WWW.AIRCARGOWORLD.COM

Air Cargo World

MAY 2007

INTERNATIONAL EDITION

BACK Aviation 2007 World Air Freight Forecast

Europe's Airlines • Regional Lift • Volga Cited

Air Cargo World

INTERNATIONAL EDITION

May 2007 | CONTENTS | Volume 10, Number 4

COLUMNS

10 North America

With their battered finances recovering, several passenger airlines are investing in cargo for long-term stability • Continental Trucks

13 Europe

Volga-Dnepr Airlines suffers a sharp blow after the United Nations suspends the project cargo carrier in a procurement bribery scandal • Traffic Flat

16 Pacific

Hong Kong's largest terminal operator and Cathay Pacific have markedly different views on what constitutes a full cargo warehouse

'07 Cargo Forecast

In the 2007 World Air Freight Forecast, BACK Aviation Solutions sees China and the Middle East leading modest but steady growth in the years ahead.

Europe Finds Asia

European air cargo carriers try to counteract the wave of lower cost Asian interlopers into their traditional markets in Europe.

DEPARTMENTS

2 Edit Note
4 News Updates
42 People
44 Events
46 The Bottom Line
48 Forwarder's Forum

WWW.aircargoworld.com

Regional Freighters

Regional freighter manufacturers and operators are defying traffic trends to take an integral role in global air freight.

BPA WORLDWIDE

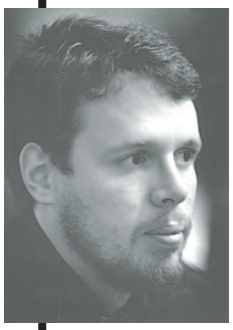
Air Cargo World (ISSN 0745-5100) is published monthly by Commonwealth Business Media. Editorial and production offices are at 1270 National Press Building, Washington, DC, 20045. Telephone: (202) 355-1172. Air Cargo World is a registered trademark of Commonwealth Business Media. ©2007. Periodicals postage paid at Newark, NJ and at additional mailing offices. Subscription rates: 1 year, $58; 2 year $92; outside USA surface mail/1 year $78; 2 year $132; outside US air mail/1 year $118; 2 year $212. Single copies $10. Express Delivery Guide, Carrier Guide, Freight Forwarder Directory and Airport Directory single copies $14.95 domestic; $21.95 overseas. Microfilm copies are available from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. Opinions expressed by authors and contributors are not necessarily those of the editors or publisher. Articles may not be reproduced in whole or part without the express written permission of the publisher. Air Cargo World is not responsible for unsolicited manuscripts, photographs or artwork. Please enclose a self-addressed envelope to guarantee that materials will be returned. Authorization to photocopy items for internal or personal use is granted by *Air Cargo World*, provided the base fee of $3 per page is paid directly to Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923, and provided the number of copies is less than 100. For authorization, contact CCC at (508) 750-8400. The Transactional Reporting Service fee code is: 0745-5100/96/$3.00. For those seeking 100 or more copies, please contact the magazine directly.
POSTMASTER and subscriber services: Call or write to *Air Cargo World,* Customer Care Department, 400 Windsor Corporate Park, 50 Millstone Rd., Suite 200, East Windsor, NJ 08520-1415; telephone (888) 215-6084

Editor's Note

Time

The United Kingdom didn't give in easily to the new trans-Atlantic aviation treaty but all the incentive the British needed for the pact was outside the window at London Heathrow Airport. That's where a flowering of new airline tails heralds what increasingly looks like a change in the competition over air services.

At airports in the U.K. and across Europe, the soft greens and blues of Jade Cargo International and Great Wall International Airlines are being used to paint an entirely new picture of air cargo transport between Europe and Asia. The two airlines are following the moves to Europe by Asian carriers with young fleets, expansive plans and business strategies not beholden to the traditional lanes built on passenger operations.



For the European carriers, the moves by Asian airlines and their newly-painted freighters present a fresh threat to what most carriers had hoped would be a new source of profit-feeding air cargo business.

But as Michael Wisbrun, chairman of the joint cargo management committee of Air France-KLM says in this month's feature on Europe's air cargo market, "If you look at the manufacturing orders and aircraft conversions, there is also no doubt that the drive of capacity is coming mainly from Asia.

"Asia has been the money-maker for this industry for the last three, four years, and we can't help but feel the impact of the supply and demand situation on Asian routes," says Wisbrun.

In fact, Asia-Pacific freight traffic for Europe's airlines fell 3.6 percent in the first two months of this year and is down over the last seven months. So much for money-makers.

Such a change in the balance of air trade in one part of the world is important in today's global economy, and beyond that it is an important sign for airlines and forwarders about the trends in air services and competition. In other words, while British Airways is guarding against the ravages that may be wrought by Delta Air Lines at Heathrow, FedEx, Cargoitalia, Jett8, Great Wall, Jade and other freight carriers are following trade to Manchester and Glasgow, and then to Paris, Liege, Berlin and other cities on the continent.

The push by those and other cargo carriers follows moves by India and Southeast Asian nations to create "open skies" for freighter operations. Now, with world's aviation treaty system, built out of the Chicago Convention of 1944, is looking increasingly full of holes punched out by cargo operations.

The U.K.'s recent agreement to the trans-Atlantic air treaty came with a catch: It won't take effect for several months, giving Heathrow time to complete a new terminal for passengers. In that respect, opening Heathrow is like winning open skies for air cargo trade — it's just a matter of time.

Air Cargo World

International Trends & Analysis

Editor
Paul Page • PPage@aircargoworld.com
Managing Editor
Robert Moorman • rmoorman@aircargoworld.com
Contributing Editors
Roger Turney, Ian Putzger, Mike Seemuth
Art & Production Director
Jay Sevidal • jsevidal@trafficworld.com
Editorial Offices
1270 National Press Bldg., Washington, DC 20045
(202) 355-1170 • Fax: (202) 355-1171

GROUP PUBLISHER
Noreen Murray • (973) 848-7082 • nmoreen@joc.com

Publisher
Steve Prince • (770) 642-9170 • sprince@joc.com
Advertising/Business Office
1080 Holcomb Bridge Rd. • Roswell Summit
Building 200, Suite 255 • Roswell, GA 30076
(770) 642-9170 • Fax: (770) 642-9982
New England & Reprints, Classified Sales
Laura Rickman • lrickman@aircargoworld.com
(770) 642-8036

International Advertising Offices
Europe, United Kingdom, Middle East
David Collison • +44 192-381-7731
dci.collison@btinternet.com
Japan
Masami Shimazaki • +81-3-5456-8230
wms@sweet.ocn.ne.jp
Thailand
Chower Narula • +66-2-641-26938
worldmedia@inet.co.th
Taiwan
Ye Chang • +886 2-2378-2471
epoch.ye@msa.hinet.net
Australia, New Zealand
Fergus Maclagan • +61-2-9460-4560
maclagan@bigpond.net.au
Sri Lanka
Jaiza Razik • +94-133-3424
tmb@isplanka.lk
Korea
Mr. Jung-won Suh • +82-2-3275-5969
sinsegi@igroupnet.co.kr

Administrative Assistant
Susan Addy • saddy@trafficworld.com
Display Advertising Traffic Coordinator
Tracey Fiuza • tfiuza@joc.com
(973) 848-7106
Electronic Rights and Syndication
Barbara Ross • bross@joc.com
(973) 848-7186

CUSTOMER SERVICE OR TO SUBSCRIBE: (888) 215-6084

Commonwealth Business Media
United Business Media

400 Windsor Corporate Park
50 Millstone Rd., Suite 200
East Windsor, NJ 08520-1415
(609) 371-7700 • (800) 221-5488

President and CEO Alan Glass
Senior Vice President, CFO Dana Price
Vice President, Magazine Group Peter Tirschwell
Group Publisher Noreen Murray
President, PIERS Brendan McCahill
Vice President, Directory Databases Amy Middlebrook
Vice President, Human Resources Kenneth P. Slivken
Vice President, Production & Manufacturing Meg Palladino
Director of Circulation John Wengler
President, BACK Aviation Steven G. Casley

POSTMASTER: Send address change to: Air Cargo World, 400 Windsor Corporate Park, 50 Millstone Road, Suite 200, East Windsor, NJ 08520-1415.

For more information visit our website at www.aircargoworld.com

News Updates

China Expressly Growing

The battle for air express business in China is officially on. UPS last month announced plans for a package and freight hub at Shanghai's Pudong International Airport and said it would open the operation by 2008. The push comes as FedEx works on its air express hub Guangzhou to the south, a site FedEx will open in 2009 as a broader intra-Asia hub that will incorporate the China business FedEx is building up with its recent purchase of DTW Group.

FedEx says it will start next-day air express delivery within China next month, ramping up operations from its previous focus on only international delivery.

FedEx initially will start build that business around the Xiaoshan International Airport in the Chinese city of Hangzhou. FedEx will use China 737 freighter operator Okay Airlines for the domestic linehaul.

UPS, meantime, will use all-cargo airline Yangtze River Express as the carrier out of Shanghai.

"Today's announcement represents another first for UPS in China," Ken Torok, president of Asia-Pacific for UPS, said at a lease-signing ceremony with the Shanghai Airport Authority that included U.S. Transportation Secretary Mary Peters.

The overall message of the expansion of the two express carriers is clear. "Neither one of these carriers can afford to be shut out of this important market," said George Hamlin, an analyst with Hamlin Transportation Consulting.

UPS's new hub will be built on a million square feet at the southern end of the cargo area at Pudong. The hub sorting facility is expected to handle up to 17,000 shipments per hour by 2012.

Detecting Cargo

Cincinnati/North Kentucky International Airport is the third major facility to join a U.S. government program to test explosives detection screening at air cargo facilities.

The U.S. Department of Homeland Security launched the $30 million Air Cargo Explosives Detection Pilot Program last summer at San Francisco International Airport and expanded it to Seattle-Tacoma International Airport.

In San Francisco, DHS and the Lawrence Livermore Laboratory are researching ongoing cargo handling processes and how use of existing technology may affect the movement of goods.

That program includes tests in which government screeners tear down pallets, load single boxes on belts that push shipments through explosives detection machines and then re-build the pallets at the other end. Research officials say the process takes about 15 minutes per pallet, but cargo executives who are skeptical of that timing say even that sort of speed would cripple air freight operations of any scale.

In Seattle, DHS is testing devices designed to detect a heartbeat and excess carbon dioxide, warnings of the possible presence of a stowaway or terrorists on an all-cargo flight.

At Cincinnati/Northern Kentucky, the tests will determine the flow of air cargo and how quickly it must be screened.

In a statement, DHS said it is seeking data that illustrates the "economic and operational impacts" to airlines from increased screening levels.

Asia Grows

Memphis remained the world's busiest airport in 2006 but air-

ports driven by China traffic are closing the gap at a rapid pace.

Memphis International Airport, host of the main hub for FedEx Express, saw 3.69 million tonnes of cargo last year, 2.6 percent better than the year before. Hong Kong International was second, 84,000 tonnes behind, and its 5.1 percent growth was nearly twice the rate of expansion of Memphis, according to preliminary figures from the Airports Council International.

Airports on China's mainland are looming even larger.

Shanghai Pudong International Airport ranked sixth in the world with 1.93 million tonnes, up 16.3 percent over 2005. Beijing Capital International Airport was the fastest growth among the world's largest airport, with tonnage up 31.6 percent, pushing Beijing from 24th to 21st in the world.

Pudong's cargo tonnage has grown more than 60 percent in just three years and Beijing's business is up more than 67 percent in the same period. In fact, including Anchorage and Los Angeles, seven of the world's top 10 cargo airports last year were either in Asia or depended heavily on Asia trade for their freight.

Losing Ground

The move by air freight to all-cargo carriers, and to the ground, will pick up speed over the next 15 years, according to the Federal Aviation Administration.

The push to freighters gave cargo-only airlines 71.4 percent of the air freight market in the United States in 2006, the FAA said in its annual Aerospace Forecast, up from 59.4 percent in 2000. The market shift was especially strong in the domestic air shipping, where the U.S. passenger airlines saw traffic measured in cargo ton miles fall 26.9 percent from 2000 to 2006 thanks to a move by shippers to freighter operators and a strong move toward domestic trucking. Over the same seven years, domestic traffic on all-cargo airlines grew 22 percent.

The FAA says the gap between passenger and all-cargo airlines will grow even greater in coming years, with freighter operators projected to hold nearly 84 percent of the domestic air shipping market by 2020.

The FAA, which issues its forecast as part of its planning for air traffic control services, says tougher air cargo security is playing a larger role in the shift from passenger airlines to all-cargo airlines and from air shipping to ground service.

Security directives since the September 11 terror attacks "have caused the diversion of a portion of the freight and mail cargo from passenger to all-cargo carriers," the FAA report said. A tougher new security rule "is likely to increase the shift in cargo share from the passenger to all-cargo carriers."

Air forwarders and airlines fear that shift could be even greater than the FAA foresees if Congress pushes through tough new mandates for cargo inspections.

Selling World

World Airways parent World Air Holdings is giving up its role as an independent company.

Buyer Global Aero Logistics says it will keep World Airways' operations, including its leasing and charter business with DC-10 and MD-11 freighters as a separate division in a wider company that now includes U.S. domestic passenger carrier ATA Airlines.

For World, the $315 million buyout ends a tumultuous year that began with the parents' purchase of passenger charter carrier North American Airlines, leading to delayed financial reports and scathing criticism and a threatened board revolt by angry shareholders.

World had not filed a final financial report for 2006 by last month but projected a loss of between $2 million and $4 million for the year. Some of those losses came after the U.S. Air Force dropped World Airways for a time from its approved contractor list, cutting deeply into a critical source of revenue for World.

A spokeswoman at GAL did not return calls seeking comment. But GAL Chairman and Chief Executive Subodh Karnik said in a statement, "In addition to providing a significant premium to World's shareholders, this transaction provides the strategic and corporate flexibility for each of these airlines to shape a high-growth future."

That premium is 56 percent over World Air Holdings' share price last September, when the company announced it would "explore strategic alternatives" in the wake of its financial reporting difficulties. The Clinton Multistrategy Master Fund attacked the company's board in a series of letters and said it would seek to put up to three of its own choices on the board.

Consolidating

The old adage about strength in numbers may aptly apply to the new strategic alliance between the Airforwarders Association and the National Customs Brokers and Forwarders Association of America.

The Strategic Alliance for Freight Forwarder Endeavors, or SAFE, will

tackle the "pressing issues affecting the forwarding community," said Brandon Fried, executive director of the AFA. "Our association felt the forwarding community would be best served by joining our efforts to fight on their behalf."

NCBFAA president May Jo Muoio said SAFE represents a "flagship alliance effort" of the two key associations representing the interest of forwarders.

The forwarders are perhaps most concerned with proposals in Washington to require 100 percent physical inspection of air cargo on passenger aircraft as well as security related issues involving the Transportation Security Administration.

Hungary Spread

Looking to spread its reach in line with the European Union's enlargement into Eastern Europe, FedEx Express this month bought Flying-Cargo, its service partner in Hungary.

FedEx called the purchase "the latest step in the company's Eastern Europe expansion strategy."

Hungary has one of the fastest-growing economies among the former Soviet bloc countries that joined the European Union in 2004. Since then, transport operators have expanded east with relative caution, mostly with trucking services even for expedited delivery.

Flying-Cargo has been working for FedEx since 2003, providing service connected to four weekly FedEx freighter flights between Budapest and FedEx's European hub in Paris.

"Central and Eastern Europe, which is growing at nearly three times that of Western Europe, presents significant opportunities for our customers," said Michael L. Ducker, president of FedEx Express International.

FedEx's international air express revenue makes up more than 36 percent of the company's total express package revenue, up from 25 percent seven years ago.

Growing India

DHL is strengthening its position in East Asia by upping its stake in Indian logistics concern Lemuir Group to 76 percent from 49 percent, forming a new joint venture called DHL Lemuir Logistics Private.

