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# Air Cargo World

DECEMBER 2007

INTERNATIONAL EDITION

Review/Outlook

## Modest Gains for Cargo 2008

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# Air Cargo World

INTERNATIONAL EDITION

December 2007

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# Dear Editor

**W**e received a letter recently that deserves attention and falls into that category that benefits the writer as well as the reader.

Not every letter is all that helpful. A number are self-serving rants that do little to enlighten a writer. Others are self-serving gushers that compliment the article's writer primarily because his/her business got some ink.

But that wasn't the case with a note from consultant Jock O'Connell about an updated California State University study referenced in the November *Air Cargo World* cover story, "Finding the California Pass." O'Connell, a co-author of the study, believed the article lacked some important details regarding the value of air freight in California. He makes a good point, and not only about air freight's value to California but really about the value of air freight to many national and local economies.

He wanted us to know, for instance, the majority of California's merchandise export trade by value, valued at \$127.7 billion in 2006, goes by air and that the state's annual airborne agricultural exports have exceeded \$500 million.

O'Connell is upfront about his agenda. Despite appeals before the California State Legislature, O'Connell said he's been unsuccessful in persuading officials that California's airports could be "more important to its economy than its seaports." I can see how some state leaders might think this a somewhat exaggerated view. But I read on.

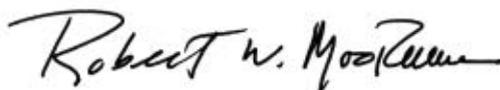
The state's multi-billion dollar goods movements action plan focuses primarily on the ports of Los Angeles, Long Beach and Oakland and gives short shrift to air freight. Yet, California's high-tech exporters are particularly dependent on air freight, he said.

Not mentioned in the letter is the fact that a growing amount of the sea freight coming into these three ports is transferred to air freight to expedite delivery. Also helping make O'Connell's case is the increased importance of the Ontario and Los Angeles airports as air freight gateways to Asia.

The March Global Port, the 350-acre commercial cargo and distribution development at a military air base in Southern California, could become an international gateway for DHL if the port and noise conscience citizens groups reach a compromise. Which brings us to the real obstacles facing air freight growth in California, a problem O'Connell acknowledged.

Packed highways, mountains and sprawling suburbs hem in California's gateways. Add the "virulent opposition" from neighboring communities to expansion plans and O'Connell's vision for air freight becomes blurred.

Yet, Californians are resilient and creative. Consider what's been accomplished at Ontario Airport, which also is surrounded by, well, obstacles.



# Air Cargo World

International Trends & Analysis

**Editor**

Paul Page • [ppage@aircargoworld.com](mailto:ppage@aircargoworld.com)

**Managing Editor**

Robert Moorman • [rmoorman@aircargoworld.com](mailto:rmoorman@aircargoworld.com)

**Contributing Editors**

Roger Turney, Ian Putzger, Mike Seemuth

**Art & Production Director**

Jay Sevidal • [jsevidal@aircargoworld.com](mailto:jsevidal@aircargoworld.com)

**Editorial Offices**

1270 National Press Bldg., Washington, DC 20045  
(202) 355-1170 • Fax: (202) 355-1171

**PUBLISHER**

Steve Prince • (770) 642-9170 • [sprince@aircargoworld.com](mailto:sprince@aircargoworld.com)

**Advertising/Business Office**

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

**Classified Advertising and Reprints**

Laura Rickman • [lrickman@aircargoworld.com](mailto:lrickman@aircargoworld.com)  
(770) 642-8036

**International Advertising Offices**

*China*

Beijing Office  
Nancy Sun (Sun Junjin)  
[nsun@publicitas.com.cn](mailto:nsun@publicitas.com.cn)  
++86 10 5879 5885

Shanghai Office  
Isabella Hou (Hou Ying)  
[ihou@publicitas.com.cn](mailto:ihou@publicitas.com.cn)  
++86 (21) 5116 8877

Guangzhou Office  
Abby Mao (Mao Xiaolin)  
[xlmao@publicitas.com.cn](mailto:xlmao@publicitas.com.cn)  
++86 20-8732 2965

*Europe, United Kingdom, Middle East*  
David Collison  
+44 192-381-7731  
[dci.collison@btinternet.com](mailto:dci.collison@btinternet.com)

*Hong Kong, Malaysia, Singapore*  
Joseph Yap  
+65-6-337-6996  
[Jospeh.imsa@pacific.net.sg](mailto:Jospeh.imsa@pacific.net.sg)

*Japan*

Masami Shimazaki  
+81-42-372-2769  
[shimazaki@mvj.biglobe.ne.jp](mailto:shimazaki@mvj.biglobe.ne.jp)

*Thailand*

Chower Narula  
+66-2-641-26938  
[worldmedia@inet.co.th](mailto:worldmedia@inet.co.th)

*Taiwan*

Ye Chang  
+886 2-2378-2471  
[epoch.ye@msa.hinet.net](mailto:epoch.ye@msa.hinet.net)

*Australia, New Zealand*  
Fergus Maclagan  
+61-2-9460-4560  
[maclagan@bigpond.net.au](mailto:maclagan@bigpond.net.au)

*Korea*

Mr. Jung-won Suh  
+82-2-3275-5969  
[sinsegi@groupnet.co.kr](mailto:sinsegi@groupnet.co.kr)

**Administrative Assistant**

Susan Addy • [saddy@aircargoworld.com](mailto:saddy@aircargoworld.com)

**Display Advertising Traffic Coordinator**

Tracey Fiuza • [tfiuza@joc.com](mailto:tfiuza@joc.com)  
(973) 848-7106

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Barbara Ross • [bross@joc.com](mailto:bross@joc.com)  
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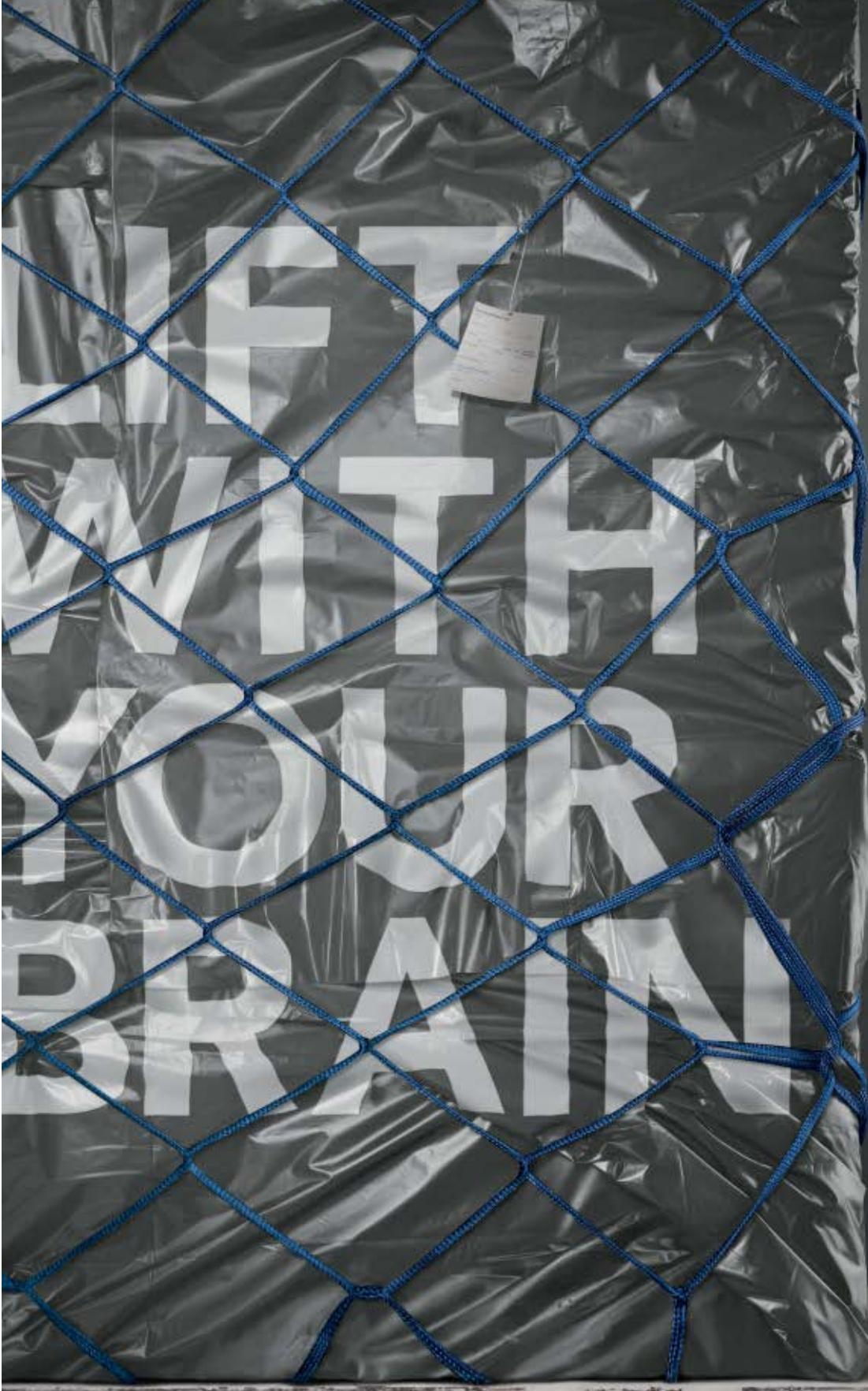
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# News Updates



## Fuel Rockets Upward

**F**uel surcharges at major airlines are moving to unheard-of levels this month after a skyrocketing surge in jet fuel prices. With oil prices around the world pushing close to \$100 a barrel, jet fuel prices pushed past \$2.80 a gallon in some markets in the second week of November, capping a runup that has seen fuel prices for airlines grow more than 60 percent this year.

Airlines were rushing to ramp up fuel surcharges, first to 70 U.S. cents in the middle of November and then to 80 U.S. cents, effective this month. But even those increases on regular schedules weren't keeping pace with the rising costs — the average price of jet fuel in Singapore was \$2.16 a gallon in September and by the first week of November it was just short of \$2.75 a gallon.

FedEx last month pulled back its profit outlook for its current quarter partly because its fuel costs had grown \$85 million in just two months and its surcharges couldn't keep pace.

"We snickered at \$70" per barrel of oil, said Jack W. Boisen, vice president of Continental Airlines Cargo. "We coughed at \$80. We gasped at \$90."

And the rising prices revived suggestions that the costs would drive some shippers from air freight to ocean transport. There's little way to measure the impact, but there may have been a hint of that in a Deutsche Post financial report that showed DHL Global Forwarding division posting a 5 percent gain in air cargo volume while ocean traffic grew 20 percent.

Bunker fuel prices for ocean carriers also are soaring, but the impact may be greater on air services that already may cost up to 10 times the price of ocean transport.

"Aircraft are much more fuel-intensive than ships — that is, you burn a lot

more gas to move a ton of air freight from China to the U.S. than an equivalent ton of ocean freight," said David Hoppin of the MergeGlobal consulting firm. "At the same time, ocean carriers seem to be really improving their ability to deliver on time to the inland consignee. These two trends may cause a number of air cargo shippers to downgrade to time-definite ocean service."

## Charges Probed

**A**uthorities who manage the air freight industry's main payment settlement system have turned over records of forwarder-airline payments to investigators looking into the cargo pricing practices.

Executives at Cargo Network Services, an arm of the International Air Transport Association, say CNS has been cooperating for more than a year with antitrust investigations that have racked the industry and triggered criminal charges and tens of millions of dollars in penalty payments by some airlines.

Jens Tubbesing, president of CNS in the United States, said the group has turned over records from the CASS settlement clearinghouse system as part of the investigation, which involves surcharges paid by shippers and forwarders to airlines.

"IATA has cooperated and will cooperate with the investigators," said Tubbesing.

CNS disclosed its cooperation after Julian Keeling, president of Los Angeles-based wholesaler Consolidators International, said CASS records could clear up allegations of potential pricing collusion and that the IATA operation was "protecting the big forwarders" by not addressing the investigation.

Authorities on both sides of the Atlantic expanded the investigation in October with the search of the offices of some of the world's largest forwarders, including Kuehne + Nagel, Panalpina, Schenker and others.

British Airways and Korean Air have been fined in the probe and Lufthansa Cargo paid a penalty to settle charges and said it was cooperating in the investigation.

Officials at the Department of Justice and the Federal Bureau of Investigation in the United States wouldn't comment last month on the direction of the investigation or what information they are seeking from forwarders.

