and have a QA system in place that complies with the GDP. "How can an airline ensure this on all airports in their network, where ground handling is a monopoly and in the hands of the airport authorities of a particular country?" Dehio asked. "It

Inside Lufthansa's cool center at Frankfurt

airport authorities who decide on infrastructure investments on airport premises. "To my knowledge, such discussions have already been taken up with sea ports but in air transportation such discussions seem generally to be left to the airlines with little or no influence. In some parts of the world Lufthansa has successfully engaged in such discussions. In others the efforts are futile, and you can imagine how difficult it is for a European carrier to exercise any degree of influence in some countries."

Always a place at the table

While the reliability of seafreight may give ocean vessels a greater share of the cool chain pharma market, there will likely always be a place for airfreight for shipment of the most time- and temperature-sensitive products, such as vaccines and other complex biologics. There are also areas where the concentration of global pharmaceutical companies can produce enough volume to make sense for regular airfreight routes.

For instance, just last month Qatar Airways Cargo announced the launch of its "Pharma Express" – twice-weekly A330F service connecting Doha, Brussels and Basel. The freighter service ties in Qatar Airways' extensive global network with the pharmaceutical nerve center of Europe, providing easy access to 146 life science companies in Belgium and the booming Swiss pharma and chemical industries.

Sebastiaan Scholte, chairman of the Cool Chain Association and CEO of Netherlands-based Jan de Rijk Logisitcs, said at least 70 percent of cool chain pharma shipments are between the U.S. and Europe, but he expects to see the fastest growth in China, India and the emerging economies of the world.

"These pharmaceuticals are being used all year round," Schulte said. "We're all getting older and the population is growing – it's not like there's a Christmas holiday peak. Growth by seafreight will also happen – we will continue to see some modal shift – but some pharma will definitely continue by air."

Lufthansa's Dehio predicts that the airfreight cool chain will become a more competitive business as more and more carriers join in. "I believe that there will always be a significant airfreight volume in all those cases where speed is of the essence and the values are so high that the necessary large seafreight volumes can no longer be insured," he said. "All airplanes fly at the same speed, and have essentially the same technical status in air-conditioning. Therefore the distinguishing factor between competitors will be the capabilities and experience that can be displayed while the shipment is being handled on the ground."

As more cool-chain products will be shipped in smaller quantities, air carriers will have to focus even harder on quality, Wann said. "I believe the pharma industry will continue to buy the right service, but as we become more evolved in the logistics capabilities, there will be challenges to airfreight being a value-added service."

"Basically pharmaceutical companies need 'pharma grade' service from the air carriers, forwarders and handling agents," said Pfizer's White. "We need to be sure that these valuable – in many cases life-saving products – have the high priority they deserve."

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would not help to rely on some form of certification."

That's where The International Air Transport Association (IATA) comes in. IATA has launched a certification program for the whole world to adopt via its new Center of Excellence for Independent Validators (CEIV) on Pharmaceutical Handling. Under the program, IATA-trained instructors and validators will use on-site assessment, implementation planning, training and follow-up audits to certify airlines, handlers and forwarders that are deemed to provide the highest possible temperature-controlled service.

According to IATA, the CEIV cert goes beyond the GDP guidelines, established in 2013, because it is global. Some of the earliest CEIV-certified companies in the global cool chain include UTi Worldwide Inc., the Brussels Airport cargo-handling community, and Singapore-based SATS Coolport.


Sebastiaan Scholte

Through CEIV, "a lot of pharmaceutical companies will say 'this is a process I will trust,'" Scholte said. "It sets quality benchmarks and also extends beyond the airport to cover the whole supply chain."

To earn CEIV certification, UTi's Abbate said his company received training in five major categories: Temperature-Controlled Cargo Handling, Temperature-Controlled Container Operations, Risk Management of Temperature-Controlled Cargo and Audit, and Quality of Temperature-Controlled Cargo. "Our Brussels office did comment that after having undergone numerous audits, many of which were conducted by our client's QC group, the CEIV was by far the most thorough and detailed," he said. "We do feel that CEIV will provide a competitive advantage."

"Over the next two to three years the industry will adopt a more formal approach to GDP certification or possibly embrace IATA's effort to create a single global quality standard with CEIV," Abbate said. "One way or another there will be a standard minimum qualification for third-party providers to act as a qualifier for handling pharmaceutical products."

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BOXED IN

Can transparency, predictability, and reliability win the e-commerce game against the integrators?

By Martin Roebuck

If you were *not* shopping for a Sparkle Princess Elsa Doll from Disney's movie "Frozen" during the 2014 holiday season, well, you were somewhat alone. The Sparkle Princess Elsa Doll was the single most popular toy amid the rabid e-commerce buying that took place during the 2014 peak season. How rabid? Try 18 toys *per second* that were ordered by Amazon customers just on Cyber Monday, the first day after the Thanksgiving holiday in the United States, traditionally a day for heavy online shopping.