DHL says it wants to control its forwarding business in India. But the move could be a signal to FedEx Express and other air freight companies in East Asia that DHL intends to do there what it did in the Middle East – dominate.

"The new JV will result in greater synergies and value-added services for our customers within India and the rest of the world," said Christoph Redmond, CEO, DHL Danzas Lemuir.

India is among the top markets of strategic importance to DHL. The company estimates the Indian logistics market at about $45 billion and projects it will reach nearly $122 billion by 2015, growing at 11 percent per year.

In late February, DHL Express announced plans to restructure its business in India and what has been dubbed the South Asia Area. That follows the purchase two years ago of Blue Dart, the leading Indian domestic express operator.

Separately, DHL will relocate its two Asia logistics units — DHL Global Forwarding and DHL Exel Supply Chain — to a single headquarters in Singapore. Over the past few years, DHL's investments in the Asia Pacific region totaled over $1.7 billion.

Smaller Gulf

The downsizing of routes and fleet and the departure of a freight industry veteran suggest air cargo will have a reduced profile in a restructured Gulf Air.

Andre Dose announced a series of sweeping changes at the Bahrain-based airline last month shortly after the former SWISS executive took over as president of Gulf Air. The changes are aimed at cutting costs and better targeting business at a mid-sized carrier that finds itself increasingly under pressure from its fast-growing airline neighbors in the Middle East.

News Updates

Under what Gulf Air calls its "Get Well" program, Dose will replace the airline's fleet of widebody 767s with twin-engine A321s and he'll drop some A340s for newer A330s, cutting the fleet overall from 34 to 28 planes.

Several executives also left the carrier. Des Vertannes, a 37-year industry veteran who had been head of cargo, joined Etihad Airways' Crystal Cargo division as executive vice president.

Gulf Air also will stop money-losing long-haul flights to Dublin, Hong Kong, Jakarta, Johannesburg, Sydney and Singapore as part of the two-part restructuring program.

That will reduce freight traffic for an airline that in 2005 ranked 52nd in the world in the business, according to *Air Cargo World*. But the airline also stands to lose some $675 million in its most recent fiscal year, and some of that is certainly because of competition from nearby Etihad and Emirates, rapidly growing airlines with young and expanding fleets.

"The main goal of our restructuring and customer service is to increase flight frequencies to existing key destinations and add new connections to major economic centers that are of growing importance for the economy of Bahrain and Oman," said Dose.

Dose said said Gulf Air's 6,000-person workforce would have to be reduced, but did not give a specific number or time when employees would be cut.

The second part of the restructuring effort will consist of investing $505 million to improve the quality of Gulf Air's overall service.

K+N One-Stop

Kuehne + Nagel says it is concentrating on one-stop-shop service now that it has built up into the world's second-largest forwarding and logistics operation.

The Switzerland-based forwarder counted $15.1 billion in gross revenue in 2006, 29.5 percent better than the year before. Its net revenue, or gross profit, soared nearly 90 percent to $4.36 billion.

The result was a $710.2 million operating profit at the company, a 52.3 percent improvement in the operating margin and a bottom line net profit of $380.4 million that was more than double what Kuehne + Nagel earned just two years ago.

Led partly by acquisitions and partly organic growth, Kuehne + Nagel has built its turnover more than 57 percent in two years and doubled its net revenue and profit, placing second only to the DHL Global Forwarding business among the world's largest forwarders.

Air freight revenue grew 12.5 percent but the strongest growth in transport business came on the land in the rail and road logistics operation, which expanded 18.5 percent. The company, which has made some buys and established a hub system across Europe, projects more than $4 billion from that segment alone in the next two to three years and "acquisitions in key European markets are being considered" to help reach that goal.

But contract logistics grew far faster with the addition of ACR Group, which Kuehne + Nagel says was completely integrated into the larger operations by the end of 2006. The company counted $3.2 billion in gross revenue from contract logistics and "is now the third-largest global provider in this area of business."

"Our targeted expansion of overland activities enables us to provide customers with end-to-end services from a single source," it said. "In addition, it has opened up further cross-selling opportunities." ■

NORTH AMERICA

Rejuvenating Cargo

Several airlines are investing in cargo as part of restructuring efforts to maintain profitability

Maybe there is something clarifying about bankruptcy. U.S. passenger airlines that have flirted with, remain in, or are poised to emerge from bankruptcy protection appear to have reawakened to the profit-making potential of belly freight.

By Robert W. Moorman

To many it may be doubtful the word cargo would every go from lower case to upper case in the airline management's lexicon. But the airlines are looking to their freight for relief as they come to the conclusion that passenger revenue is more susceptible to "short term swings in the market, whereas the cargo customer is more predictable and provides a more stable revenue source," said Satish Jindel, president of SJ Consulting.

Take Delta Air Lines, which was to emerge from Chapter 11 bankruptcy protection this spring. As part of its' cost-saving restructuring, cargo arm Delta Air Logistics was nearly gutted. Now, the airline wants to invest millions of dollars in a division that was whittled down to mostly sales and marketing.

"We're not doing this as a result of emerging from bankruptcy," said Ben Darnell, managing director of Delta Air Logistics. "It's more of a recognition of the revenue contribution of cargo, knowing that you have to invest in the product if you want to get the most out of it."

Investment has been hard to come by for many U.S. carriers. They accumulated some $35 billion in losses between 2001 and 2005, according to the Air Transport Association, but are expected to show a $4 billion industry-wide profit this year.

Delta has lagged behind other passenger carriers in returning to profitability, capping $17 billion in losses since 2002 with $6.2 billion in red ink last year. Cargo pulled in $498 million in revenue last year, down 5 percent from the year but still a solid source of business in the face of downsizing and route restructuring, and the carrier thinks it can do more.

Narrow Focus

Forwarders are anxious for greater airline commitment to cargo. Tony Scaturro, president and chief operating officer of AFC Worldwide Express, an Atlanta-based forwarder, sees a renewed "sense of purpose" by Delta and its cargo division. "They've been very responsive to us as a customer," he said.

Delta Air Logistics is implementing a capacity and revenue management software system. The capacity phase will be operational by June with the revenue management piece ready by 2008.

The airline also is investing in a load

planning system to maximize lift and calibrate the exact fuel load. For the last year, Delta performed flight optimization manually, basing its planning and cargo allotments on historical averages, which sometimes left belly space unused. Technology will automatically feed cargo bookings for all flights, allowing Logistics to allot block space for high-yield service.

Delta also is adding 56 positions in cargo, recalling some furloughed workers and buying 1,000 new pallets for international cargo.

Moving widebodies from domestic to international service has forced Logistics to get creative.

For domestic service, "we've gone back to the shippers, asking them to repackage the goods differently," said Darnell. "We thought that a lot of this business would be lost, but it hasn't."

In the past, lobsters would be shipped in LD2/8 containers in widebodies coming out of Boston. Now they're flown in narrowbodies.

Logistics also has formed a close working relationship with Delta's internal network department, educating them on narrowbody capabilities and how markets work.

On the international front, Darnell expects cargo to do very well if the division is aggressive in letting the forwarding community know there are nonstop options.

Paradigm Bust

Elsewhere, restructured airlines are enhancing their cargo divisions.

Northwest Airlines, the only U.S. combination with large freighter service, is redrawing of some segments of NWA Cargo's Asia/Pacific network. In December, the airline ceased all-cargo flights to Hong Kong and beefed up service to nearby Guangzhou on the mainland to daily flights to Guangzhou Baiyun International Airport.

Jim Friedel, president of NWA Cargo calls the service swap a "paradigm buster." The long-held view that Hong Kong must be a part of any airline's Asia-Pacific cargo network is falling away, he says.

"We believe that the market will soon want to find shorter, faster paths to get goods exported from China," said Friedel. The plan to abandon Hong Kong may defy conventional wisdom, Friedel concedes, but he believes shippers demand a faster exit from China.

Friedel said the cargo division is investing in new IT systems and plans on creating a portal for electronic cargo booking and investing in software for better tracking of packages.

To reduce maintenance costs, or at least make them more predictable, Northwest signed a lease on a new hangar at Anchorage that will be modified to accommodate NWA Cargo's 12 747-200 freighters.

Hubbing Trucks

Crossborder cargo potential is bringing Continental Airlines down to Earth.

The airline's cargo division is starting a trucking service linking its main airline hub in Houston to Laredo, Texas, where trucks will connect the border site to Guadalajara, Monterrey and Mexico City.

Continental will operate the service four days a week, allowing what the airline says will be next-day connections between the key industrial points in Mexico and the United States, with southbound departures from Houston at 10 p.m. and northbound departures from Mexico at 9 a.m.

The move into Mexico with a trucking operation links Houston with significant manufacturing sites south of the border. "With an amazing 8,000 trucks crossing U.S.-Mexican bridges per day, Laredo will be the tip of the iceberg for a revolution in Mexican trade," said Carlos Arredondo, Continental's operations manager at Laredo.

U.S.-Mexico trade has been growing and experts say Mexican factories have seen resurgent business from manufacturers seeking to get closer to the U.S. mainland following the race to China.

... Briefly

Cargo traffic for U.S. airlines grew 1.3 percent in the first two months of 2007, including a 0.6 percent decline in domestic traffic in February, according to the **Air Transport Association.** The 914 million domestic revenue ton miles was the lowest monthly figure for the carriers in four years. ... **CAL Cargo Airlines** will use **Towne Air Freight** for trucking line haul connections between Chicago and CAL's 747-freighter operation in New York. … Los Angeles-based **Consolidators International** will launch a domestic division with transport options from air to trucks and rail. … **Kitty Hawk Aircargo** reported a $15.6 million loss in 2006 but the freighter operator turned an $8.3 million profit in the fourth quarter after losing $4.1 million in the same quarter a year ago as revenue jumped 88 percent in the quarter to $86.2 million. The growth included more work for the U.S. Postal Service and $16 million in revenue from the trucking service the airline started in late 2005. ... Cargo traffic at **San Francisco International Airport** grew 1.7 percent in 2006

but mail was down 6.6 percent, including a 58 percent drop in domestic mail traffic in December. SFO started 2007 with cargo traffic down 1.6 percent in January largely because of a 47 percent drop in domestic mail tonnage. … **Aerobox Composite Structures** finished 2006 with deliveries of more than 1,100 LD-3s to airlines around the world. The container manufacturer is operating under Chapter 11 bankruptcy protection and expects to exit bankruptcy by mid-year. ... **Cargo Connection Logistics**, a container freight station operator based in New York, said its sales rose 21 percent in 2006 and that it had eliminated some of the "toxic funding that we believe has hampered our growth." CEO Jesse Dobrinsky said he is working to "build relationships" needed for expanded Pacific Rim business. … Forwarder **Target Logistics** saw gross revenue edge up in its fiscal second quarter ending Dec. 31, 2006 to $47.6 million and the "absence of the normal peak season" helped cut the net profit 40 percent to $589,504. The forwarder projects revenue to grow between 15 and 22 percent over the January-June period, however. … Regional freighter operator **Alpine Air Express** saw its profit before taxes rise 40 percent in the first quarter to $1.4 million and credited renegotiated cargo and mail contracts, along with tighter cost controls, for the improvement. Alpine says it locked in its fuel prices for 2007 in February. … Real estate manager **Haith & Co**. will expand **Forward Air's** trucking facility at **Kansas City International Airport** from 30,000 square feet to 50,000 square feet, giving the air freight trucker 70 dock doors. … **ABX Air's** recently purchased 767-223 from **American Airlines** will be converted to freighter by Israel Aircraft Industries' **Bedek Aviation Group**. … Managers for **MidAmerica St. Louis Airport** signed an agreement with the Batam Industrial Development Authority in Indonesia's Riau Islands to promote "air bridge" cargo service between the airport near St. Louis and the **Hang Nading International Airport**. … **The Express Delivery and Logistics Association** named **Southwest Airlines Cargo** its airline of the year for the third year in a row, saying it placed first for service, communications, Web site and technology, overall value, and ontime performance. … **Virgin Atlantic Cargo** took management of its VEX express service in-house in New York and New Jersey. Operated for 10 years by **Air Cargo Partners**, VEX was handled by **Airmax International** since last October to transition the management to an in-house service. … Domestic air freight at **Sea-Tac International Airport** fell 7.2 percent in the first two months of 2007, leaving overall cargo at the airport down 2.3 percent in the first part of the year. … British all-business class airline **Silverjet** started daily 767 flights between London Luton Airport and Newark offering 10 tonnes of cargo capacity. … **DHL** opened a $3 million West Coast distribution facility in Riverside, Calif. to enhance Asia-Pacific and Western domestic operations. … **Panther Expedited Services**, a leading provider of time-sensitive services in North America, acquired **Integres Global Logistics**, a freight forwarding and logistics company. … **UPS** started a Web-based service, **UPS Delivery Intercept,** which allows shippers to reroute packages being delivered to go to a new destination. … Boeing named **Crane Aerospace & Electronics** to supply the onboard weight and balance system, named AirWeighs, for the 777 freighter. ■

EUROPE

Crime, Punishment

Named in a procurement scandal trial, Volga-Dnepr is suspended from United Nations business

Volga-Dnepr's very public castigation and suspension as an approved supplier to the United Nations, after allegations that it proffered bribes to win major UN contracts, is a throwback to a supposedly bygone era.

It's all the more surprising then that the Russian outsized operator should be caught up in such a scandal after having spent the last few years emphasizing its "Western values" in every aspect of its business from, financial accountability to the safety standards of its AN-124 fleet. Its apparent pristine credentials have been carefully nurtured under the watchful eye of the group's ebullient president, Alexey Isaikin.

Now it would appear Isaikin may be called to personal account for what has unfolded in recent months.

The UN said at the end of March that it had suspended Volga-Dnepr, an important carrier for UN-sponsored relief flights, from its database of its approved vendors.

By Roger Turney

According to evidence gathered by the UN's Procurement Task Force it is alleged Volga-Dnepr paid up to $700,000 to a senior UN procurement office, in order to gain advantage in winning UN contracts. The evidence came to light during the trial in the United States

of Vladimir Kuznetsov, at one time the most senior Russian diplomat at the United Nations in New York.

Subsequently found guilty of money laundering, Kuznetsov faces a jail term of 20 years when he is sentenced next month.

Consulting Fee

The allegations of bribery against Volga-Dnepr came from the main witness in Kuznetsov's trial, fellow Russian Alexander Yakovlev. After working at the UN for more than 20 years as a procurement officer, he pleaded guilty in 2005 to charges of money laundering, soliciting bribes and wire fraud, including accepting almost $1 million in bribes from a range of UN contractors. He also is awaiting sentence.

Yakoklev told the court at Kuznetsov's trial he had set up a consulting firm as a shell company to guide companies in the preparation of UN procurement bids, a move in itself is strictly forbidden by UN employees. Under his guise as a "consultant," Yakovlev says, he came into contact with Isaikin. Yakovlev later acted as a "consultant" on as many as 40 UN contracts for

which Volga-Dnepr was pitching, according to the court testimony.

The airline won around 12 of these contracts, with Alexander Yakovlev claiming he was paid a fee for each of the successful bids and no payment for any unsuccessful bids.

Most of the winning UN bids, awarded to Volga-Dnepr Airlines and its Irish subsidiary, Volga-Dnepr (Ireland) Ltd were said to have been won in 2000 and 2001. But other reports indicate Yakovlev received payments from Volga-Dnepr as late as 2005.

UN procurement records suggest Volga-Dnepr Airlines won UN contracts to the value of $18.6 million in 2005, with its Irish affiliate awarded UN contracts for freight forwarding services to the value of $30 million. It is a contravention of UN regulations that a company is listed more than once as an approved UN supplier. No trace can be found of any UN contracts awarded to Volga-Dnepr during the main period in question between 2000-2001, but the value is thought to run into, "tens of millions of dollars," according to published reports.

Volga-Dnepr officials declined through a spokesman in the United Kingdom to comment.