A senior executive at one cargo business, speaking on condition of anonymity, said the investigation appeared to be focused on how airlines added surcharges such as fuel surcharges to forwarder bills.

The rising price of jet fuel has pushed surcharges in some markets beyond the base cargo rates and many forwarders have complained that the separate surcharges are not subject to sales commissions, driving down compensation for the forwarders. The integrated express carriers have regularly reduced fuel surcharges and raised their base rates to compensate, but major international freight airlines generally have kept their public fuel surcharge schedules in place.

## DHL Restarts

DHL's losses in the United States appear to be deepening and the express carrier is looking closely at the entire operation even as it struggles with its major North American air service provider, ABX Air.

DHL and ABX Air agreed to bind-

ing arbitration last month to settle a financial dispute between the two operators, a dispute that bared the enmity between the businesses and the direction of their operations.

But DHL is concerned with larger issues, including a sharp decline in its air express business in North America over the last year that helped drag down overall profits at parent Deutsche Post World Net in the third quarter. DPWN Chairman Klaus Zumwinkle told analysts in Germany last month the company must look at how to "restart the whole thing" next year, but he rejected any idea that DHL would scale back in the face of problems in the United States.

"It would be so easy," he said. "Let's close it down, hand out some pink slips. Pay some hundred millions or whatever comes out, some write-offs just on the accounting — cuts that would be really easy. But we would destroy a lot of value."

The company last month reported a 4.6 percent drop in express revenue in the Americas in the first nine months of 2007, including a 6.6 percent decline in the third quarter. The U.S. air express market generally has been in decline in recent years, and volume for key competitors FedEx and UPS in that area has been flat.

In the meantime, DHL is trying to work out its problems with ABX. Their rift deepened in recent months when ABX added new aircraft for its charter and leasing business outside the DHL contract, and ABX then rejected a takeover overture from DHL's other sub-service air operator, ASTAR Air Cargo.

ABX this fall bought another freighter airline, Cargo Holdings International, boosting its non-DHL business and along the way making ABX a tougher takeover target.

## Hawk Down

Kitty Hawk Aircargo's attempts to reorganize under bankruptcy protection lasted about as long as a short-haul flight.

The U.S. freight airline ceased operations in late October, citing the poor domestic economy, rising fuel prices and the competitive encroachment by air freight trucking. The company had been operating under Chapter 11 protection for a few weeks when the decision was made to ground all aircraft and lay off some 500 workers.

Demand for the carrier's forwarder-focused air service fell 25 percent in 2007 and the trucking business Kitty Hawk tried to launch also was stumbling.

The company lost \$19.9 million in the first six months of 2007 and had only \$1.3 million in net working capital after losing \$8.8 million on revenue of \$44.4 million in its quarter ending June 30.

Kitty Hawk was also leaderless when it needed direction the most. Company President and CEO Robert Zoller resigned at the end of April. In July, the airline said it was "seeking strategic alternatives," putting the business or at least its aircraft up for sale.

Except for an initial statement about the shutdown, no Kitty Hawk executives would return calls for comment on the shutting down of the company.

Weeks before the death knell, the company filed Chapter 11 bankruptcy for the second time in two years. At the time, Kitty Hawk said the filing is meant to "address financial challenges and identify a strategic or financial investor."

But the carrier was unable to find investors or the badly needed

# News Updates

cash to continue air and ground operations.

The airline has been trying to re-make its air operations by working in younger 737 freighters to replace the fuel-guzzling 727s in its network. But faltering demand for Kitty Hawk's brand of expedited air transport pressed the company to slash rates over the past year to meet competition from truckers and its own startup trucking business hasn't brought in cash fast enough to make up the difference.

"Kitty Hawk was in a difficult area of the business, in which the integrators have taken most of that business," said George Hamlin, managing director of Airline Capital Associates. "They had been trying to resurrect their domestic business, but that didn't happen."

## Sales Record

Emirates is making history with its aircraft orders with an eye toward making history in aviation.

The airline signed aircraft orders with Airbus and Boeing last month worth a staggering \$34.9 billion in total. The purchases of up to 120 A350 aircraft and 12 firm orders for

777-300 extended-range planes, along with the firming up of eight A380 orders, will add enormous capacity to a business that already counts as one of the world's fastest-growing cargo airlines.

"Our latest order represents carefully chosen aircraft that will provide Emirates SkyCargo with substantial increases in belly hold capacity," said Ram Menen, Emirates' divisional senior vice president of cargo.

Menen said the passenger configured A380s will not offer significant cargo capacity, but "the arrival of the A350s in 2014 and the gradual increase in our passenger and freighter fleet size will provide capacity that fits in with our strategic long-term plan based on future trade lanes and anticipated demand."

Menen said the twin-engine A350s will most likely have cargo capacity of 12 to 13 tonnes, not unlike the A330.

Emirates total order book stands at 246 aircraft, all widebodies, and worth more than \$60 billion.

Other Middle East carriers are trying to keep up. At the Dubai Air Show, Qatar Airways ordered \$6.1 billion worth of aircraft, including five 777-200 freighters, while Oman

Air ordered three A330-300s and two A330-200s.

## Cathay Builds

Cathay Pacific Airways' sizable order for 10 747-8 freighters is a clear sign the airline wants to remain a dominant air freight player in Asia, and particularly in China.

The big order comes barely a year after Cathay boosted its air freight position with the takeover of Dragonair in a shareholding realignment also involving Air China. This order for widebody Boeing freighters gives the Hong Kong-based airline the long-haul reach with new aircraft to go along with its market reach into mainland China.

Cathay Pacific was No. 7 cargo airline in the world in 2006, according to Air Cargo World. Cathay also holds an equity stake in Air Hong Kong, which provides express services for DHL.

The new 747-8 freighters will provide Cathay Pacific significant lift for East-West service. "The key issue with Cathay Pacific is that it now has opportunities in the mainland China it didn't have five years ago," said Robert Dahl, project director for Air Cargo Management Group.

In addition, Cathay ordered seven more 777-300 extended range passenger airliners. The entire deal is valued at around \$5.2 billion.

The new planes will augment the airline's fleet of 19 747 freighters used to connect Hong Kong to a wide range of international markets. Cathay becomes the eighth airline to order the 747-8 freighter, bringing to 73 the number of orders for the new cargo airplane.

"These orders highlight our long-term confidence in the future of both



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# News Updates

the cargo and passenger markets," said Cathay Pacific Chief Executive Officer Tony Tyler.

The 747-8 freighter has a maximum payload capacity of 154 tons and 14 percent lower tonne-kilometer costs than the 747-400 freighter. The aircraft offers 16 percent more revenue cargo volume than the 747-400 freighter with slightly more range.

## Papered Under

The air freight industry expects to save up to \$1.2 billion a year when paper documents are replaced by electronic information. The first stage in developing an international

system is a set of six pilot projects initiated by the International Air Transport Association.

In cooperation with cargo airlines, freight forwarders and ground handling agents, IATA launched the projects on key trade routes connecting Canada, Hong Kong, the Netherlands, Singapore, Sweden and the United Kingdom.

"The paper-free era for air freight begins today," said Giovanni Bisignani, director general of IATA.

The pilot projects are designed to test common standards, processes, procedures and systems. During the initial phase, selected shipments will travel without the house and master airway bills. The six pilot lo-

cations were selected for their technical and legal ability to exchange information.

"High oil prices and cumbersome processing requirements are handicapping air transport's competitiveness with sea shipping," said Bisignani. E-freight is expected to help cut costs and improve transparency through the supply chain, he said.

Local customs administrations and airport authorities worked together with Air Canada, British Airways, Cathay Pacific, KLM, Martinair, SAS and Singapore Airlines and with DHL Global Forwarding, Panalpina, Kuehne + Nagel, Schenker, TMI Group-Roadair and Jetspeed to develop the test projects. ■

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# Regional Reports



NORTH AMERICA

## Paying Up

It's that time of year when integrators raise their shipping rates, and for reading the tea leaves



**The continuing decline in yields in the air freight industry coupled with the unpredictability in fuel costs could explain why FedEx's recent hike in shipping rates was higher than usual.**

FedEx is "clearly trying to send a message of pricing strength to both its customers and to competitors UPS and DHL, which are likely to follow with similarly type large increases," investment firm Bear Stearns said in a recent investment report. This increase for 2008 is 1.4 percentage points higher than FedEx proposed in each of the last two years.

FedEx Express said it would raise its net average shipping rate next year by 4.9 percent, down from an initial 6.9 percent increase due to an offset of 2 percent in the fuel surcharge. Rates and surcharges for FedEx Ground will also increase next year. The changes were to be announced at by end of 2007.

The increase for air was the largest FedEx has announced since 2001, although it matches UPS's announced 4.9 percent air express rate hike last year, when FedEx said it's rates would go up 3.5 percent.

Days later, UPS followed suit, announcing new list rates for 2008, including

a net average of 4.9 percent on all air express and U.S. origin international shipments. The rate hikes include an average 4.9 percent increase for UPS Ground and Ground Hundredweight shipments. The new rates take effect on Dec. 31, 2007.

A clearer picture of the future could be seen in coming weeks when the major integrators release the accessorial charges.

DHL declined to comment, but it looked unlikely the carrier would try to buy its way to increased market share while the company is losing millions of dollars in the United States. "We're not competing based on price," said DHL spokesman Jonathan Baker.

Larger customers will negotiate their own rates, of course, but the FedEx increase "will affect the retail and small shippers," said Melissa Priest, managing director of AFMS Logistics Management Group.

### Kept Customers

Industry observers say the rate increases by the express carriers could trigger a shift in market share, however.

"These large increases for non-contractual customers could lead some market share shifts away from FedEx Air (Express) to the USPS, or to UPS or DHL," said Bear Stearns.

By Robert Moorman

As for the two-percentage-point drop in the fuel surcharge, "it's a bit of a head game," said Priest. "It's better to roll the rates into the base rate because customers could (alternatively) push some of the business into the ground segment," she said.

Recognizing fuel as a near fixed cost item is also important. "Fuel is not going down anytime soon," said Priest. "So it makes sense to work it into the base rate because it is becoming a long-term cost item," such as labor and maintenance.

Shippers would rather see a base rate that better reflects real costs than an ever-changing fuel surcharge, because of the value in predicting costs, analysts said.

## Crystal Ball

The rate increase by FedEx Express could demonstrate a continuing trend, but experts say it's important not to read too much into the announcement and its cascading affect on the overall industry, particularly air freight trucking.

Satish Jindel, president of SJ Consulting, says some shippers believe there is a "disconnect" in the rate increases, which run counter to a sputtering U.S. economy. Many shippers blame the economy and the declining housing market for adversely affecting the ground freight business.

"The problem of the trucking industry is excessive capacity," said Jindel. "It is not the fault of the economy." Further, the rate hike by FedEx Express had nothing to do with the economy, he said.

Domestic and international air cargo rates will most likely continue to rise over the next few years due to high fuel costs and security costs. And the fear among shippers is that the

bottom line will suffer.

"With oil approaching \$100 a barrel and new, onerous security regulations anticipated, fuel and security charges may actually run higher than actual shipping rates on a number of routes," said Chris Copper-smith, president and CEO of Target Logistic Services.

For the air express industry, shipping rate increases have become an annual event, but there is something new in FedEx's recent announcement. FedEx customers importing goods into the U.S. will pay in U.S. dollars, beginning next year. Paying in U.S. dollars will allow customers to "avoid uncertainties" by currency fluctuations, said FedEx. Having shippers pay in U.S. currency also lowers the hassle factor for FedEx and helps customers better predict their costs.

Increases in rates for shipments into the U.S. from certain international points will become effective Jan. 7.

Annual increases in freight rates are predictable. But is the industry approaching the point of diminishing returns, where the market shrinks because of the higher shipping costs?

"At some point, if shippers don't find creative ways to offset the costs of these hikes, then there could be a problem," Priest said. "But I don't think we're there yet."

## Road Backup

### Could Forward Air's strength could be its weakness?

The air freight trucker's profit fell more than 15 percent in the third quarter to \$16.9 million, as the company was hit by the domestic economic downturn that has sent earnings at traditional trucking companies tumbling.

The company's dominance in the airport-to-airport air freight market "has ironically become its Achilles heel of late," John Larkin, an analyst at the Stifel Nicolaus investment firm said earlier this year.

In the three months ending Sept. 30, Forward Air's operating revenue grew 8.1 percent to \$97.7 million. But the growth came mostly from expansion in logistics business, while the core air freight trucking operation retreated 2 percent.

Larkin said Forward Air is being hurt by "irrational pricing actions ... by some of the company's primary competitors due to the increasingly challenging demand environment."