In all, Amazon alone shipped to 185 countries during the 2014 holidays, which gives some indication of the massive pressure on air cargo carriers and freight forwarders from e-commerce providers to up their game, or risk losing further traffic to the integrators. The question is, can carriers and forwarders meet the challenge?

Glyn Hughes, the new global head of cargo at the International Air Transport Association (IATA), is part of the community of industry executives working to solve the e-commerce puzzle. Ahead of his retirement last June, Hughes' predecessor, Des Vertannes, set the airfreight industry a target of removing 48 hours from door-to-door transit times that have largely remained static at six days since the 1980s. The new man is not backing off from the challenge, but appears to be changing the focus of this streamlining effort.

To Hughes, the issue seems to be less about going faster than about working smarter. Hughes told a cargo media briefing at IATA headquarters in Geneva late last year that the 48-hour challenge was not a goal in itself, but "a consequential benefit of doing something else – transforming the business. Airfreight spends 90 percent of time on the ground. It's stationary for too long. We need to do things differently."

Hughes has taken an analytical approach to the challenge. "We need to take a forensic look at the fragmented supply chain, what we can focus on and improve," Hughes said, which, he explained, was why IATA will soon conduct a global shipper survey, its first in four years.

Photo: Disney

Structural changes needed

Hughes is particularly concerned about protecting the air shipping business's stake in e-commerce, a $2 billion-per-year endeavour for about 250 IATA-member airlines in more than 100 countries. Hughes said the association was looking to collaborate more closely with the Universal Postal Union, the United Nations agency that coordinates postal policy among nearly 200 member nations, to ensure that the mainstream airfreight supply chain retains its share of the burgeoning online market.

For more years than most executives in the air cargo industry care to remember, the golden ticket to better e-commerce fulfilment was the implementation of electronic exchange of data. But progress on an electronic exchange has been as slow as a 767 with no engines. Hughes said the air freight industry had failed to make the necessary structural changes in an era of "unchallenged seven to eight percent annual growth."

Now, combination carriers are fighting unprecedented modal shift – not just from integrators on one side, but from ocean freight and overland services. He pointed out that all Hewlett-Packard computers for the European market now make a 17-day rail journey from China – instead of flying.

"Smartphones are built to consumption, but laptops are built to inventory. You write them off when a new model comes out, so you can take the slower distribution option," Hughes said.

The airfreight industry had been "too passive," he said. By streamlining its processes and communicating the benefits more effectively, it could at least "start a conversation" with transport buyers about the flown alternative.

As vice president of trade lane management for CEVA Logistics, it is Rich Zablocki's job to choose modes for the company's clients. "Customers pick transit time based on the commodity they're shipping and the amount of money they want to spend," said Zablocki, who is also vice chairman of CNS, the U.S. arm of IATA. "If time is an issue, you go to the fastest means; otherwise, you put it on the water."

The critical issue is to establish new and better criteria to measure how airfreight is performing. "This is fundamental, and will be addressed by the latest Cargo 2000 initiatives," Zablocki said. The IATA interest group has previously introduced various milestones in the transportation chain, "but each carrier has its own matrix," he observes. "There is no commonality."

> "Customers pick transit time based on the commodity they're shipping and the amount of money they want to spend. If time is an issue, you go to the fastest means; otherwise, you put it on the water."
>
> – Rich Zablocki, VP trade lane management, CEVA Logistics

Some observers argue that comparing airlines is much more difficult than ocean container lines, because the number of origin-destination routes is vastly greater and there is much more variation in aircraft types – not least the challenge of comparing freighters with passenger planes. Zablocki does not agree.

"I'm not sure it's as complicated as some people picture," Zablocki said. "The questions are: Did you receive the freight? How long did it take to you to receive confirmation? How long does it take you to put the data into your system? In the past, when carriers have tried to do this, they would choose the trade lane and would collaborate with the forwarder to decide what was typical."


Rich Zablocki

Unsnarling the airport

A common complaint from airlines and their cargo handlers is that shipments are lingering on their premises for too long. There are, however, airlines addressing this concern. Freighter operator Nippon Cargo Airlines (NCA) is one such carrier. Shawn McWhorter, NCA's president, Americas, said, "We want everything collected quickly – it's a transit facility, I'm not sized to be a distribution center – but we do find that many forwarders don't pick up."

CEVA's Zablocki did not argue McWhorter's point. However, Zablocki explains that forwarders rarely choose to leave freight with the carrier, because handlers take on more work than they can handle efficiently. "A carrier may operate one flight a day on a given route, but suddenly puts on extra charters, or has unplanned diversions and schedule changes. Backlogs then build. It takes handlers a long time to break down freight and pass it out.