UN Capacity

It is obvious that the United Nations, no stranger to bribery and corruption charges across parts of the world, is determined to crack down heavily on these revelations.

Its Procurement Taskforce has been given full rein to investigate more than 200 suspect procurement contracts. Which means Volga-Dnepr cannot expect its approved UN supplier status to be restored any time soon.

"We are not doing business with them anymore and, of course, this may have an operational and even a financial impact on us," said Paul Buardes, chief of the UN Procurement Service.

"We will try to minimize this effect by working closely with the Department of Peacekeeping Operations. But we are determined to send out a strong signal that when we have evidence provided by the PTF, that we will not do business with this company, whatever the cost of this decision."

UN spokesman Farhan Haq explains further: "The UN has not set a time limit for the period of suspension in this particular case. But in such cases the vendor may re-apply for registration by providing demonstrable evidence of corrective actions to remedy the issues that led to the suspension."

Volga-Dnepr has made no comment on its suspension as an approved UN supplier, a status it won in 1994, although it has been operating UN missions since 1992.

The company is said to be reviewing its, "legal options" in getting the suspension lifted.

Was this then a temptation too far for Volga-Dnepr? At the time of the main allegations the carrier was in fierce competition for UN business with its main rival, Antonov Airlines. Ironically, the two operators joined forces last year to create Ruslan International, a joint initiative to market the combined AN-124 fleet of the two carriers.

Where does the relationship with Antonov Airlines lie now? According to one European-based charter broker, the prospects cannot be bright.

"Surely Antonov Airlines would want to put clear blue sky between itself and the allegations being made against Volga-Dnepr," said this official, who requested anonymity. "This could be a golden opportunity for Antonov Airlines, along with smaller AN-124 operator Polet Airlines to clean-up with UN contracts."

Between them, the two other players are able to muster a fleet of about 13 AN-124 aircraft against the 10 aircraft operated by Volga-Dnepr. But, given the demands on the United Nations, can the august body afford to not do business with Volga-Dnepr?

"The current demands of the UN can probably be met by Antonov and Polet," said the same charter broker. "But if there is a spike in demand then the UN could well be struggling."

He cites the example of a couple of years ago where Volga-Dnepr won a UN contract to operate a program of 25 flights airlifting vehicles from Pakistan to Africa.

"That is one of the surprising aspects of this case, for a company which currently claims a 56 percent stake of the global outsized market," said another charter broker. "Volga-Dnepr has at its disposal a unique asset in the AN-124, which cannot be matched by any other aircraft and which is in ever increasing demand. Why the need to resort to these kind of tactics in order to win UN contracts?"

He says the scandal is bound to have an effect on the commercial business Volga-Dnepr does with a global client list which includes such companies as Lockheed, BP, BAe, ExxonMobil, Alacatel and many others. Most recently Volga-Dnepr won a major logistics support contract with Boeing for the entire term of the manufacture of its new 787 aircraft.

... Briefly

Freight traffic for European carriers was flat in the first two months of 2007 as growth on some Atlantic

lanes helped offset a 3.6 percent decline in Asia business, according to the **Association of European Airlines**. … **TNT** saw revenue grow 7.8 percent in 2006 to $13.2 billion, with the operating profit up 11.1 percent to $1.7 billion after the company completed the divestiture of its logistics and freight management business in the fourth quarter. For the fourth quarter, revenue rose 7.6 percent to $3.6 billion. … Libyan charter carrier **Gulf Pearl Airlines** started weekly DC-10-30 freighter service between Ostend, Belgium and Tripoli, Libya, with Network Airlines Services as its general sales agent in Europe and **ANA Aviation** in the United Kingdom and North America. … **Lufthansa Cargo** created separate "competence centers" for freight segments to bring closer attention of specially trained staff members to the transport of mail, live animals, valuables and temperature-sensitive goods. … **Mercator**, the technology division of the airline **Emirates** and provider of IT services to other carriers, joined the **Cargo 2000** quality standards group. … French cargo airline **Aigle Azur**, owned by forwarder **GoFast**, started flying an AN-12 freighter weekly from **Europort Vatry** to Hassi Messaoud, Algeria. … Spanish cargo carrier **Cygnus Air** is exercising one option for an additional 757-200 freighter conversion to be performed by **Precision Conversions**. … Nigeria's **Silverfleet Airlines** named **Global Aviation Logistics** its cargo sales agent in Brussels. … **Etihad Airways** will start four-times-weekly A330-200 flights between Abu Dhabi and Dublin in August, offering about 14 tonnes of cargo capacity. … **GB Airways** named **Air Logistics** group its cargo general sales agent for its regional European network. … **Aero Groundservices** took over cargo handling for **Syrianair** at Amsterdam Schiphol. … **TNT Freight Management** won phase one certification under the Cargo 2000 quality program. … German forwarder **Weiss-Röhlig** joined the **IntlQuote.com** online rate quoting system. ■

PACIFIC

Terminal Velocity

AAT and DHL are expanding their Hong Kong sites but the airport's third cargo complex will take more facility

When is a cargo warehouse full? Hong Kong's largest terminal operator and its biggest customer have radically different ideas on that question. The mathematical fault line pits Cathay Pacific, which commands some 40 percent of the airport's total cargo throughput – based on 2005 figures, including the tonnage carried by Dragonair – against Hong Kong Air Cargo Terminals, which processes over 70 percent of the airport's cargo volume.

According to Cathay, HACTL's Super Terminal 1 is just two years from hitting its capacity limit, with service deterioration lurking beyond. HACTL's $1 billion facility has a capacity of 3.5 million tonnes. Last year, it handled 2.561 million tonnes, up 5.3 percent from the previous year.

By Cathay's measure, Hong Kong's annual throughput will reach 9.9 million tonnes by 2020, which is higher than a 9 million-tonne volume predicted for 2025 by consultancy GHK, which the Airport Authority of Hong Kong commissioned last year to study long-term shipping trends at the world's largest international air cargo airport.

But Warren Bishop, HACTL's director of corporate development, arrives at volume projections significantly below Cathay's estimate. He remains confident that HACTL will still have space in 2012.

"Our projections, publicized last year, were based on a study done by well-respected management consulting firm with extensive experience in the aviation sector, and we projected three growth scenarios," he said.

"In the 'high' scenario Hong Kong International Airport continues to attract the majority of air cargo growth, and the compound annual growth is estimated at 8.5 percent from 2005 to 2008, and 7.4 percent from 2008 to 2015. In the 'base' case scenario, the CAGR is expected at 5 percent from 2005 to 2008, and 5.3 percent from 2008 to 2015. In the 'low' scenario, other Pearl River Delta airports achieve accelerated growth rates to the detriment of HKIA.

"We believe that with the new facilities recently introduced in Guangzhou and the introduction of new freighter capacity in Shenzhen, the base forecast is the most likely. This is validated by the recent slowdown in tonnage growth in Hong Kong," said Bishop.

By Ian Putzger

Math Matters

Hong Kong has been growing rapidly over the past decade, but that boom apparently is tailing off. For the

first three months of this year, HACTL tonnage declined 4.3 percent, driven by a 9.7 percent drop in exports.

Bishop said HACTL introduced several measures to boost productivity last year. Since its' opening, it has launched some 20 initiatives to boost capacity from the original 2.6 million tonnes to 3.5 million.

Nevertheless, after what Cathay believed was an agonizingly long deliberation period, the airport authority decided it would allow a third handling set-up. It expects the tender process for the third terminal to be completed next year and the new facility will come on stream in 2011.

According to Bishop, HACTL has not determined whether it will enter the bidding process.

Meanwhile, two contestants have charged out of the starting gate. Cathay and local property giant Sun Hung Kai Properties reportedly have submitted bids for the terminal. Ron Mathison, director and general manager of cargo for Cathay, would not comment on the issue but the outlines of the airline's plans have been known for a while. Cathay intends to build in two phases, the first to open by 2009/2010 with a capacity of up to 2.5 million tonnes. The second stage would boost this to four to five million tons.

Building Up

The main reason Cathay wants its own terminal is cost.

It claims HACTL's charges are more than double the average handling costs across its system, and more than three times what was charged by competing hubs in the region.

HACTL's and Cathay's math diverges here, with Bishop arguing the handler's all-in fee included costs levied on forwarders and cargo owners, so there was no direct comparison.

The sometimes-acrimonious exchanges over the issue have been out of character with Hong Kong's business climate, which has traditionally been dominated by oligopolies that disdain public clashes. But now it is the outsiders who are pushing their expansion plans forward with quiet efficiency.

In March, Asia Airfreight Terminal, owned by a consortium including Singapore Airport Terminal Services, officially opened its second terminal at HKIA, designed to handle up to 910,000 tonnes a year. The $220 million project almost tripled the capacity of Hong Kong's second handler to just over 1.5 million tonnes.

Like HACTL's, AAT's math is conservative. Last year it handled more than 624,000 tons, suggesting its original terminal was seriously bulging.

With equally little fuss, DHL is growing in Hong Kong with an additional $35 million investment, although most of this is for a new ground hub off airport. DHL has poured $645 million into Hong Kong, including $400 million on Air Hong Kong and $210 million on its Asian hub at the airport, which is slated to be at full speed next year.

... Briefly

Air freight traffic for Asia-Pacific carriers grew 4.8 percent in February but the cargo load factor fell 2.8 points to 64 percent, as capacity increased 9.3 percent compared to the same month in 2006, the **Association of Asia Pacific Airlines** reports. ... Semiconductor giant **Intel** will build a $2.5 billion factory in the Northeastern China city of **Dalian**, where the wafer fabrication facility will mark an advance over Intel's previous manufacturing investments in China. Intel says it expects China to the world's largest technology market by the time the plant opens in 2010. ... **FedEx Express** will start offering next-business-day express service to 19 cities in China, initially, as well as a day-definite service to more than 200 cities. The carrier will use space on 737 freighters operated by Okay Airlines. ... **AMB Property**, a developer and manager of fast-cycle distribution centers, moved into South Korea with an agreement to build a 363.000-square-foot facility at Seoul's **Incheon Free Economic Zone**. ... **Global Logistics System HK**, the operation behind the **Ezycargo** cargo booking portal, will use the Tradelink Electronic Commerce platform to allow users to submit customs declaration forms with information from the air freight booking system. ... **Birkart Logistics** opened a distribution center in Jingqiao, outside Shanghai, where the Hong Kong-based forwarder said it would focus on apparel and luxury goods. ... **GAC** won a Class A forwarding license in China, allowing the company to expand its services as a wholly owned foreign enterprise. ... South Korea and Malaysia signed an open skies aviation treaty. ... Investment concern **Mitsui & Co.** and Israel Aerospace Industries' **Bedek Aviation Group** formed a 50/50 joint venture company, M&B Conversions, to perform passenger-to-freighter conversions of 767-300s. ... **Etihad Airways** started three-times-weekly A340-500 flights between Abu Dhabi and Sydney. ... **Dragonair** started three-times-weekly A320 service between Hong Kong and Busan, Korea. ■

With global trade changing economic and flight patterns, the **2007 BACK Aviation Worldwide Air Freight Forecast** projects new capacity and steady growth in the coming decade

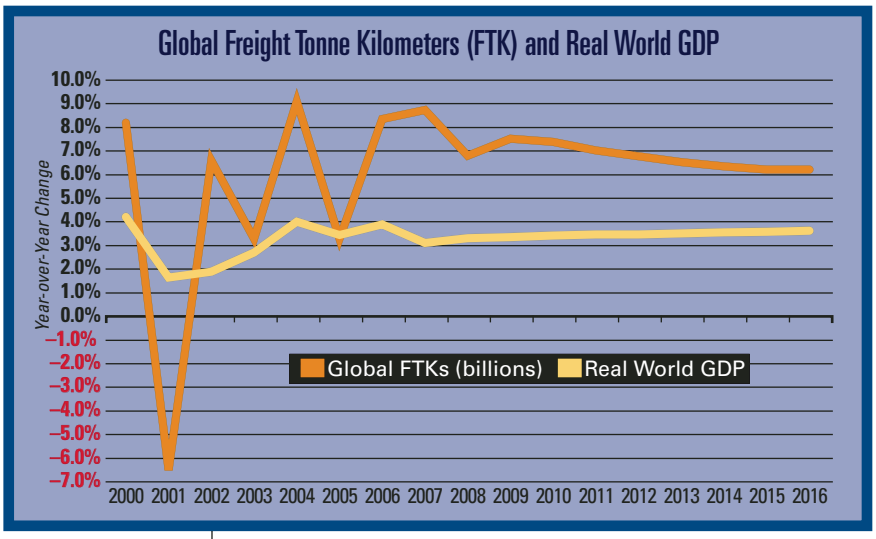
Steady Flight

by **Marty Graham**,
BACK Aviation Solutions

After staggering through a slow 2005 with 3.2 percent growth in overall air cargo traffic, the air freight industry headed into 2006 with a cautious eye. As the year unfolded, the air freight industry rebounded as traffic grew 4.6 percent in 2006, according to recently released International Air Transport Association statistics.

The Middle East extended the double-digit growth pattern it showcased in 2005. However, other regions contributed to the uptick in traffic, including Africa (5.9 percent growth), North America (6 percent) and the Asia Pacific region (4.7 percent).

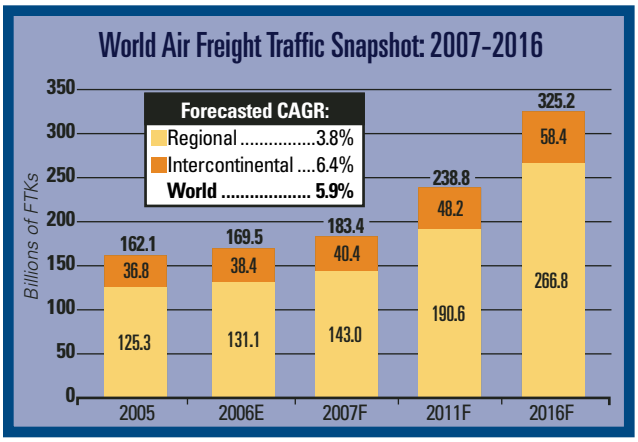
Yet, although the industry saw traffic return near to historical norms in 2006, 2007 has had a slow start as global freight traffic is up only 2.6 percent through February 2006. Despite the sluggish start to the year, BACK Aviation Solutions expects the air freight industry to continue to see positive long-term traffic growth over the next decade. We forecast worldwide freight ton kilometers to grow an average of 5.9 percent per year over the next decade. We believe the industry will benefit from a continued trend in global trade expansion and the shift of manufacturing capacity to China, Asia, and other sites of low-cost factories and production, which will drive a 6.4 percent compound annual growth rate in long-haul intercontinental traffic. Air freight capacity will be relied upon to transport perishable, high technology and high value goods to key consumer markets.



Although BACK expects intercontinental trade to flourish over the next 10 years, regional air freight trade will show more mixed results, with changing logistics strategies and competition from surface modes pulling demand for air freight in shorter-haul markets. BACK forecasts regional air freight demand to grow a moderate 3.8 percent per year as slow growth in mature regional markets like the North America and the European Union's economic zone are offset by brisk growth in markets such as intra-Asia and domestic China.

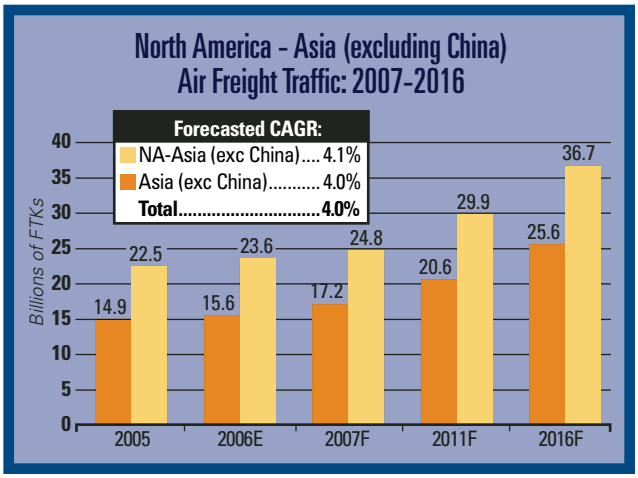
As it has over the past decade, Asia will be the driving force of air freight demand over the next 10 years. China will be a driving force in generating air freight growth as Chinese manufacturing capacity expands beyond the country's coastal regions into the more rural Western China.