That environment, which includes ample capacity and relatively low demand in several key sectors, is starting to cut more deeply into returns at trucking companies. Forward Air doesn't operate directly in their market, but with air freight business also down that means the company gets to face the worst of both worlds.

## ... Briefly

Domestic cargo traffic for U.S. airlines fell 1.3 percent in September, according to the **Air Transport Association**, in a new sign that weakness in the American shipping economy was hitting the air transport sector. With a 1.1 percent increase in international cargo traffic, cargo for the U.S. carriers flat for the month and up only up only 0.4 percent in the first nine months of the year. ... **National Air Cargo**, a forwarder and owner of cargo airline **Murray Air**, agreed to pay \$28 million to settle an allegation that it falsified a document to show late deliveries had been made on time, resulting in overcharges to the U.S. government. ... **AirNet Systems** revamped

its pricing structure for customers in its critical but changing bank check business, incorporating zone pricing in certain cities and new tiered pricing categories for what it calls core and non-core cities. Revenue from the bank services that have been the airline's foundation declined 9 percent in the first six months of the year and the business has been waning as banks shift toward electronic check clearance. ... **Jet Airways** announced daily 777-300 service between New York and Delhi, capping a rapid escalation of long-haul service to North America that also added Toronto and Newark to the passenger airline's network. ... **FedEx** is expanding transborder distribution service between Mexico and

the U.S. with the recent opening of the border facilities in Ciudad Juarez, Mexico, the other in El Paso, Texas. ... **British Airways** will drop its London-Detroit service after 50 years, saying the decline in the automobile industry in Detroit "made it a very challenging market to be in." ... **Alitalia** extended its Milan-Miami MD-11 freighter service to Mexico City under an agreement with **Centurion Air Cargo**. ... **ZLN**, a subsidiary of ZLM Integrated Shipping services, acquired **American West Worldwide Express**, a California-based trucker and forwarder. ... Regional cargo airline **Alpine Air Express** earned a \$767,939 profit in the third quarter, 160 percent better than last

year, on a 14 percent gain in revenue to \$4.4 million. ... **CargoWise edi**, a provider of supply chain technology systems, was certified as an Automated Broker Interface vendor with the U.S. Customs and Border Protection agency. ... Cargo traffic at **Memphis International Airport** grew 5.7 percent in the first eight months of 2007. ... **Priority Solutions International** created an independent contract service provider program to enhance its existing logistics work. ... **Aeroterm**, a developer and manager of airport property, acquired Cascade Aerospace's 231,000-square-foot aircraft maintenance, repair and overhaul facility in Abbotsford, B.C. ■



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# Regional Reports



EUROPE

## Eastern Promise

Competition between European express and parcel operators is heating up in a battleground spreading east.

**E**urope's highly competitive express and parcel delivery business is set for a spurt in growth, which could ignite an even tougher dogfight between the main service providers.

The growth will come from a forecast increase in business to consumer traffic within Europe, coupled with a strong demand in international flows in and out of the region, according to new research by independent market analyst, Datamonitor.

Erik van Baaren, author of *European Express Market Map 2008*, said the battle will be more than getting extra business, now growing at a rate of 4.7 percent in a sector valued at \$55 billion a year.

"The definition between express and parcel operators is becoming increasingly blurred in the current market," he said. "Although exhibiting a higher growth rate than parcel services, the express operators are going to have to demonstrate extra value, as customers demand is shifting to using cheaper yet as reliable parcel services. That is particularly pertinent in the key growth areas of international and business-to-consumer delivery services."

That blurring of the lines is clearly demonstrated in the current pecking order of the main players in the Eu-

By Roger Turney



ropean express and parcel delivery sector. Germany's Deutsche Post owned DHL dominates the market with an 18 percent share, followed by the French postal service La Poste/Geopost, and then comes former Dutch postal service owned TNT.

U.S. participation with UPS shows up in fourth place, followed by the Brit Royal Mail/GLS concern in fifth place.

"These five main providers control more than 50 percent of the total European express and parcel service market," said van Baaren. "The dominance of DHL within the European express theater of operation is unlikely to go unchallenged, but it is interesting to note that its two major global rivals, FedEx and UPS, have signaled a growing interest in the European market, with both acquiring local domestic delivery operations in recent months."

### E-flow

Over the next five years the business-to-consumer and consumer-to-consumer sectors will experience faster growth rates within the European market

than the business-to-business sector, Van Baaren predicted.

This will be due largely to the growth in e-commerce, typically in home shopping. That growth, he said, will be particularly apparent in less mature home delivery markets, such as Italy and Spain.

"There are currently vast differences in business-to-consumer traffic trends between the various European countries," said van Baaren. "The UK, Germany and France have the highest proportion of business-to-consumer business."

Besides the low take-up in Italy and Spain, most Scandinavian countries have among the lowest levels of business-to-consumer business in Europe, a surprise given the strong use of technology in the countries.

"The sector in Scandinavia is still generally dominated by incumbent national postal operators, but is increasingly being targeted by traditional business-to-business operators as they recognize the potential opportunities," said van Baaren.

Which, in many ways, reflects the shift taking place in the European express and parcel market. The high-end integrators and express operators are no longer just looking for premium intra-European traffic. They now want a major share of local domestic home delivery business.

## Pie Sharing

National postal services are no longer content to stay within their own domestic boundaries. They want a share of the European market with their parcel delivery services.

"These national postal services are proving that they can provide the same value-added options, such as track and trace, which were once

only offered by the premium service providers," said van Baaren.

"As the difference in quality of service between the two sectors becomes more finite, and previous value-added services are becoming standard, the express operators will have to find other ways to demonstrate the extra value they can offer."

Increasingly customers are re-evaluating the cost and benefits of both options. One option for the express operators, van Baaren said, would be to widen their product portfolios.

"This would of course, lead to an increasingly level playing field with the parcels and express sectors as the two service options converge," said van Baaren. "The trade-off between cost and speed and delivery precision will become more pertinent according to the economic strength of individual European countries."

The three largest individual express markets within Europe are Germany, the UK, and France, followed by Italy and Spain. These countries are likely to stay at the top end of the market. But all eyes are on Eastern Europe and the growth potential of this relatively undeveloped sector of the European express market.

"Poland has come in very strong in the last couple of years and is maintaining good consistent growth rates," said van Baaren. "We should be looking at countries like the Czech Republic and Hungary."

Much of the growth in Eastern Europe is not due to the sophistication of local economies, but more to the logistical trend in Western Europe of centralizing warehousing and distribution facilities in Eastern Europe.

This, said van Baaren, is the main driver in the growth of international express traffic in these markets as companies feed their supply chains.

## Rocky Ocean

**I**f Russian billionaire Roman Abramovich succeeds in taking over Italian freighter carrier Ocean Airlines, he will inherit a company facing mounting debts and legal troubles.

Abramovich, a major shareholder of Ocean Airlines, was negotiating last month to take a majority stake in the carrier, one of several young freighter operators that have launched into the growing international air trade arena in recent years.

But the Italian carrier is suffering financially and faces a number of lawsuits. Phoenix Fuel has sued Ocean for non-payment of \$6 million in jet fuel. Webster, Texas-based Colt International has an outstanding fuel claim for approximately \$72,000.

The Aviation Law Center in Williamsburg, Va., which is spearheading efforts against Ocean Airlines, said there were other lawsuits over allegations of non-payment in the United States and Europe.

"We're attempting to seize an aircraft at (Washington) Dulles airport to prompt payment," said Terence G. Haglund of the Aviation Law Center.

Ocean was to have start freighter flights between Brescia, Italy and Dulles Oct. 28, but has delayed the service until "the beginning of the new year," said the airline.

Separately, AAR Parts Trading, a division of Illinois-based AAR, is suing Ocean Airlines over a claim the airline owes payments on two leased engines for a 747 freighter. And SRX Transcontinental is suing Ocean Airlines for non-payment of ground handling and fueling services.

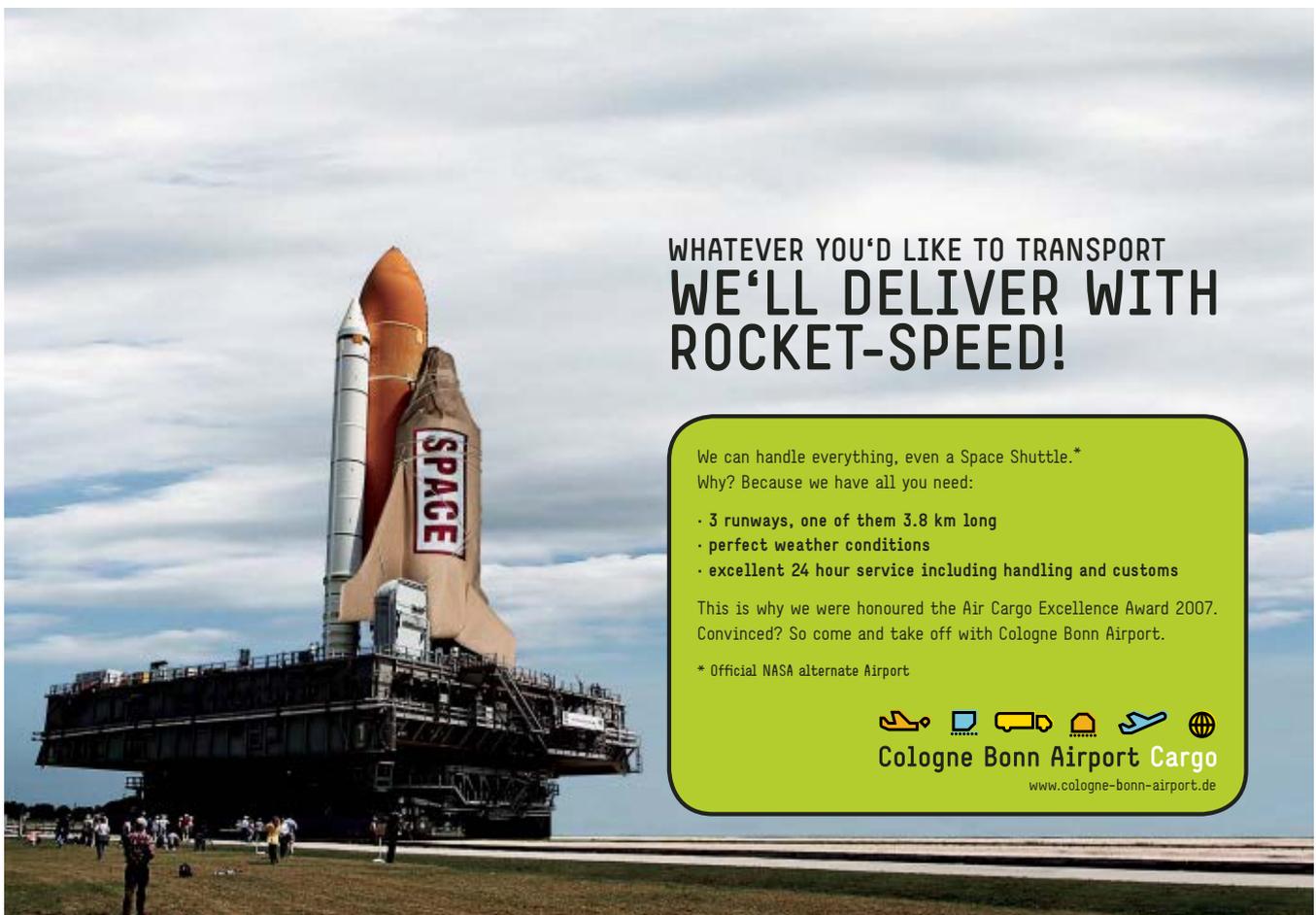
Ocean Airlines operates two 747-200 freighters, but recently concluded a deal to acquire six more.