"Facilities are not big enough to accommodate the number of trucks pulling up," he adds. "Handlers can manage in low season, but may not have sufficient labor to handle peak flows."

There are initiatives to resolve some of the shortcomings Zablocki highlights. NCA, for example, is trialing a scheme at its Chicago hub whereby it makes its own deliveries to forwarders' off-airport premises. "It comes at a cost, but I think it's a more efficient process," McWhorter said. "We're a full-service carrier. The philosophy is that if we can prove the service works, and the consignee is telling the forwarder he is getting a better service, we have added value."

McWhorter said transit time is not the real issue. The old mantra of getting what you pay for applies to transportation schedules. "If you tender to me on a Friday and I have it in your hands by Tuesday, I'll give you a cheaper price, just as if you are a private consumer choosing from Amazon's dropdown shipping options."

A forwarder may buy capacity a year ahead based on tendering a theoretical number pallets on a Tuesday, Wednesday and Friday, but in reality it will let shipments accumulate over several days to build the Tuesday consolidation. Carriers find this strategy counterproductive.

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"They could run it to me sooner, but want to build better pallets," McWhorter said. Some cargo will be used as a buffer, and if it gets rolled, it moves on a later flight. "If they send the first pallet direct to me, then I'm charging $14 per kilo. … Sure, I can move air freight overnight if that is what's required, but ocean doesn't suddenly become competitive if I take a little longer. Modal shift is not a huge threat. On short-haul and intra-Asia perhaps you see it, but usually you're talking 30-day movements door to door, and more likely 40 to 45 days."

With that kind of time horizon, the product in question matters. Mature consumer products are less time-sensitive and thus at risk of migration, "but the new chip, the new machine to make the chip, the latest phone is going to fly," McWhorter asserts.

While integrators stand accused of hoovering up all the "Alibaba business," he said they face the same time-versus-money considerations as other operators.

"Look at FedEx," McWhorter said. "Their international express business is flat or declining, but they see growth in deferred three-, five- or seven-day traffic, which moves on third-party carriers. Premium service is where they make their profit, and FedEx can sacrifice load factor to beat everyone to [Seoul] Incheon from Oakland, or DHL from Cincinnati.

"As regards the 'secondary' market, the integrators have to be more cost-effective and will offer the same reliability as other operators, because they are using them."

The difference, he said, is that even where the integrators use common carriers, they can still call upon their own freight forwarding divisions, as well as their ground transportation, thus eliminating some of the links in the conventional air freight supply chain.

"Quality, predictability, transparency, and reliability must be at the heart of all we do," Hughes emphasized to the IATA event. "We're not integrating process and data."

The importance of e-freight

Still, the e-freight drive remains crucial. The drive toward e-freight must be "by the industry, for the industry" rather than prompted solely by a carrier body. Hughes candidly admits, "We lost years' worth of opportunity on e-freight because [the initiative] had 'IATA' in front." The association helped "lubricate the pinch points," but was not actively handling the cargo, he said.

Ask officials at IATA and they will quote statistics on an e-freight infrastructure that they say is advancing. Guillaume Drucy, IATA's head of cargo e-business, said 22 percent of air waybills were now electronic, but added that removing paper was not enough in itself. "The way we share information is not optimized – the flow of data mirrors the flow of paper documentation as parties send it one to another, and there are still issues of data quality," he said.

There are other reasons to promote e-freight beyond speed-of-transport. In fact, CEVA's Zablocki said modernizing the industry and eliminating paper is the true goal, not reducing the number of days in transit. "Improving the amount of information you're able to send electronically achieves better security and sustainability," he said.

The sticking point for McWhorter is when paper documents and the e-air waybill don't marry up. "The industry has gone through most of the issues around technology and transmission standards, and we have to work with forwarders to resolve this," he said.

Finally, Zablocki believes that removing the need for repeated data re-entry will be e-freight's most important contribution. "The customer should enter the initial data and the forwarder and airline make their own additions. It's a building process. If we eliminate the air waybill, we've eliminated the need for repetition."

While it is hard to argue with that vision, the e-air waybill is only one part of this complex jigsaw. "When we get to electronic consignment security declarations, that's the real step forward," McWhorter insists. He is encouraged that aviation and customs authorities in key markets such as Shanghai are now committed. The document pouch and the need to distribute all that paper must be consigned to history, he said. "When documents are lost it becomes a monumental nightmare and can delay the recovery of freight."

"It can boil down to the customs authority's requirements and whether they are able to accept electronic data," Zablocki said. "Air Cargo Advance Screening [the U.S. Customs preclearance program] will force people to recognize they have to get data into their systems accurately and quickly. Once we get that nailed down and there is some commonality in what carriers expect, e-freight will skyrocket."

