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Air Cargo World
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Air Cargo World
THE SOURCE FOR AIRFREIGHT LOGISTICS

editorial

Jon Ross
Editor

Hard times come again no more

We're now three months removed from the 2011 holiday season, and there have already been three major casualties in the aviation marketplace. Cargoitalia was first, followed by Jade Cargo, and now, World Airways is in trouble. So much for 2012 bringing the cure for 2011's hardships.

IATA had told us it would be stormy before the sun came out, and there has been a bit of good news amid the barrage of somewhat disheartening stories, such as American Airline's bankruptcy, another month of low numbers for Cathay Pacific and Asian carriers, and on and on. President Barack Obama recently signed a new bill for the Federal Aviation Administration into law, which will keep the agency moving into 2015. That's good news not just for the U.S., but for the entire air cargo landscape.

The U.S. and the EU also last month finally agreed on a standard for organic foods, and this will improve the flow of goods between the two countries. The Aiforwarders Association's Brandon Fried said the rule will "enable more efficient import clearances to get organic products off flights and into stores faster" — and that's certainly a welcome development.

But it's hard to be completely discouraged about the state of air cargo, when *Air Cargo World* has such wonderful readers. Last month, I sent out a simple call to our subscribers: Take a few minutes out of your busy schedules to tell me what the magazine means to you. The response was overwhelming, and I'm still receiving emails every so often. I had intended to hold onto the feedback until a special section in our June anniversary issue, but I'll let you read a couple right now.

"Our industry has changed big time over the last four decades. I appreciate the way *Air Cargo World* keeps me updated regarding the latest trends in airfreight." — Phillip De Sarno, Jr., Air France-KLM Cargo

"I read the magazine because of the special features. These give greater insight into the issues rather than just 'news.' Perspectives from peers in the industry is more interesting than mere stories." — Alan Wright, Swissport

Reader feedback is very important to us, and I've enjoyed combing through all these responses. Look for the two-page spread in June. If you haven't sent in your thoughts and would like to share your opinion about the magazine and the stories we cover, please send an email to jon.ross@aircargoworld.com. As always, you can tweet @acwmagazine on Twitter or visit our Facebook page.

Schiphol gets boost from North America

North American imports to Amsterdam Airport Schiphol increased 13.3 percent, year-over-year, in 2011, despite only modest cargo growth for the year. The Dutch airport also saw a 15.2 percent, year-over-year, surge in exports to the Middle East.

Schiphol's exports to Central and South America also grew in 2011, increasing 9.4 percent, year-over-year, to 83,941 tonnes. "Figures for Europe were also positive, but were distorted by the re-categorization of AirBridge as a European carrier mid-year," according to a press release.

Overall, Schiphol handled 1,523,806 tonnes of cargo in 2011, a, year-over-year, increase of 0.8 percent. Freight levels improved in five months of the year, but saw declines of up to 7.2 percent in the other seven months of 2011, according to the press release. Nevertheless, Schiphol's cargo volumes to and from Europe increased considerably throughout the year, surging 33 percent from 2010.

The Far East was a completely different story. Schiphol's imports and exports to and from this region dropped significantly last year, declining 12.9 percent and 7.3 percent, year-over-year, respectively.

Schiphol Cargo Senior Vice President Enno Osinga said these losses greatly affected the airport's performance in 2011. "As the Far East is our largest market and accounts for some 40 percent of our total tonnages, even modest falls in its traffic are difficult to offset with growth in other markets," he said in a statement.

Schiphol's focus for 2012, Osinga said, is achieving export growth and increasing commodity traffic. "With a weak euro and growing consumer spending in many markets outside Europe, we hope to pave the way for a return to stronger overall growth," he said in a statement. ACW

According to Coyne, the UK Ministry of Defense has to directly handle all transportation for the military on C-17s or similar aircraft, leaving no opening for commercial operators

Coyne Airways in the midst of battle

The accelerated drawdown of U.S. and other combat forces in Afghanistan is expected to lead to a heavy demand for airlift as vast amounts of military equipment begins to be moved out of theater. But contrasting attitudes to the use of commercial cargo capacity is likely to mean a difference in millions of dollars in the cost to the individual defense departments of the countries involved in the staged withdrawal.

Those best placed to immediately benefit from this reverse surge will be operators who have already been closely involved in the build-up and continued support of military operations in Afghanistan. UK-based Coyne Airways describes itself as a non-asset-based airline with the understated mandate of serving "difficult-to-reach" destinations — none more so than Afghanistan. But today, Coyne Airways has built up its services to the extent of operating two weekly B747-400F flights to Bagram, Kandahar and Kabul out of its Dubai hub.

"The upgrade to B747-400F capacity demonstrates the demand we are having to meet on these routes," said Larry Coyne of Coyne Airways. "We also supplement these services with IL-76F flights to points such as Camp Bastion and Camp Leatherneck, allowing us greater flexibility and the ability to provide direct service to other forward-operating bases."

Up until now, it has virtually all been one-way traffic into Afghanistan. But with the recent U.S. announcement that a military draw-

down will start as early as next year, instead of 2014, as originally planned, that traffic flow could soon switch to reverse. "We obviously keep a close watch on what is happening in this market, and we have had what could be some early indications of this policy change," Coyne said. "Some of our B747-400F flights are now beginning to return with full loads of what the U.S. military term 'retrograde' traffic to Dubai, from where it can easily be transported by ocean."

The given word was that the U.S. military exit strategy from Afghanistan would likely see it dump most of its equipment in the desert. That is not how it works these days, and "retrograde" is likely to quickly become the watchword for operators in the Afghanistan market. "This equipment is far too valuable and sophisticated to leave to rust," Coyne said. "Besides, the U.S. Defense Department has become very wise and savvy to making the best use of the commercial market to provide its logistic support at competitive rates."

According to Coyne, the U.S. Defense Department has an annual transportation budget of $3 billion, 70 percent of which is allocated to the private sector. "I heard a top U.S. general recently comment that they would not be able to move a fraction of the equipment they would want to if it were not for the use [the military] makes of the commercial market," he said.

Contrast the stance in the U.S. with the UK's Ministry of Defense, which insists that it directly handles all defense-related transport business, a policy shared by most other European defense departments. "It is a policy you could possibly understand if it related to a strategic build-up in a war zone," Coyne said. "But we are now talking about a much more measured withdrawal — yet they insist on sticking to the same policy."

This is clearly an issue that riles Coyne — not because of the loss of possible business to his airline, but for the sheer non-commercial inanity of such a policy. "Instead of going to the forwarders or operators like us, they go to the charter market and pay through the nose for each single charter," Coyne said. "Worse still, they keep the business in-house and use military C-17 lift to facilitate their needs." According to Coyne, C-17 capacity costs 300 percent more than commercial freighter lift. He said this means the military is paying about $10 per kilogram of freight, whereas a commercial business would most likely charge somewhere in the neighborhood of $3 per kilogram.

Coyne Airways is still closely involved with another depleted war zone, Iraq, which it also serves from its Dubai hub. Still unable to mount its own services due to the monopoly in the market held by RUS Aviation, Coyne has swallowed the pill and makes use of the capacity offered by RUS Aviation. "It is a situation which has worked out well for us," Coyne said. "In addition to offering a couple of weekly IL-76 freighter services to Baghdad, Erbil and Sulaimaniyah, it means we can also serve other points, such as Basra, Kirkuk and Mosul on request." RUS Aviation is also probably quite happy with the cooperative, as Coyne Airways is its main client and provides upward of 70 percent of the cargo on most flights.

The Caspian Sea region may not be classified as a war zone, but it certainly falls under the Coyne Airways difficult-to-reach criteria. But again, by subjugating other firms' capacity, the non-asset-based British airline has secured a very strong position in this oddball market. In this instance, Coyne has been able to access block space on a weekly British Airways World Cargo B747-8F flight from London Stansted via Cologne to Tbilisi, Georgia. About 80 percent of that traffic, which is a mix of oil-related freight and consumer goods, is then routed to Kazakhstan, Armenia, Turkmenistan and Azerbaijan, according to Coyne.

But Coyne Airways has hit something of a buffer more recently with the decision by BAWC Airways to reschedule its flight from a Monday to a Thursday departure. "The Monday operation was ideal for us and our customers," Coyne said. "We are now seriously looking at the option of starting a second service on a Monday out of a European point; if there are eastbound freighter operators out there, we would like to hear from them." Coyne Airways previously experienced difficulties on the route when it added a supplementary B747-400F service out of Frankfurt flown by Jade Cargo. That proved to be an unpopular originating point and was ended.

"The upgrade to B747-400F capacity demonstrates the demand we are having to meet on these routes."

— Larry Coyne, Coyne Airways

The carrier now gets a strong traffic feed from the U.S. across its network. Coyne Airways, although an independently owned concern, acts as an exclusive general sales agent. "Sales in the U.S. have climbed by more than 60 percent in the last year," Coyne said. "That has been generated from a mix of defense work, oil and gas business and general cargo."

It would seem that Coyne can't stay out of a war zone for long. He's currently assessing the start-up of services in Libya. "We are looking to help get the oil industry going again by providing internal cargo capacity to move equipment inland to the oil fields," Coyne said. "We would be working with a Libyan partner on the project, with initial thoughts pointing to the use of AN-12 capacity." ACW

Long-awaited A330 conversion program launched

ST Aerospace and EADS EFW have agreed to partner with Airbus to develop a conversion passenger-to-freighter (P2F) program for the A330-300 and the A330-200. The first conversions are slated to take off in 2016, according to a statement by EADS EFW. read more

According to an Airbus press release, the larger -300, which can carry a high volume of low-density cargo, will be targeted at integrators and express carriers. The -200, the company said, is suited for long-rage flights carrying dense freight. ST Aerospace is taking the engineering lead on the A330P2F, which will be manufactured at EADS EFW's facilities in Dresden.

"Aircraft conversion is one of the most complex modifications, which demands precision and engineering finesse," ST Aerospace President Chang Cheow Teck said in a statement. "We are looking forward to leveraging our engineering design experience, to provide value added solutions to the aircraft operators."

In August, EADS EFW's Wolfgang Schmid spoke about the possibility of an A330 program, which had been talked about for some time. He said that there is an immediate feedstock of 800 A330 passenger aircraft in operation, with a backlog of more than 300 aircraft on order. "This means that we expect that a strong demand will be covered by a strong feedstock base for many years," he said at the time, "although the decision regarding timing and choice of variants is not completely finished."

At the time, EADS was busy with orders for A300 conversions, which typically take four months from conception to completion. After the passenger seating and interiors in these planes have been removed, the main-deck cargo door is fitted to the aircraft. Next, a stronger cabin floor is installed, which is then fitted with ball mats and roller tracks, before final adjustments are made to the aircraft's operating systems.

But A330 feedstock had started becoming an issue, he said in August. "The A300-600R conversion program has been available in the market for 10 years now, and during that time, it has remained the prime solution in this freighter segment," Schmid said. "There are still quite a few candidates in the market which are suitable for conversion, but adequate feedstock supply is expected to limit the conversion output from 2015."

And more supply is definitely needed. According to Airbus, there will be a global demand for 2,700 additional freighters over the next 20 years. The company expects that 900 of these planes will be conversions.

"Alongside our highly efficient A330-200F factory-built freighter, Airbus has always been committed to extending its freighter portfolio," Tom Enders, Airbus' president and CEO, said in a statement. "The A330P2F is the perfect next step to building the Airbus freighter family." ACW

IATA encourages European government to promote aviation

The International Air Transport Association has spoken out about the European flight sector, encouraging carriers in this region to develop policies that promote aviation, rather than harm it. In an address to the European Aviation Club, IATA Director General and CEO Tony Tyler shared what he deemed a "win-win" approach.

"There are numerous areas of common interest between what is good for the industry and what is good for Europe," Tyler said. Fostering them could prevent European carriers from falling victim to the negative effects of regulation, he explained.

"At present, the general direction is on restricting and taxing aviation," Tyler continued. "Instead of enabling policies, they seem focused on disabling — an unintended consequence that imposes a big cost on European airlines' competitiveness."

The EU Emissions Trading Scheme is an example of this, Tyler asserted. Since January, carriers flying into European airspace have been subjected to additional fuel surcharges — a measure "states see as an attack on their sovereignty," Tyler stated.

Although IATA endorses carbon-reduction policies, it touts a global approach to sustainability developed though the International Civil Aviation Organization. It's an approach that may be gaining steam in Europe, Tyler revealed.

"I am sensing a growing recognition in Brussels that a global scheme developed through ICAO would provide a superior solution both for managing aviation's emissions and to resolving the political problems caused by extending the scheme beyond Europe's borders," Tyler said.

Although he said it's an encouraging development, he fears that the effects of the EU ETS may already be underway. "Airlines from Europe may face some retaliatory action," Tyler told the European Aviation Club. "And some non-European airlines may have to choose whether to obey the law of their land or that of Europe — two more unintended consequences, which should convince all states that ICAO is the way forward."