However, what is becoming increasingly harder to ignore is the build up in air freight activity in the Middle East and Africa, particularly Bahrain and Dubai. These markets, along with developing air freight markets such as Russia and India, provide additional growth potential for the industry. Still, given that trade connected to North America accounts for over 60 percent of all trade, air freight growth will continue to rely heavily on the economic outlook of the United States.



Regional Outlook

Below we have provided a brief synopsis of our 10-year regional outlook by key trade lane as well as a commentary discussing the factors influencing each region.



North America-Asia (excluding China)

Last year, BACK expected North America-Asia (excluding China) to be a strong contributor to freight growth in 2006 and beyond, partially driven by an improving Japanese economy.

However, Japanese consumer demand did not rebound as quickly as anticipated in 2006 as North American imports into Japan slid 12 percent in 2006. Yet, westbound traffic to Asia (excluding China) increased 4.9 percent in 2006 as export growth to South Korea (19 percent year-over-year growth), Singapore (25 percent), India (25 percent), and Malaysia (15 percent) offset the export decline to Japan (which accounts for 30 percent of all U.S. air exports to Asia, excluding China).

In the eastbound markets, imports sagged in 2006. Overall imports declined 2.6 percent in 2006 as trade with key non-China trade partners declined year-over-year, including Japan (down 6.7 percent), Taiwan and Malaysia (5.8 percent declines), and South Korea (10 percent down). On the plus side were imports into India (up 2.5 percent), Thailand (up 5.8 percent), Singapore (2.8 percent growth), and Indonesia (up19 percent).

BACK expects North America-Asia (excluding China) to remain a vital component of the air freight industry in the future. We remain bullish on the long-term outlook for the Japanese economy and believe it will continue to be the primary driver of trade in the North American-Asia (excluding China) market. Furthermore, we see other large Asian economies such as Taiwan and Malaysia remaining contributing factors.

However, several developing economies will provide a positive impact to air freight traffic in this trade lane. Most notably, India and Vietnam, which recently gained World Trade Organization status, have the ability to develop into solid air freight markets as their manufacturing capabilities transition from lower skilled production into production of goods requiring skilled labor and technical knowledge. Although still small in total air freight volume, Vietnam stands to benefit from recent decisions such as Intel's recent decision to triple its investment there with a $1 billion investment in two production plants outside of Ho Chi Minh City, highlighting the long-term potential of these developing air freight markets.

Therefore, BACK expects the North America-Asia (excluding China) to average a 4 percent compound annual growth per year over the next 10 years. We forecast westbound air freight traffic growth (4.1 percent) to keep pace with eastbound growth (4 percent), which will allow the market to maintain a well-balanced bi-directional trade pattern.

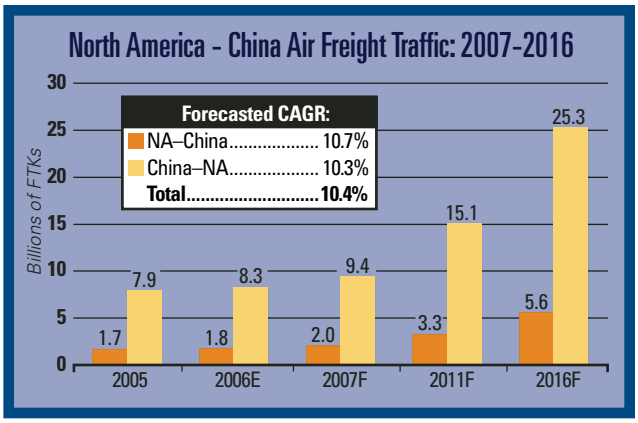
North America-China

During 2006, U.S. air freight exports to China grew 29 percent over the previous year, benefiting from a depressed U.S. greenback and other favorable Chinese monetary policies that contributed to the attractiveness of U.S goods to Chinese consumers and businesses.

China accounted for 13 percent of all U.S exports to Asia, driven primarily by Chinese demand for U.S. manufactured intermediate goods and capital equipment used in manufacturing and construction) along with chemical and paper products. While Chinese demand for U.S. air freight surged in 2006, China continued to be the largest contributor to U.S. imports from Asia, accounting for 44 percent of all eastbound trans-Pacific imports into the United States in 2006, growing 10 percent versus 2005.

Key commodities continue to be finished telecommunications equipment and consumer products, which combine for more than 55 percent of all Chinese air freight imports to the United States.

This trade lane has been a steady workhorse for industry growth since all-cargo rights began to expand in the early part of the decade, yet it has been dogged by severe directional trade imbalances (eastbound freight traffic outperformed westbound demand by nearly five-to-one



in 2006). Due to this trade imbalance, carriers have always relied upon the strong Chinese export market to produce high load factors and above-average yields (driven by a capacity shortfall) to offset an anemic Chinese westbound market fraught with limited demand and extremely low yields. Yet, over the past 12 months, as more capacity has entered the market (especially Shanghai), once strong eastbound yields are falling as shippers find more alternatives.

However, over the next decade, BACK expects the North America-China trade lane will retain its vital role in the overall health of the air freight industry.

We believe continued development of Chinese manufacturing in Western China, an improved domestic Chinese consumption rate driven by growing income prosperity, and government policies aimed at developing

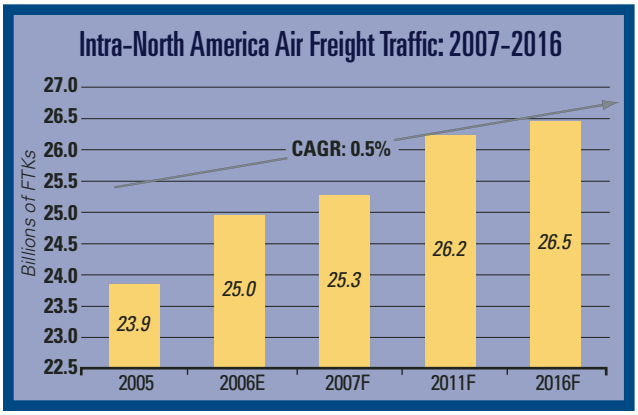
All photos courtesy Rob Finlayson

rural China will fuel a gradual increase in demand for U.S. air freight.

As Chinese demand for U.S. goods grows, the industry will benefit from a reduced trade imbalance, which will allow carriers to rely less on eastbound yields and payloads to subsidize sub-standard westbound performances.

Over the next decade, BACK projects overall North America-China air freight to grow at an average annual rate of 10.4 percent, with westbound trade with China averaging a 10.7 percent growth rate, on par with eastbound air freight growth at 10.3 percent per year.

The greatest challenge of achieving this growth lies within China's ability to develop new airports and logistics infrastructure to support growth while improving domestic consumption rates in order to improve the disparity in directional trade.



Intra-North America

Over the past five or six years, intra-North American air freight has been under considerable pressure due to many factors.

First, as recently as 10 years ago, shippers were able to secure widebody lift in many major markets from several airlines. However, as the price of jet fuel grew by an average of 15 percent per year over the past five years, airlines have down-gauged their equipment in the domestic market. This has made domestic North American wide body lift virtually extinct beyond the large integrators. Thus, shippers are relegated to securing unpredictable lift on regional jet and narrowbody aircraft with reduced frequencies.

Furthermore, as fuel costs have grown, fuel surcharges and other related add-ons widened the gap between air freight pricing and surface mode costs. Simultaneously, many integrators and overnight companies began to expand their trucking networks allowing them to effectively serve much of the North American air freight market with transit times that prove competitive with air freight.

All these factors contributed to the overall stagnation of the Intra-North American freight market.

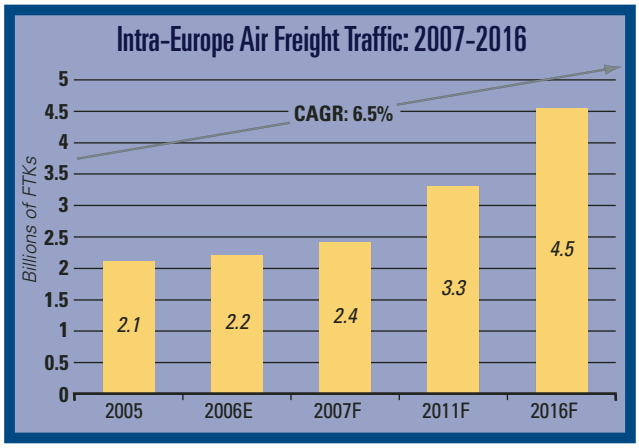
Over the next 10 years, BACK expects the intra-North American air freight market to provide limited growth, averaging less than 1 percent growth per year over the forecast period.

However, all is not lost for intra-North America air freight. Regardless of cost, there remains a market of niche cargo products that will always require air freight capacity because of their inherent time sensitive and perishable nature. Therefore, while overall volume growth may be scarce, niche products, such as medical supplies and small packages, requiring same-day transit will remain a source of high-yield traffic growth in the market.

Intra-Europe

Like intra-North American air trade, the intra-European air freight market has been stagnant in recent years as shipments shifted to surface mode as the price of fuel widened the cost differential between air freight and surface freight.

However, economic activity in Eastern Europe is burgeoning as many countries have become integrated into the European Union and Russia's economy is rapidly improving due to its' oil and natural gas industries.



Given these factors, BACK believes intra-Europe air freight demand will experience rejuvenation over the next 10 years. As the economic reach of Europe stretches into Eastern Europe, air freight, unlike surface modes, is uniquely able to connect these markets with time-definite services including growing demand for air express products. Therefore, BACK forecasts intra-European air freight will grow at a 6.5 percent compound annual growth rate over the next 10 years. Similar to last year, we believe much of this growth will be experienced in the out years of our forecast as Russia and Eastern European economies evolve into viable air freight markets.

North America-Western Europe

During 2006, air freight exports from North America to Europe increased 13.7 percent, led by double-digit growth from several Western European trade partners including the United Kingdom (up 12 percent), Germany (17 percent), France (12 percent), and Italy (11 percent).

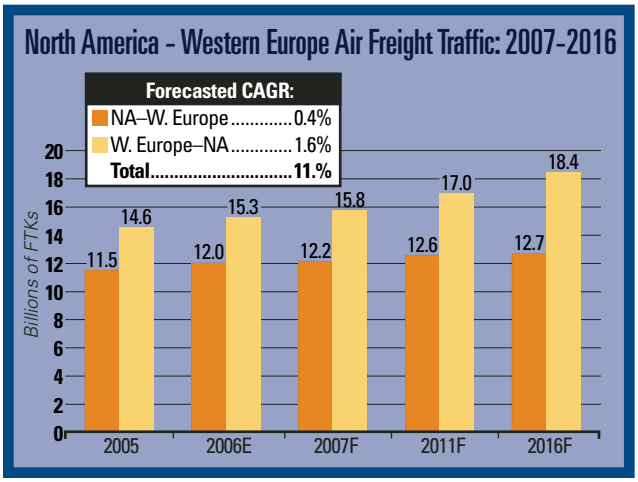
Fueled by a strong euro currency and British pound against the dollar, these top markets, along with the Netherlands, accounted for 60 percent of all eastbound trans-Atlantic traffic in 2006.

Westbound, air freight traffic grew a modest 4.7 percent in 2006 as the five largest air freight markets, which account for 67 percent of all westbound trans-Atlantic volume, all posted mid-single digit growth rates year-over-year. The persistent U.S. dollar devaluation has slowly eroded buying power over the past several years, impeding growth in the westbound segment.

BACK expects North America-Western Europe air freight to expand moderately over the next 10 years, averaging slightly more than 1 percent growth per year. However, there are two primary factors that may adversely affect our forecast.

First, the recent accord on U.S.-E.U. will dramatically affect the competitive landscape in the transatlantic mar-


MORE THAN BIG NEWS,



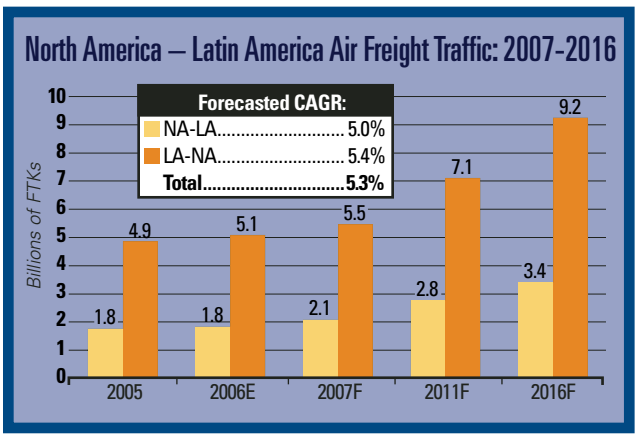
ket. Although new demand is sure to surface as carriers are allowed more freedom in servicing markets, the greater impact on the air freight industry will be in how the new capacity is priced. Given that the trans-Atlantic market is served primarily with passenger belly capacity, "open skies" may well lead to downward yield pressures even in the face of new service options and greater demand stimulation.

Furthermore, although trans-Atlantic air freight with Western Europe is mature, several Emerging Markets in Eastern Europe and the Middle East air freight markets are sizeable growth areas for carriers, including markets such as Russia (40 percent year-over-year growth in 2006) and the Middle East, including the United Arab Emirates, Saudi Arabia, and Kuwait, all of which grew at least 30 percent year-over-year.

This potential growth is not reflected in our overall North America-Western Europe forecasted growth outlook.

North America-Latin America

The North America-Latin America air freight market displays strong revitalization, especially in the southbound market, fueled by Latin American economies and

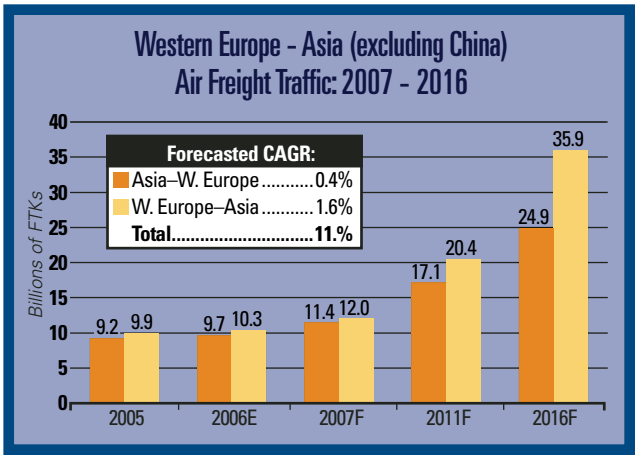


strengthened by commodity price spikes and improving domestic consumption rates.

The southbound market grew a healthy 11.7 percent in 2006 as Brazil (17.9 percent year-over-year growth), Colombia (9.7 percent), Mexico (5.1 percent), and Chile (20.3 percent) posted strong gains in the demand for U.S. air freight products. These top markets in addition to Venezuela account for over 64 percent of all southbound air freight traffic, which primarily consists of telecommunications equipment, capital equipment, and consumer products.

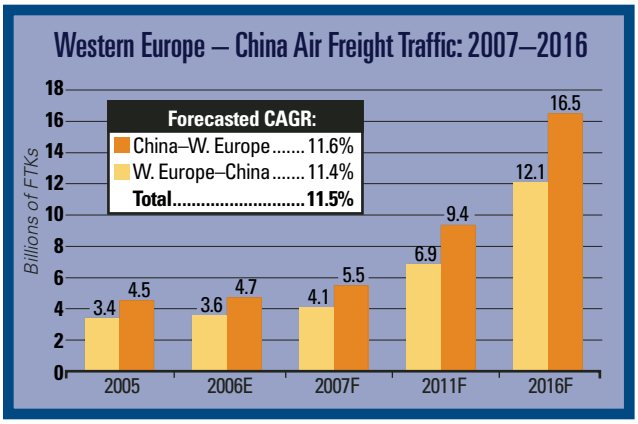
The northbound market is dominated by perishable products, which account for a whopping two-thirds of all traffic. In 2006, northbound air freight demand declined by 1.8 percent as key exporters Brazil (26 percent decline) and Chile (down 7.6 percent) suffered significant drops in air exports to North America. These declines were partially offset by double digit growth in Peru (11.4 percent) and Mexico (10 percent).