Everyone agrees that streamlining the air freight process is nowhere near as simple as the passenger equivalent, many years back, of migrating over to e-tickets. There are too many invoices, packing lists, manifests, and Customs declarations involved. But it's clear to all that unless the industry changes its historic practice, customers will find other routes to market. People do want their Sparkle Princess Elsa Dolls, after all.

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> "Sure, I can move air freight overnight if that is what's required, but ocean doesn't suddenly become competitive if I take a little longer. Modal shift is not a huge threat."
>
> – Shawn McWhorter, president, Americas, Nippon Cargo Airlines

Marketplace

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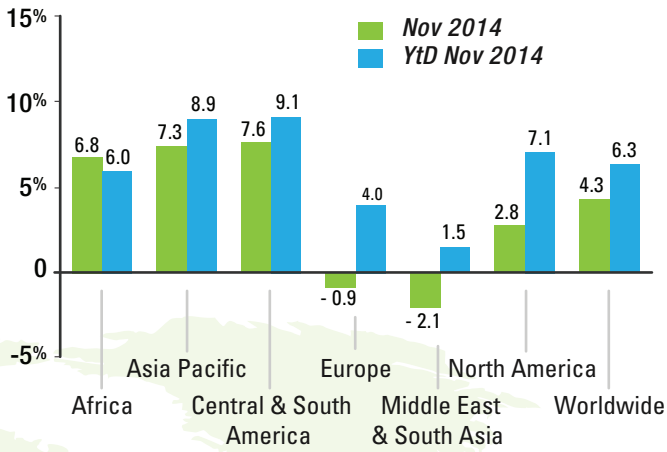
% GROWTH YoY in FTK

REGION	Nov. 2014	YTD
Africa	10.5%	6.1%
Asia / Pacific	5.9%	5.4%
Europe	0.9%	2.0%
Latin America	-0.7%	0.5%
Middle East	12.9%	10.7%
North America	-0.5%	2.3%
Industry	**4.2%**	**4.4%**

Source: IATA



Source: WorldACD Market Data

Total Freight Growth by Region

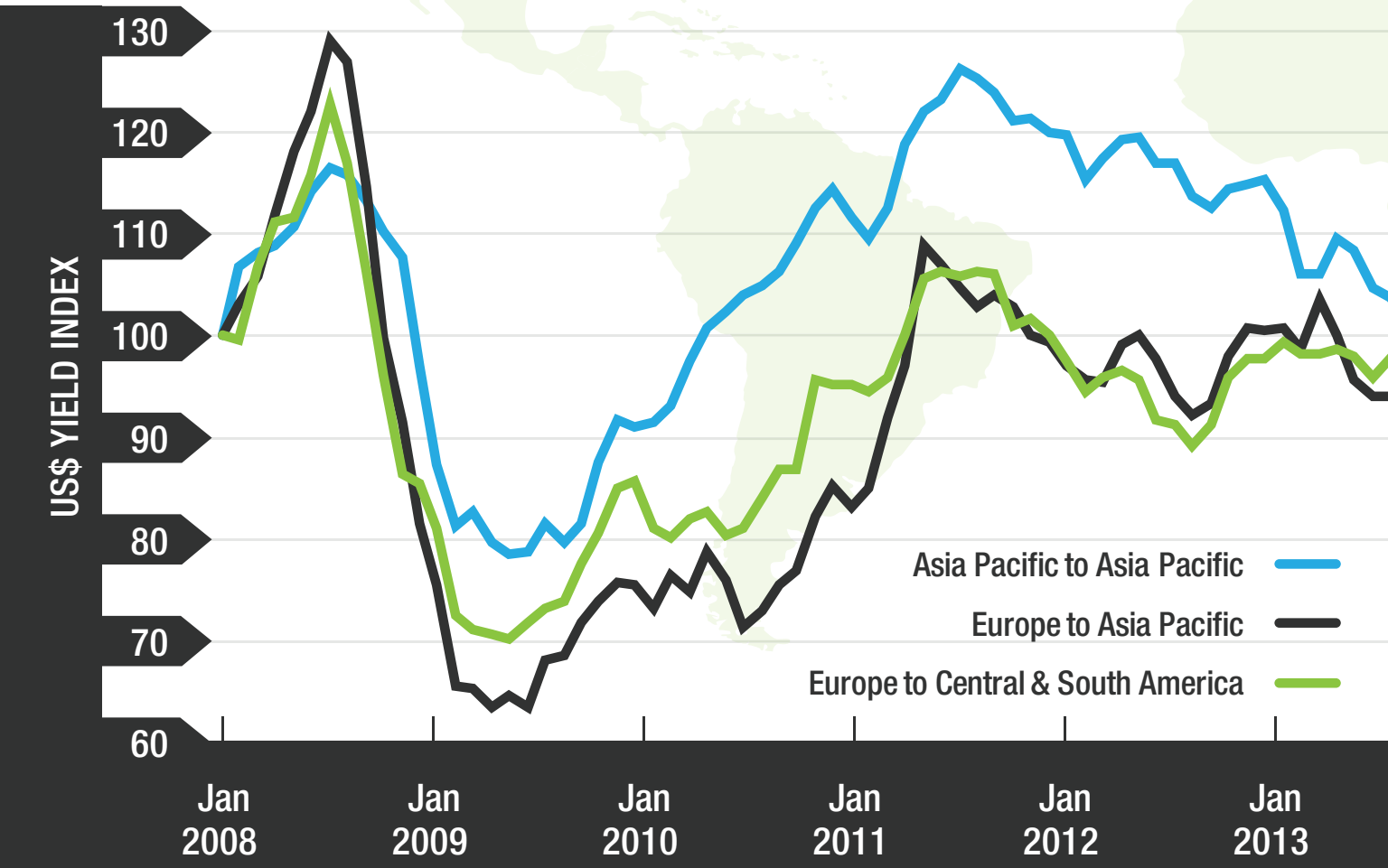
Airfreight volumes measured in freight tonne kilometers (FTKs).