## ... Briefly

Cargo traffic for European carriers grew 3 percent in September and was up 2.5 percent in the first nine months of 2007, with trans-Atlantic business growing at a strong pace. According to the **Association of European Airlines**, North Atlantic traffic grew 3.6 percent and the smaller South Atlantic market expanded 13.2 percent while traffic to the Far East declined 0.4 percent in the first three quarters of the year. ... A coalition of European countries, U.S. states and others launched the **International Carbon Action Partnership** to fight global warming by building a carbon trading market. ... Freighter airline **DAS Air**

**Cargo** shut down, according to reports in East Africa, after failing to recover from a ban in Europe imposed last year on Africa-based aircraft. ... **British Airways World Cargo** half-year 2007 revenue fell 8.8 percent to \$604 million as capacity cuts failed to keep pace with a sharp decline in yield. Cargo dropped 3.8 percent between April and September 2007 compared to the year before. ... Cargo traffic at the **Air France-KLM Group** grew 1.7 percent on a 1.6 percent pullback in capacity in October, a slowdown from previous months' growth. Asia traffic grew 4.7 percent despite a 4 percent cut in cargo capacity. ... **Alenia Aeronavali** delivered an

ATR-72 converted freighter with the large cargo door to Swiss operator **Farnair**, giving the carrier six of the all-cargo aircraft. ... **American Airlines** will start six-times-weekly flights between Chicago and **Moscow Domodedovo International Airport** next June. ... Cargo traffic at **Finnair** jumped 21.9 percent in September and grew 15.2 percent in the first nine months of the year. ... Brazil's **Gollog**, the logistics division of GOL and owner of Varig, named **Airline Management Group** its cargo general sales agent in the United Kingdom and Ireland. Varig is resuming 767-300 passenger service between London and São Paulo. ■



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# Regional Reports



PACIFIC

## EVA's Shift

Taiwan's second carrier is changing its freighter mix and opening new destinations, but direct China links remain elusive



**They say everything in Texas is jumbo size, so it's no wonder EVA Air decided to field a 747-400 freighter for its new Houston service instead of an MD-11, which has been the workhorse of the airline's cargo fleet. Since Nov. Taiwan's, second largest airline flies the freighter twice a week from its Taipei base through Anchorage to Houston, lured largely by the U.S. city's producers of machinery and specialized equipment for foundry processes used by Taiwan's semiconductor makers.**

The Taiwanese chip manufacturers, an engine for the country's export economy, have done rather well.

This year their production capacity is expected to account for 18 percent of the total global output, which means they are surpassing the United States to take second place in the world behind Japan. However, like Taiwanese producers in other industries, they are looking increasingly to China — with far-reaching ramifications for the air cargo market in Taiwan. Ron Mathison, director and general manager of cargo at Cathay Pacific, predicts an erosion of air freight flows between the island and China as production continues to migrate to the mainland.

EVA's recent cargo results are a far cry from the double-digit growth that characterized developments prior to 2005.

Last year's cargo revenue advanced a modest 3.6 percent, while tonnage slipped 2.4 percent as capacity shrunk 2.9 percent. Over the first nine months of this year, tonnage was down 6.2 percent, while traffic, measured in freight tonne kilometers, fell 8.7 percent. Yield was down 1 percent in the first nine months of the year, although that decline had stabilized after sharp drops in cargo yield in the first half of the year.

Cargo is hardly a mere incremental concern for EVA, making up nearly 40 percent of the airline's overall revenue. K.W.Nieh, executive vice president, attributed this year's decline in tonnage largely to the return of two MD-11 freighters to the lessor.

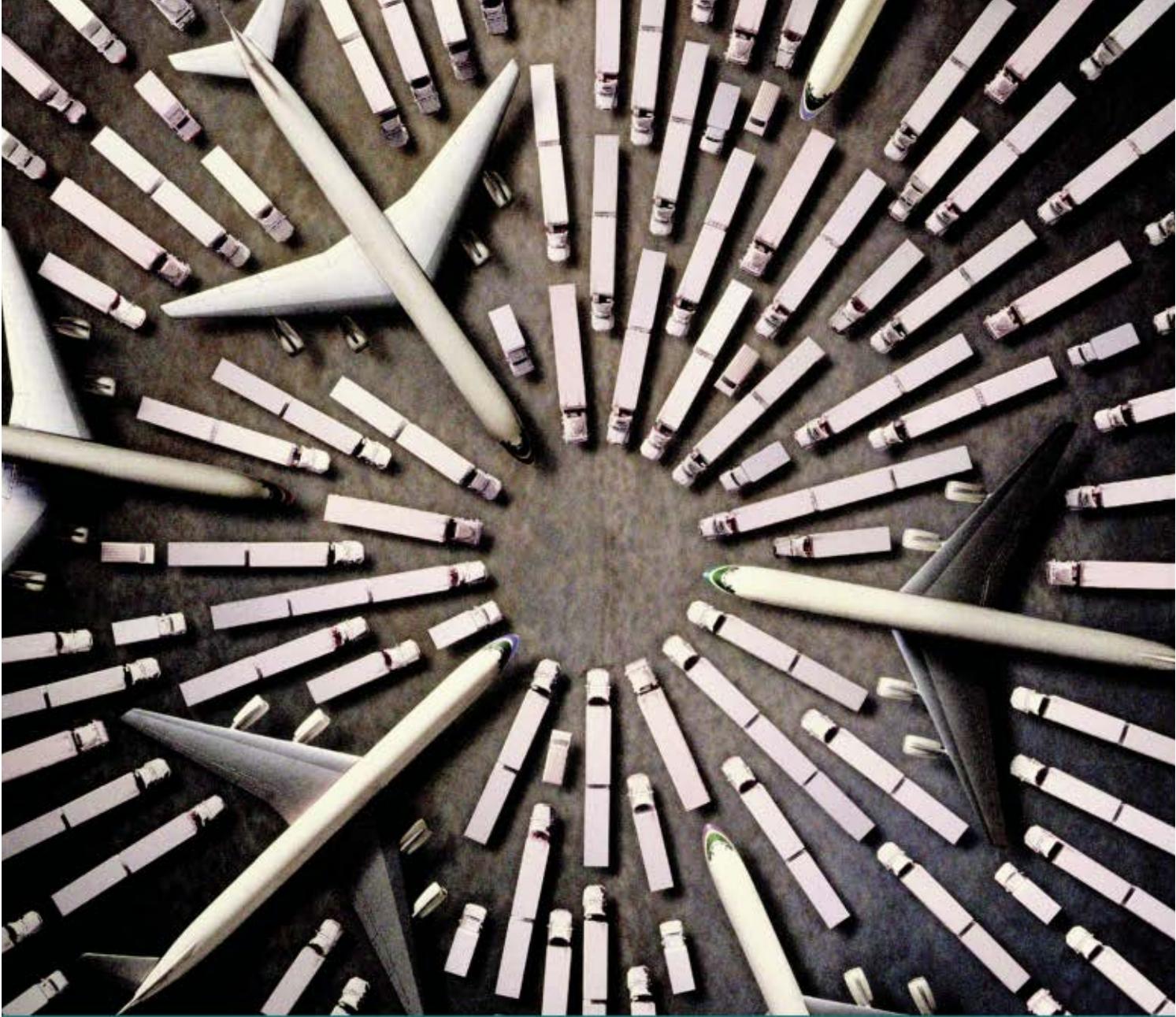
"Taipei air freight warehousing statistics also showed downward trends in cargo volume during the first quarter due to slowing demand. Air freight volumes in other areas of Southeast Asia showed similar slowdowns," he said.

By Ian Putzger

### Straits Times

Unlike their Asian rivals, EVA and China Airlines cannot operate scheduled flights to China.

An agreement to allow some char-



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ters provided an opening for the bigger national carrier, but EVA still is barred from direct flights. This means it has not been able to tap into the network of joint venture partner Shanghai Airlines through gateways on the mainland.

The pair continue to interline freight over Macau, which both serve with daily 747 freighter flights. If EVA were to gain access to Shanghai, this would expand the interline potential exponentially. For now, however, the Taiwanese carrier must remain content with the results generated by the joint venture without a mainland interface.

"The joint venture is thriving. Shanghai Airlines Cargo is also steadily adding more gateways in mainland China, giving us an exceptionally wide-reaching network within the region that few other carriers can come close to matching," Nieh said.

EVA's second avenue into the China market has been through its Southern China Cargo Center in Hong Kong, which opened its doors in the spring of 2006. According to Nieh, this now produces as much as 30 percent of the airline's total cargo revenue.

## Pacific View

Elsewhere EVA is tweaking its cargo network. It is launching the Houston service and introducing freighter flights to Paris next January, following the suspension of passenger flights to the French capital.

According to Nieh, the carrier's intra-Asian network has worked well, necessitating few changes.

Nieh reports strong growth in Vietnam, Indonesia and India and he also is upbeat on the European market in the year ahead.

His expectations for EVA's trans-

Pacific business are more low-key.

"The U.S. market is expected to hold steady through 2008 and is not likely to show much growth until year-end or the first quarter of 2009," he said, pointing to the housing downturn and related economic fallout. Hence there are no plans for major changes in the trans-Pacific schedule.

Bellyhold capacity to North America is going up, though.

The 777-300 extended-range aircraft freed by the suspension of the Paris route will be redeployed to the Taipei-Los Angeles sector, boosting EVA's frequency there from 17 to 20 weekly flights.

As more 777-300ERs enter the airline's passenger fleet, EVA will add 747 freighters to its line-up, Nieh said.

EVA has taken delivery this year of two converted 747-400 freighters, which were put on the Houston and Los Angeles sectors. The plan is to serve North America and Asia with a mix of 747 and MD-11 freighters, while Europe will be covered exclusively with MD-11s. Three converted 747-400 freighters are due to come on stream next year, and another three in 2009.

Over the past year, there have been rumors that EVA had placed an order for 777 freighters or was planning to do so, a scenario that Nieh refuted. "We do not have plans to add 777 freighters or any other freighters at this time," he declared.

## ... Briefly

Freight traffic for Asia-Pacific carriers grew 3.6 percent in October, while capacity increased 4 percent, the **Association of Asia Pacific Airlines** reported. ... Japan opened its 23 regional airports to international flights by foreign carriers, a

move to get more traffic from business within Asia. ... **Korean Air's** net profit grew 3.9 percent in the third quarter ending Sept. 30, helped by a 6.3 percent gain in cargo revenue, to \$695.1 million. ... **Singapore Airlines** started weekly 747-400 flights between Singapore and Hanoi through Shanghai. The airline's cargo traffic grew 3.3 percent in September on a 6.3 percent gain in capacity, the sharpest growth in SIA's cargo capacity since last December. ... International cargo traffic for **Japan Airlines** fell 2 percent in the airline's second quarter ending Sept. 30. ... **Asiana Airlines** started weekly passenger flights between Beijing and the Korean city of Cheongju. ... **China Southern Airlines** plans to buy 55 737 passenger aircraft, to be delivered between 2011 and 2013. ... India and Chile signed an aviation agreement that gives air freight operators unlimited access to both countries. ... **Hong Kong Air Cargo Terminals** handled 228,077 tonnes of cargo in August, 8.4 percent more than the year before. ... **Royal Jordanian** will start three-times weekly A310 passenger flights between Amman and Hong Kong through Bangkok. ... **EVA Air** started twice-weekly MD-11 freighter service between Taipei and Frankfurt. ... **Cargolux** started Luxembourg to Ho Chi Minh City service, with a stopover in Dubai. ... **DHL Global Mail** opened a new domestic terminal in Singapore near Changi Airport, which reportedly can handle over five million pieces of mail per month. ... Forwarder **STL** opened a station at **Singapore Changi Airport**, extending an expansion that has included new sites in China, India and Iran over the past year. ■



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Feature Focus:  
Forecast

# Modest Gains for Cargo

With numerous economic and industry variables at play, the 2008 forecast for flat growth may change with tomorrow's news cycle

By Nicole Nelson



With air cargo statistics for the first half of 2007 posting 5 percent volume gains over 2006 totals, the slightly below average yet far from disastrous growth is expected to trickle into the New Year. A number of variables indicate the industry will maintain an even rate of growth in 2008.

This year was less than a banner year in comparison to the 6.2 percent annual average growth rate recorded by the International Air Transport Association between 2002 and 2006. A sluggish U.S. economy, coupled with strong price competition from other modes of transport and record-high oil prices, slowed growth in the domestic market.

However, a positive outlook on continued worldwide economic growth, globalization and trade counter the negatives to equate to IATA's forecast of 4.8 percent annual average growth rate for international freight volumes through 2011.

But these numbers, among others, are subject to change with the ever-increasing volatility of the marketplace. Nearing year's end, when most economists traditionally have forward-looking reports completed and dusted, many were dumping previous projections to start anew. Mike Andrews, chief economist for PIERS Global Intelligence Solutions, a provider of international trade data and a sister company of Air Cargo World, is no exception.

Following four quarters of sub-par economic growth, the U.S. economy bounced back in the middle of the year. However, the momentum was quickly stymied by a sharp turn downward in the housing sector that dramatically changed the outlook for the U.S. economy in the last quarter of the year. A credit crunch exacerbated the downturn.

The slowdown and risk of recession stemmed from mortgage-backed securities is progressively intensifying, and despite the Federal Reserve Board's cut of the federal funds rate by half a percentage point in August, followed by the cut of a quarter of a percentage point in late October, interest rate cuts have been ineffective.