Either way, Tyler said aviation is critical to boosting the crippled economy of Europe. "Over 35 percent of the value of goods traded internationally is transported by air," Tyler stated. "With austerity budgets across Europe, export revenues from cargo and tourists are critical to support jobs and GDP growth." ACW

AfricaWest Cargo replaces MD-11

AfricaWest Cargo has replaced its MD-11 aircraft, leased from the now-defunct Cargoitalia, with a Boeing 767F-300. The freighter is being deployed on the Togo-based carrier's twice-weekly flights from Liege and Lome to Central and West Africa.

AfricaWest Director Yannick Erbs said Cargoitalia's decision to ground its fleet on December 21 didn't affect AfricaWest's operations. "AfricaWest has been in the business long enough to have contingency plans in place in case a situation like that of Cargoitalia happens," Erbs said in a statement. "We were able to provide a B747-200 as an interim aircraft to our customers immediately upon the ceasing of the MD-11s."

What's more, Erbs maintained, the freighter could actually boost business. Touting it as a "better-performing aircraft," he said the 767F-300 "has, among other things, temperature-controlled cargo interior, which is ideal for moving fresh food and perishables."

"Indeed, its inclusion to our operations will provide greater opportunities to our partners, and allow better development and [us to] more efficiently meet the real challenges of bringing business into Africa," Erbs added.

AfricaWest will also rely on this aircraft when it adds new routes to its flight schedule, Deputy Chairman Claude Sitterlin revealed. At AfricaWest's recent board meeting, officials for the carrier announced plans to serve six new African destinations with twice-weekly freight service, Sitterlin explained. "In the coming months, we are looking at increasing these destinations to 10," he said.

Cargoitalia, it seems, has taken a vastly different route. Shareholders of the Italian freight carrier placed Cargoitalia in voluntary liquidation, according to a note on the company's website, and the carrier's contract with its long-time press agency, Pilot Marketing, was terminated on December 23. "No further statement will be issued until a liquidator has been appointed and the finances of the company have been reviewed," the note stated.

The all-cargo carrier counted three MD-11Fs among its fleet. ACW

Dubai Airport

Airports in Dubai, Abu Dhabi see healthy 2011

Dubai World Central International Airport, which opened in June 2010 to only cargo flights, handled 89,729 tonnes of freight in 2011. From a monthly standpoint, this translates to 7,477 tonnes of cargo; by comparison, DWC handled approximately one-ninth of this number in its first few months of operation in 2010.

Cargo transit traffic accounted for 37 percent of DWC's 2011 tonnage, according to a press release. The Middle Eastern airport also saw 8,198 aircraft movements during the year, 55 percent of which were test and training flights. Commercial freight flights and general aviation operations accounted for the rest of aircraft movements — 44 percent and 0.5 percent, respectively.

Charter operations comprised a majority of the 36 airlines that flew to DWC in 2011, according to the press release. Paul Griffiths, CEO of Dubai Airports, expects these and other cargo operations to expand as DWC grows.

"Although the airport is in its infancy, incremental cargo traffic growth has been steady and continues to ramp up as new operations are launched," Griffiths said in a statement. "Sea to airfreight traffic growth was particularly robust as airlines took advantage of the airport's bonded link to the Jebel Ali Port."

He also credits the road-feeder service between Dubai International and DWC with boosting airfreight operations. In fact, Griffiths revealed, these airports handled a combined total of 2,279,219 tonnes in 2011, "which is up marginally from 2010," he stated. "It's clear Dubai World Central will play a pivotal role in providing the ca-

pacity needed to accommodate projected growth," he added. "In terms of cargo, the need is more immediate. By 2015, cargo volumes will top 3 million tonnes, exceeding the current capacity of Dubai International. We expect a good proportion of that growth to spill over to Dubai World Central."

Abu Dhabi International Airport also saw considerable cargo growth in 2011. Freight volumes reached 481,500 tonnes last year, a 10 percent, year-over-year, increase, according to a press release. Passenger traffic experienced even more growth during the 12-month period, surging 13.9 percent, year-over-year.

"The double-digit increases of passenger [and] cargo figures are part of a remarkable growth that the airport is experiencing," according to the press release. "Abu Dhabi Airports Company's ongoing investment in improving the airport facilities and its comprehensive airline marketing strategy have attracted new airlines and encouraged existing airlines to expand their services to Abu Dhabi."

Cathay Pacific, Virgin Australia and Czech Airlines all launched services to Abu Dhabi airport in 2011. The airport also welcomed routes to Hong Kong; Seychelles; Prague; Male, Maldives; Chengdu; Dusseldorf, Germany; and Aleppo, Syria, during the year. ACW

Penguin transport a unique logistical challenge

Emirates SkyCargo successfully transported four racehorses and 20 penguins from John F. Kennedy International Airport to Dubai International Airport. To accommodate the unusual load, airline officials assembled two horse stalls and brought snow and ice on board the Boeing 777 aircraft.

The penguins arrived to JFK airport by refrigerated truck and were immediately placed in large plastic totes filled with ice and snow. Such measures ensured the penguins were well ventilated and able to achieve secure footing during the flight, according to a press release.

"We welcomed the challenge, packing additional ice and snow, and spraying the penguins with water to cool them throughout the more than 12-hour flight," Hiran Perera, Emirates' senior vice president, cargo freighter for North America, said in a statement.

"As with all precious cargo, penguins require specific care and attention," Perera stated. Emirates SkyCargo was very cognizant of this fact, Perera explained, and placed the penguins on the main freighter deck where three attendants could supervise them.

Airline officials also placed the four racehorses on the main deck, according to the press release. Two grooms stayed with the horses throughout the duration of the flight.

Emirates workers moved 20 penguins across the Atlantic Ocean with the help of a Boeing 777

Perera admits that simultaneously addressing the needs of both penguins and racehorses presented some unique challenges. "The different mix of animals on this flight required the SkyCargo team to maintain two different temperature zones on the deck, the first time this has been attempted out of the U.S," he said in a statement. "However, working closely with Emirates Engineering and Boeing, we were delighted to be able to deliver the penguins safely to their new home in Dubai."

Emirates SkyCargo isn't the only carrier that recently made headlines for transporting animal cargo. FedEx hauled two giant, 3-year-old pandas from Chengdu, China to Paris Charles de Gaulle International Airport on January 15. Last month, UPS' Alan Williams discussed the carrier's transportation plans for horses used at the Olympics, saying that UPS' standard freight craft weren't suitable for equine transport.

Expanding to the broader picture, Emirates SkyCargo is focusing on boosting routings to the U.S., as it

widens its global network. With Emirates' recent launch of daily passenger service to Dallas/Fort Worth International Airport and the commencement of daily service to Seattle-Tacoma International Airport on March 1, the Dubai-based freight carrier will connect seven North American cities with more than 100 global destinations.

Ram Menen, Emirates' senior divisional vice president, cargo, said both U.S. routes have strong implications for trade. "Our daily, non-stop flights from DFW and SEA will offer the fastest routes to the Middle East and beyond," he said in a statement.

"We look forward to helping more American firms enhance their trade ties not only with the UAE, but also with markets in parts of South Asia, such as China, South Korea and Japan, and numerous points throughout Emirates' extensive network in India and Africa," Menen continued.

Emirates projects that fresh fruits and vegetables, electrical equipment and machinery, as well as medical equipment and aircraft parts will be key exports on the Seattle-Dubai route. These goods will then be dispersed to various Middle Eastern destinations, according to a press release. Principal exports on Emirates' Dallas route are oilfield equipment, electronic parts, computers, cell phones and pharmaceuticals. ACW

Etihad profitable in 2011

Etihad Airways ended 2011 with earnings of $137 million and a net profit of $14 million, exceeding its projection to simply break even during what amounted to a very trying year for airlines.

"This is an historic day for Etihad Airways and an amazing achievement for an airline just eight years old," James Hogan, Etihad's president and CEO, said in a statement. "Five years ago, we said we would be profitable by 2011. Despite the global financial crisis, continued high oil prices, regional instability and natural disasters, we have delivered."

Hogan added that the next phase of the airline's development is to "deliver consistent, sustainable profitability."

Last year, Etihad added routes to Bangalore, the Maldives, Seychelles, Chengdu and Dusseldorf. Cargo revenues rose 25.7 percent with tonnage increasing by 17.8 percent. In December, Etihad completed an equity investment in airberlin, which Hogan said will be a huge catalyst for growth in 2012. ACW

Korean Air is making a push into Central Asia, focusing on Uzbekistan.
Photo: Rob Finlayson

Carriers searching for untapped traffic flows in Central Asia

Korean Air wasted no time pursuing Chinese production of electronics made for export to the country's interior. In September, the airline mounted twice-weekly B747 freighter service to Chengdu, and plans are afoot to enter other up-and-coming production centers in central China, according to Brandon Yoon, assistant manager of the airline's cargo strategy and alliance team.

At the same time, the carrier has been blazing a trail to the emerging markets in the interior of Asia, under the arc of the trade lanes between China and Europe. Expanding the network to rising new markets is part of KAL Cargo's strategy of navigating through the turbulence that has hit its trunk routes to North America and Europe.

Its push into Central Asia is concentrating on Navoi airport in Uzbekistan. Like Almaty, Karagandy and Astana in neighboring Kazakhstan, the airport has been vying for freighter traffic stopping for fuel between northeastern Asia and Europe. Its fuel storage tank that was completed in 2010 can feed 27 747-400 freighters.

For most operators that was all they need. "All these points make good tech stops, but what are you going to load there? There is no demand for export capacity," said Dirk Steiger, managing director of Frankfurt-based airfreight research and consulting firm Aviainform. Some carriers es-

JAL hopes to link up with IAG

Japan Airlines has applied to the Japanese Ministry of Land, Infrastructure, Transport and Tourism for anti-trust immunity in order to enter an alliance with the International Airlines Group on British Airways flights between Europe and Japan. According to a JAL press release, this agreement would offer customers more options in terms of current flights and future routes.

"Just as our customers traveling over the Pacific have gained from the joint business between JAL and American Airlines, which began last April, we expect the closer relationship with British Airways to also provide the traveling public between Europe and Japan with greater convenience and options," Masaru Onishi, JAL's president, said in a statement.

IAG hopes to enter into the agreement to benefit from the aviation resurgence chief executive Willie Walsh sees in the Japanese market's future. "We have very close links with JAL and look forward to enhancing that relationship further," he said in a statement. "Despite the difficulties the Japanese aviation market has faced in recent years, we have great confidence in JAL's business outlook and the overall market's future prospects."

In January, IAG saw cargo tonne kilometers rise, year-over-year, by 0.9 percent, and available tonne kilometers rise by 0.3 percent, year-over-year. Total revenue tonnes finished the month with a 1.4-percent increase over January 2010. Subdividing IAG by airlines, Iberia experienced a 7.4 percent, year-over-year, decline in cargo tonne kilometers, while British Airways saw a 3.4-percent rise in its cargo numbers. The Iberia results were impacted by a five-day pilot strike, during which the carrier operated 65 percent of its flights. ACW

chew a Central Asia transit altogether. Cathay Pacific prefers to route its European freighters over India and the Middle East to boost cargo loads and revenues.

KAL's engagement at Navoi started off with transits for freighters serving Brussels and Milan, but management signaled early on that it was envisaging a regional hub operation at the airport. A key piece in these plans was the cargo terminal equipped with refrigerated storage area, a vault and quarantine stations that KAL parent Hanjin Group opened in 2010. Modeled on KAL's cargo facilities at Seoul, it can handle 100,000 tonnes a year, which can be expanded to 500,000 tonnes.

Aside from the long-haul freighters that it slots through Navoi, KAL has inaugurated regional all-cargo service with A300-600 freighters. At this point, the A300s serve nine Asian points, including Delhi, Mumbai, Istanbul and Dubai. Yoon remarked that a number of other routes are under consideration, such as Moscow, Almaty, Shanghai and Guangzhou.

Stan Wraight, managing partner of the Hong Kong-based consulting firm Strategic Aviation Solutions International, sees good potential for cargo growth in Central Asia. Above all, he pointed to the oil and gas sector and mining, adding that the governments in the region have shown a desire to diversify their economies, which should fuel investment and cargo flows.

The Uzbek government has established a free-trade zone at Navoi, bestowing a range of benefits on companies that set up export-oriented facilities there. For these efforts to turn Navoi into a regional hub to bear fruit, one additional step is necessary, though, commented Larry Coyne, chief executive of Coyne Airways. "Navoi as a hub only makes sense if airlines are allowed to fly in with open skies," he said.

So far, the Uzbek authorities have shown little inclination to embrace such a policy. KAL has circumnavigated the issue by dry leasing its two A300 freighters to Uzbekistan Airways, which interlines traffic with the Korean partner at Navoi.