Air freight volumes, y-o-y, were up 4.2 percent in November, which was down from October's 5.4 percent, but the reduction in growth was the effect of a strong monthly rise in November 2013. Asia-Pacific airlines were only the 3rd fastest growing region in the FTKs they carried in November, but that increase over the year still represented over 55 percent of the total expansion in the market.

Volume Growth Per Region

Air cargo chargeable weight change year-over-year.

Volume growth worldwide for November 2014 was a respectable 4.3 percent, but it's slightly misleading, given that the November 2013 figures were unusually high. Central and South America led the year-over-year November and year-to-date growth (7.6 percent and 9.1 percent). This was followed by Asia Pacific (7.3 percent) and Africa (6.8 percent). The Middle East and South Asia region fell 2.1 percent and Europe by 0.9 percent in November, y-o-y, but both were still showing positive YtD growth.



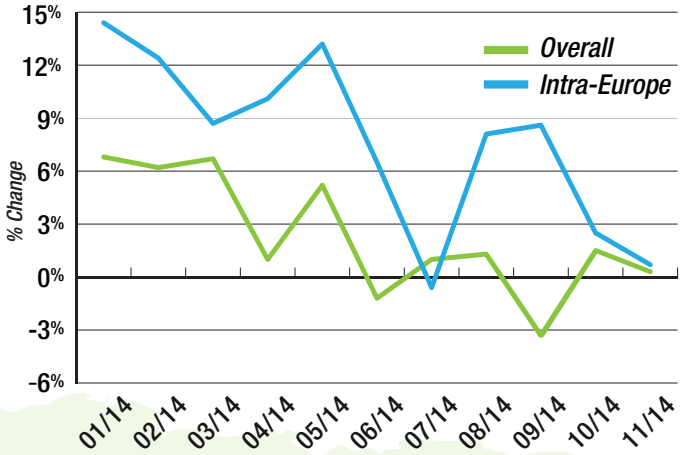
		FTK (mil.)	FATK (mil.)	Freight Load Factor
Monthly	Nov. 2013	5,538	8,399	65.9%
	Nov. 2014	5,847	8,561	68.3%
	YoY % Change	5.6%	1.9%	2.4 points
YTD	Jan.-Nov. 2013	54,729	85,354	64.1%
	Jan.-Nov. 2014	57,545	88,785	64.8%
	YoY % Change	5.1%	4.0%	0.7 points

Source: Association of Asia Pacific Airlines

Asia-Pacific Carrier Traffic Nov. 2014 & YTD

International scheduled services, monthly and YTD, for Asia-Pacific Airlines.

As expected, international air freight demand for Asia-Pacific airlines accelerated in November, driven by strong growth in shipments of electronic goods going into the peak season. Air cargo demand, measured in freight-tonne-kilometers (FTK), increased by 5.6 percent, reaching a year-long high point. Freight capacity (FATKs) grew by a comparatively modest 1.9%, leading to a 2.4 percentage point gain in freight load factor to 68.3 percent.

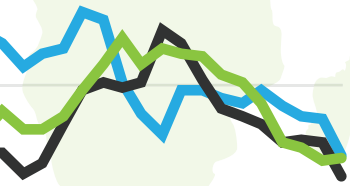


Source: Association of European Airlines

European Carrier Traffic

Monthly year-over-year percent change in intra-Europe, long-haul, and overall freight traffic (FTKs) for European airlines.