The price of credit has risen and lending standards have tightened to drag down both the U.S. housing market and economic growth through the middle of next year, and possibly longer, said Andrews.

The result has been an air cargo market that grew just 0.4 percent for U.S. carriers in the first nine months of 2007, including a 0.5 percent decline in domestic traffic.

Andrews had already lowered the PIERS economic growth forecasts for both this year and next, and was downgrading the figures yet again last month. PIERS projections of real GDP growth were adjusted to 2 percent from 2.2 percent in 2007, and accordingly downshifted to 2.4 percent from 3.1 percent in 2008. These previous adjustments were made in part to reflect the crisis in U.S. mortgage markets.

"Given what is going on in the credit markets, there is a tremendous amount of uncertainty looking forward," Andrews said. "It is tough to call when the markets are functioning normally, but now there is more uncertainty attached to these forecasts."

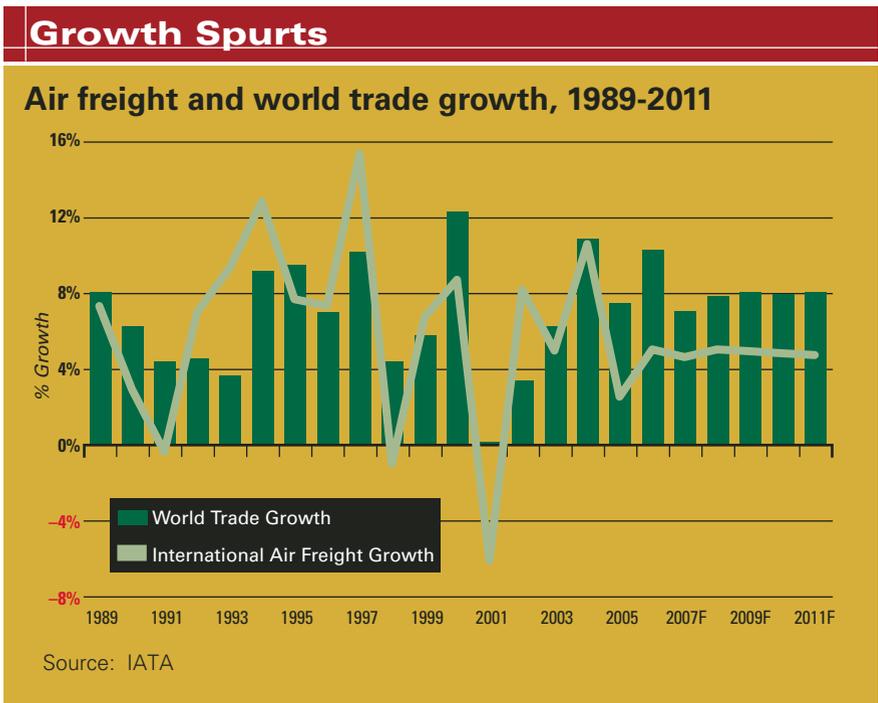
## Dollar Down

As the ongoing housing slump depresses home prices and decreases consumer net wealth, both consumer and business spending has offered support to the U.S. economy slipping into a full-out, housing-led recession.

New orders for capital goods continue to grow, fueled by a continuation of strength from nonresidential investment and strong demands for U.S. exports as the U.S. dollar continues to weaken. Growth outside the United States remains robust — albeit at a slower pace — and new domestic economic growth should also help to boost business spending in 2008.

Import growth is expected to remain as weak as the value of the U.S. dollar reduces demand, but export growth will continue to follow the trend line of solid global growth.

Past and present decline in the value of the dollar and high oil prices are factors attributed to the dramatic slowing of imports. The first two quarters of early 2007 data indicate little if any growth, with year-over-year imports up 0.1 percent compared with the same period in 2006. That compares to 8.8 percent for



2006 and 10.5 percent for 2005.

However, the smaller dollar has had a positive influence on exports, which have picked up recently with a sharp acceleration in the first half of the year. Exports are up 13.4 percent year over year, fueled by global growth led by emerging markets in China, India, the Middle East and Latin America. These markets have benefited from low costs and direct foreign investment and air freight volumes were dominated yet again by Asia Pacific routes.

The Asia Pacific region is expected to lead freight growth with an annual average growth rate of 5.4 percent between 2007 and 2011. The Middle East will see the second highest growth with 5 percent annual average growth rate during the period.

IATA predicts freight within the Asia-Pacific region, between Asia Pacific and North America, and Asia Pacific and Europe will account for 57 percent of the 36 million tons of international air freight by 2011, up from 55 percent in 2006.

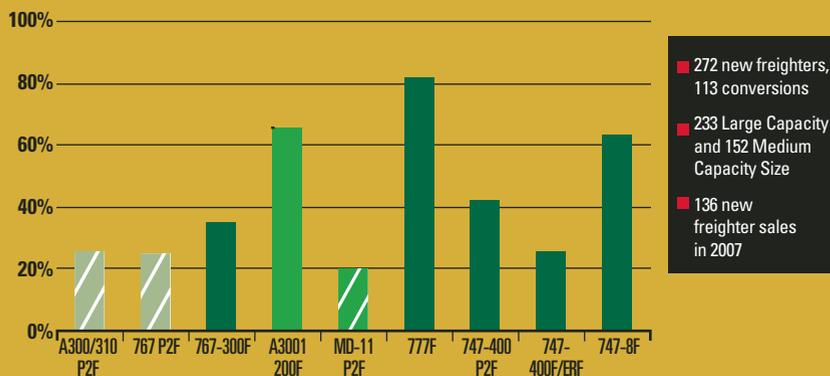
However, the majority of this growth is expected to be on the outbound leg from the Asia-Pacific. Because cargo tends to go one way, there are a number of imbalances in global trade. Outbound flights from key markets, such as Asia, are often full, while the return leg tends to be less than half full. Revenue is gained one way, but is absorbed on the return, which poses a significant challenge for designing profitable air cargo networks.

Another challenge for air cargo is to compete more effectively with ocean freight.

With trend shifts to surface trans-

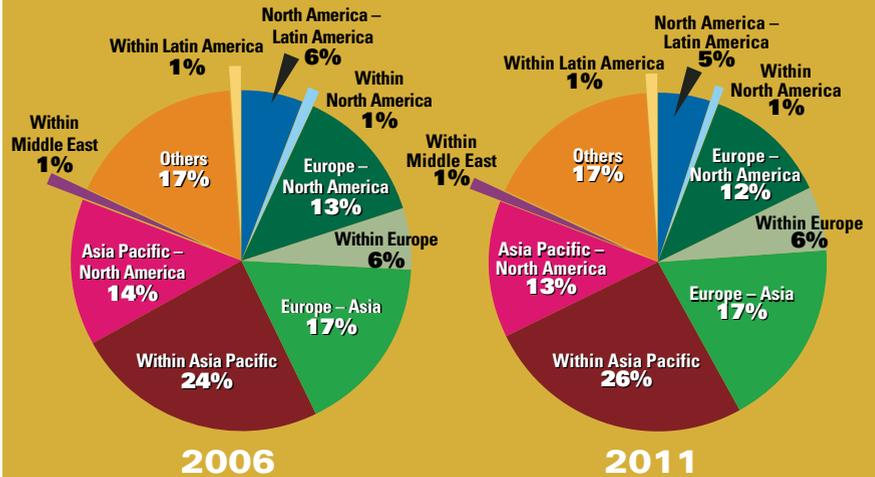
## Heavy Lift

### Backlog of Widebody Freighters (385 Firm Orders)



## Sharing Lanes

### Share of air freight by major trade markets



Source: IATA

port and higher fuel prices exacerbating the gap between ocean and air pricing, ocean freight has proved to be more competitive and is growing at a faster rate than air cargo. Between 2000 and 2005, ocean container shipping freight grew at an average annual rate of 9.4 percent, or more than double the growth of air cargo.

IATA forecasts average annual growth of 5.3 percent per year for air cargo. PIERS, by contrast, pegs ocean freight growth at 7.2 percent over the same period.

"In terms of volume, air cargo is 5 percent of the total volume of shipments, but 35 percent of the value of shipments, or nearly \$12 trillion in U.S. dollar value," said Aleks Popovich, IATA's global head of cargo. "So it is very important for air cargo to make sure that it competes."

## Fuel Concerns

Fuel woes also threaten the growth of air freight with record high oil prices.

Airlines have historically imposed fuel surcharges to counteract high oil prices and have achieved some success in recovering their costs. But airplanes are less fuel-efficient than trucks or marine vessels, and the surcharges imposed on the airside are a much higher percentage.

As air freight is substantially more costly than other modes of transport, there is an increasing gap in the price differential between air and surface transportation. This has prompted shippers to shift from air to surface transportation, a trend that began in the United States domestic market but has since taken hold in Europe and has grown in international markets as shippers sought to use stronger logistics planning to over-

ride the need for faster air freight.

While the fuel costs remain a concern, most industry players have prepared themselves for continued high prices. Still, higher fuel costs were one reason cited for the demise last month of U.S. domestic air carrier Kitty Hawk Aircargo.

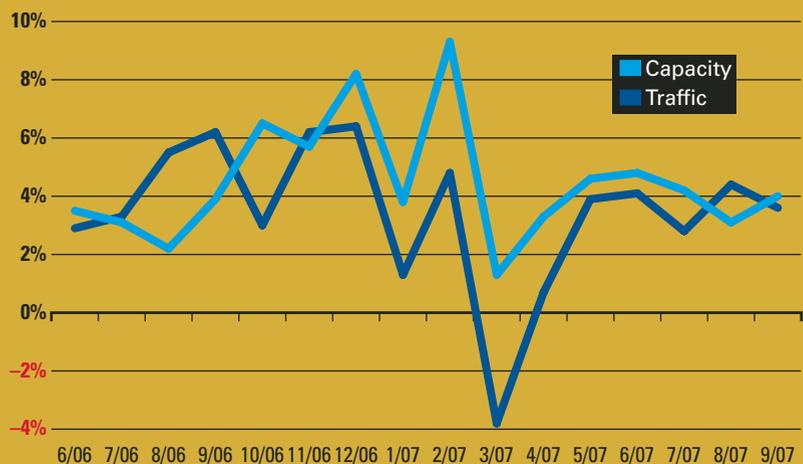
"I think the industry is sustaining itself," said Continental Airlines Vice President of Cargo Jack Boisen. "The

shipper understands the process of the supply chain and much of that cost is actually being passed down. And we are finding more efficient ways to fly and to operate to offset some of those costs as well."

Boisen said Continental has been flying 35 percent more efficiently for nearly 10 years. Eight-foot winglets save 5 percent in fuel costs and enable the carrier's aircraft to fly further.

## Carrying Asia

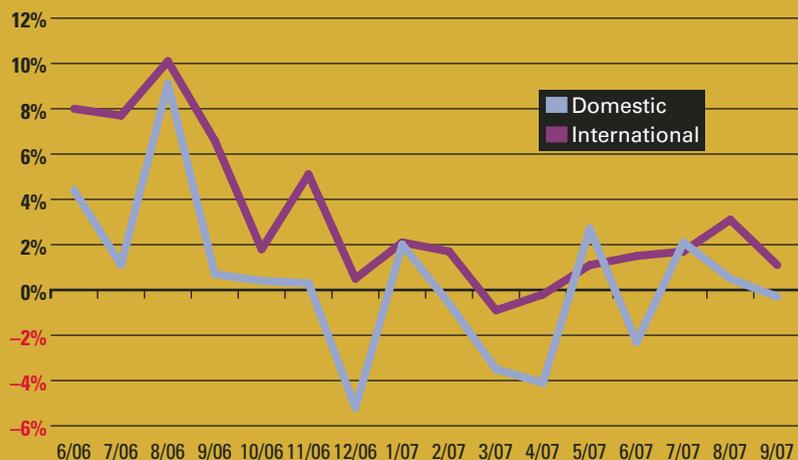
### Monthly year-over-year percent change in capacity, in available tonne kilometers, and traffic, in freight tonne kilometers, of Asia-Pacific airlines.



Source: Association of Asia Pacific Airlines

## 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

The entire industry has nearly 400 widebody freighters on order, with three new high-capacity widebody freighters coming on line: the 777 freighter will arrive before the end of 2008, and the 747-8 freighter and the A330-200 freighter will debut in 2009.

These exciting developments for the industry are being supplemented by continuing and increasing activity in freighter conversions of a wide va-

riety of aircraft types.

The 737-300 and 737-400, 757-200, 767, A300-600 and A310-300 are all relatively new aircraft that are replacing less efficient older aircraft types.