A second plank in the Korean hub plans for Navoi is a multimodal perspective. Rather than rely purely on airfreight, the Hanjin Group is developing surface routes to truck cargo within the region as well as to Russia, Belarus, Ukraine and Turkey.

On the air cargo side, the KAL-Uzbekistan Airways tandem faces competition; last November, recently launched Uzbekistan-based all-cargo carrier Silk Road Cargo Business took to the skies with an A300-600 freighter. Another contender for airfreight in Central Asia is Silk Way Airlines. The carrier from Azerbaijan recently teamed up with World Airways to provide lift for outsize cargo. World Airways joins a string of carriers like Cargolux and Lufthansa Cargo that have been interlining freight with Silk Way. In addition to a clutch of IL-76 and AN-12 aircraft, Silk Way has been operating two 747-400Fs and three AN-12s. Last year, it underlined its ambitions in the longer-haul segment with the launch of flights to Hong Kong, which go east over its Baku home base to Istanbul and Milan.

"Navoi as a hub only makes sense if airlines are allowed to fly in with open skies."

— Larry Coyne, Coyne Airways

Over in Kazakhstan, Air Astana signaled its expansion plans in February with an order worth more than $1 billion for 15 aircraft, which includes four B767s and three B787s. The country's three international transit points have been handling a number of freighter flights between China and Europe, but none has a direct link to North America. That crown will most likely go to Krasnoyarsk in Siberia, which the Russian authorities have been pushing as a stop-over between Europe and Asia. AirBridgeCargo Airlines has been talking for a few years about a transpolar freighter route that would allow it to feed freight from its flights out of China to U.S.-bound departures. However, at this point, the Russian cargo airline does not have enough planes to mount U.S. flights across the North Pole, said Robert Song, the carrier's vice president and regional director, Asia Pacific. ACW

Cathay adds to its cargo woes in January

Cathay Pacific and Dragonair experienced a 19.5 percent, year-over-year, decline in cargo carried last month. At the same time, capacity fell by 6.7 percent, year-over-year. Load factor finished the month at 59.9 percent, a 7.9-point drop. Cargo tonnes flown fell 27.6 percent.

Passenger numbers, however, rose 11.9 percent when compared to January 2011. One reason for the increase, said James Tong, Cathay's general manager, revenue management, was that the Chinese New Year fell in January this year; last year, the holiday occurred in February.

On the cargo side, Cathay has been dealing with weak markets despite the holiday.

"Apart from a modest pre-Chinese New Year rush, the cargo markets were generally soft throughout January and were particularly weak during the holiday and post-holiday

period, as factories in Mainland China ceased operations," Cathay's James Woodrow said in a statement. "Our key markets remain soft and we have been cutting capacity aggressively to match demand on trunk routes to North America and Europe."

January's numbers show the most severe drop in a months-long pattern of declining cargo figures. In December, Cathay reported an 11.9-percent, year-over-year, drop in cargo carried, with a 6.9-percent capacity increase. Cargo carried decreased, year-over-year, by 13.8 percent in November and 17.5 percent in October. In fact, the most recent month where Cathay saw an increase in cargo and mail carried was March 2011, when the carrier reported a 1.4-percent, year-over-year, increase. February 2011's cargo numbers showed a decline of 2.3 percent, but January 2011's total was up 6.8 percent when compared to January 2010.

After a rough 2011, the start of 2012 didn't look much better for Cathay Pacific's cargo business

A poor end to 2011 lead Woodrow in December to characterize the last 12 months as "a challenging year overall." ACW

Asian activity propelled UPS' 2011 numbers

Hefty volumes out of Europe and strong intra-regional growth in Asia propelled UPS' fourth-quarter surge in exports, according to a press release. Increasing 4.5 percent, year-over-year, export volumes also exceeded 1 million pieces a day, on average, for the first time in the logistics provider's 105-year history.

International revenue also rose during the fourth quarter of 2011, increasing 3.5 percent, year-over-year, to $3.15 billion. Additionally, revenue per piece improved in UPS' international package sector, rising 2 percent, year-over-year; on a currency-neutral basis, this figure surged to 3.9 percent, year-over-year.

Nevertheless, fourth-quarter adjusted operating margin declined in this segment, falling from 17.4 percent to 16 percent, year-over-year. "The weakness on the Asia-to-U.S. trade lane and currency fluctuations were the primary drivers of the margin decline," according to the press release.

Slight decline or not, UPS reported consistently solid numbers in the fourth quarter of 2011. Operating profit for the global logistics provider rose 17 percent, year-over-year, during this period, reaching more than $2 billion. Total revenue also increased considerably, improving 6 percent, year-over-year.

UPS Chairman and CEO Scott Davis called these results impressive. "UPS delivered record fourth quarter results in volume, revenue and profitability," he said in a statement.

The logistics provider's acquisition of Italian pharmaceutical logistics company Pieffe Group also boosted operations during the fourth quarter. UPS, which opened five pharmaceutical facilities last year, continued its pharma push in November with its procurement of Pieffe Group. UPS also launched Returns Exchange, a service providing customers in the U.S., Canada and Mexico with immediate replacement items when defective goods are shipped back to the manufacturer. ACW

By mid February, Iberia had already experienced a 6.7-percent, year-over-year, surge in flower volumes

Flowers from South America boost volumes

Weakened economies around the world haven't impaired freight carriers' Valentine's Day flower volumes, according to several reports. Numerous airlines have actually experienced a boom in operations and have had to deploy additional aircraft.

IAG Cargo, for instance, transported more than 700 tonnes of Valentine's flowers on behalf of Iberia Cargo and British Airways World Cargo. Although BA is simply on par to repeat its 2011 Valentine's performance, Iberia has already seen a 6.7 percent, year-over-year, surge in flora volumes this year.

Most of the flowers transported on Iberia's flights were grown in Colombia, Ecuador, Costa Rica and Guatemala and sold to florists in Spain, the Netherlands and the UK, according to a press release. Colombia is by far the top flower exporter, however, with Central American destinations ranking among the main exporters of bouquet foliage. Not surprisingly, roses remain the most-transported flower, followed by carnations.

On the import side, Japan has emerged as a key consumer of Valentine's flowers. Carmen Taylor, managing director of sales for American Airlines Cargo's Latin American sector, said AA's Bogota-Narita trade lane, which was launched in 2011, has been inundated with flower traffic this year.

"[Despite the recession], we've actually seen an increase of luxurious products on flights," Taylor said. "I guess flowers are something that is still key in people's lives."

Flowers also have unique cold-chain requirements, which is one of the reasons why AA Cargo is launching a perishables facility at Dallas/Fort Worth International Airport in the second quarter of 2012. Taylor said the carrier established a similar facility at Miami International Airport

in October 2006. And although both facilities are located in the U.S, Taylor said America is not AA Cargo's top concern. "Most of our focus is on flowers beyond our U.S. gateways," she said.

Unfortunately, Taylor added, the European market has been slightly disappointing in terms of flower demand. Spain has been especially weak. "Spain is going through a recession like a few other countries in Europe, so we've seen less flowers going to Spain," she said. Taylor admits that AA Cargo has also witnessed lower demand among some nations, particularly European ones, for foreign-grown flowers.

Lufthansa Cargo has reported strong Valentine's Day flower volumes on its routes from South America and Africa to Frankfurt. In fact, the German freight carrier said flew 1,100 tonnes of flowers to its Frankfurt Airport hub in preparation for Valentine's Day 2012. This volume, which is equivalent to 13 full MD-11 freighters, is consistent with 2011 levels, Lufthansa Cargo's Michael Göntgens said.

Valentine's Day 2010 was a different story, he said. Weakened markets resulting from the global recession led to 30-percent to 40-percent lower flower volumes in 2010 than in 2011. 2010 also presented challenges to FedEx, a spokeswoman for the logistics provider said. Since Valentine's Day 2010 fell on a Sunday, FedEx partnered with ProFlowers to coordinate overnight deliveries.

Even though Valentine's Day 2012 occured on a Tuesday, the FedEx spokeswoman said this year has been just as taxing for FedEx. "The weeks leading up to Valentine's Day continue to remain some of the busiest of the year for FedEx," she said. "The number of Valentine's Day deliveries from e-commerce florists and retailers continues to grow each year. And due to the perishable nature of flowers, airfreight is often the preferred mode for flower transportation."

Increasing demand for flower transportation is also why Tampa Cargo tasked the now-insolvent World Airways with providing charter flights in late January and early February. According to a press release, World Airways flew hundreds of tonnes of flowers from Latin America to North America on Boeing 747-400 freighters on behalf of Tampa Cargo to meet the Valentine's Day rush. ACW

OHL slapped with record fine

After a lengthy investigation by the U.S. Transportation Security Administration, OHL Solutions, formerly ActivAir Inc., has agreed to pay $1 million for failing to screen cargo shipped on passenger aircraft at Indianapolis International Airport and then covering up the violations. Three former OHL employees also face up to five years in prison for their involvement in the conspiracy.

Andrew Barnes, 32; Brian Vanhandel, 31; and Mitchell Totty, 26, all pleaded guilty to marking unscreened cargo as "screened" and falsifying records. These men, who were fired, also confront up to $250,000 in individual fines.

The office of U.S. attorney Joe Hogsett said that prior to December 2010, ActivAir employees engaged "in a systemic pattern of record-keeping violations by failing to properly screen for explosives on 100 percent of air cargo." Such actions directly violated TSA policy, which mandated that all freight shipped on passenger craft be screened for explosives beginning in August 2010.

Because of ActivAir's intentional negligence, Hogsett said the global freight forwarder is deserving of the largest fine ever imposed by the TSA to a cargo agent.

ActivAir's Indianapolis office shut down in February 2011. ACW

U.S.-EU agreement to boost trade of organic goods

The U.S. and the EU, the world's two largest markets for organics, have signed an agreement to boost the trade of organic goods while protecting product integrity. Starting June 1, products certified as organic in either region can be sold in both the EU and U.S. under that label.

Outlined in the deal, the EU will identify the USDA National Organic Program as equivalent to its own program, and the U.S. will recognize the authority of the EU Organic Program.

According to a press release, it's an agreement that will "expand market access for organic producers and companies by reducing duplicative requirements and certification costs on both sides of the ocean." Prior to this, those wishing to sell goods in both the EU and the U.S. were forced to pay double the fees and complete redundant paperwork.

Christine Bushway, executive director and CEO of the U.S.-based Organic Trade Association, said the elimination of these restrictions will create jobs in the organic sector and benefit farmers and organic product consumers in both the EU and the U.S. Plus, she added, "Equivalence with the EU will be an historic game changer."

Brandon Fried, executive director of the U.S. Airforwarders Association, also expressed his excitement about the deal and its implications for increased trade. "This agreement is an outstanding example of nations working together in creating harmonized rules that promote mutual recognition of certification standards," he said.

"Its promotion of electronic endorsement of import certificates will enable more efficient import clearances to get organic products off flights and into stores faster," Fried continued. "We hope this pact serves as a model in promoting similar mutual recognition of air cargo screening protocols as well." ACW

FAA authorities reinstated

After 23 temporary extensions since a long-term law expired in 2007, the Federal Aviation Administration will finally have its authorities fully reinstated. The U.S. Senate passed the FAA Modernization and Reform Act of 2012 on February 6 in an overwhelming victory; the U.S. House of Representatives ratified its own version of the bill in late January. President Barak Obama signed the bill prior to the FAA's latest extension expiration date on February 17.

The bill provides the FAA with $63 billion through fiscal 2015 to subsidize air-traffic control modernization projects, safety programs and related operations. The legislation also reiterates the country's stance on the EU emissions trading scheme and urges Congress to employ all "political, diplomatic and legal tools" to ensure U.S. carriers don't comply with it. Instead, the U.S. government endorses a global approach to sustainability developed through the International Civil Aviation Organization, an approach backed by the International Air Transport Association and other leading authorities.

The FAA bill, which has been endorsed by both House and Senate leaders, also blocks stricter regulations concerning the shipment of lithium batteries. Another key objective is the preservation of the status quo on aviation taxes, which have doubled over the last two decades.

In addition to commending Congress on the passage of the much-awaited bill, Airlines for America President Nicholas Calio called the latter objective good news for the entire U.S. aviation sector. "Holding the line on federal aviation taxes and fees paid by airlines and their customers enables carriers to work toward being sustainably profitable, so they can maintain jobs and service to communities and invest in their product," he said in a statement.

Transportation and Infrastructure Committee Chairman John Mica, who sponsored the bill, also touted the benefits of its passage. "This measure is key to advancing the nearly 8 percent of our nation's economy impacted by the aviation industry," he said in a statement. "This bipartisan, bicameral agreement ensures long-term aviation safety and infrastructure funding for the next four years."

After all, Mica continued, "Improvements to our nation's aviation infrastructure, modernization of our air traffic control system, and reform of FAA programs are almost five years overdue. A long-term bill will set national aviation policy and have a major impact on jobs."