Overall, BACK expects North America-Latin America air freight traffic to grow at an average annual rate of 5.3 percent over the 10-year forecast period, with well-balanced bi-directional growth driven primarily by the rejuvenated economies of Brazil, Chile, Argentina, Peru, Mexico, and Columbia.



Europe-Asia

Since Europe is a major consumer (along with North America) market, Europe-Asia air freight continues to be an important part of the global air freight system, accounting for approximately 8 percent of the global air freight flows.



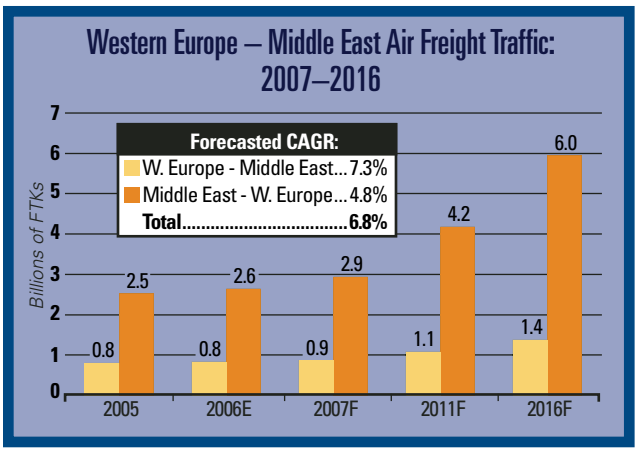
Germany, the Netherlands, United Kingdom, and France are major markets for Asian air freight, and each expanded Asia import traffic more than 5 percent in 2006. Along with imports, Asian air export demand from Europe showed modest growth over 2005, with Germany, United Kingdom, and France all showing gains.

BACK expects continued European currency strength supported by improving Asian purchasing power (especially in China) to have a positive impact on this trade lane over the next 10 years. Because many airlines operate their Europe-to-Asia networks through the Middle East, carriers can supplement European-Asian traffic with the rapidly growing Middle East market to further enhance profitability in this trade lane.

BACK forecasts a 10.1 percent average annual growth in the Western Europe-Asia (excluding China) market, with Asia-to-Europe (excluding China) growth (11.6 percent) outpacing Europe-to-Asia (excluding China) growth (8.6 percent) while Europe-China segment is forecast to average 11.5 percent growth per year over the next 10 years.

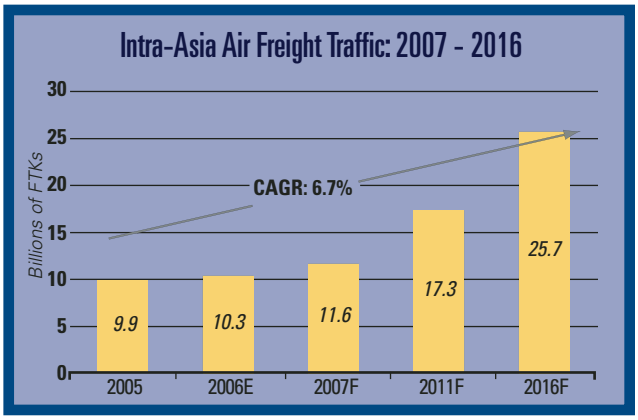
Europe-Middle East

Africa and the Middle East displayed strong air freight growth in 2006, driven by robust construction, tourism, and oil and natural gas industries.



The Middle East in particular has become a prominent player in global air freight, highlighted by the heavy investment by Emirates and other key regional carriers in freighter and widebody aircraft. Given that foreign direct investment and governmental policies favoring economic expansion should continue for the foreseeable future, air freight is well positioned to reap the benefits of this continued economic expansion.

Therefore, BACK sees trade between Europe and the Middle East averaging a 6.8 percent average annual growth over the next 10 years with Western Europe-Middle East volume expanding 7.3 percent, faster than the 4.8 percent average annual growth of Middle East imports into Europe, as Europe will be a primary exporter of intermediate goods and capital equipment.



Intra-Asia

Driven both by regional demand and by larger global sourcing and manufacturing trends, the intra-Asia market remains a profitable sector of the air freight industry, providing transportation between key Asian manufacturing and consumer markets.

BACK estimates approximately 6 percent of the worldwide air freight traffic is generated in the intra-Asian market. As manufacturing capacity shifts to lower production countries and the global supply chain begins to incorporate more production facilities in emerging markets, particularly in Asia, this region will prosper well into the future.

Intra-Asia traffic has averaged approximately a 4 percent compound annual growth rate over the last five years but BACK expects this market to exceed its historical average growth over the next 10 years. BACK fore-

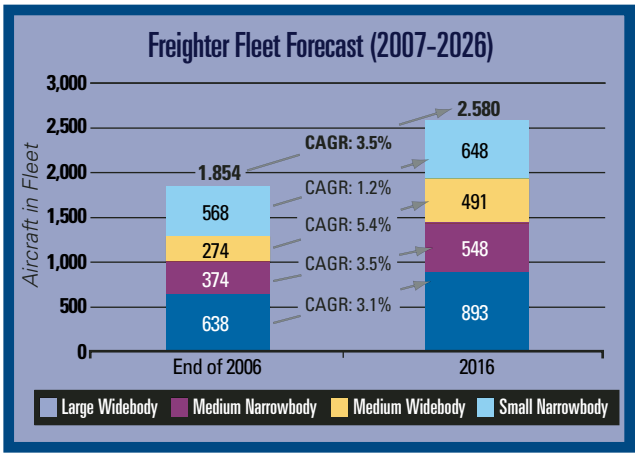
casts this market to grow at 6.7 percent per year over the next decade, fueled by demand for air freight capacity between Thailand, Singapore, Japan, South Korea, and Taiwan.

Our growth forecast is buoyed by the significant investment in capital and infrastructure that is going into domestic China. That investment is bolstered by expectations for China's domestic air cargo market as consumer demand fuels internal shipping across China's vast interior and by the extension of manufacturing and industrial development in Central and Western China.

World Freighter Forecast

The global freighter fleet numbers approximately 1,854 aircraft, of which some 50 percent are widebody aircraft. The vast majority of the freighter lift is owned by airlines operating in North America, Asia, and Europe.

BACK expects the global freighter fleet to grow an average of 3.5 percent per year over the next decade to keep pace with expected freight traffic growth, reaching 2,580 aircraft by 2016.



By category, BACK forecasts the widebody segment will account for nearly 65 percent of all freighter aircraft additions, including the addition of 255 large widebody and 217 medium widebody aircraft over the forecast pe-

riod. We forecast the medium widebody market to average 5.4 percent growth per year over the next 10 years as airlines add this size category aircraft to 'right-size' their fleets to meet traffic growth in regional markets such as intra-Europe, intra-Asia and domestic China while large widebody aircraft will see steady growth of 3.1 percent average annual growth through 2016, supplying capacity to long-haul intercontinental markets.

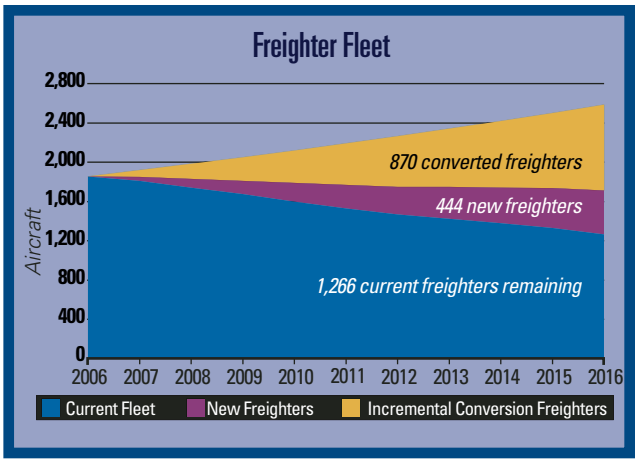
In the narrowbody segment, aircraft will be used primarily to replace retiring aircraft and fulfill short-haul market segments. BACK expects most of the narrowbody freighter growth to occur in the medium narrowbody segment, which we forecast to grow at a 3.5 percent annual rate over the next decade, while the small narrowbody fleet will grow only 1.2 percent per year. Airlines will limit investment in smaller aircraft in favor of the larger payload and mission capabilities of the medium widebody aircraft.

One of the overarching trends in fleet development now is that carriers are expediting the retirement of aging, inefficient aircraft.

In our forecast last year, we noted aging aircraft were becoming increasingly difficult to operate given the current elevated fuel environment and would eventually need to be replaced.

Since then, this has come to be a reality as several prominent carriers have announced fleet renewals. Air France announced it will accelerate the retirement of 747-200 freighters in favor of 747-400 converted freighters and, eventually, 777 freighters. FedEx announced it will acquire nearly 90 757 aircraft for cargo conversion (to be converted by ST Aerospace) as it begins replacing its 727 fleet starting in 2008, and UPS recently placed a large 767-300 freighter order with Boeing.

As FedEx's fleet decision illustrates, the vast majority of the narrowbody fleet (excluding a relatively young global



757-200 fleet) will be replaced over the next 10 years in favor of more fuel-efficient aircraft such as converted 757 (which offers approximately 25 percent lower operating costs versus the 727), converted 737-300/400, and the recently launched Airbus A320 conversion.

However, as with any conversion aircraft, passenger aircraft values must reach a level at which it makes economic sense to take the aircraft out of passenger service and convert into freighter configuration.

In today's aircraft market, the lease values placed on these aircraft are such that many carriers are finding it difficult to acquire aircraft for these conversion programs. But over the next 10 years, as next-generation narrowbody aircraft enter the global passenger fleet, a sufficient feedstock will be made available to meet the expected demand for converted narrowbody aircraft.

In the widebody segment, we expect the majority of retirements to be older vintage aircraft such as early vintage A300, A310, 767-200, DC10, and 747-200 freighters. However, given the current strong aircraft market, some of these aircraft may have to be extended for a few years beyond their intended retirement until satisfactory replacement aircraft are acquired from an original manufacturer or a third-party conversion shop.

In total, BACK expects approximately 600 freighter aircraft will retire over the next 10 years, leaving only 1,266 freighters remaining from the current fleet.

Another important trend in the freighter market is that converted aircraft will play major fleet renewal role, especially in narrowbody segment.

BACK expects nearly 70 percent of the fleet renewal will be converted passenger aircraft. We expect 870 converted aircraft to enter the freighter fleet while less than 450 new freighter aircraft will enter service over the next 10 years. Given the inherent lower aircraft utilization rates of freighters relative to passenger aircraft, acquisition

cost plays a larger role in freighter aircraft selection than it does in passenger aircraft selection. Given historical discrepancies in acquisition costs between factory built new freighters and conversion freighters, carriers typically prefer the lower acquisition cost of converted freighters.

However, given the strength of the current aircraft market, with the relatively scant availability of conversion candidates, carriers are being forced to consider factory freighter aircraft.

Of course, while commanding higher acquisition prices, new freighter aircraft provide carriers with improved operating economics and better payload performance relative to converted aircraft. Yet, with new passenger aircraft such as the A380-800, 787, A350XWB, and the 747-8 on the horizon, freighter operators can expect lease rates to begin to recede on passenger aircraft values and begin to approach attractive levels for conversion over the next five to seven years.

It is anyone's guess how long the current strength in aircraft values will remain. But it is clear operators have a wide array of excellent fleet renewal options both in terms of factory freighters such as the 777, 767-300, and 747-8 as well as a plethora of conversion programs offered by original manufacturers and third-party maintenance and conversion houses.

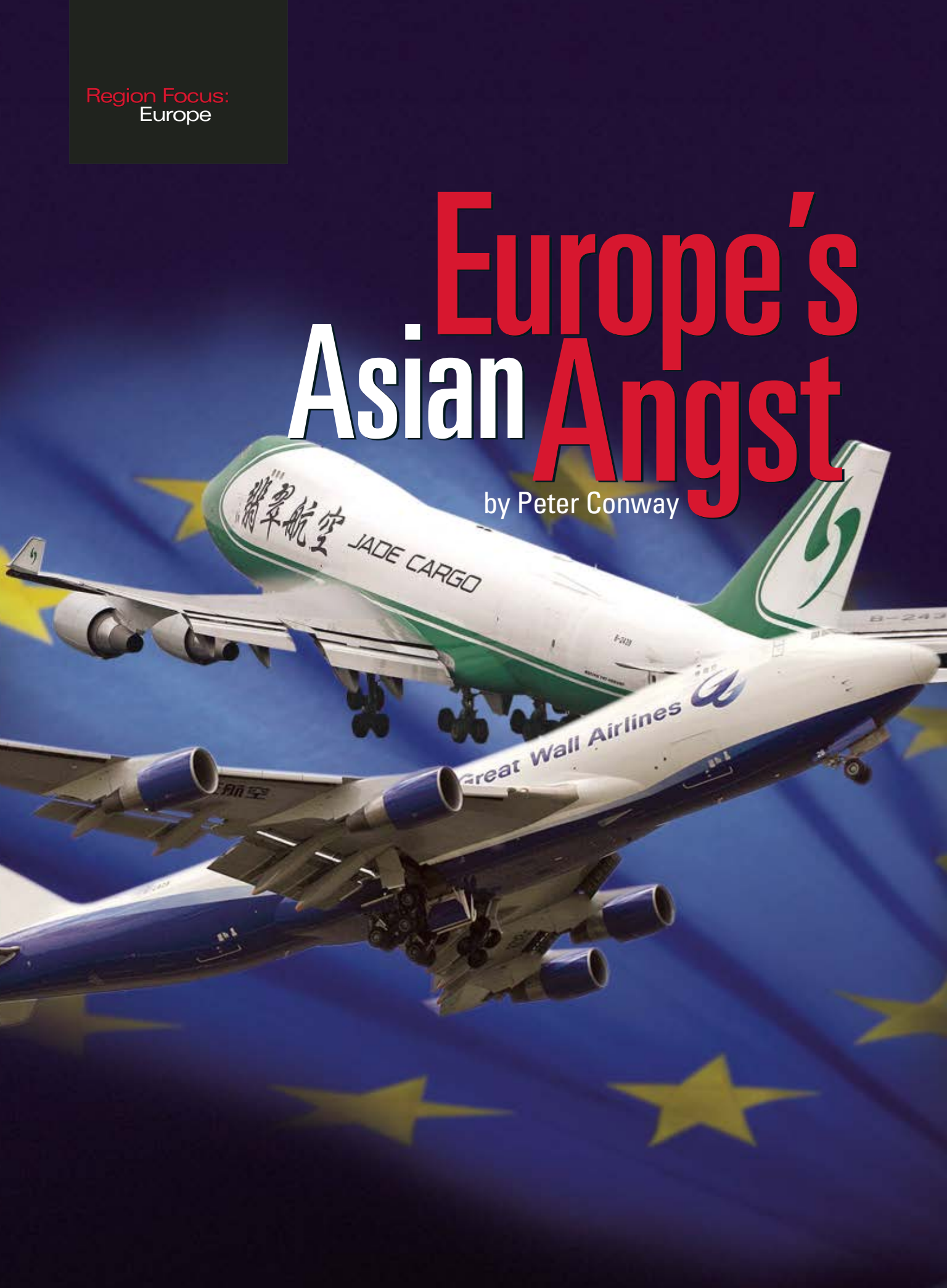
Summary

Although 2007 has started slowly, BACK expects the long-term outlook for the air freight industry to remain bright, fueled by continued growth in the China, Asia and emerging markets such as India and Russia.