November figures were mostly flat for freight traffic at European airlines, with intra-Europe FTKs rising 0.7 percent and long-haul traffic barely rising 0.1 percent, year over year. Overall FTKs rose a modest 0.3 percent, y-o-y.



Yield Index by Region

November 2014 cargo yields (in US$) again topped those for October, growing 1.7 percent, yet worldwide yield fell by 4 percent, year over year. The yield index for the Europe-to-Asia Pacific and intra-Asia Pacific routes both declined to 93.9 and 92.0, respectively, but the yield for Europe-to-Central and South America rose slightly to 93.6. According to WorldACD, yield excluding surcharges dropped less in November, which could be a sign that changing fuel surcharges may be having an influence.

Source: WorldACD Market Data

Jan 2014

Nov 2014

Air cargo US$ yield index (Jan 2008 =100)

Airlines


Scholten

Peter Scholten, who has led **Saudi Cargo** for four-plus years, has left the airline. Previously Scholten worked for airlines Martinair and Kenya Airlines for a total of 19 years. Scholten was, at one time, rumored to replace **Robert van de Weg** as the executive vice-president of **Cargolux Airlines**. **Steve Manser**, who worked with Scholten, has moved to **Qatar Airways Cargo** after nearly four years working at Saudi Cargo, where he worked in the airline's charter business.

Oliver Evans, chief cargo officer of **Swiss WorldCargo**, is leaving the airline, saying he seeks "new personal challenges." Evans, 60 – named *Air Cargo World*'s Executive of the Year in 2014 – announced his intention to leave the airline in September, taking the early retirement option offered by SWISS. He will continue working as a logistics consultant in Switzerland. Evans joined Swiss WorldCargo in 2002, following roles at KLM and BAX, and other firms.

Henrik Ambak has joined **Emirates SkyCargo** as senior vice president, cargo operations worldwide. Ambak joins the freight division of Emirates with 27 years of experience in the air cargo industry, previously working for Novia, CSLux and Cargolux Airlines. Ambak started his career as a freight forwarder, and then moved into ground and cargo handling, before joining Cargolux.

Roberto Gilardoni has switched to **Etihad Cargo**, as senior manager for commercial freighters. He left the Dubai office of **HAE Group** (formerly known as Heavyweight Air Express) in November. His colleague **Mike Duggan**, is back in Dubai after HAE's contract ended for the temporary management of **Raya Airways** (formerly Transmile), where he was chosen as commercial director.

Air Charter Service (ACS) has appointed **Richard Thompson** as president of the company's North American operations. Thompson will be responsible for the U.K.-based company's operations in New York, California, Texas and Canada. He steps into the position previously held by **Andy Christie**, who was promoted to group director of ACS's private jet charter division. ACS has also promoted **Thomas Howe** to president of its U.S. West Coast operations. Howe, formerly vice president of the U.S. office, joined ACS at its cargo division in the London headquarters.

Garuda Indonesia appointed **Arif Wibowo**, the head of its budget carrier unit **Citilink**, as its chief executive to replace **Emirsyah Satar**. Satar resigned before his term is scheduled to end, in March 2015, to give the new management more time to prepare for the year ahead.

Gareth Evans has been appointed chief executive of **Qantas International and Freight** after a management reshuffle, effective March 2015. Evans, currently chief financial officer for the Qantas Group, has been a senior executive at Qantas for 15 years. As a result of the new structure, the current chief executive of Qantas International, **Simon Hickey**, and chief executive of Qantas Domestic, **Lyell Strambi**, have decided to leave the airline.

Airports

Chris Woodruff, CEO of **Australia Pacific Airports Corp.** and the owner and operator of **Melbourne** and **Launceston Airports**, has resigned. He will stay to assist with the transition of his role to his replacement, but wants to leave no later than June 30, 2015.

Third Parties

Eric W. Kirchner has resigned as chief executive officer and as a member of the Board of Directors of **UTi Worldwide, Inc.** The Board has appointed **Edward G. Feitzinger**, 47, as CEO of the company and elected him as a member of the board as a Class B director. Feitzinger has been with the company since 2010. He has served as executive vice president-global operations since 2012 and previously served as executive vice president-global contract logistics and distribution.

Rebecca Saenz has been named branch sales manager in Houston, for **Purolator International**. Saenz brings 10 years of logistics sales experience to the role. Saenz has spent the last eight years as an account executive at FedEx. Previously, she worked at Central Freight Lines and Southeastern Freight Lines in Corpus Christie and Victoria, Texas.