The absence of a long-term bill has certainly caused problems in the

past. Last July, a bipartisan dispute led to the 13-day partial shutdown of the FAA, causing nearly 4,000 airline workers to be furloughed and dozens of aviation projects to be immobilized.

"Unless Congress acts quickly, more work on projects critical to our nation's aviation system will come to a halt," Former FAA Administrator Randy Babbitt said at the time. "Work is stopping on construction and planning projects, NextGen system testing, and airport certification. The list goes on and on — and this is just the beginning."

The FAA's partial shutdown temporarily affected the renovations of air traffic control towers at Las Vegas-based McCarran International Airport; New York-based LaGuardia Airport; Gulfport, Miss.-based Gulfport-Biloxi International Airport; Kalamazoo, Michigan-based Battle Creek International Airport and California-based Palm Springs International Airport, among others.

Aviation Subcommittee Chairman Tom Petri hoped the reinstatement of the FAA's authorities will prevent similar projects from being delayed in the future. "This long, incredibly drawn-out process is, hopefully, almost over," Petri said in January. "We must not delay any longer when it comes to air traffic control modernization and other vital initiatives."ACW

President Obama signed the FAA Modernization and Reform Act of 2012 last month

In the news...

World Airways' parent company, **Global Aviation Holdings**, has filed for Chapter 11 bankruptcy. Both Global and World Airways will continue scheduled flight operations, World Airways spokesman Steve Forsyth said. "The important factor is that both airlines will operate as usual through the reorganization process, so customers will continue to be served as they were before," Forsyth wrote in an email. According to a press release, Global's board of directors determined that Chapter 11 bankruptcy provided the company with the "most efficient and effective means to restructure." Global CEO Robert Binns elaborated on the decision. "The company needs to complete its comprehensive restructuring due to having too large a fleet, labor costs that exceed industry standards given the current global economic environment, and the necessity to align the capital structure with the size of the company," Binns said in a statement…. **Dascher Transport of America** is the newest member of Lufthansa Cargo's Global Partnership Program. "Lufthansa Cargo's closely meshed route network and frequent, excellent service makes the company a strong partner for our intercontinental business," Dacher's Thomas Reuter said in a statement... **United Airlines** and **Continental Airlines** experienced an 11.9 percent, year-over-year, drop in freight revenue in January. Consolidated passenger traffic also dipped in the first month of 2012 for these carriers, decreasing 3.2 percent from January 2011… **GOL Linhas Aereas Inteligentes S.A.** has constructed a new cargo terminal at Sao Paulo-Guarulhos International Airport. The R$11 million logistics terminal, which opened February 1, features 5,000 square meters of operational space on a 10,000-square-meter plot. It's capable of handling 150 tonnes of freight a day, nearly four times the capacity of GOL's previous terminal… **AviancaTaca** has agreed to purchase 33 A320neo and 18 A320 aircraft from Airbus. The agreement, which marks the single largest order from a Latin American carrier, follows AviancaTaca's MOU with Airbus signed during the June Paris Air Show… **Delta Cargo** has forged an agreement with OnAsset Intelligence, which enables shippers to track and trace their freight on deltacargo.com. This GPS-enabled service is especially beneficial to customers moving high-value cargo, Delta Chief Cargo Officer Neel Shah explains. "Offering GPS customers our complete network, and combining active and passive tracking data into a single location, will be a considerable advantage for their critical shipments," he said in a statement… **FedEx** has expanded its SenseAware real-time tracking service to all industries. Previously only available to FedEx customers in the healthcare and life sciences sectors, SenseAware can provide data about the shipment's current location, its temperature and barometric pressure readings, and whether it's been opened or exposed to light... **FedEx Trade Networks** has opened a new office in Lyon, France. This facility marks the freight forwarder's third location in France and will be propelled by operations at Lyon-Saint Exupery Airport, which handles more than 300,000 tonnes of cargo a year. ACW

The air freight industry is a big one and there's a big job to do

Bernard Estes

Air Freight Is UNDER-PROMOTED!

By BERNARD ESTES

IN these days of super-exploitation and promotion it is ironical to point out the fact that the air freight industry has developed so much further than its promotion. Usually, in such times of hyper-exploitation, an industry is promoted to such an extent that it finds it difficult to keep up with the claims made upon its behalf. Unfortunately this has not been the case with air freight.

Technically, the industry has accomplished a great deal, and its future is restricted only to the extent that it limits its educational efforts. Like the airplane itself, air freight is restricted in development only by its ultimate users being fully aware of its facility. A more direct example of this is the development of the personal airplane. The personal plane cannot reach its full growth until the user is assured full facility. Which means many more places to land and take off from than are available today. Airports and airstrips are being built in increasing numbers each month. As they increase, the facility of the personal plane increases, and, of course, in direct ratio to this increase in airports and airstrips air freight will develop.

However, air freight as it stands today, unlike the personal plane, need not await the technical facility of a greater number of take-off and landing places. There is more air freight business available than is at present being handled by both scheduled and non-scheduled carriers—if adequately promoted.

With the industry so far behind in promotion it need not await the fuller development of multiple airfields. For, like the passenger business, air freight can render the service that is needed right now.

While it is true that there is much to be desired in the development of better and more cargoplanes, the fact remains that there is a job that can be done with present equipment. If this job is done properly at the present time then the development of the airfreighter will be accelerated. It is a proven fact that necessity is the mother of invention, and it therefore remains for those in the air freight business to create the necessity now. American engineering ingenuity can keep pace, if not outpace, the needs of air freight.

The recent meetings of air freight carriers and freight forwarders, and the encouraging decrease in air cargo rates, indicate that aviation, itself, has become of age. It only remains for air freight to shed its swaddling clothes and don the work clothes of maturity.

About a year ago, this writer, in an article in *Tide*, deplored the public relations efforts of the aviation industry. He pointed out that the glamor should be taken out of flying and that it should

The Author

Author, journalist, and pilot, Bernard Estes has been a booster of the aviation industry since he received his pilot's ticket some 14 years ago. He foresaw the future of air freight years ago, and he has studied it at close range here and abroad. His stories on aviation and its development have appeared in Collier's, Saturday Evening Post, Atlantic Monthly, and many others.

A former Associated Press foreign correspondent, he has worked and flown in England, Germany, France, Latin America, and the Orient. As a member of the AAF Training Command in the Second World War, he helped train Chinese air cadets. He is an honorary colonel in the Chinese Air Force.

His aviation affiliations include the Wings Club, National Aeronautic Association, Societe Aeronautique, and the Royal Aero Club of England.

be sold to the public as part of the every-day routine of Twentieth Century living. Air transportation is here to stay, and it has long passed the stage of being a gimmick of brave stuntmen or daring young men who crave speed and thrills.

Air freight can do much to help this program of selling air transportation to the general public. If every item shipped by air were to be so marked, the impact of the general utility and facility of air transportation would do much for establishing both passenger and freight transport by air as routine in modern-day living. Proof of this is evinced in the increase of the use of air mail. Air mail is taken as a matter of course these days. True, the use of air mail is not fully developed as yet; but it has reached proportions which contribute much to the development of aviation, and the impact on the public mind as to the reliability and facility of air transportation.

There is a little story that must be told, and it is published for the first time here. Some months ago, this writer was preparing an article on aviation for one of the general magazines and found he needed additional information in a hurry. He immediately wrote some 27 friends who held key posts in the aviation industry, requesting that each give him the required information

Airborne cattle—another type of cargo which must be promoted with "the down-to-earth tongue of the layman."

in as much detail and as quickly as possible. Each request was sent in the form of a personal letter and air mailed. Within 10 days all 27 letters were answered. But, of the 27 replies, only five had been air mailed. The other 22 were sent ordinary mail, three of which had special delivery stamps affixed to hasten delivery. Astounding as the 22 aviation executives' failure to use air mail may seem, a similar experiment by anyone reading this, will, in all probability, give similar results. We in aviation, while we may be fully conscious of the need for promotion, are guilty of the error of not using aviation ourselves as a routnie tool in our every-day living.

One can't help but wonder if there is a case on record where an airline company regularly requests shipping by air when ordering equipment or material from its suppliers. This is one type of promotion we need.

As the Federal and municipal program for constructing airports and airstrips in larger numbers advances, air freight will have its utility expanded, and the question of extending service to smaller communities, especially agricultural areas, will be answered.

But there is the ever-present fact that air freight, like anything else, must promote itself to the general buying public and the seller as well. It must speak with the down-to-earth tongue of the layman, the practical manner of the economist, and the dollars-and-cents dogma of the businessman. It must *prove* to the shipper, the wholesaler, the retailer, and the consumer that air freight is not a glamorous, silk-lined method of transporting commodities but, that it is civilization's newest and best cargo transportation arm, carrying with it a host of benefits ranging all the way from profits to a higher standard of living.

America cannot afford to under-promote this type of industry.

Freighter woes cast shadow over fleet plans

In the current market, running freighters seems to be a losing proposition. The past year ended with a whimper for wide-body cargo aircraft, with two pure freighter outfits exiting the market. Cargoitalia suspended operations and prepared to wind up the company, while Jade Cargo grounded its fleet indefinitely amid speculation that it would not resume flying in its current set up. Combination carriers were also bracing for a tough market. Cathay Pacific deferred delivery of two of the six B747-8Fs due this year to 2013, and EVA decided to sell two, if not three, of its MD-11 freighters. Others, like Lufthansa, have talked of parking freighters.

While Cathay's move marks a tactical shift to match anticipated demand development, EVA's decision carries more ominous undertones. The airline has historically generated about 40 percent of its revenue from cargo, and the decision to part with some freighters was accompanied by media reports of EVA Air President Chang Kuo-Wei voicing pessimism about the outlook for 2012 after a miserable 2011.

Industry analysts and carrier executives alike expect further casualties among freighter operators. "There will be some exits. Operators will decide no longer to invest in cargo aircraft," predicted Robert Song, vice president, Asia Pacific, at AirBridgeCargo Airlines.

Dirk Steiger, managing director of air cargo research and consulting firm Aviainform, echoed Song's sentiments. "Is an all-cargo airline with five, six or 10 planes still able to survive in the international market without a parent company that can leverage fuel costs and other elements? I doubt it," he said.

Nick Rhodes, director and general manager of Cathay Pacific Cargo, said it's tough to be a freight operator in today's market. If the carrier focused exclusively on cargo aircraft, he admitted, "we would be struggling to produce black figures at the moment."

For Cathay, which is located in close proximity to the world's largest manufacturing center, it makes sense to be a player with a global network; a wide reach requires a freighter fleet of a certain size — about 24 to 30 all-cargo aircraft, Rhodes said. But he added that for carriers located farther away from large sources of product, the equation looks different. "If I were Air New Zealand or a European carrier, I would have to ask myself if I need a big freighter fleet," he said.

So far, international carriers have entered China with relatively low planning horizons; they jumped into

"Is an all-cargo airline with five, six or 10 planes still able to survive in the international market without a parent company that can leverage fuel costs and other elements? I doubt it."

— Dirk Steiger, Aviainform

markets that promised returns within three months, Song said. Today, this is no longer possible. Airlines have to go in ready to hang in there for a year before they make money, he argued.

At a time when airlines find themselves forced to sacrifice schedule integrity to avoid losses, jumping in and out of markets at the first sign of sinking below profitability, this appears increasingly beyond the capabilities of freighter operators. "We can't afford to keep flying a route where we lose money," a senior executive of a North Asian carrier confirmed.

The outlook is grim. When Airbus unveiled its latest 20-year forecast for the industry at the turn of the year, its analysts had scaled back their growth projection for the period from 5.9-percent average annual growth to a 5.1-percent prediction. Boeing reported a higher estimated growth rate of 5.6 percent, but this was also a downward adjustment made last summer, after the first half of 2011 had proved weaker than expected.

Demand, per se, is not the problem, according to Song. "The cutbacks and cancellations that we've seen are not because of export demand," he said. "You go out [of China] with a full load and can't cover the cost."

On the other hand, a yield of $5 per kilo or more out of China, which used to be the norm, does not constitute normal price levels, pointed out Tom Crabtree, regional director of cargo marketing at Boeing. The average level now is $2.25 to 2.75 per kilo. He added that yield decline has been an integral part of the industry's business model. Long term, yields have come down by 2 percent on average since the beginning of the jet age, and this downward pressure is necessary to generate growth, he said.

Nevertheless, there have been suggestions that airfreight has come off the rails. Some observers point to an apparent disconnect between air cargo and GDP growth. Historically, airfreight has grown at twice the pace of GDP. The massive influx of belly-hold capacity in the wake of huge orders for wide-body passenger aircraft has been cited as another factor that threatens to erode demand for freighter capacity.

Ram Menen, senior vice president of cargo at Emirates, pointed out that many of his airline's new wide-bodies are being deployed on longer sectors, which affects their payload capabilities. "This will add a lot of capacity in regional operations, and I see freighters still operating on longer-haul, high-density trade lanes," he said.