The 747-400's ability to accommodate heavy air freight was a factor in UPS's decision to add the aircraft. The aircraft's heavy payload and nose-loading capability make the aircraft well suited to freight hauling. UPS

took delivery of two 747-400s in 2007 and will receive a third before year's end. Plans call for the UPS 747-400 fleet to grow to 13 aircraft, including seven in 2008, comprised of five new and two converted aircraft.

"This transformation within the freighter aircraft market has been ongoing for the last two or three years, but is gaining momentum and will continue into 2008," said Air Cargo Management Group Project Director Robert V. Dahl. "These newer aircraft types tend to offer cost-per-ton of 15 percent to 20 percent less than the aircraft they are replacing. In general, there are more widebody freighters being added to the fleets, so we see on average, the freighters are getting bigger and improving in efficiency. Those things are helpful to airplane users in keeping the unit costs down to offset the higher cost of fuel."

## Security Up

While a balance appears achievable in many areas, many wild


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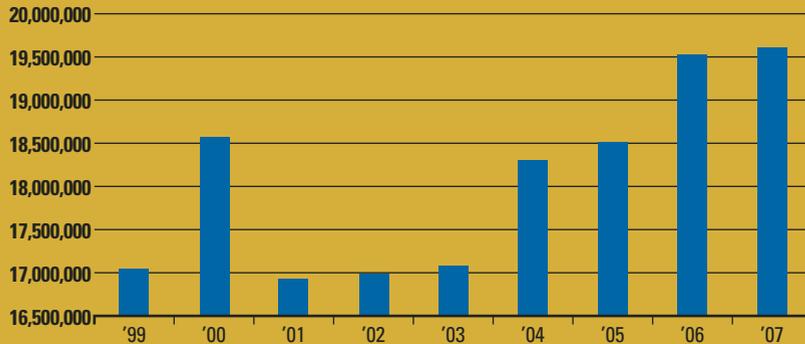
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## U.S. Traffic

### Annual system-wide cargo ton miles through September for U.S. airlines (in 000s)



Source: Air Transport Association

cards for the air cargo industry's future remain as 2008 quickly approaches.

Signed into law in the United States by President Bush on Aug. 3, the "Recommendations of the 9/11 Commission Act of 2007" requires the inspection of all air cargo placed

on passenger aircraft in a manner that provides a level of security equivalent to the screening of passenger checked baggage. The legislation mandates establishment of a system to inspect 100 percent of cargo transported on passenger aircraft, phased

in over a three-year period.

New screening requirements for air freight will lead to increased costs certainly, and potentially more time requirements to process goods prior to being shipped. As speed is one of the advantages of moving goods by air, anything impeding the flow tends to diminish the benefit, leading to a potentially detrimental impact on the air freight industry.

"It is going to be interesting to see what happens with the new regime at the Transportation Security Administration in terms of passenger carriers and mixed integration flights," said Mike Navin, interim managing director of cargo solutions at OAG BACK. "I imagine that we'll



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**Feature Focus:**  
Forecast

see more freight actually traveling on pure freighters and moving away from mixed integration.”

The historic open skies agreement between the U.S. and the European Union, which goes into effect at the end of March 2008, will have a significant impact on carriers in the trans-Atlantic market and may be a spur to other agreements around the world.

Following in the wake of the trans-Atlantic accord, a number of new treaties that included China and emerging markets such as India suggested the flow of international trade would find new lanes in 2008 and beyond.

Those lanes may look less familiar than those involving traditional gate-

Top U.S. Airlines		
Top nine U.S. combination airlines in first nine months of 2007. (in 000s of cargo ton miles)		
AIRLINE	TRAFFIC	%CHANGE
<b>Northwest Airlines</b>	1,722,119	-13.6
<b>American Airlines</b>	1,641,246	-4.1
<b>United Airlines</b>	1,525,013	-3.4
<b>Delta Air Lines</b>	934,479	-11.9
<b>Continental Airlines</b>	740,992	-4.3
<b>US Airways</b>	256,854	-7.2
<b>Southwest Airlines</b>	136,495	-26.7
<b>Hawaiian Airlines</b>	50,047	-6.4
<b>Alaska Airlines</b>	49,017	-5.4

Source: Company reports, BACK OAG

ways, taking in Tianjin, Chengdu and other cities in China, and perhaps points in Eastern Europe. And the cargo on those lanes is increasingly flying on the fresh-painted aircraft of Cargo B of Brussels, Great Wall Airlines of China or Jett8 of Singapore, freighter operators that have started up recently to take advantage of a burgeoning

world of international air cargo trade.

The trans-Atlantic market, meantime, will absorb the changes that will include a phase-in of new rights to London.

Continental's Boisen said routes would be flown to Heathrow by the end of March 2008.

“Certainly, we look upon this as a



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## Europe Airlines

### Top European combination airlines in cargo traffic in first nine months of 2007. (in millions of freight tonne kilometers)

AIRLINE	TRAFFIC	%CHANGE
1. <b>Lufthansa</b>	6,144.0	.2.9
2. <b>Air France</b>	4,492.2	.5.0
3. <b>Cargolux</b>	4,014.2	.5.3
4. <b>KLM</b>	3,660.4	.0.6
5. <b>British Airways</b>	3,310.4	-6.8
6. <b>Alitalia</b>	1,221.0	.17.8
7. <b>Virgin Atlantic</b>	1,082.1	.14.2
8. <b>SWISS</b>	844.3	.4.6
9. <b>Iberia</b>	799.4	.11.4
10. <b>SAS</b>	411.9	-8.9
11. <b>Finnair</b>	348.3	.15.2
12. <b>Turkish</b>	348.2	.8.6
13. <b>Austrian</b>	346.8	-21.2

Source: Association of European Airlines

good opportunity for us," Boisen said, noting Heathrow is the preferred market versus Gatwick as the majority of the airline's cargo that flies to Gatwick is turned around and trucked to Heathrow. "We are hoping open skies will allow a lot of flying from Europe to multiple U.S. destinations."

But U.S. government proposed capacity constraints and congestion pricing for noted East Coast gateways raises the red flag for the industry.

New York John F. Kennedy International Airport could see a very different outcome with the Department of Transportation's recent efforts to reduce overscheduled flights in New York.

DOT officials suggest limiting

flights to 80 arrivals and departures an hour during Kennedy's peak periods-generally in the early morning

and between 3 p.m. and 8 p.m., when key flights to Europe are most frequently scheduled. ■

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T

he air freight market in the United Kingdom is stagnant. So say shippers and federal authorities.

According to the UK Civil Aviation Authority, air freight tonnage for the country fell 2 percent to 2,315,438 tonnes in 2006, extending an average 2.1 percent fall from 2000-2005. But is this view of a declining air freight marketing the UK really accurate?

In June, Great Wall Airlines of China started four times weekly MD-11 freighter service from Shanghai to the UK and, in the same month, Jett8 Airlines launched 747-200 freighter service twice weekly from Singapore.



There is no longer any room for all-cargo growth at Heathrow, but other UK airports are benefiting from its overflow



# The UK's Freighter Squeeze

by Peter Conway

These new service announcements were followed in early September by three-times-weekly 747-400 freighter service from Air China Cargo, also from Shanghai, and a weekly DC-10 freighter flight by Aeroflot Cargo en-route from Germany's Hahn Airport to Moscow.

The services added over the past year fit a pattern in which freighter operators have been trying markets on the periphery of Europe in search of better yields and cargo flows. But more noteworthy is that none of the new services were to the UK's largest cargo airport, London Heathrow. Instead, they all fly to Manchester, 200 miles to the North.

One can argue why Manchester is a better place for freighter operators than London. Manchester Airport Cargo Manager Michael O'Connor is not surprisingly the head cheerleader. Manchester, O'Connor said, is in the heart of Northern England, the country's traditional manufacturing center. And although the UK exports less than before, the country still has world class aerospace, automotive, biotechnology, electronics, pharmaceuticals, and, yes, even some textile industries on its doorstep.

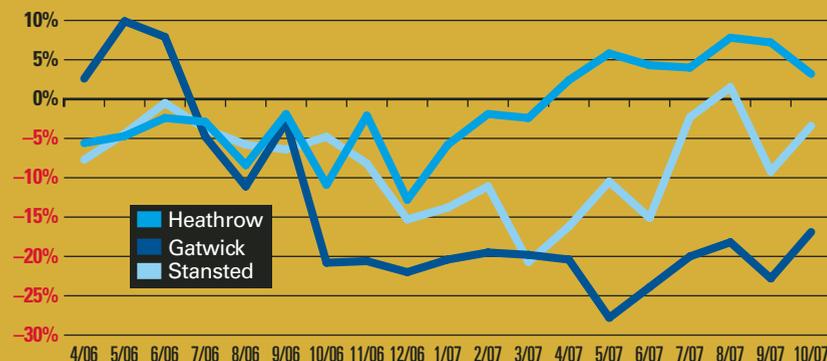
Manchester also is a well-developed passenger hub, with long haul flights to the U.S. offering plenty of interline opportunities. Delta, Continental, American Airlines and US Airways all fly there, and British Airways links Manchester with New York. In the other direction, the airport has daily flights from Singapore Airlines, Etihad Airways and Qatar Airways, and double daily flights from Emirates.

But the truth is, most freighter operators calling at Manchester would prefer Heathrow.

"The industry practice is for for-

## London Calling

Year-over-year percent change in cargo traffic at London's three major airports since 2006.



Source: BAA

warders to consolidate at Heathrow for export, and we are up against its unrivalled route network," O'Connor said. "But we have also underperformed as an airport in terms of our market share. We are now clawing back some of that cargo that is trucked to Heathrow, Amsterdam and Paris."

If airlines prefer to fly freighters to Heathrow, why don't they?

The simple answer is the lack of slots. And those few slots available are expensive.

Slot trading is not officially recognized at Heathrow, but it is not illegal either, as it is in many European countries. With the European Union-U.S. open skies agreement due to come into effect March 2008, U.S. and European airlines that have previously been barred from Heathrow's lucrative trans-Atlantic market are keen to start services. That's made slots pricey, between \$10 million and \$40 million per pair, reportedly.

This is not to imply that Heathrow lacks significant freighter operations. In 2006, freighter traffic accounted for 5.7 percent of the airport's throughput, or 72,155 tonnes

out of a total of 1,263,129 tonnes. This is still more than Manchester's freighter tonnage of 65,474 tonnes, which is 44 percent of its total of 148,957 tonnes.

But those carriers operating freighters into Heathrow use ancient grandfather rights and show no signs of giving up the slots. The lucky carriers include Korean Air, EVA Air, Japan Airlines, Cathay Pacific and Royal Jordanian.

The list does not include British Airways, although BA shares space on Korean, EVA Air and JAL freighters. BA's own 747 long haul freighters, leased from Atlas subsidiary Global Supply Services, must operate from London Stansted, where BA has no other operations.

If carriers would rather operate freighters into Heathrow, do they mind having to use Manchester? Ask Cathay Pacific. The Hong Kong-based airline operates four weekly freighters into Heathrow, but flies 14 aircraft to Manchester. Cathay is Manchester's longest standing long haul freighter customer, if you include the original Air Hong Kong 747 freighter service, which started in the mid 1990s, and was taken over by

new owner Cathay in 2001.

Evidence of Cathay's enthusiasm for Manchester was demonstrated last year when it took over rival Dragonair. Cathay kept Dragonair's 747 freighter service between Manchester and Hong Kong, in addition to its own 14 weekly frequencies. "Manchester is just a very user-friendly airport," said Andrew Roe, Cathay's UK and Ireland cargo manager. "It is in the middle of the country and has good communications to Scotland, Ireland and London."

Roe insists there is no problem linking the two airports by truck.

Why is Manchester the alternative to Heathrow and not London Stansted, or East Midlands, an airport that is equally central in the UK, but somewhat closer to London? Both have been touted as the UK's natural cargo airport. East Midlands even had the privilege of being the only UK airport to be recognized as a key cargo hub in the UK government's airport white paper a few years back.

**E**ast Midlands is the second largest cargo airport in the UK, with 272,303 tonnes of cargo in 2006, putting it ahead of London Gatwick with 212,154 tonnes. This total all comes from freighter services, but it is the integrators which dominate here.

The airport is both a European sub-hub for DHL and a trans-Atlantic staging post. UPS also flies to the U.S. from there. TNT uses the airport to feed its Liège, Belgium, hub.

Attempts to attract non-express freighter operators have been less successful, beyond the occasional flights by Icelandic carriers and Kalitta Air 747 freighters enroute to the Middle East.