Saenz

C. Thomas Shurstad is the new vice chairman of the board of directors for **Tiger Cool Express LLC**, a transcontinental, temperature-controlled intermodal transporter of produce and fresh products. Concurrent with his election to the board of directors, Shurstad has been named as an operating partner of Tiger Infrastructure Partners, the private equity firm that funded Tiger Cool Express LLC.


Al-Saleh

Essa Al-Saleh, President and CEO of **Agility Global Integrated Logistics**, was inducted into the prestigious Supply Chain Asia Hall of Fame at a ceremony held in Singapore in November 2014. Al-Saleh was nominated for his vision and direction in helping Agility grow from a local company in Kuwait to a global supply chain leader today.

David Settergren has joined aftermarket aircraft lessor **AerSale** as vice president, sales, Asia Pacific. Settergren most recently served as vice president, sales and marketing, with **GE Capital Aviation Services**, where he covered the Asia Pacific region for the past 13 years.

Associations

Des Vertannes, former head of cargo at the **International Air Transport Association**, has won the **2014 Martin Schröder Award**, honoring individuals or companies who have distinguished themselves in the Dutch air freight sector. The award was presented to Vertannes by the award's namesake – **Martinair** founder Martin Schröder, 83 – at the National Air Debate in Hoofddorp, the Netherlands. Vertannes, now retired, began his career with British Airways in 1970. He provided leadership at Gulf Air Cargo, Etihad Cargo and Menzies World Cargo.

Events

FEBRUARY 10

The Unmanned Cargo Aircraft Conference – Enschede, The Netherlands: The second international edition of this conference will educate participants about unmanned cargo transport and the latest developments in today's low-volume cargo streams. For more information, visit *www.ucaconference.com*

FEBRUARY 24

Lithium Battery Workshop – Miami, Fla.: CNS presents its first Lithium Battery Workshop, which will review recent changes to the air transport regulations as well as the requirements for testing lithium cells and batteries. Discuss the preparation and process for shipments containing lithium batteries, plus the application of both IATA and U.S. regulations to identify, pack, mark and label shipments containing lithium batteries. Visit *www.cnsc.net/events*

FEBRUARY 25-27

Air Cargo Africa – Johannesburg, South Africa: This international biennial event showcases Africa's air cargo potential on a global scale. The past two editions, held in Nairobi and Johannesburg, saw major participation from airlines and airports, particularly from Africa. For more information, visit *www.stattimes.com/aca2015*

MARCH 1-3

AirCargo 2015 – New Orleans, La.: One of the leading airfreight events of the year, AirCargo 2015 will bring together representatives from airlines, forwarders and expedited trucking companies meeting in one place to discuss trends in security, business operations and the latest cargo innovations. For more information, visit *www.aircargoconference.com*

MARCH 10-12

IATA's 9th Annual World Cargo Symposium – Shanghai, China: Located at one of China's largest airfreight hubs, WCS is expected to draw 1,000 delegates from the entire value chain to discuss the latest airfreight trends. Check out *Air Cargo World*'s daily updates on conference happenings during the three-day event, plus the winners of the "Air Cargo Excellence Awards," sponsored by ACW. For more information, visit *www.iata.org/events/wcs/Pages/index.aspx* and *aceawards.aircargoworld.com*

MARCH 31-APRIL 1

The Georgia Logistics Summit – Atlanta, Ga.: was host to 2,200 attendees from 39 U.S. states and 11 countries in 2014. For more information, visit *www.georgialogistics.com/logistics-summit*

APRIL 1-2

The Middle East Cargo & Logistics Exhibition & Conference – Manama, Bahrain: This gathering will attract more than 30 exhibitors and 1,500 trade visitors to highlight the latest trends in multimodal logistics platforms connecting Middle Eastern cargo air, sea and land transport. For more information, visit *www.cargomiddleeast.com*

APRIL 7-9

Intermodal South America – São Paulo, Brazil: This three-day conference will include presentations from the main suppliers in all transport modals. The event promotes businesses and partnerships, and works as a platform for launchings, brand reinforcement, joint-ventures, sales and networking. For more information, visit *www.intermodal.com.br/en*

APRIL 14-16

Logipharma Europe 2015 – Montreux, Switzerland: Now in its 14th year, Logipharma brings together personnel from the leading pharmaceutical companies responsible for logistics, supply chain management, distribution, sourcing/procurement, planning, transportation, supplier relations and demand management. For more information, visit *www.clocate.com/conference/Logipharma-2015/294*

APRIL 19-21

The CNS Partnership Conference – Orlando, Fla.: More than 500 air cargo professionals from the U.S. and around the world are expected to attend this year's CNS show, including executives from airlines, freight forwarders and shippers. Check out daily news updates at the conference, sponsored by *Air Cargo World*. For more information, visit *www.cnsc.net/events/Pages/cns-partnership-conference.aspx*