In his eyes, the fundamentals for freighter operations have not changed. "I don't think that the freighters are doomed, and I also disagree that the relationship between GDP and air cargo is decoupled. What we are seeing is the global and local economies going through an adjustment period. Globalization of markets and production will continue, albeit with some adjustments in the supply-chain management and operations," he declared.

Cathay Pacific's Nick Rhodes says it's tough to be a freight operator in today's market

Rather than spell doom for freighter activities as such, the current environment is more of a knell for carriers with aging, fuel-thirsty freighters, according to Crabtree.

"The comments on profitability have come mostly from MD-11 operators," Crabtree said. "Of the large wide-bodies, it is the least efficient model." ACW

Signed, sealed and hand delivered

Chapman Freeborn has been making a push to remind customers that air cargo isn't just about large pallets on massive freighters — it's also the little stuff.

According to the company's Roberto Berrios, Chapman Freeborn would like to bring an on-board courier service to every major metropolitan area in the world. The group has either just introduced or is about to launch the program in Atlanta, Delhi, Moscow and Shanghai. "The next move will be the West Coast. We are placing someone in L.A," he said. "Mexico might be something that is in that scope."

These services — it seems like every integrator or freight forwarder calls its OBC program something different — are, of course, nothing new. The concept is simple enough; for parcels that either need a high level of security or need to be delivered to the customers as soon as is humanly possible, goods are transported personally by a courier on a passenger flight. Berrios said these shipments could be as small as an original document or as big as seven boxes of wires destined for a Volkswagen factory.

Shipping boxes is sometimes difficult enough, but add in the human element and all the clearances that traveling internationally requires, and OBC shipments become an even more complex pursuit.

"A lot of this is logistics — having people in the right places at the right time, contacts in different countries, people ready to leave at a moment's notice and having all the documentation together," Berrios said. "Everybody in the office needs to have a three-day packed suitcase."

Documentation issues are one of the biggest challenges of OBC programs, a UPS spokesman agreed. Customs processing can always cause hiccups, and passports and travel visas need to be ironed out. For its part, UPS finds it uses its Express Critical service for shipments in the manufacturing, aerospace and healthcare fields. A lot of work, however, revolves around the automotive industry, which is Chapman Freeborn's bread and butter, as well.

"High-tech has really driven the OBC use in the automotive sector. Many of the first-tier suppliers are importing and exporting daily to keep up with the just-in-time inventories of the second- and third-tier suppliers," the UPS spokesman said. "Assembly plants in either Europe, Asia or North America rely on the steady streams of the high-tech products moving on their supply chains. Semiconductors typically move on a traditional air cargo solution, but any backlog between the tiered suppliers and the assembler will generate opportunities for OBC providers."

When manufacturers are facing a plant shutdown if a needed part isn't delivered, shipping via traditional airfreight is not the best option. But while Berrios said OBC services are trending upward — and despite the sour economy, these services are not a luxury that can be cut out of the budget, he added — the UPS spokesman doesn't see OBC as a service that's gaining momentum.

"Due to the relatively high costs of OBC versus alternative methods of transportation, OBC has always been a method of last resort. The use of OBC is driven by other factors such as time in transit and security," the spokesman said. "Cost will always be a factor for individual customers."

This year, Panalpina celebrated its first decade of offering on-board courier services. Robert Boetzer, Panalpina's head of charter and emergency services, said shippers use OBC services mostly for automotive and computer parts flowing into and out of the U.S. from Europe and China.

Panalpina carries a variety of packages on board, and shipment weight, he said, varies between 1 kilogram and 100 kilograms, with the average weight of shipments around 30 kilograms. No matter the size, Boetzer said, OBC services are valuable as a key component in an increasingly complicated industry; in a supply chain with many moving parts, the courier services act as a fail-safe, of sorts.

"OBC is not a new industry. The difference today is that planes now have jet engines and fly faster."

— Robert Boetzer, Panalpina

"As long as you have global players developing and producing parts on one continent and assembling them on another, and as long as you have either quality or production glitches or late design changes, there will be always be a demand for OBC services," Boetzer said.

While some may not think of it as traditional air cargo, OBC programs are very much a part of the modern supply chain. Boetzer said that courier services are neither a passing fad nor a luxury; he concluded that they will be around for as long as goods need to be shipped.

"OBC is not a new industry. The difference today is that planes now have jet engines and fly faster," he said. "Supported by IT technologies, we can design/develop/build/produce items remotely and not on-site. When a global supply chain breaks, OBC can be an invaluable problem-solver." ACW

Forwarders confront European slowdown

Positive straws in the wind in December saw business confidence begin to recover, and the trend has continued into 2012, with purchasing indices, corporate hiring and stock markets all turning favorable.

Just how far the airfreight industry has to go to benefit from this more upbeat mood is clear from IATA's disheartening cargo statistics for 2011. As the International Air Transport Association pointed out in its year-end summary, measures to match capacity with demand by reducing the freighter fleet were offset by introduction of new twin-aisle passenger aircraft.

Global airfreight markets showed sequential month-over-month growth in November and December, confirming the view that international trade may be stabilizing. However, the situation for airlines in most markets continued to deteriorate. With freight capacity climbing 4.4 percent in December 2011 compared with December 2010, the freight load factor was just 46.1 percent for the month. For the year as a whole, the load factor shrank to 45.9 percent, down from 48.1 percent in 2010.

Tony Tyler, IATA director general, summarized 2011 as a year of contrasts. "Healthy passenger growth, primarily in the first half, was offset by a declining cargo market. Optimism in China contrasted with gloom in Europe.

"Ironically, the weak euro supported business travel demand. But Europe's primarily tax-and-restrict approach to aviation policy left the continent's carriers with the weakest profitability among the industry's major regions," Tyler said in a statement. "Cautious improving business confidence is good news. But 2012 is still going to be a tough year."

Forwarders purchasing space on the critical Asia-Europe trade lane are understood to be paying between 15-percent and 20-percent less than a year ago. Carriers that should be pricing the increasing cost of jet fuel and new European emissions trading legislation into their kilo rates are in no position to force the issue.

Jade Cargo's grounding of its aircraft and the loss of Cargoitalia at the turn of the year may help correct some of the supply/demand imbalance, but there is no question that westbound business into Europe remains difficult. Consumer demand is muted and will likely stay that way until the Eurozone crisis moves nearer to a long-term resolution. This has resulted in a modal switch from air to ocean that Austrian forwarder Gebrüder Weiss believes could become permanent.

Damco, the logistics arm of the A.P. Møller-Maersk Group, says the slump in airfreight rates out of Asia over the last year reflects a marked decline from the main Chinese points of origin, Shanghai, Shenzhen and Hong Kong — one of the factors that led to Jade's demise. Although the pain has not been shared equally across the region, China is still the factory to the world. Its export volumes are still huge, despite a shift of some production toward countries with lower labor costs, so it is still the pattern of Chinese trade that has the main impact on airfreight rates. Export markets such as Malaysia, Indonesia and Bangladesh are holding stable in terms of airfreight volumes to Europe, but this is primarily low-end garment business that represents a lower yield for carriers.

The state of the global economy can look very different depending entirely on where you're sitting. "If you go shopping in Hong Kong on a Sunday afternoon, you would never believe there is a crisis," says Tomas Sonntag, who is based

Tomas Sonntag

there in his role of director, global airfreight procurement for the Air + Ocean segment of the Luxembourg-headquartered Logwin Group.

Logwin moves around 170,000 tonnes of airfreight per year, and saw a 4-percent increase in volumes in the last quarter of 2011 when compared with the same period form the previous year. However, this was driven mainly by intra-Asia business, reflecting both the underlying strength of this market and Logwin's investment in Asia over the last three years. "Europe did not participate in this [final-quarter increase] and more or less showed zero growth," Sonntag says. "The slowdown in consumption means that volumes from Asia — and from other regions — to Europe have been rather weak, but they are not declining."

There is some evidence among Logwin's top 20 Air + Ocean customers of a shift toward oceanfreight. "But across the entire business, this is not the main factor. Demand is weaker across the board," Sonntag says.

Logwin continues to pick up new customers in Spain, including the Anjara García fashion label. The company consolidates garments from production facilities across China at its warehouse in Shanghai before transporting them by sea and air to a Madrid facility, where they are picked for final delivery to retailers throughout Europe. Overall, however, it is southern Europe that has seen the most severe slowdown for forwarders. Sonntag comments that

"Volumes from Asia — and from other regions — to Europe have been rather weak, but they are not declining."

— Tomas Sonntag, Logwin Group

December-to-December and year-to-year airfreight traffic				
Carriers	FTK Dec 11	AFTK Dec 11	FTK FY 11	AFTK FY 11
Europe	2.1 percent	5.5 percent	1.5 percent	6.4 percent
Asia/Pacific	-5.0 percent	1.3 percent	-4.8 percent	0.6 percent
Global	-0.8 percent	4.5 percent	-0.6 percent	5.2 percent

Germany's retail and fast-moving consumer goods markets, together with those of other countries in Europe's central belt from Austria to Belgium, have held up reasonably well in comparison, with a positive influence on airfreight activity.

Sonntag sees a difficult year ahead for airfreight forwarders and logistics companies, and paradoxically, an improvement on last year's non-existent peak season may not help. "If we're honest, the first three trading quarters of 2011 were manageable and airfreight yields were OK. It was not very exciting, but it was 'safe.' Later this year, the cost of air capacity could explode, affecting long-term rate agreements with customers," he says.

"We have seen some forwarders in the past attracting customers with rock-bottom rates," Sonntag continues. "They have been prepared to take the hit and sell below cost, aiming to recover their losses in peak season. Rate negotiations may have to be rather different in the future."

Markus Derndorfer, product manager, airfreight, Europe, at Gebrüder Weiss, concurs. "The last quarter of 2011 was difficult on most airfreight trades globally. We saw a small decline overall, and Europe was no worse than the global trend. Indeed, Asian imports were even a bit higher than in the last calendar quarter of 2010," he says.

Some customers, however, switched to oceanfreight last year for imports from the Far East to Europe. "Supply chains on certain products have changed as part of cost-reduction programs. Companies have seen how it works out and are unlikely ever to change back," Derndorfer says.

Gebrüder Weiss works on a joint-venture basis with Germany's Röhlig

Logistics in Asia. The partners, which operate at a total of 37 locations in seven countries, see Japan as a potential bright spot as it recovers from last year's earthquake.

In January, Weiss-Röhlig Japan took over Osaka-based air and sea freight shipping company JHB Express to give it a second operation in Japan, alongside its main Tokyo base. Joe Lässer, director, air and sea, at Gebrüder Weiss, said at the time that "in addition to strengthening our intra-Asia traffic, our major trading partners in the U.S. and Europe will benefit from this expansion."

Serge Tripet, Dubai-based regional airfreight manager at Damco with global responsibility for sea-air business, has witnessed a sharp slowdown from the recovering volumes seen in 2010 and early 2011. The company forwarded less than 300 tonnes of sea-air traffic via Dubai in January 2012, compared with 13,000 tonnes in full-year 2010. "Retail customers are under no pressure to manufacture just-in-time so they can ship all the way from Asia to Europe. There has been a big increase in ocean traffic," Tripet says.

Serge Tripet

Sea-air business involves transferring cargo, 90 percent of it garments and shoes, from deep-sea vessels at Jebel Ali port to aircraft departing Dubai International or Dubai World Central for destinations in Europe. Warehousing the products in Dubai while awaiting the final call from the retailer is rare, and the switch of modes usually takes place on a cross-dock basis within 24 hours.

Damco is receiving some requests for sea-air transport of high-tech products to South America, but the economic crisis is likely to keep European demand down at least through the first half of the year. This will continue to impact air transport, Tripet says. He expects the mixed-mode concept to bounce back as confidence returns to Europe, however, because the major global retail names are anxious to appear "green," and sea-air emissions are 40-percent to 50-percent lower than from flying the shipments all the way. ACW

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The strength of a guarantee

Cost-cutting airlines look to ever-evolving GSAs for a sense of security

Security. In this economy, with so much uncertainty still pervading the market, every person at every level of the aviation industry is searching for a guarantee — an assurance that business will be conducted in the agreed-upon manner, a pledge to create positive numbers in the middle of so many negative results. The relationship between a GSA and his carrier client is no different.

Recently, airlines have been asking more of their sales partners. When GSAs approach an airline about representation, carriers have started asking for revenue guarantees and detailed business models. These GSAs must pledge to their new customers a certain level of activity in order to secure business in this uncertain economic environment. This is slowly becoming the new normal.

"Airlines are very scared," says Adrien Thominet of ECS, "so they ask for the largest possible guarantees; they ask for the largest possible financial support. Airlines need more and more to go to big GSAs who will give them the maximum comfort and guarantees."