O'Connor is uncomfortable mak-

ing direct comparisons because both airports are owned by the Manchester Airport Group. But he points to the wide range of handlers and forwarders at Manchester. "We have the big names such as Servisair, Menzies, Plane Handling and Swissport, and they are as keen to see our cargo business expand as we are," he said.

Both Manchester and East Midlands have also been active on the promotional front, which could explain some of Manchester's success. By contrast, BAA, which runs Heathrow, Gatwick and Stansted, is invisible in the cargo arena.

For years, BAA hasn't had a cargo development manager, and has sloughed off responsibility for cargo facilities to a property subsidiary. Each individual airport has a cargo manager, but finding new freighter operators is not high on BAA's list of priorities.

Finding additional freighter operators for Heathrow is nearly pointless because of the lack of slots, and Gatwick is also nearly full. Which leaves Stansted with the mantle of being BAA's freighter airport.

But now even Stansted seems to be

reducing all-cargo operations.

Stansted hosts FedEx, which uses it as a stop on its MD-11 freighter flights from the U.S. to Asia. Some UPS trans-Atlantic flights stop there, as do some freighter flights of Asiana Airlines and Martinair. All-cargo traffic carried 99 percent of Stansted's 224,312 tonnes of cargo in 2006.

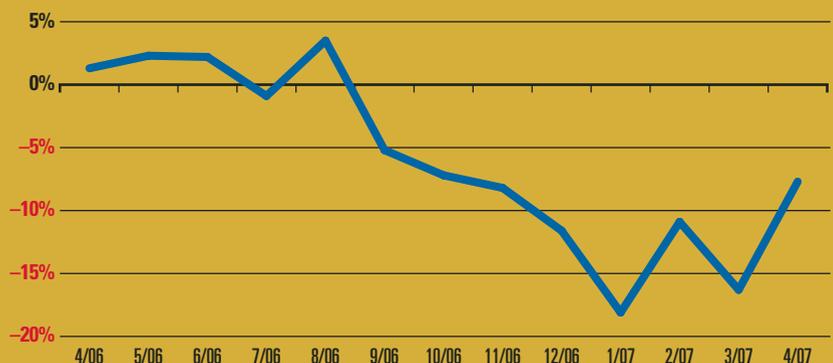
Nicola Hooper, head of aviation and transport strategy for Stansted, said the growth strategy for the airport is long-haul passenger services. Until recently, the airport was solely a low-cost hub for Europe — it now connects 170 European cities — but then MaxJet and EOS started business class-only transatlantic service. In late October, American Airlines began daily 767-300 services from New York, which is due to go twice daily in March.

Hooper said the airport now is wooing Asian carriers — both traditional flag carriers and the new breed of low cost operators. "So we anticipate more cargo growth in long-haul belly cargo than all freighter operations," she said.

Freighter operators don't seem to be rushing to Stansted anymore. One

## BA's World

Year-over-year percent change in cargo traffic, in cargo tonne-kilometers, at British Airways.



Source: Company reports

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maindeck operator said the airport is now congested, and the 72-mile drive around London's orbital highway from Heathrow can take as much as three hours. "In that time, you could be nearly all the way to Manchester," said the manager.

Royal Jordanian recently moved its one A300 freighter service from Stansted to Gatwick, citing better connections to the United States.

Both Heathrow and Stansted were allowed an extra runway in the UK government's recent 30-year airports plan, but in neither case is this promise a foregone conclusion. Both airports are embarking on public consultations over growth plans, and these will get fierce and vocal opposition, particularly from environmentalists citing climate change issues.

But for freighter operators it is all somewhat academic. In both cases, the new capacity will be devoted entirely to passenger expansion. Heathrow has immense pent-up demand for passenger services and is only proposing a short third runway for regional flights.

Meanwhile, Hooper said Stansted's proposed second runway is predicated on the long haul passenger expansion.

Manchester and East Midlands aside, there isn't a shortage of UK airports willing to assume more freighter services. Prestwick, Scotland, has an excellent freighter pedigree, having been a stop for trans-Atlantic widebody freighter services for many years. Polar, Atlas, Cargolux, Air France, BA and Panalpina all use the airport, providing 28,537 tonnes of throughput a year.

At one time, Prestwick was a gateway to the electronics manufacturers of Scotland's "Silicon Glen," but

**"It is a blinkered vision that sees Heathrow as the only gateway to the UK."**

these have all now migrated to China. However, there is still oil-industry traffic and perishable cargoes such as salmon to be shipped.

The owners of Prestwick, Infratil, have purchased Kent International, a former air force base southeast of London. In 2006, this facility moved around 20,841 tonnes of perishable imports.

Infratil is pitching both airports as freighter alternatives to Heathrow, and there is also Doncaster Robin

Hood Airport to the east of Manchester. It also was converted from a military to civilian facility in 2005, and owned by Peel Airports.

Stuart Sinclair, air freight development manager for Peel Airports, insists the whole UK market is Doncaster's catchment area and is confident of obtaining freighter service soon.

"It is a blinkered vision that sees Heathrow as the only gateway to the UK," Sinclair said.

"In the medium term, it is a racing certainty that those freighter operators still flying into London will get squeezed out, and that is where we will come in." ■

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## People

### Airlines

**British Airways:** BA World Cargo appointed **Tarun Minocha** customer service manager for North and East India and Nepal, and named **Ankush Chawla** commercial manager for Central India. Minocha joined BA in 1995 and has worked in several positions in India, including operations coordinator in Delhi. Chawla has been with BAWC for three years, most recently as account manager for North India.

### Integrators

**DHL:** The Asia-Pacific division of the express and logistics operator named **Anita Gupta** senior vice president of corporate communications and sustainability. She had been with Citigroup in New York for 11 years, most recently as global head of risk and compliance communications. She was also director of public affairs and communications for Citibank in South Asia and earlier was public affairs and communications manager at American Express Bank in India.

### Third Parties

**Phoenix International Freight:** Founder **Bill McNerney** retired as chief executive officer after 27 years, becoming chairman of the board of directors and naming **Stephane Rambaud** CEO and president. Rambaud, who began at Phoenix as an import clerk in Chicago, has been president and chief operating officer since 2003. McNerney founded the Illinois-based company in 1979 and built into a business with 71 offices worldwide and \$800 million in annual gross revenue.

**Ozburn-Hessey Logistics:** The Tennessee-based logistics provider named **John J. Hafferty Jr.** to the new position of chief financial officer for the international services division. Hafferty had been senior vice president of corporate strategy and development at Schenker Americas, where he played a key role in the acquisition and integration of BAX Global. He worked at UPS for 12 years before that. OHL also named **Charlie Pinto** executive vice president of human resources, a new position. Pinto was most recently senior vice president for human resources at INFONXX, a telecommunications outsourcer, and held executive positions before that at Caesars Entertainment, American Express, Sprint and Avon Products.

**Inter Aviation Services:** The Netherlands-based cargo general sales agent named **Erik Gregory** general manager. Gregory had been a marketing manager for Polar Air Cargo based in Amsterdam. IAS also hired Esther Kort-Boreas as a sales and marketing executive. She had been with Amsterdam Airport Schiphol.

**ICAT Logistics:** The company named 25-year logistics industry veteran **Steve Schields** to the new position of executive vice president. Schields had been vice president of business development at EGL Eagle



Hafferty



Pinto



Schields

Global Logistics and worked at EGL for 14 years. He started his career at Burlington Northern Air Freight and later worked at Bekins Express and Right-O-Way Transportation. ICAT also named **John Eastland** director of operations. He held management positions with Consolidated Freightways before joining Watkins Motor Lines as director of expedited services and more recently working with Allstates WorldCargo as transportation director.

**UTi Worldwide:** The logistics operator named **Jeffrey D. Misakian** to the new position of vice president for investor relations. Misakian, 48, has worked in investor and corporate relations for 25 years. He was most recently investor relations vice president at Valeant Pharmaceuticals International and before that was a senior vice president at Hill & Knowlton.

**Al Futtaim Logistics:** The Dubai-based company named **Matthew Derrick** head of freight sales. Derrick had been operations manager in the freight department.

**Active Airline Representatives:** The Netherlands-based cargo general sales agent named **Edward Heijsteeg** sales manager. Heijsteeg, 38, had been with Dragonair, where he led the carrier's cargo sales in the Netherlands and coordinated GSAs in Europe.

**SkyLink:** Skylink Air and Logistics Support named airline industry veteran **Mike White** chief operating officer of the Virginia-based specialized transportation services company. White had been president of Trade Network Consultants. Earlier, he was managing director of cargo services at the Air Transport Association and before that manager of cargo services worldwide for United Airlines, where

## People

he also led the cargo operations at New York and Chicago.

### Associations

**FIATA:** The federation of international freight forwarder associations named **William Gottlieb**, president of David Kirsch Forwarders of Canada, president of the group. A frequent speaker at industry events, Gottlieb is a former chairman of FIATA's Air-freight Institute and was president of the Canadian freight forwarder association from 1994 to 2000.



Gottlieb

### Government

#### Federal Aviation Administration:

The Bush administration named **Bobby Sturgell**, who has been acting administrator of the FAA, to succeed Marion Blakey as head of the agency. Sturgell, 48, has been acting administrator since Blakey left the office in September to lead the Aerospace Industries Association. Sturgell was senior policy advisor at the National Transportation Safety Board before coming to FAA and before that was a flight operations supervisor and line pilot for United Airlines. He practiced aviation law at the Shaw Pittman law firm in Washington D.C.



Sturgell

### Ground Handling

**Aero Groundservices:** The Netherlands-based ground handler named **Marcel Blomjous** managing

director, replacing **Peter L. Loonen**, who had led the business for 2004 through the recent takeover by Avia-partner. Loonen returned to his position as managing director of VCK Holding. Blomjous had been with KLM Cargo for 13 years and also held several management positions during 10 years at European logistics operator DSV, the former DFDS Transport.

**Nagamas International:** The Malaysian business group named **Datuk J.J. Ong**, former senior general manager for MASKargo, chief executive officer and said he will lead the group's expansion in property management and aviation services in China.

#### Ameco Beijing:

The China-based maintenance and logistics joint venture of Air China and Lufthansa named **Christian Reck** executive director of sales and supply.



Reck

Reck, 44, had been with Lufthansa Technik since 1997, most recently as director of government and special mission aircraft services. ■

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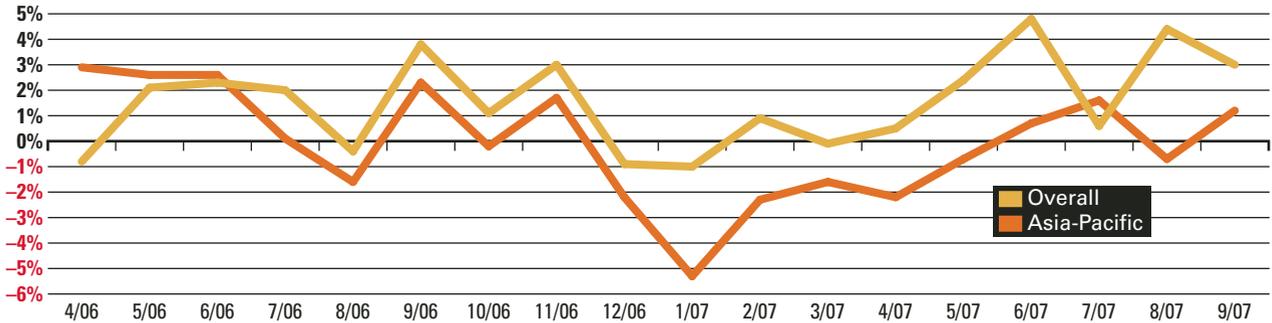
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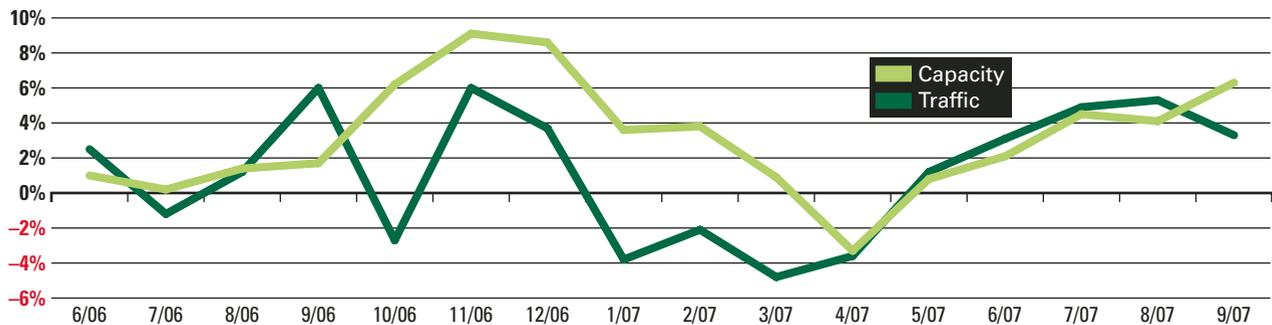
Monthly year-over-year percent change in overall freight traffic and Asia-Pacific freight traffic for European airlines.