APRIL 21-22

Cargo Facts Asia – Hong Kong, China: Produced by *Air Cargo World*'s sister publication, *Cargo Facts*, and owner, Air Cargo Management Group, Cargo Facts Asia has become the center of airfreight opportunity, bringing together the world's aviation community for meaningful networking and strategy discussions centered on Asia. For more information, visit *www.cargofactsasia.com*

APRIL 26-29

28th Annual IGHC Ground Handling Conference – Istanbul, Turkey: IATA's Ground Handling Conference, hosted by Turkish Airlines, will include session on such topics as global industry standards, ramp innovations and business growth, based on the key theme, "Value at the crossroads of service and costs." For more information, visit *www.iata.org/events/ighc/Pages/index.aspx*

MAY 5-8

Air Cargo Europe – Messe Munchen, Germany: This 7th annual exhibition and conference usually attracts more than 50,000 visitors from 110 countries. For more information, visit *www.aircargoeurope.com*

Advertiser's Index

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

An Export Council wish list for 2015

by Brandon Fried

The New Year brings a renewed spirit of hope and optimism that the U.S. economy will continue its recovery from one of the longest economic recessions ever. Forwarders enjoying steady increases in their air cargo and overall trade activity should hope that recent recommendations submitted to the White House by the President's Export Council are implemented soon to help assure the good fortune continues.

The council's midterm report outlines achievements and recommendations in the areas of global competitiveness, export promotion and advocacy, export administration, manufacturing, services and others. Many of these suggestions may not directly impact freight forwarders, but all are likely to affect their customers.

The recent midterm elections brought a dramatic power shift in the U.S. Congress, likely to be challenging for the administration. Nevertheless, we hope that President Obama will be able to continue to work with Congress – perhaps a more favorable Congress on trade issues, given the shift to Republican control – to ensure passage of trade promotion authority, setting the stage for broadening the U.S. trade agenda. This work should address issues such as removing barriers to trade, strengthening protections for trade secrets and issues relating to digital trade. Hopefully this will lead to comprehensive trade agreements with Asia and Europe that will set the stage for increased shipping volumes for forwarders and their customers.

The report urges the administration to set an ambitious goal of upgrading the nation's aging transportation infrastructure network, particularly by improving roads, rail lines, energy grids, pipelines, ports, airports and border crossings – all of which need a great deal of attention.

The recommendations also call for the pursuit of additional open skies agreements aimed at opening up more flight routes between the United States and other nations, with the goal of bringing down barriers to travel and trade. Forwarders and their customers will likely benefit from the increase in service and carrier choice by virtue of such agreements.

A number of countries have started to pursue policies to prevent the sale of products manufactured to U.S. standards, or to leverage regulatory differences to impede market access for U.S. products. The report therefore recommends the administration promote the acceptance of U.S. standards in foreign markets to promote cooperative regulatory practices. The air cargo industry has long advocated for regulatory harmonization in such areas as advanced data requirements, customs regulations and, most recently, lithium battery requirements, making this a favorable recommendation for our industry.

The report encourages the administration to lead in encouraging small- and medium-sized exporters on new thinking to promote trade and simplifying international customs, liability and consumer redress policies. A "whole government" approach should be taken domestically to increase cooperation among the International Trade Administration, the Ex-Im Bank, the U.S. Trade and Development Agency and the Overseas Private Investment Corporation to ensure that federal trade tools, promotion programs and resources address the unique needs of small- to medium-sized businesses.

The air cargo industry welcomes a recommendation to harmonize trusted trader programs between Canada and the U.S., a yet-to-be-realized initiative that would help improve North American trade and supply chains. The same should be done with Mexico, with bilateral agency certifications tending toward mutual recognition. Rules that prioritize regional rather than national content should be enacted.

"The recommendations also call for the pursuit of additional open skies agreements aimed at opening up more flight routes between the United States and other nations..."

As the U.S. proceeds with its single-window access for streamlining the export/import process, a final recommendation in the report calls for completing the move of the remaining departments and agencies involved in export licensing to a single IT system. Such a system will simplify the licensing process and introduce commonality between the agencies that will improve regulatory clarity and reduce the interpretive burden on all U.S. exporters and importers.

Unfortunately, a few important issues were left out of the recommendations, which failed to address the burdensome process for shippers who require access to passenger flights. We would like to have seen proposals to revamp known shipper requirements in light of 100 percent cargo screening, use of private canines to expedite the screening process itself and a call for an institutional review of ill-conceived regulations that do nothing to promote air cargo security but nevertheless continue to hamper forwarder and airline cargo business growth.

Hopefully, while implementing the President's Export Council report recommendations, the administration will work with the TSA in addressing these issues so that forwarders can fully assist their customers in achieving our nation's export goals. ACW

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