More airlines than ever have started turning to GSAs as a way to bleed costs out of their business. Some of these airlines are entirely new to the GSA experience and have just moved toward outsourcing their sales department because it was the next thing to cut. Other carriers are accustomed to the GSA model and spend time shopping around among firms.

For most airlines, the obvious choice for cargo sales seems to be outsourcing to a GSA, but there are still a few holdouts. These carriers are convinced they can go it alone in a quickly changing landscape. "A few of them are still trying to get by on their own, but it's a very, very limited number of airlines," Thominet says. "I believe the CFOs are not giving any choice to the cargo managers. They are telling them to cut costs and increase revenue; with their resources, they can't do it by themselves."

"Airlines are very scared ... so they ask for the largest possible financial support. Airlines need big GSAs who will give them the maximum comfort and guarantees."

— Adrien Thominet, ECS

At ECS, Thominet sees a broad range of airline clients. Many of the carriers who have traditionally used their own staff want to make sure that GSAs will cost less money than their staff while generating more money; due to a variety of factors including employee overhead, he says that this reasoning "is almost illogical." Airlines who are familiar with GSAs and have worked with them before, want to be sure their new GSA can produce results that were just a little bit better than the last. "Whatever the strategy is," he says, "they always want to have more and more guarantees."

The quest for a sense of security may seem best provided by a GSA with a vast network around the world. While there are GSAs who focus on being the biggest and the best, Thominet says, there are only about three major players in the worldwide market. And while airlines may like a company's broad reach, there is always room for smaller firms. Niche GSA organizations can offer a different perspective than larger organizations because of unique services that are tailored to an airline's needs.

Airlines use the bigger GSAs when they need to concentrate on volume, among other things. Unfortunately, Thominet says, all the mid-sized GSAs have been pushed out of the market.

Sevde Ipek, business development manager at Turkey-based Airmark, counts among his client base large airlines such as UPS and Korean Air as well as smaller players like Ural Airlines and Moldavian Airlines. For Ipek, these airlines need the services of his team to create a good relationship with local freight forwarders. "In order to get a good and regular cargo

A forwarder's perspective

GSAs are a middle man between forwarders and airlines, but it seems that most GSAs view airlines as their ultimate client and forwarders as someone with which to do business. Carriers are definitely in the driver's seat in this situation.

To quickly explain how U.S. forwarders view GSAs in the current market, Bob Imbriani of Team Worldwide took the time out of his schedule to answer a few questions.

Q: As a forwarder, how does working with a GSA differ from working with an airline? Do you prefer one over the other?

A: All things being equal, we prefer to work with the airline directly. However, if it is a small carrier, the GSA does help. The problem with GSAs, in many cases, is they have to go back to the carrier for approval.

Q: Have you seen a trend toward airlines using more GSAs? Are you dealing with GSAs more often than representatives from airlines?

A: I have seen greater use of GSAs for smaller airlines and smaller markets; in other areas, carriers are moving away from GSAs. I have seen where alliances used a single-sales entity and then have gone back to handling it directly.

Q: What do you think GSAs bring to the equation?

A: GSAs have more knowledge about cargo and the needs of forwarders than a small airline might have.

Q: How do you think GSAs need to evolve, and what do you expect to see out of the GSA market in 2012?

A: I see more GSAs coming into the market as new airlines expand their cargo markets and as carriers continue to look for ways to cut costs.

Adrien Thominent

market share and create a market existence for an airline, relationships with the local freight forwarders and customers are very important," he says. "You should know the market conditions, competitors, and the target customers very well, which could only be achieved with a local sales force with a good reputation in the air cargo market."

Last year, Airmark celebrated its 10th anniversary by adding four new carrier customers. In 2012, Ipek hopes to add at least two more, an addition that will become an annual goal. This benchmark won't be easy because of the pessimistic forecast for worldwide air cargo growth, but Ipek has hope that toward the middle of 2012, the storm clouds will lift. But it will take a long time for the economy in Europe to turn around; for that reason, he sees Airmark's best opportunities for growth in Africa and the Middle East.

For the industry in general, Ipek predicts that GSAs will see increasing competition, a lack of financial support from banks, and airlines that are faced with cutting even more services and routes. One of the main problems, historically, has been that the airlines view GSAs as a separate part of their business, and he hopes to soon bring about a change in that perception.

"At some stage," he says, "airlines should consider the GSA as part of their system and support us to survive to serve them better."

There are still some regional hiccups when operating as a GSA. Victor van Eijk, managing partner of Cargo Wings, says that GSAs are much more established in Europe than in other parts of the world. These European groups function as pure GSAs, leaving forwarding duties to an third party. But in the Asia-Pacific region and in North America, that dynamic is a little different, which, he says, could create tension among industry players.

"In large parts of China and the U.S., a GSA may also have their own forwarding agency. This way, other

"In large parts of China and the U.S., a GSA may also have their own forwarding agency. This way other forwarders could believe to lose their contact to the GSA's forwarding side."

— Victor van Eijk, Cargo Wings

forwarders could believe to loose their contact to the GSA's forwarding side," van Eijk says. "It is for that reason that the European GSA organizations do not have a forwarding department as such. orwarders do not fear to lose customers to the GSA partner. They see the GSAs as a trusted partner in the vertical logistic chain."

His advice is to separate the forwarding and GSA components completely; only then will U.S. GSAs gain the confidence to become market leaders, he says. Whether this will happen in 2012 is anyone's guess; van Eijk sees the next year as being pretty much flat when compared to 2011 — not the most ideal environment for expansion or the re-imagining of business plans.

In the Asia-Pacific region and in the U.S., the GSA model is still developing, and one reason for the slow evolution, at least in the U.S., may be jobs. When a carrier outsources cargo sales to a GSA, the airline obviously has no use for the employees who once sold cargo as an indispensable part of the team. GSAs, Thominent says, try to pick up the pieces and add a few staff members from the airline onto their team — it makes sense, he says, to bring on employees who know the airline inside and out and can hit the ground running from day one. But job losses are sometimes unavoidable in areas without tough labor laws. In the UK, workers are shielded by the law.

"In Europe … if we take over a contract from an airline who had its own staff, the GSA is more or less obliged to take over as well the staff or to pay them compensation," Thominent says, noting that the airline is required to do nothing when jobs are cut. "It becomes somehow the prob-

lem of the GSA either to re-employ the staff or pay them compensation, but not the airlines — which is not the case in the far east or the U.S."

Stephen Dawkins of Air Logistics Group has seen a slow evolution of GSAs in the past 15 years. As carriers have looked to remove more costs from their own business, GSAs have flourished. Even in the last few months, Dawkins says he has been approached a few large, worldwide airlines who are looking for a good way to save money.

He predicts that with fuel prices only moving higher, he'll soon be fielding more calls from carriers. For his part, he will continue to invest in IT, employees and efficiencies in order to be ready when the next carrier comes calling. But, he hastens to add, even as the GSA market grows exponentially, that doesn't mean GSAs are an automatic choice for every airline.

Stephen Dawkins

"There's always going to be some airlines that want to control their own cargo buinsess, and there's always going to be airlines that are looking for additional revenue by outsourcing to a third party," Dawkins says. "Every airline is looking at their costs, and every airline is looking at the opportunity to outsource."

The GSA market, he says, is certainly different than when he first started in the business, and he thinks the model will continue to adapt and thrive. In a rocky economy, outsourcing sales is a mighty tempting proposition, but even in the sunnier times, Dawkins says, GSAs will continue to evolve and blossom.

"In three years time, the GSA model may be different to what it was 10 years ago — certainly, I've seen since September the 11th that there's been more understanding of the GSA, more transparency from the airline to the GSA," he says.

"We continue to see the business model of the GSA evolving in a positive direction," he adds," with more investment in IT, more investment in good employees, more investment in revenue guarantees to airlines." ACW


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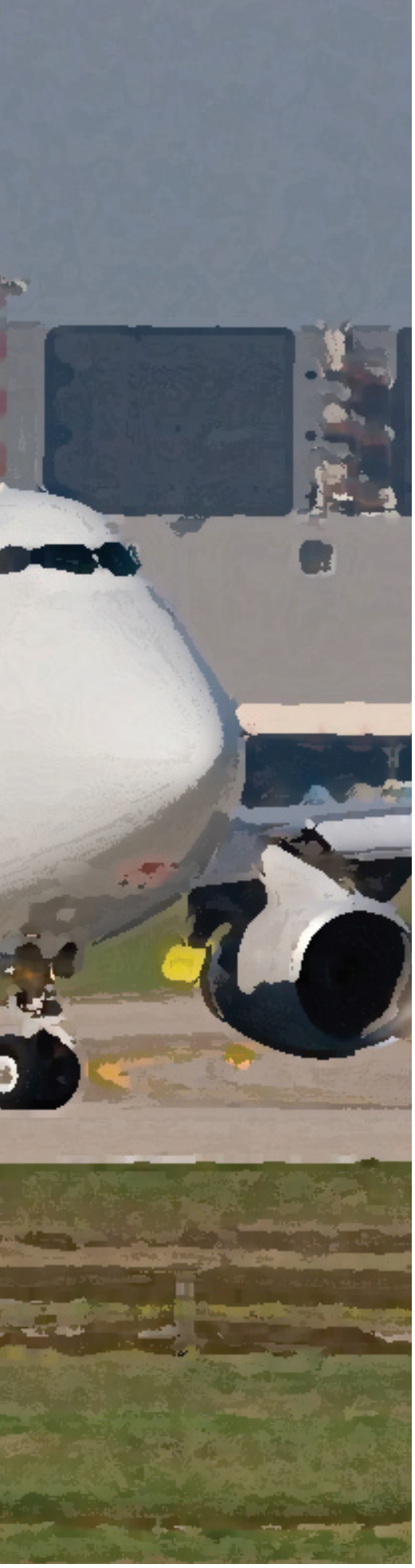

A lessor's market?

In a world characterized by speed, buying a plane is a particularly slow process. Unlike other transactions, three to five years can lapse between the initial purchase agreement and the point of delivery. How the market ebbs and flows is anybody's guess. Cargo, in particular, has experienced significant market fluctuations in recent years. Decreased tonnages resulting from the recession of 2008 kept levels low throughout 2009, before recovering strongly in 2010.

2011 was another tumultuous year for air cargo, International Air Transport Association statistics revealed. Despite weak freight traffic throughout the year — propelled by the softening of the Asia-Pacific market — global freight volumes improved 0.2 percent, year-over-year, in December.

Such fluctuations have led some freight carriers to forgo the traditional means of acquiring an aircraft — purchasing it — in favor of a more flexible approach: leasing. It has also led some airlines to recant their decision to buy a plane and take a sale-and leaseback approach, Airbus' senior vice president of leasing markets Andy Shankland says.

He says Airbus has recently seen an influx of carriers leasing a purchased aircraft before its delivery date — a trend Shankland expects to grow with time. His colleague Andreas Hermann, vice president of freighters at Airbus, agrees, especially as it relates to the airfreight sector.

"Leasing particularly comes in handy in industries with cyclical behaviors, and the cargo industry is predominated by that," Hermann says. Freight carriers are increasingly attracted to the level of flexibility allowed by leasing, he says, "given that lease terms, as well as timing and direction of that term, are subject to negotiation."

The leasing phenomenon

Forty years ago, less than 1 percent of the global air fleet was leased; today, that figure is 40 percent, according to Boeing statistics. Kostya Zolotusky, managing director of capital markets development for Boeing Capital Corp. expects this number to increase even more in the future, rising to 50 percent. Propelling this surge is the fact that the aggregate costs of buying versus leasing are about the same, he says.

"If airlines lease an aircraft, they don't tie up their own equity," Zolotusky says. "And airlines, generally, have fairly expensive equity relative to the leasing companies. Leasing companies, because they're financial institutions, tend to have better credits and, therefore, cheaper access to equity."

Like Zolotusky, Shankland says the decision whether to buy or lease an aircraft is, above all, financial. In addition to demanding a significant investment up front in the form of down payments, purchasing a plane requires carriers to secure cash financing for the delivery, he explains. "The overall financing through cash requirements when you buy a plane are quite onerous," he says, "particularly for a smaller airline."

Mid-sized airlines are also feeling the sting, Shankland says. Because they, like smaller carriers, lack the capital of major global airlines, handing over the cash required to purchase an aircraft can be constraining. It's a problem that has only worsened with the recent economic downturn, many aviation experts maintain. "I

think that over the years, both passenger and freighter airlines have learned that if they have cash, there's pressure to keep it in their bank accounts, rather than let everybody else have it," Shankland says.

Not that all carriers let this philosophy dictate their spending behavior, he asserts. Shankland says some of the larger, richer airlines view lessors as middlemen and prefer to arrange financing directly with the manufacturer.

Although Zolotusky agrees that money plays the biggest role in the buy-versus-lease decision, he says its not the only factor. He explains that the decision also involves the airline's specific business model and whether it wants to keep the aircraft for the duration of its lifecycle or return it to the lessor after a specific period. "But the predominant one is how well-capitalized the airline is," Zolotusky says.