Source: Association of European Airlines

## Singapore Swing

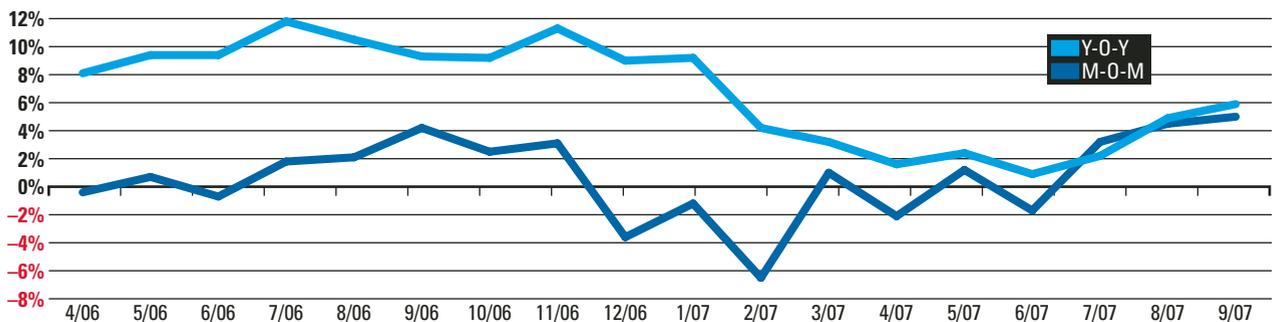
Singapore Airlines monthly year-over-year percent change in freight capacity and traffic.



Source: Company reports

## Semi Months

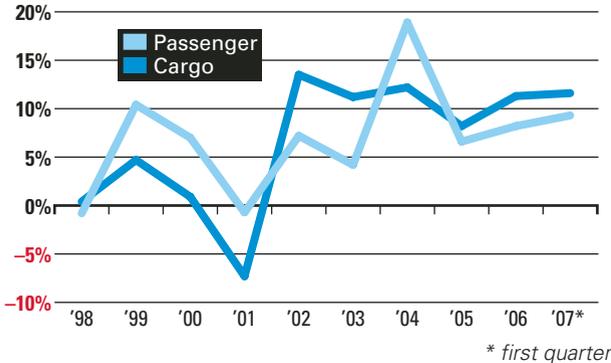
Worldwide monthly year-over-year percent change in sales of semiconductors and month-to-month percent change.



Source: Semiconductor Industry Association

## Arab Airports

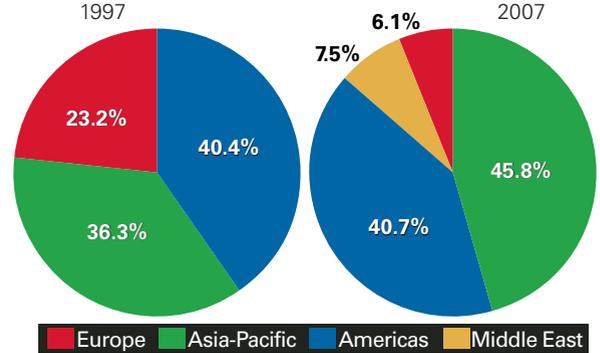
Annual year-over-year percent change in passengers and cargo tonnage at Arab airports.



Source: Arab Air Carriers Organization, ACI

## Luft Directions

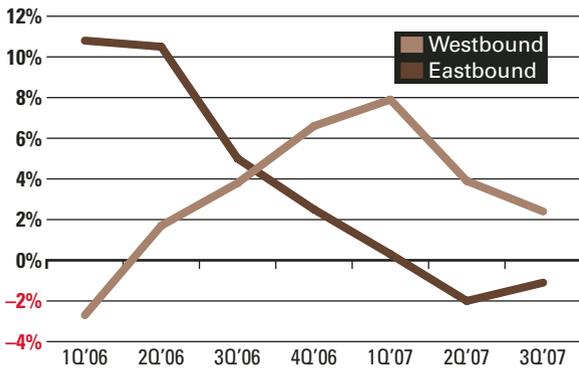
Lufthansa Group cargo traffic divided by regions in first nine months of 1997 and first nine months of 2007.



Source: Company reports

## Pricing Atlantic

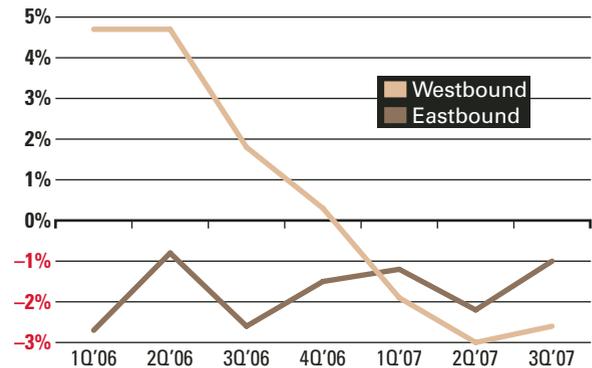
Quarterly year-over-year change in air freight pricing on trans-Atlantic westbound and eastbound traffic.



Source: Bank of America Securities

## Pricing Pacific

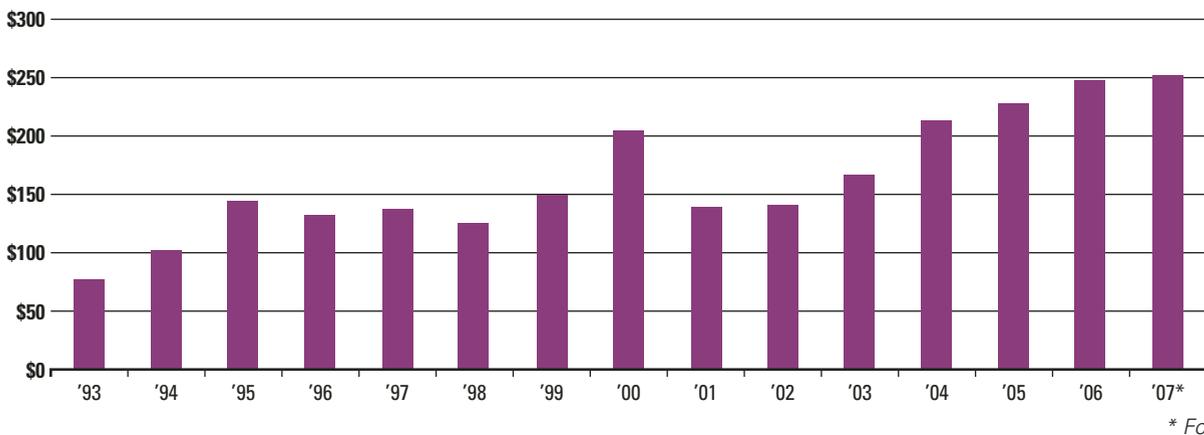
Quarterly year-over-year change in air freight pricing on trans-Pacific westbound and eastbound traffic.



Source: Bank of America Securities

## Chipping In

Annual worldwide semiconductor sales since 1993. (in US\$billions)



Source: Semiconductor Industry Association

## Events

Jan. 22-23, 2008

**Mumbai: 2<sup>nd</sup> International Conference Indian Offshore Logistics 2008**, at the Hotel ITC Grand Maratha Sheraton, will focus on various logistical issues in the oil and gas sector. For more information call +91 22 6680 01 100 or visit: [www.informedia-india.com](http://www.informedia-india.com).

Jan. 23-25

**Mumbai: Air Cargo India 2008**, organized by the Stat Trade Times, looking at one of the world's fastest growing freight markets. For information, call +91 22 2757 0550 or visit: [www.statetimes.com/aci2008](http://www.statetimes.com/aci2008).

Jan. 30-31

**London: Cargo Aircraft & Operations Conference**, the sixth annual edition of the Aviation Industry Group event looks at conversions, environmental pressures, cargo airports and other freighter targets. For information, call +44 207 828 4376 or e-mail: [alicem@aviation-industry.com](mailto:alicem@aviation-industry.com).

Feb. 12-14

**Bahrain: World Air Cargo Event**, at the Bahrain International Exhibition Centre, the annual tab-mag freight event includes a conference and exhibit hall. For information, call +44 1784 255000 or e-mail: [p.cooper@aircargonews.net](mailto:p.cooper@aircargonews.net).

Feb. 24-26

**Boston: 2008 International Boston Seafood Show**, the 26th annual edition of an event that looks at how shippers of great scale

keep it cool. For information, call (972) 620-3040 or visit: [www.seafood-processingamerica.com](http://www.seafood-processingamerica.com).

Feb. 25-26

**Puerta Vallarta, Mexico: World Mail and Express Americas**, at the Sheraton Buganvillas, the Triangle Management event hits the beach. For information, call +44 870 950 7900 or visit: [www.triangle.eu.com](http://www.triangle.eu.com).

March 2-6

**Rome: IATA World Air Cargo Symposium**, at the Marriott Park Centre, the sprawling event is becoming the premiere annual event in the air freight world, with speakers including DHL's John Allen, Lufthansa's Carsten Spohr and others across nearly a full week of industry immersion. For information, call (514) 874-0202 or visit: [www.iata.org/events](http://www.iata.org/events).

March 16-18

**Orlando, Fla.: AirCargo 2008**, at the Omni ChampionsGate, the annual three-sided meeting of the U.S. Air Forwarders Association, the Air and Expedited Motor Carriers Association and the Express Delivery Association. For information, call (703) 361-5208 or visit: [www.airforwarders.org](http://www.airforwarders.org).

March 26-27

**Los Angeles: ACI-NA Air Cargo Symposium**, the annual event by Airports Council International-North

America co-sponsored by Air Cargo World and the Cargo Airline Association takes an inside-the-fence look at cargo operations. For information, call (202) 293-8500 or visit: [www.aci-na.org](http://www.aci-na.org).

April 23-25

**Brussels: Council of Supply Chain Management Professionals - 2008**, the European version of the sprawling event for shippers looks at "Enhancing Supply Chain Performance in an Uncertain World. For information, call +1 630-645-3487 or visit: [www.cscmp.org](http://www.cscmp.org).

May 4-6

**Palm Beach Gardens, Fla., CNS Partnership 2008**, at the PGA National Resort & Spa, the annual Cargo Network Services meeting is a must for the international air freight business in North America. For information, call (516) 747-3312 or visit: [www.cnsc.net](http://www.cnsc.net).

May 12-14

**Copenhagen: International Air Cargo Association Executive Conference and Annual General Meeting**, a smaller, focused version of the larger TIACA Air Cargo Forum, the event looks at environmental issues, express competition and ocean inroads. For information, call (786) 265-7011 or visit: [www.tiaca.org](http://www.tiaca.org).

May 20-22

**Chantilly, Va.: Regional Air Cargo Association Spring Conference**, at the Westfields Marriott near Dulles Airport, looking at ways to prop up feeder business. For information, call (508) 747-1430 or visit: [www.raccaonline.org](http://www.raccaonline.org). ■

**For more events, visit:**  
[www.aircargoworld.com/dept/events.htm](http://www.aircargoworld.com/dept/events.htm)

# TIACA's Executive Conference 2008

Copenhagen,

Denmark

May 13-14, 2008

## SESSION TOPICS

Tuesday, May 13, 2008

**A View from the Top** – A New Era for Air Cargo?

**Going Green** – How to reduce the Environmental Impact of Air Transport without Serious Economic Damage to Commercial Aviation

Wednesday, May 14, 2008

**The Race Goes to the Swift** – Air Express Carriers Compete to Develop Their Presence in China

**Stormy Seas or Smooth Sailing** – Can New “Fast Ships” Compete with Air Cargo?

**Annual General Meeting, May 12, 2008**

For more information & registration contact:

**[www.tiaca.org](http://www.tiaca.org)**  
**+ 1 786-265-7011**

Organized by The International Air Cargo Association



a single call is all **1**one has to make

You have cargo to ship by air. You can choose between many airlines, but you only need one. Tough decision? Not really. You go for the carrier that makes you its number one priority. That delivers as promised. That has the biggest cargo network worldwide. With smart products. More than 500 aircraft. Over 400 destinations. And 6,000 dedicated professionals all over the world... **putting you first.**