However, the larger question is how the industry will manage this growth in the face of continued expansion of Chinese capacity, ramifications of the recently announced U.S-E.U "open skies" agreement, and continued trade imbalances, all of which may exert further downward pressure on the overall economics of air freight growth over the next 10 years. ■

Europe's Asian Angst

by Peter Conway



There is a rather downbeat air in European air cargo as the continent's carriers watch a new wave of freighter operators eat into their traditional market share on Europe to Asia routes.

The consensus of various industry experts is some 1,000 to 1,500 tonnes of capacity has been added on China-Europe routes in recent months, mainly from Chinese and Middle Eastern carriers.

The carriers involved include Jade Cargo International, using its third freighter to fly from Shenzhen to Leizpig and Stockholm; Yangtze River Express starting a four times a week service from Shanghai to Luxembourg; and Great Wall Airlines, boosting its newly resumed services to Amsterdam from six to 10 weekly.

European carriers are also adding capacity. TNT now flies three times a week from Liège in Belgium to Shanghai, and Italy's Cargoitalia and Ocean Airlines are ramping up services to China. But there is little doubt that the European majors are feeling beleaguered.

"In the short term, we cannot deny that all the European carriers, including Air France-KLM, are faced with a new balance of capacity," said Michael Wisbrun, chairman of the joint cargo management committee of the Franco-Dutch airline. "If you look at the manufacturing orders and aircraft conversions, there is also no doubt that the drive of capacity is coming mainly from Asia."

All this is worrying for Europe's carriers because cargo out of Asia, China particularly, has been the honey pot for them in recent years — abundant, high-yield traffic driving their growth and profitability. If that market is eaten away by what European cargo managers have taken to dubbing low cost Chinese competition, then the prospects could be worrisome.

Carriers on trans-Pacific routes already have seen the impact of the rapid drive to build capacity; export demand out of Shanghai remains strong, but yields are depressed, excacerbating the troubling imbalance there.

"We have not so far seen any problem with rates out of Asia, but I cannot imagine that the capacity increase we are seeing won't have an impact," said Pierre Wesner, vice president Europe, Africa and Middle East for Cargolux.

Stan Wraight, head of Russian carrier AirBridge Cargo is more direct. "There will definitely be overcapacity out of China," he said. "Yields are already only being maintained in September, October and half of November. What happens when all the new guys come in? I don't know. It is a fool's paradise."

European carriers are already feeling some impact. Air France-KLM reported a sluggish performance in the final quarter of 2006, with cargo revenue down 3 percent year on year on a 0.1 percent rise in traffic. Contrast that with a booming passenger business, where revenue rose 7.1 percent.

Currency factors and high oil prices had something to do with these figures, but the carrier also admitted Asian competition was starting to bite.

"Asia has been the money-maker for this industry for the last three, four years, and we can't help but feel the impact of the supply and demand situation on Asian routes," said Wisbrun.

Air France–KLM is not alone. Figures from the Association of European Airlines show traffic by its member airlines to the Far East and Australasia falling 3.6 percent in the first two months of 2007, against a rise of 4.7 percent in the first half of last year and 7.7 percent in the first quarter.

No one says the growth in Asia-Europe trade is slackening, suggesting European carriers are not win-

Chinese and Middle East cargo airlines are taking business in Europe, and that has European carriers looking to respond

ning their share of growth.

The same is true on Middle Eastern routes, where AEA carriers saw traffic down 5.5 percent in December, as compared to a rise of 8.7 percent in the first half and 12 percent in the first quarter. The meteoric growth of Emirates, Etihad, Qatar Airways is undoubtedly the cause of this phenomenon.

Carsten Spohr, Lufthansa Cargo's chairman, even cited Emirates by name at the carrier's annual results press conference in March as one carrier "trying to grab market share with lower freight rates."

Competition on Middle Eastern routes is something of a double whammy for European carriers, as it both adds capacity on Asia to Europe routes — Emirates and its competitors all rely heavily on transit traffic — and threatens a useful source of high yields eastbound.

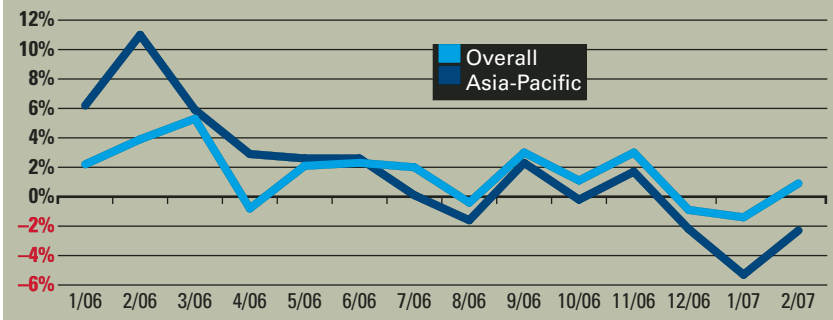
This is because European carriers have until now been able to balance weak demand to Asia by stopping in Dubai or other Gulf locations on the way. Cargolux is arguably the most proficient practitioner of this approach, serving places far off the routine trade lanes such as Damascus, Tehran, Kuwait and Oman on the way to Far East destinations. As well as cargo from Europe, transit cargo from the United States is a strong component of this traffic.

Wesner said about half of eastbound capacity on its Asian freighters is dedicated to this Middle East market, and until now there has been a "big difference" in rates compared to what Cargolux could get for Europe-Asia cargo, although he declined to be more specific.

"This has enabled us as much as possible to keep out of the rate battle to Asia," he said.

CARRYING EUROPE

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



Source: Association of European Airlines

One further source of better yields for European carriers has been peripheral markets such as Scandinavia, Italy and Spain, which they can penetrate with their efficient trucking networks, and feed cargo into their central hubs.

But here again, the opposition is parking its tanks on their front lawns. Korean Air, Cathay Pacific, Air China and China Cargo Airlines began freighter services over the past year to Stockholm and Copenhagen.

Given this pressure, what can European carriers do? Air France and KLM in part created a joint cargo business to find synergies, cut costs and are more competitive against Asian carriers. This remains the strategy.

"We have to sweat it out and maximize our ability to compete. Continual pressure on unit costs, one roof handling, one IT system, all of this helps," said Wisbrun.

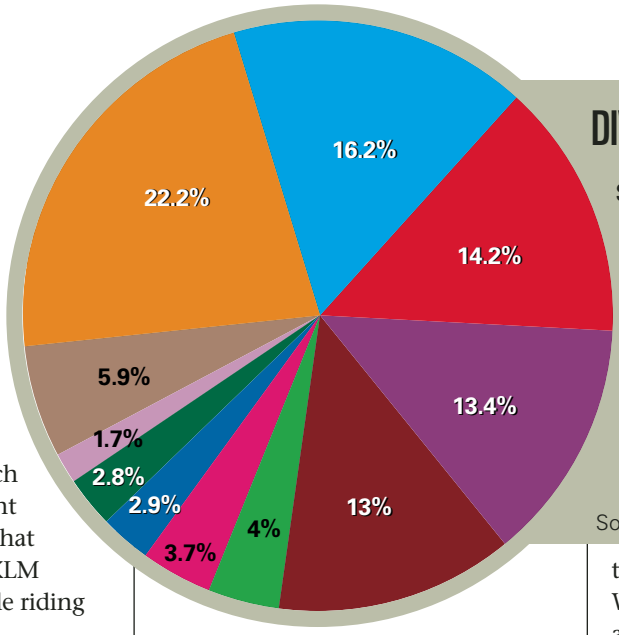
But he hinted the carrier might have to be choosier about the routes its freighters fly.

"A number of carriers are adding capacity for capacity's sake," said Wisbrun. "That is the illness of our industry. So in our network we may have to ask if we can fly to everywhere that our customers want, or if we have to focus more on a more limited number of destinations."

He said cargo needs to learn the lessons the passenger industry has absorbed in the last decade. "Eight to 10 years ago, they had the same overcapacity problems, but now we see a smarter equilibrium between supply and demand," he said.

One thing Air France-KLM is not doing is adding more maindeck capacity, a contrast to its Sky Team partner Korean Air Cargo. Ken Choi, president of the world's largest international freight airline, responds to questions about overcapacity with "when the road gets steeper, you pedal harder."

A fourth 747-400 extended-range freighter due to go to KLM in Febru-



DIVIDING EUROPE

Share of air freight market divided by European airlines in 2006, based on freight tonne kilometers performed.

Source: Association of European Airlines

ary has been diverted to Air France to help the carrier phase out its remaining 747-200 freighters. Separately, both carriers are rolling out 777-300 on their passenger routes, which offer as much as a 50 percent increase in belly capacity. That move will help Air France-KLM maintain market share while riding out the overcapacity storm.

Lufthansa Cargo seems to have no particular plans to add capacity. Spohr praises the MD-11 freighters the German carrier uses, saying they've got plenty of life left. In a recent press briefing, he pointedly did not allude to any new freighter orders.

Spohr spoke about cost cutting to meet rate-cutting competition, and focusing on per flight profitability.

"If we don't see a chance to profitably expand, then we won't," he said. "That is what makes us different from our competitors."

But Spohr admits Lufthansa could never match Asian unit costs. Instead he believes quality service is the answer, pointing to Lufthansa Cargo's recent creation of "competence centers," which have designated experts in mail, live animals, high-value cargo, and temperature-sensitive goods.

Having a 25 percent share in Jade Cargo International helps bolster Lufthansa's competitive standing. But does this stake enable the carrier to ride the Chinese dragon or just to cling onto its tail? Spohr, fresh back from a visit to Shenzhen, insists the relationship of the two carriers remains close, but Jade's decision to fly to Leipzig in Germany with its third freighter raised some eyebrows in Europe's air cargo community.

"Of course we have to decide how much independence we want for each subsidiary in each market, and that can be challenging," said Spohr.

Air France-KLM is attempting to forge a cargo joint venture with China Southern, but even here there is uncertainty. Far from being a preferred partner for the Chinese carrier, it now seems the European carrier is just one possible bidder in the tender process. If a deal is reached, it would have to "deliver value to the bottom line," Wisbrun said, suggesting the partnership is not seeking a tie-up at any cost.

Partnerships can be a double-edged sword. SAS has worked with Korean Air, Singapore Airlines and Japan Airlines to get maindeck capacity to Asia. But some observers regard this move as having helped Korean Air get into the Scandinavian market. With Jade and other Chinese joint ventures, the suspicion is the Chinese partners are tapping the experience of their European counterparts as a prelude to more open competition with them.

A trump card for the European carriers here could be their close relationships with the major global forwarders – the Panalpinas, Kuehne & Nagels and Schenkers. Comments by two senior Panalpina executives – Wolfgang Meier, head of networks and Robert Frei, head of air freight – at the World Air Cargo Event conference in Dubai in February suggested a certain nervousness by forwarders about how the new capacity flooding the market will affect their business.

Meier said overcapacity and lower rates could lead to weaker service and less consistency in routes, while Frei said commitment and guaranteed capacity was what for the forwarder was looking. European carriers could still retain substantial market share among the major forwarders if they meet such needs.

As a last resort, there is always creative routing, which is easier for European carriers than their North American counterparts. Cargolux responded to the competition on Middle East routes by routing more of its Asia-bound freighters via Central Asia. In the past few years, Cargolux has also turned its attention to Africa, starting service to eight places, including Lagos, Ndjamena, Abidjan, Accra and Kinshasa.

Wesner said West Africa is a good source of cargo — in particular oil equipment and consumer goods for workers. And there is the still growing perishables market from Africa to Europe.

"At the end of the day, we just have to keep one step ahead of the market," said Wesner. "We have to carry on being creative." ■

Short-Haul Goes Longer

by Robert W. Moorman

Never mind those trucks, regional air cargo operators have become an important link for expedited freight worldwide

In the early 1980s, one industry story goes, FedEx Chairman Frederick W. Smith, sent a note to the European manufacturer of the ATR-42 regional aircraft suggesting they make the plane, then still in the design stage, a little wider. Doing so would make it a better freighter one day, he reasoned.

Smith may not have been a customer at the time, but ATR took the advice and today FedEx is one of several carriers that have made the ATR-42 and its companion ATR-72 significant players in the air freight industry. In some ways, the role of the ATRs and other regional freighters in expedited supply chains belies trends that are pushing short-haul air cargo to trucks but industry observers say it's a role that is growing.

The growth of the regional air cargo industry in the United States and Europe mirrors that of its counterpart passenger business. Years ago, regional air cargo operators were small mom-and-pop operations flying bulk freight with small piston-powered aircraft. Today, the operations are more sophisticated. Operators fly larger pressurized equipment and have become an integral part of the global air freight business.

The smaller operators are still around but they are shrinking due to consolidation and the rigors of today's air cargo business. Others, such as Coeur d'Alene, Idaho-based Empire Airlines, are profitable and inexorably linked to the larger players in the industry.

"There are some parallels to being a regional feeder for a major passenger airline and a regional feeder for a freight forwarder or expeditor," said Tim Komberec, president and CEO of Empire, which flies ATRs, F27s and Caravans for FedEx Express. "This seems to be the best way for companies to get their product to smaller cities at a reasonable cost."

The ATRs are considered ideal regional freighters because of their wide fuselage as well as the large portside door.

Gary Richards is president of Burbank, Calif.-based Ameriflight, one of the larger regional cargo carriers in North America, operating more than 170 aircraft to 250 communities. He sees noticeable changes in his business since Ameriflight flew piston-powered aircraft for banks in the 1970s.

"Next-day air service forced carriers like ours to upgrade to turboprops because pistons could carry the weight, but not the bulk, typically," said Richards.

Ameriflight and others upgraded to the cargo equivalent of 15-seat, 20-seat and 30-seat freighters.

Richards credits online shopping for expediting change in this segment of the industry. Before the late 1980s, many communities did not get their mail or products the next day. Now, a computer click promises speedy delivery for all kinds of goods.

"The Internet is next-day and that too brought change," said Richards.

In the United States, today's regional air cargo industry was built partly by the banking industry.

Ameriflight and several other carriers flew checks overnight between Federal Reserve Banks in U.S. cities so the checks could be cleared, and funds transferred as quickly as possible. FedEx, as Federal Express, was built at least in part to compete for that business.

But the "Check 21" law a couple of years ago allows banks to electronically transmit checks. That, said Richards, prompted independent regional air cargo carriers to become more closely aligned with larger airlines. Ameriflight now uses only two of its five Lear 35s to fly checks; the other three are used for on-demand air charter. Ameriflight also operates Brasilias, Metro IIIs, 402s, Beech 99s and 1900s.

Most regional cargo carriers insist they are profitable but most are privately held and decline to provide financial or freight tonnage data. One significant independent operator, Utah-based Alpine Air Express, is publicly traded and earned $1.3 million in net profit in the nine months ending July 31, 2006, on revenue of $15.6 million, and counted a $2.6 million operating profit.

But most regional air cargo carriers are not required to submit Form 41 traffic and financial data to the U.S. Department of Transportation, according to Stan Bernstein, president of the Regional Air Cargo Carriers Association. Form 41 data is not required on Shorts 360 sized aircraft with a 7,500 pound payload. Above 7,500 pound payloads, the carrier would need to be a Part 121 operator unley they have an exemption.

According to RACCA, the average load for North American regional air cargo carriers is 2,500 pounds and the stage length is 110 miles. There are around 1,065 regional freighters in North America flying over 750,000 hours annually.

The apparent growth of the regional air cargo business has come with some tough scrutiny, however.

Between 1996 and 2005, there were 742 accidents involving air taxi operations working under Part 135 rules covering aircraft beneath jet size. Of those, 282 involved cargo aircraft with payload capacities of 7,500 pounds or less, according to the National Transportation Safety Board. Eighty-five of those accidents were fatal. Forty-three percent of the accidents involved two-engine piston aircraft and 14 percent involved single-engine Caravans.

Cessna recently developed an online course for flying in icing conditions, part of an industry response to accidens that have tarnished the industry's reputation.