"Leasing particularly comes in hand in industries with cyclical behaviors, and the cargo industry is predominated by that."

— Andreas Hermann, Airbus

Hefty bank accounts or not, funding has been rather hard to come by for carriers lately, due to the conservative nature of aircraft financing, Zolotusky says. He likens it to the housing industry before the bubble, where buyers were forced to put 20 percent down and then borrow the rest. "When you look at the idea of buying an airplane, it means that the airline usually needs to have a stronger balance sheet because it needs to have enough capital or equity to put down for the plane," he says. Carriers without these resources should lease, Zolotusky asserts.

Even so, GE Capital Aviation Services' Daniel Whitney is quick to point out that aircraft financing hasn't dried up. In fact, GECAS, which purchases aircraft from manufacturers and then leases them out to carriers, has seen more leniency among banks lately, Whitney says. "On the debt side, after months of tightening, debt spreads are beginning to widen," he says. "Due to the EU debt crisis, EU banks are selling assets to raise liquidity, but

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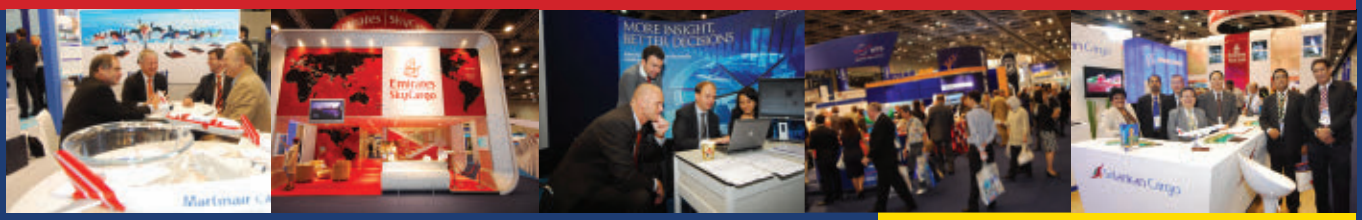

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(continued from page 40)
are not willing to take significant book losses." Aviation, Whitney maintains, is a sector banks are willing to invest in because of this development.

It's a good thing, indeed, he says, as some cargo carriers are looking to upgrade their fleets. Whitney cites the emergence of dedicated freighters, such as Boeing's 747-8F and 777F, as an example of fleet renovations. But these aircraft represent significant investments for carriers, "and, given the choice, an airline will likely choose to invest their capital in other areas of their business, such as sales, marketing, IT and personnel," he says. Again, it's a situation where leasing comes into play, Whitney maintains.

Atlas Air CEO Bill Flynn says he's witnessed a similar trend in the ACMI sector. Atlas, which counts 24 747-400 freighters and nine 747-8Fs among its fleet, regularly wet leases these aircraft out to carriers on a three- to five-year basis, he says. Without the option to lease, Flynn asserts, many airlines wouldn't be able to afford these aircraft or the extensive parts inventories they require.

Availability is another factor driving the demand for leased aircraft, Airbus's Shankland says. If, for instance, the market hits an upswing and a carrier wants to deploy more aircraft to address the growth, leasing is ideal, he says. The same scenario rings true for start-up airlines. Rather than wait the requisite three to four years for a new aircraft to be built, carriers entering the market can lease a plane and have it delivered within 18 to 24 months, Shankland says.

Faster deliveries are particularly advantageous to cargo carriers, an Airbus spokesman explains. Since the freight market is prone to greater fluctuation than the passenger sector, fleet planning is especially difficult for cargo airlines, he says. "That's why you see a lot of airlines that are going to have a fully ACMI cargo fleet, which gives them the flexibility to address the shorter span of time than would be possible if they had their own freighters," the spokesman says. It's a trend he and other airfreight experts anticipate is here to stay.

Looking ahead

With IATA forecasting another difficult year for passenger and freight markets, the option to lease has never looked so attractive, some advocates say. Although Flynn points out that leasing companies, such as Atlas Air, don't necessarily market their services as a safeguard against market volatility, he says it's a natural

byproduct of leasing. Flynn maintains that his customers have been slightly less vulnerable to cargo fluctuations and predicts that this merit will continue to serve the leasing market well in the future.

"We think cargo is going to grow as we come into 2012 and beyond, and I think the reasons that created the ACMI market in the past are the same reasons going forward — and maybe even more so," Flynn says.

GECAS' Daniel Whitney believes the same rings true for dry leases. He projects that carriers will be increasingly attracted to operating leases because of the flexibility they provide over purchasing. "This is especially important in today's environment, when demand trends change, aircraft size requirements change, and there are changes in route networks," Whitney says.

Still, the leasing sector hasn't been immune to market fluctuations. World Airways' parent company Global Aviation Holdings filed for Chapter 11 bankruptcy on February 5 after its board of directors deemed insolvency the most effective way to restructure. Global's vice president of planning and development, Sean Frick, who detailed the company's leasing outlook prior to the bankruptcy filing, says World Airways' cargo charter business is integral to operations. Despite the bankruptcy filing, a company spokesman says World's ACMI freighter operations and Global's U.S. military charter business will run as scheduled.

Although Frick admits that his company's aircraft business tends to be lower-utilization, he says the charter business has been lucrative for World. "We've found that the operating lease tends to work well for us because it reduces the amount of capital expenditure a company has to put in place," Frick says. For instance, he reveals that World has worked with leasing companies to perform freighter conversions, which is a very capital-intensive process. "But in the end, we're able to have an even flow of cash outflows in the form of rents for converted freighters," Frick says.

Currently, three-quarters of all cargo planes fit into this category, Boeing's Kostya Zolotusky says. And as more carriers go the converted-freighter route, Zolotusky sees leasing only growing in popularity. The distinction lies in leasing companies' expertise, he says. Since converted freighters are typically older than other aircraft, they require a skill level not mandated by all other planes.

"Being able to deal with and understand assets that are older is usually harder than dealing with new airplanes," Zolotusky says. "It's

another factor facilitating the expansion of lessors in that space; lessors tend to be very specialized and have a significant amount of expertise around aircraft assets and how their residual values will perform. So they're better able to deal with this older-asset class."

Many carriers don't want to fool with conversions, Zolotusky explains. Along with requiring a great deal of expertise, performing a conversion means that the aircraft isn't generating revenue during the renovation process. And revenue is what keeps carriers going. Zolotusky says these and other elements, such as the availability of shorter-term financing commitments, will continue to drive demand in the leasing sector.

The ability to quickly redeploy aircraft is another advantage of leasing. "If a certain type of plane or cargo capability disappears in a particular region, a carrier can much more easily deploy it to where the demand continues is [if it goes through the leasing channel]," he says.

Airbus' Shankland, concurs. "The magnitude of the swings up and down is much greater on the freight side, and having flexibility with your fleet — which is something leasing companies provide — is typically beneficial," he says.

As cargo carriers enter the third month of what could be another tumultuous year, such flexibility may very well lead to another surge in leasing. ACW

Wet leasing versus dry leasing

Once carriers choose to lease, they must decide whether to go the wet or dry route. Although both options have their pros and cons, Atlas Air's Bill Flynn says ACMI leases have one clear advantage over their counterpart: maintenance efficiency. "If you're a carrier, and you're only operating a few types of any given aircraft, you would potentially risk investing in long inventories of aircraft parts simply to maintain high reliability of the aircraft, but that may not be very efficient if you're buying those inventories for only a few aircraft," he says of wet leasing.

Ultimately, however, the decision whether to dry or wet lease an aircraft is risk-related, Flynn explains. He says Atlas, for instance, takes a 30-year-live-asset approach and leases aircraft out to customers for three to five years. "So the airline, freight forwarder or integrator is getting access to modern technology with a shorter time commitment to the asset than if they dry leased the aircraft or outright bought it," Flynn says.

That's not to say dry leasing is without merits, GE Capital Aviation Services' Daniel Whitney argues. Since GECAS is more of a financial enterprise than an aircraft operator, Whitney says dry leasing has worked well from his company.

"With wet leasing, you're essentially operating an airline," he says. "And we don't have the infrastructure in place to manage that." Still, Whitney says GECAS occasionally finances dry leases to ACMI operators.

Flynn projects that the number of wet-leased aircraft will soon increase, as more carriers look to replace their Boeing 747-400 passenger planes — which he dubs "the former workhorse of the long-haul, intercontinental fleet"— with newer-model aircraft, such as Airbus' A380, and Boeing's 777 and 787. Such renovations may lead to the wet leasing of more 747-8Fs and 747-400 freighters, Flynn maintains, as carriers seek to increase fleet efficiency. "So the ACMI may be a more attractive option to them as they have lower fleet requirements for the aircraft type on a relative basis," he says.

Whether this projection comes to fruition or not, one thing is for certain: Both wet and dry leasing are likely here to stay.

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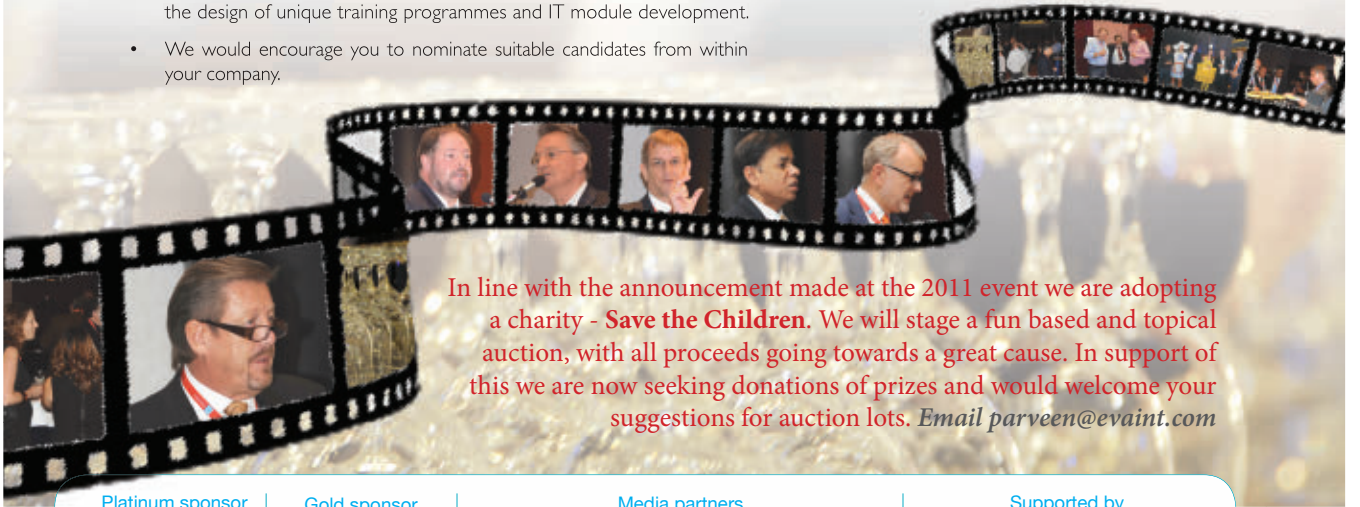

In line with the announcement made at the 2011 event we are adopting a charity - **Save the Children**. We will stage a fun based and topical auction, with all proceeds going towards a great cause. In support of this we are now seeking donations of prizes and would welcome your suggestions for auction lots. *Email parveen@evaint.com*

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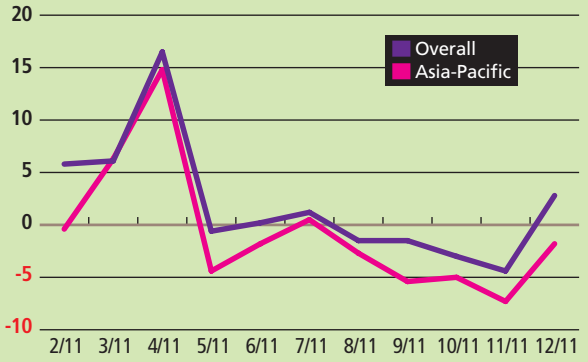
CARRYING EUROPE

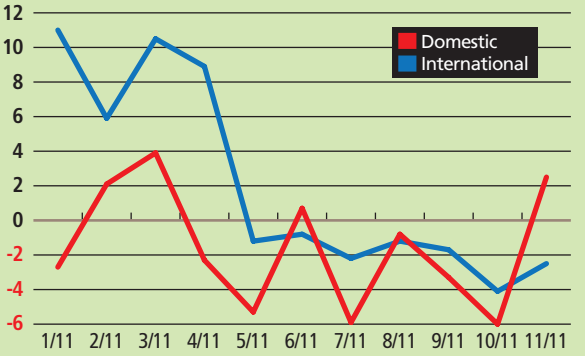
Monthly year-over-year percent change in overall freight traffic and Asia-Pacific freight traffic for European airlines.