Leaders of this segment of the industry were surprisingly candid about this safety problem.

"The safety record in our industry has not improved over the last 10 to 15 years, so it remains one of our biggest challenges," said Ameriflight's Richards. "Our pilots typically are younger and greener. So we're taking a hard look at the issue."

One way to improve safety is through additional training. Another is to acquire the now-affordable safety related technology for small regional cargo aircraft. Installing global positioning systems with moving map display as well as traffic collision avoidance warning systems would improve safety, said Richards.

RACCA plans to develop a set of recommended safety standards for its members to implement on a voluntary basis, said board member David Corey, president of AirNow, a regional freighter based in Bennington, Vt.

The standards will exceed Federal Aviation Administration minimum standards for aircraft operations and crew resource management.

For manufacturers of regional aircraft, the growing use of the planes in the air cargo business has been an important development, providing a viable aftermarket for aircraft as passenger airlines adjust and revamp fleets.

The no-longer-produced ATPs, 340 Brasilias, Bandeirantes and Shorts 360 are finding second homes with regional air cargo operators.

Even ATR — Avions de Transport Regional — which still produces the ATR-42-500 and ATR-72-500, is benefiting from the popularity of the older freighters.

"Although we don't convert ATRs, the cargo conversion improves the residual value of our product," said John Buckley, vice president of sales for ATR North America.

There are around 70 ATR freighters flying worldwide. FedEx Express has acquired just over 40 ATRs, but the carrier declined to say how many were in revenue service with its regional partners.

Hauling Sweden

West Air Sweden believes in the freight hauling potential of converted regional passenger airliners. The Gothenburg-based all-cargo carrier operates 18 ATPs twin-engine turboprop on behalf of integrators, various Scandinavian postal authorities and logistics providers.

The long-term plans call for 28 ATPs, some with large cargo doors for containerized cargo.

The regional carrier made its decision back in 1998, when a study showed the ATP had the lowest costs. The carrier signed a long-term joint venture with BAE Systems Regional Aircraft to modify and lease the aircraft, which are no longer being built.

Gustaf Thureborn, West Air's president and managing director, said the airline faces operational and regulatory challenges in expanding its business more rapidly.

"In Europe, we're still not adequately utilizing air freight solutions as they do in the United States," he said. Mail is the airline's biggest single source of revenue.

This spring, West Air will become a guinea pig of sorts. The carrier will receive the first two Bombardier Aerospace CRJ200 regional jet freighters made. Regional cargo operators will follow closely the freighter potential of the CRJ200. Many operators question whether the CRJ will ever compete well with turboprops for freighter business because of the newer plane's higher operating costs. But they said the same thing years ago about the RJ's potential as a passenger hauler.

Elsewhere in Europe, many regional airlines operate a combi-passenger and freight carrying services, according to the European Regions Airline Association. Adria, Aegean and Air Atlantique all operate cargo services, said ERAA spokeswoman Lesley Shepherd. ■

A 16-year-old ATR-42 passenger airliner, if available, can be acquired for around $3 million, $6.5 million for an ATR-72 manufactured in 1990, said Buckley.

The ATRs are considered ideal regional freighters because of their wide fuselage as well as the large portside door. A 117x72-inch cargo door is offered for the ATR-72-200 freighter, but the conversion cost may be prohibitive for some operators. Conversion specialist Aeronavali, a Finmeccania company, produces a large freight door for about $1.2 million, reportedly.

With the larger door, the -72 is capable of carrying five 88-inch by 108-inch pallets plus a bulk load. Depending upon the cargo loading system chosen, conversion costs vary widely from $250,000 to $1.4 million, according to one completion house.

BAE Systems Regional Aircraft has pumped new life into its ATP turboprop freighter and, possibly, its BAe-146 quad-jet freighter. TNT still uses 13 BAE-146-200 QTs in Europe and Titan Airways in the United Kingdom has three -146s.

"The ATP needed a market outlet to sustain its projected life between 30 and 40 years," said Nigel Benson, director of sales for BAE Systems Regional Aircraft.

Benson said the manufacturer got into the ATP freighter conversion business after several market studies and forming a joint venture with West Air Sweden.

Benson expects 40 of the 64 ATPs manufactured will be freighters by the end of 2007. Of that number, 17 will have the new portside freight doors and 23 will be configured for bulk freight. The other 20 remain in passenger service, with three aircraft idle, he said.

BAe is close to a decision on relaunching the -146 freighter program as a result of a "steady trickle of inquiries," said Benson. The continued demand for the -146 freighter, he said, comes from the void left between the ATP and ATRs and the larger 737-300/400 jets. But operators would have to absorb the expected increase in direct operating costs for more capacity.

Propping Up Planes

Utilicraft Aerospace Industries has a new name and new headquarters as it renews its efforts to build a new short haul regional freighter turboprop.

Formerly based in Lawrenceville, Ga., as American Utilicraft, the company now is working on its plan out of Albuquerque, N.M.

The company now plans to roll out a prototype of its twin-engine, single propeller freighter, dubbed the FF-1080 freight feeder, in November 2007, and certify the aircraft in 2009, says Vice President of Marketing Scott Jacox.

The aircraft could be described as a larger, boxier version of the Cessna Caravan. At 112 feet long, the FF-1080 is designed for short takeoff and landing operations. It will have an operating range payload of 20,000 pounds over 2,000 nautical miles.

In January, Utilicraft signed a letter of intent with Swansea, Ill.-based Mid America Aero for the purchase of 10 FF-1080-300s. At $13.2 million per copy, the order has a potential value of around $130 million.

But the company has a checkered history. American Utilicraft was forced to shut down its Georgia operation after several orders were canceled. In 2004, the renamed company led by CEO John Dupont resurfaced in Alburquerque, looking for necessary funding to bring the aircraft to market. ■

In fact, the conversion market for the short-haul aircraft is as lively as that for large freighters.

So far, Saab Aircraft Leasing has seen some 20 of its 340As reconfigured for cargo service, most of them done by SAL itself.

"We've done quite well," said Michael Magnusson, president of Saab Aircraft Leasing. Cargo customers include Miami-based IBC, which has four 340 freighters. Two 340 freighters are operating with Job Air, a freighter carrier in the Czech Republic.

The larger 400 miles-per-hour, Saab 2000, however, is "too expensive," said Magnuson, at around $6 million before conversion costs.

The lack of availability and high residual value of these older regional airliners is another challenge facing manufacturers and operators. While not an ideal freighter, most Dash 8-200 and 300s remain in passenger service. Even the older 1980s- produced Dash 8s found homes with second-tier carriers in developing nations.

"I never thought this vintage would still be in passenger service," said Ron Sheridan, vice president of asset management for Bombardier Aerospace. "We looked at converting the Dash 8 for freighter service, but we never had the price levels low enough to meet the market's expectation." The 50-passenger -300 costs over $4 million before conversion, he said.

But Bombardier is attempting to market older CRJ regional jet freighters. Launch customer West Air Sweden will receive two CRJ200s freighters this spring. The Mach 0.81-capable CRJ200PF can carry a 14,000-pound payload. Most operators are waiting to see how the CRJ performs as a freighter before committing.

Sheridan described the CRJ freighter as a "nice airplane for long haul service," but concedes it can't compete with turboprops on short haul stage lengths.

OEMs are not the only vendors to prosper from the regional freighter aftermarket. Maintenance, Repair and Overhaul shops are slowly enhancing their revenue base by converting regional passenger airliners to freighters.

San Antonio-based M7 Aerospace is a top conversion house, having converted nearly 50 ATRs, most for FedEx. M7 is a preferred conversion house because it has supplemental type certificates for the passenger to freight conversion of both the ATR -72 and -42. In addition to ATRs, M7 Aerospace converts to cargo the Brasilia and Metroliners.

"It's a growing business and we plan to capture more of it the future," said Chester Schickling, vice president of business development. ■

All-cargo turboprop freighters worldwide listed by regions

USA	821
Europe	357
Africa	142
Canada	56
South America	41
Middle East	33
Far East	32
Central America	30
Australia	27
Carribean	7
Total	**1,546**

Source: BACK Aviation Solutions

People

Airlines


Steen

Atlas Air: Atlas Air Worldwide Holdings named former KLM Cargo executive **Michael T. Steen** senior vice president and chief marketing officer, replacing **Ronald Lane**, who is retiring at the end of the year. Lane will remain a senior vice president and special advisor through Dec. 31. Steen, 40, has been with Exel most recently in senior positions in logistics and supply chain management. He was with KLM for 11 years before that, including positions as vice president for the Americas, head of global sales and marketing and director of sales for Northern Europe.

Martinair Cargo: The Dutch carrier named **Iris Van Goethem** director of capacity revenue management. She has been an analyst in the CRM division and earlier was deputy station manager in Miami. She holds an economics degree and a master's degree in music and education from the Royal Flemish University.

Maskargo: Malaysia Airlines Cargo promoted three executives: **Chan Chee Huat**, former senior manager of finance, was named general manager of finance. **Shahari Sulaiman**, former general manager for business development and sales, becomes general manager of cargo operations responsible for systemwide operations. And **Mohd Yunus Idris**, former general manager of cargo operations, becomes general manager of business development and sales.

Integrators

DHL: The express carrier named **Charles Graham** global chief executive officer for aviation, a position that includes membership on the company's global express management board. He succeeds **Terry Nord**, who retired. Graham had been CEO of AWAS, formerly Ansett Worldwide, for 10 years. DHL Express also named **Raymond Leong** national marketing manager in Singapore. Leong joined the company in 1996 in Malaysia as a marketing research and planning manager after getting an engineering degree and a master's in business administration from the University of South Carolina.


Graham


Leong

ANC Express: Recently acquired by FedEx Express, the British operator said **Michael Holt** was promoted to chief executive on the retirement of **Mark Gittins** and longtime FedEx executive **Trevor Hoyle** was moved to ANC as group operations director. Holt, 45, had been group operations director at the carrier since 2000. Hoyle, 46, has been with FedEx Express in United Kingdom for 13 years and became managing director of operations in 2002.

Third Parties

Meridian IQ: The logistics subsidiary of YRC Worldwide named **John Carr** president of the Americas and Europe. Carr was most recently president of global supply chain management at BAX Global. He earlier held management posts at the Fritz Cos., Geologistics, Pandair and Behring International. Meridian IQ also named **Roland Chong** managing director for Asia, a position that includes oversight of the company's joint forwarding venture with JHJ International Transportation in China. Chong has worked with companies including Exel, Kyocera, AT&T, and Crown Pacific. He also serves as an economic consultant and advisor for the Chinese government in development of the Tianjin airport and free trade zone.


Chong

Famous Pacific Shipping: The Asian forwarder, seeking to branch out from services largely identified with the ocean industry named **Akanesi Ofahengaue** manager for the FPS air freight division in New Zealand. She had most recently been at Air New Zealand Cargo managing the airline's portfolio of forwarder customers.


Ofahengaue

Global Link Logistics: The Atlanta-based import logistics services provider to the North American home furnishings industry named **Christine Callahan** chief operating officer for the company. A 25-year logistics industry veteran, Callahan had been vice president of global ocean freight services at UPS Forwarding and joined the company through its acquisition of Menlo Worldwide Forwarding.

Agility: The Kuwait-based forwarder named **Anthony E. Enright**, a former top executive at UPS Supply Chain Solutions, senior vice president of sales and marketing for the Americas. Enright replaces **John Kincheloe**, who moved to the Global Integrated Logistics sales team. A 30-year industry veteran, the former executive at

People

AEI, Target Airfreight and Dateline Forwarding also was on the acquisition teams for the purchase of Fritz Cos. and Menlo Forwarding.

Adcom Worldwide: The Minnesota-based forwarder named **John Klesch** vice president of sales and marketing and **Richard Flanders** vice president of national sales. A 30-year industry veteran, Klesch held management roles at Circle International and Eagle Global Logistics. Flanders worked in national sales at forwarders Seko and Pilot.

Associated Global Systems: The U.S. forwarder **Bob Reilly** director of government services. Reilly began his career in 1978 with DHL and later worked at Emery Worldwide and UPS Supply Chain Solutions.

Lynden International: The Seattle-based forwarder named **Stella Ludovicy** an account executive in the Midwest. A 20-year industry veteran, she had been with Panalpina for four years. Lynden also named **Jimmy Cahill**, formerly of Exel and BAX Global, a Midwest account executive.

Mundays: The British law firm specializing in the air cargo and logistics industry named **Oliver Jackson** an attorney with the firm. Jackson is a specialist in dispute resolution, insolvency and business recovery and has worked in areas including franchise agreements and overseas judgment enforcement.

Manufacturers

Airbus: Airbus North America promoted **Andrew Shankland** to senior vice president for sales and marketing. A 15-year Airbus veteran, Shankland had been vice president of sales. Previous positions include ANA vice president for business development.

Driessen: The Netherlands-based maker of air cargo equipment named **Paul Verheul** chief executive officer. He joined Driessen as president of the Europe galleys division and before that was vice president of Schreiner Aviation Group and vice president of engineering and maintenance at Transavia Airlines.


Verheul

Utilicraft Aerospace: The New Mexico-based manufacturer of a prospective regional cargo feeder aircraft named **Randy Moseley** chief financial officer. The former CFO, **Karen Schoemaker**, will remain as as vice president and controller.

Trucking

Forward Air: The U.S. air freight trucker elected **Tracey A. Leinbach**, the former chief financial officer of Ryder System, as a member of its board of directors. She retired from Ryder last year after more than 20 years with the company. ■

Advertiser Index

Aeronautical Engineering 6
Alitalia CV2
All Nippon Airways 3
Austrian Airlines 23
Boeing 24-25
China Trade & Logistics Conf. CV3
Cologne-Bonn Airport 15
Continental Airlines CV4
Coyne Airways 12
Dallas-Fort Worth Int'l Airport 7
Delta Air Logistics 9
Mack-Brooks 41
Malpensa Logistics 31
Qatar Airways 29
Royal Jordanian Cargo 8
Vienna Airport 35

Events

May 15-17

Baku, Azerbaijan: Caspian Air Cargo Summit 2007, organized by Euroavia International and Silk Way Airlines, focused on the Caspian, CIS and Central Asia market. For information, call +47 70 483 6474 or visit: *www.euroavia.com/caspian/*

May 22-23

London: World Mail & Express, the European conference and exhibition at the Novotel Hammersmith, sorting out how deregulation will push the envelope on private and postal delivery services. For information, call +44 870 950 7900 or visit: *www.triangle.eu.com.*

June 3-5

Vancouver, B.C.: IATA Annual General Meeting and World Transport Summit, the high-level gathering of senior airline executives focused on self-sorting cargo, or passengers, is an invitation-only event. For information, visit: *www.iata.org.*

June 4-5

Savannah, Ga.: China Trade & Logistics Conference, at the international trade and convention center, the Journal of Commerce conference and includes speakers from China ports and logistics companies. For information, call (760) 294-5563 or visit: *www.joc.com/conferences/ctl.*

June 12-15

Munich: Air Cargo Europe, within the transport logistic International Trade Fair for Logistics organized by Messe Muenchen. For information, call +49 89 949 20270 or visit: *www.messe-muenchen.de.*

June 13-14

Tianjin, China: CSCMP China 2007, the Council of Supply Chain Management Professionals brings its focus on shippers and logistics to China. For information, call (630) 574-0985 or visit: *www.cscmp.org.*

June 25-27

Atlanta: Fifth annual 3PL Summit at the InterContinental Buckhead, the eyefortransport event features takes place alongside the Outsourcing Logistics summit. For information, call +44 207 375 7231 or visit: *www.eyefortransport.com.*

Sept. 3-6

Hong Kong: Air Freight Asia 2007, annual cargo industry conference and exhibition, alongside Asian Aerospace. For information, visit: *www.airfreightasia.com.*

Sept. 18-20

Warsaw: Cargo in Emerging Markets–Eastern Europe, the IATA conference is the third in a series of events that looks at challenges and opportunities outside the main trade lanes. For information, visit: *www.iata.org/events/calendar*

Sept. 23-25

Stockholm: World Route Development Forum, with the new "Routes Cargo Zone," the popular event brings together airlines, airports and service strategies, including popular one-on-one sessions between route planners and airports. For information, call +44 162 550 2545 or visit: *www.routesonline.com.*

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

Oct. 9-12

Munich: inter airport Europe 2007, the annual event looks at ramping up airport operations. For information, call +44 (0) 172 781 4400 visit: *www.mackbrooks.co.uk.*

Oct. 21-24

Philadelphia: CSCMP 2007, at the Pennsylvania Convention Center, the annual meeting of the Council of Supply Chain Management Professionals, where shippers own the freight and the event, the logistics world's largest gathering of shippers includes a keynote by the former Hewlett-Packard chief Carly Fiorina. For information, call (630) 574-0985 or visit: *www.cscmp.org.*

Oct. 18-22

Dubai: FIATA World Congress, at the Grand Hyatt Hotel, the annual meeting of the worldwide freight forwarder association. For information, call +41 43 211 65 00 or visit: *www.fiata.org.*

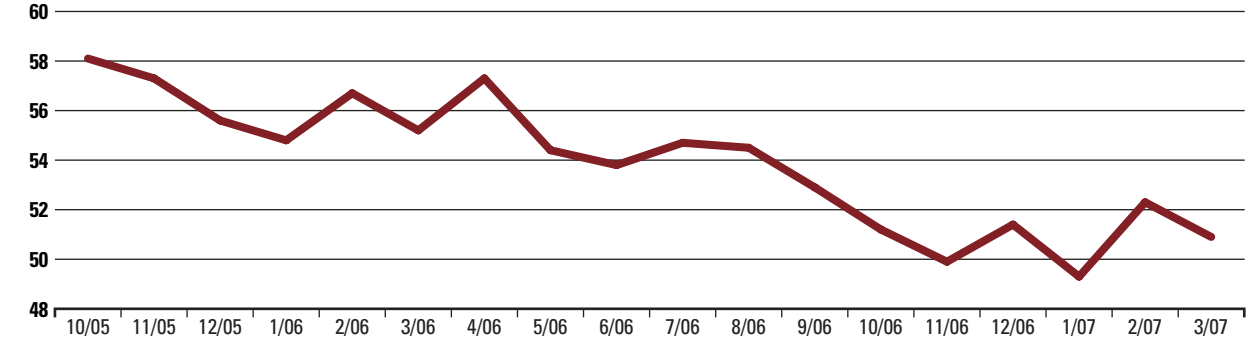
Nov. 7-9

Miami: Air Cargo Americas, at the Sheraton Center, the ninth edition of the bi-annual definitive event looking at air trade to, from and within Latin America. For information (305) 871-7904 or visit: *www.aircargoamericas.com.* ■

the AirCargo Bottom Line

Making Goods

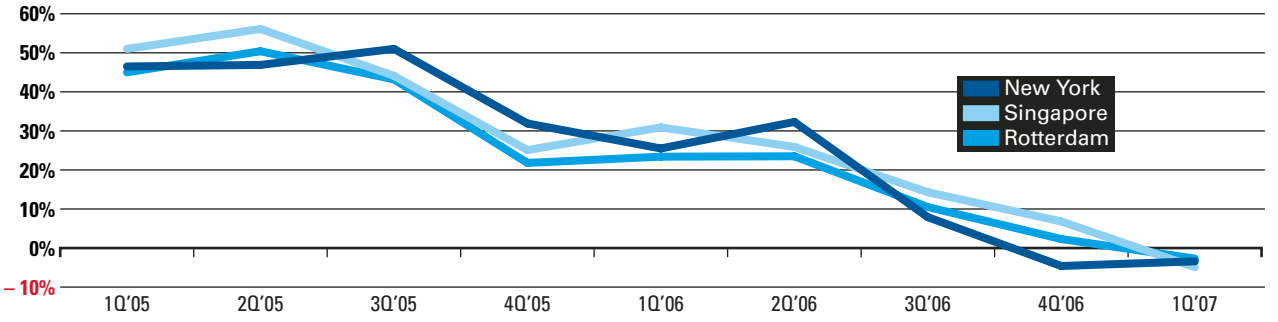
Monthly U.S. manufacturing index, indicating manufacturing activity in American economy. A reading above 50 shows expansion, below 50 contraction.



Source: Institute of Supply Management

Filling Up

Year-over-year percent change in average quarterly jet fuel prices in Europe, Asia and the United States.

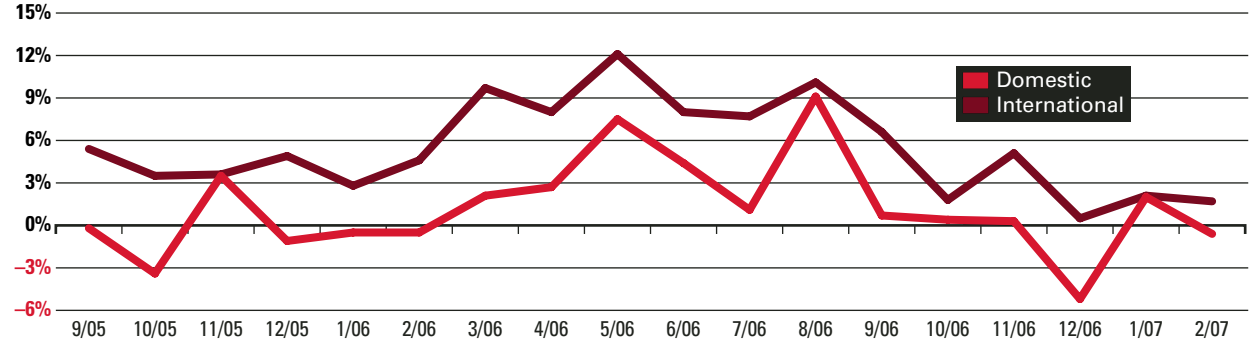


** Through March 23*

Source: Energy Information Administration, Bank of America Securities

U.S. Airlines

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



Source: Air Transport Association of America

Cargo Revenue

Cargo revenue in 2006 and percent change from 2005 for the major U.S. combination airlines.
(in US$millions)

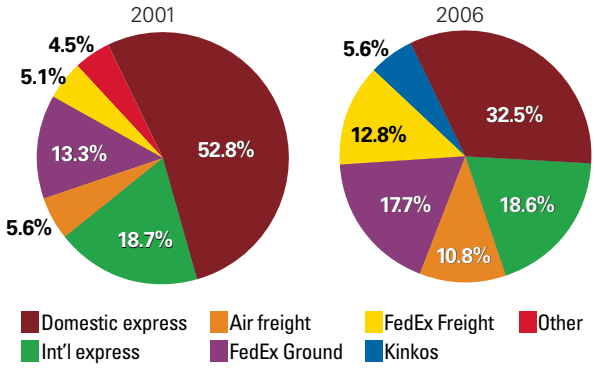
Airline	2005	2006	% Change
1. **Northwest**	$947	$946	–0.1
2. **American**	$784	$827	5.5
3. **United**	$729	$750	2.8
4. **Delta**	$524	$498	–5.0
5. **Continental**	$416	$457	9.9
6. **US Airways/America West**	n/a	$153	n/a*
7. **Southwest**	$133	$134	0.8
8. **Alaska**	$94	$97	3.2

** Figures combine US Airways and America West into US Airways Group*

Source: Company reports

Sharing FedEx

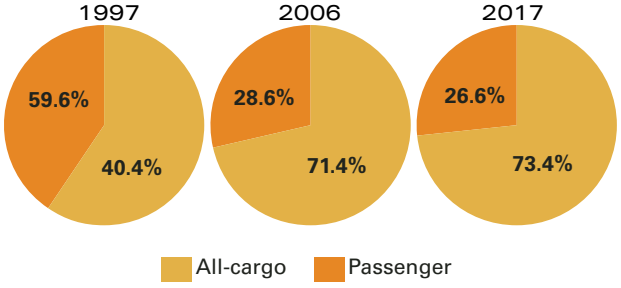
FedEx overall revenue divided by business in 2001 and 2006 third quarter.



Source: Company reports

Sharing Bellies

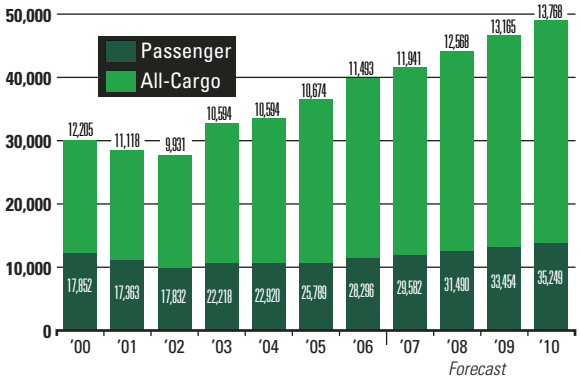
Historical and forecast division of cargo traffic in the United States between all-cargo carriers and passenger airlines, for all services.



Source: Federal Aviation Administration

Belly Bust

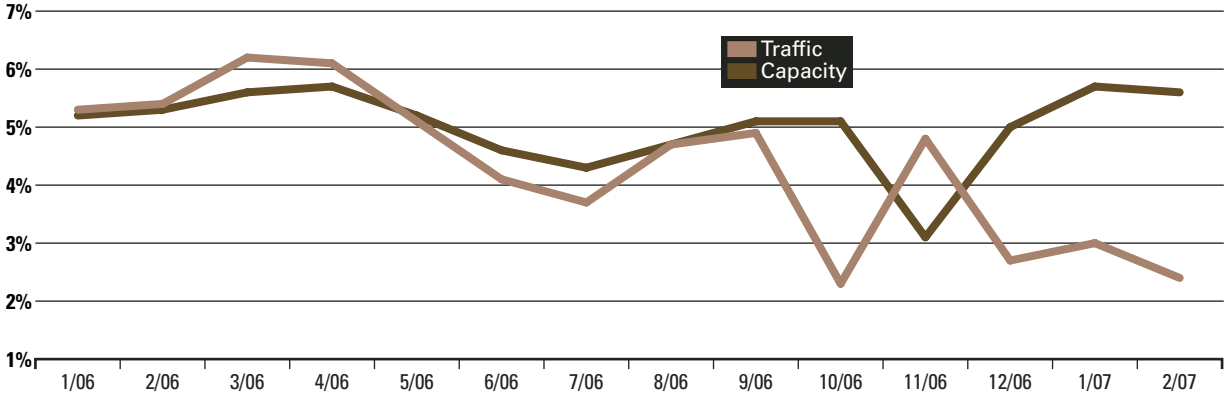
Past and forecast traffic carried by U.S. passenger and all-cargo airlines.
(in millions of cargo ton miles)



Source: Federal Aviation Administration

Carrying International

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



Source: International Air Transport Association

China

Brandon Fried • Executive Director • U.S. Airforwarders Association

Airline connections to China are growing, but is business on the ground ready to keep up?

United Airlines recently hosted an intimate gathering in Washington to celebrate its new "Capital to Capital" nonstop service to Beijing. The event attracted many government and industryy officials, many of whom were taking the first flight — fully booked — the next morning. It also marked the opening of a new route in what has become the world's largest-ever economic boom markets — China.

It is no secret companies worldwide are gaining economic advantages through manufacturing in China.

The country creates domestic infrastructure the size of the city of Philadelphia every 90 days. China's export market has driven economic growth in the country that is approaching 10 percent annually. China alone will contribute 30 percent of the world's air cargo growth by 2010. The China-North America cargo market has now achieved the highest position in the trans-Pacific sector and is set to grow larger as freighters pour into the region.

China is building and expanding airports at an unprecedented rate. The country plans to spend US$17.4 billion over the next five years to build 42 airports. An overabundance of labor recently had 35,000 workers committed to building the world's largest terminal structure at the Beijing airport.

Air cargo remains the growth point as the government encourages the establishment of cargo and combination carriers to support its air transportation demand.

Unfair Balance

Despite the excitement of this increased economic activity, one wonders if China will effectively deal with the challenges created by its own success.

Airlines have dealt with the challenge of an imbalance of trade for a long time. Simply put, airlines fly more freight out of China than in. Inbound planes are half-empty which makes it difficult for the airlines to make profits for the roundtrip flight. Export yields have compensated for weak import rates, but threatening overcapacity could limit the industry's growth.

Sharp capacity additions have created a new feature in the Chinese export, discounted and ad hoc rates. Too much capacity chasing too few shipments could be the real dilemma facing airlines.

Lower-cost carriers such as Jade International Cargo are launching with less overhead, ready to deal with higher fuel prices, more competition and lower volumes.

Paved Intentions

Another threat to air cargo growth in China is infrastructure bottlenecks brought about by overproduction and a lack of road planning. What good are big and beautiful cargo airports if the highways cannot efficiently accommodate the trucks tendering shipments to flights in a timely manner?

China is working at a rapid pace to improve its road connections between large cities, but it will take years before the linehaul capabilities in China's interior are adequate. If airport access issues jeopardize the speed of air freight, shippers are likely to shift to other modes of surface transport to improve efficiencies.

As the world increasingly focuses on the security of air cargo, will China be able to efficiently deal with the screening demands to assure flying safety? Can shippers and forwarders who have created security programs in Europe and North America assure the security of their Chinese manufacturing supply chains?

The biggest challenge could be the environmental impact of air traffic growth. Such concerns have never been high on the agenda for China's aviation regulators.

Leaving the world's fastest growing aviation sector unrestrained by pollution regulations would be a dangerous mistake. Many hope the rush of investors and aviation interests will not only attract more airlines and airports, but those urging an increased environmental consciousness as well.

New flights prove the key to success in China is really in the logistics sector. Amid the excitement, huge challenges remain with improvements coming every day.

The rest of the world can help China remain a preferred manufacturing center by promoting reliable security and responsible environmental behavior. ■

China Trade & Logistics Conference

A Symposium: Capping China's Potential

Plan to attend
Contact JoC Conferences at
760-294-5563 or events@joc.com

Plan to sponsor
Contact Yvonne Berry at
209-369-0003 or yberry@joc.com

Topics to Be Discussed:

- How China's 5-year Plan Impacts Logistics & Transportation
- Sourcing from China
- Port Development in China
- All-Water Routes to Asia
- Pros and Cons of Doing Business in China
- Pearl River versus Yangtze River Delta Development
- Inland Transportation Opportunities in China
- Ocean Carrier Expansion into China
- A Chinese Millennium?

For more information or to register online visit
www.joc.com/conferences/ctl

CTL
CHINA TRADE & LOGISTICS

June 4 & 5, 2007
Savannah International Trade & Convention Center
Savannah, Georgia

Industry leaders will discuss and debate the major issues involved in the U.S-China international shipping market, with an emphasis on all-water and intermodal traffic. Over the course of two days, executives from shippers, carriers, ports, logistics companies and others involved in the U.S-China trade will take part in this comprehensive briefing on the state of the market and current strategies.

Sponsored by:

MAERSK LINE
MAERSK LOGISTICS
DP PARTNERS
Solution Property Group
Maritime Logistics Innovation Center
Old Dominion Freight line, Inc.
McDonald Development

Produced by:

The Journal of Commerce CONFERENCES
Commonwealth Business Media
United Business Media

Hosted by:

Georgia Ports Authority

IT'S YOUR WORLD. WE JUST FLY AROUND IN IT.

The most international destinations of any U.S. airline.

The inauguration of daily flights between Newark and Athens on June 7 will boost our total destinations served up to 285 and our total European cities served to 27. So does that mean your world is getting bigger or smaller? Maybe we should just say closer and call it even. For more information or to book a shipment, contact your Continental Airlines Cargo sales manager or visit cocargo.com.

Some service operated by ExpressJet Airlines, Inc., d/b/a Continental Express.

Continental Airlines
Cargo

Work Hard.
Fly Right.SM