Source: Association of European Airlines

U.S. AIRLINES

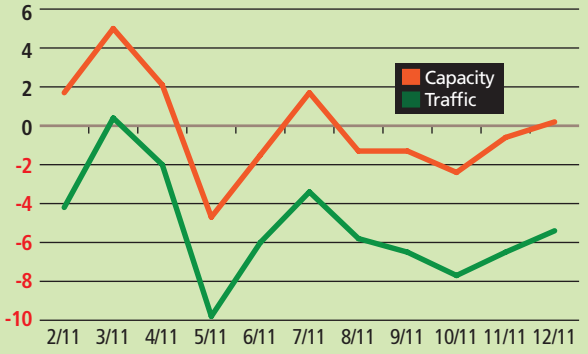
Monthly year-over-year percent change in domestic and international cargo traffic for U.S. airlines.



Source: Air Transport Association of America

CARRYING ASIA

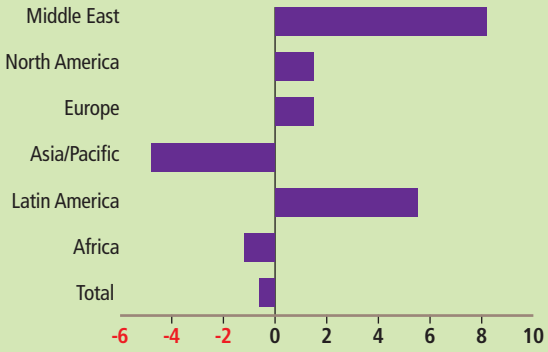
Monthly year-over-year percent change in capacity, in available-tonne kilometers, and traffic, in freight-tonne kilometers, of Asia-Pacific airlines.



Source: Association of Asia Pacific Airlines

SHARING MARKETS

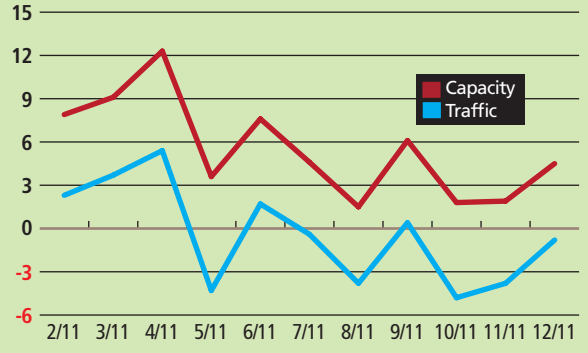
International air cargo year-to-date percent change for December 2010 vs. December 2011



Source: IATA

CARRYING INTERNATIONAL

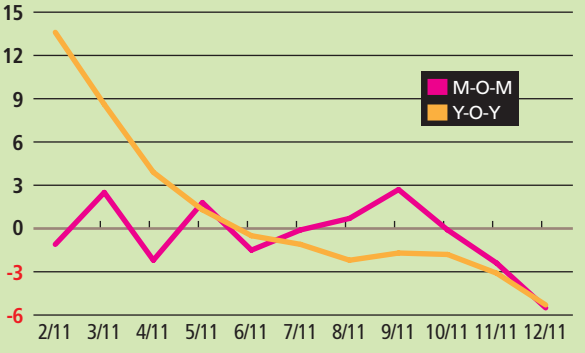
Monthly year-over-year percent change in total scheduled international freight traffic and capacity worldwide in freight-tonne kilometers and available-tonne kilometers.



Source: IATA

SEMICONDUCTORS

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



Source: Semiconductor Industry Association

AIRLINES

Emirates Airline has promoted the 15-year industry veteran **Marc Shedden** to the post of cargo manager, western Australia. He will be in charge of cargo movements at Perth International Airport, but will also oversee two daily passenger flights. Shedden has worked at Emirates for nearly 10 years.

UPS Freight has promoted **Paul Hoelting** from vice president of corporate business development to senior vice president of sales. Hoelting succeeds the retiring **John Fain**, a long-time executive of Overnite Transportation who was instrumental in UPS's acquisition and transformation of Overnite into UPS Freight. **John McDevitt** is taking over for a retiring **Allen Hill** as the head of UPS' corporate human resources group. And on the humanitarian side of the company, 35-year UPS veteran **Eduardo Martinez** has been chosen to direct the UPS Foundation when **Ken Sternad** enters retirement.


MARTINEZ

Virgin Atlantic Cargo has promoted **Marie Epstein** from regional sales manager, Americas, to regional vice president of sales for the Americas. Epstein, who has 28 years of experience in the freight forwarding, brokerage and airline industries, joined Virgin Atlantic Cargo in 2010 after leaving Delta Air Lines/Northwest Airlines Cargo, where she served as strategic partner manager/director of strategic accounts. Prior to this appointment, she held sales and account management roles in the U.S. with Pakistan International Airlines, Pan Am and American Airlines.


EPSTEIN

Angela Titzrath will take on the role of board member for personnel and labor director for **DHL** on May 1. She succeeds **Walter Scheurle**, who is stepping down from the board in April after a 12-year stint.

TNT Express has nominated **Marcel Smits** and **Sjored van Keulen** as new members of its supervisory board. A final decision as to their appointment will be made at the company's annual general meeting in April.

Cathay Pacific Airways has tapped **Sebastien Granier** as sales director for the Eastern portion of the U.S. The 22-year industry veteran, who spent most of his career for Air France, will be based in New York.

AIRPORTS

Schiphol Cargo has hired **Berend-Jan Rietveld** as marketing and communications manager. The 12-year marketing-industry veteran will assit Schiphol's six-person cargo team.

The **Connecticut Airport Authority** has hired **Dan Carstens** as a marketing consultant. His job involves helping identify new routes and other ways to improve the stature of Bradley International Airport. Carstens formerly served as the publisher of The Airport News.

THIRD PARTIES

Strategic Aviation Solutions International has hired **John Mc Donagh** as an associate responsible for the EMEA region, excluding Russia and the Commonwealth of Independent States. Mc Donagh, who boasts more than 40 years of experience in the aviation sector, served as CEO of Cargo Service Center until its acquisition by Swissport in 2002. Most recently, he worked as an independent aviation consultant specializing in cargo, ramp, sales and security handling.


MC DONAGH

Air Partner has appointed **Richard Everitt**, who currently serves as the company's senior independent director, to the position of non-executive chairman. Everitt worked as director of BAA plc for 10 years and has also held the title of chief executive at National Air Traffic Services. He is currently the chief executive of the Port of London Authority. The industry veteran succeeds **Aubrey Adams**, who has served in that role for the past three and a half years.

NEO Air Charter has appointed **Stefan Kohlmann** as joint managing partner. A 23-year airfreight veteran, Kohlmann most recently served as managing director of Chapman Freeborn's German operations. At NEO, he is responsible for expanding the company's network, both through the establishment of sales representatives in European markets and the appointment of network partners worldwide.


KOHLMANN

Damco has announced several key appointments of senior executives in its North Asia region. Logistics veteran **Henriette Hallberg Thygesen** has transitioned from global chief process officer for Damco to CEO of the North Asia region. She replaces **Steffen Schiottz-Christensen**, who remains in North Asia as vice president and head of airfreight for the recently acquired New Times International Transport Service Co. Ltd. Also, **Richard Morgan** is now chief commercial officer of the North Asia region. Reporting directly to new CEO Thygesen, Morgan is responsible for the overall commercial and business development activities in the region.

Grant Wattman has been appointed to president and CEO of **Agility**'s project logistics business. Wattmann, who serves on the board of The Logistics Institute, previously worked for Panalpina, GeoLogistics and ABB Lummus Global.

DB Schenker has promoted **Helgi Ingolfsson** to the position of UK managing director from his current role as director of air and ocean freight for Scandinavia. Ingolfsson succeeds **Jochen Muller**. ACW

Five Questions with... Kelvin Leung

It's no secret that airfreight levels in the Asia-Pacific region have declined in recent months, so how cargo carriers in the region respond to these market fluctuations and how they maintain a competitive edge are pressing issues. Kelvin Leung, who was recently appointed to steer DHL's North and South Pacific operations after serving as CEO for the North Asia Pacific, addresses this subject and more.

1. What prompted DHL's decision to bring its North and South Pacific regional operations together? What benefits will be gleaned from this?

Our commitment to simplify our customers' lives is a major reason behind this integration. A lot of our customers' regional offices increasingly have an Asian-Pacific scope. This is an opportunity for us to reshape our organization to better meet our customers' needs.

Another reason is the role of intra-Asian trade as a significant driver for both the global economy and DHL's business. The market size is vast, and we see strong growth potential for this region. The integration of DHL Global Forwarding's North and South Asia Pacific operations essentially enables better alignment of our setup with this growing target market.

Leung

2. How do you envision DHL's airfreight sector growing in the next few years?

With the current economy and market situation, it's extremely difficult to see how the overall airfreight sector will grow even after one year. High volatility of supply and demand will be the market trend in the coming years, and it's important for organizations like DHL to stay vigilant and agile to adapt to this fluctuating market.

Despite challenging market conditions, DHL's established global network, expertise in the airfreight industry and focus on quality remain our competitive edges, which will help us steer through uncertain times. Together with our initiatives to further develop our presence in key regions, we are in a good position to grow in markets at a double-digit growth rate.

3. How have soft freight volumes out of the Asia-Pacific region affected airfreight operations?

Soft freight volumes and the volatile market have prompted us to become more watchful and agile so we can react faster and better to market fluctuations. Our sector development projects — such as the establishment of fashion competence centers in Asia and our temperature-controlled warehouse setups in the region for life-science customers — allow us to build strong expertise in these areas and, at the same time, achieve a more balanced portfolio.

4. Which Asia-Pacific nations are seeing the most airfreight growth and why?

While China's growth is the most significant in tonnage terms, we have seen encouraging growth in India, another "BRIC" country, and countries such as Indonesia, the Philippines, Pakistan, South Korea, Vietnam and Bangladesh — members of the "Next 11" — that could be major drivers of the economy in the future. We are optimistic about the development of airfreight in Asia, in general, and in particular, intra-Asian trade, as explained earlier.

Other than intra-Asia, another area that DHL is excited about and will focus on is inbound Asia. As Asian economies mature and have a stronger need for consumption, we expect to see stronger growth in the Asian import market in the coming years, and export and import figures for the region will come closer to a balance.

5. What is the main goal you hope to accomplish in your new role regarding airfreight?

My goal for airfreight in this role is to further strengthen DHL's market leadership by developing customer-friendly products and delivering quality services.

events

MARCH 4-7

Bangkok: For the 14th consecutive year, members of the World Cargo Alliance will come together to build new business relationships and strengthen existing ties. The 14th WCA Annual Conference, held at the Bangkok Convention Centre and Centara Grand Hotel, will start off the WCA Family Conference, which will take place from March 8-11. The Family Conference will combine all four networks into one major conference. Visit *www.wcafamily.com* for more information.

MARCH 6-8

Amsterdam: ATC Global's annual exhibition and conference is for the international air traffic control industry. According to organizers, the 2011 event attracted 5,500 attendees. For more information, visit *www.atcglobalhub.com/events/exhibition*.

MARCH 12

Kuala Lumpur: *Air Cargo World*'s annual ACE Survey culminates in an awards evening that recognizes and honors the air carriers and airports that achieved the highest customer ratings in key performance measurements, such as customer service and technology, in 2011. The gala event includes a full-bar cocktail reception and an eight-course dinner; it will be held at the Shangri-la Hotel, site of the IATA WCS, which starts the following day. For registration and more details, visit *www.aircargoworld.com/aircargo-excellence* or email Lesley Morris at *lmorris@ubmaviation.com*.

MARCH 13-15

Kuala Lumpur: According to IATA, more than 1,000 industry representatives came to the organization's fifth annual World Cargo Symposium last March in Istanbul. This year, organizers will try to top that turnout as the industry gathers in Kuala Lumpur. For more information, email *wcsgva@iata.org* or go to *www.iata.org*.

MARCH 18-20

Miami: Topics at the Air Cargo 2012 Conference, held this year at the Doral Resort and Spa in Miami, include doing business with Latin America and preventing cargo theft. C.H. Robinson's Pete Mento will give the keynote. For more information and to download the agenda, visit *www.aircargoconference.com*.

APRIL 10-12

Sao Paulo: According to the website for Intermodal South America, 99 percent of the available exhibitor space has already been sold. Organizers expect a crowd of more than 45,000 people for the event. For more information, visit *www.intermodal.com.br/en*.

MAY 6-8

Miami: The theme for the 2012 CNS Partnership conference is "together towards tomorrow." According to a press release, that means the event will "draw importance to the air cargo industry's need to present a unified front to better handle challenges such as quality management, e-commerce, security, the environment, etc." For more information, visit *www.cnsc.net/events*.

MAY 13-16

San Antonio: This annual event organized by the Federation of Freight Forwarders and Logistics Operators International Latin America and the Caribbean (ALACAT) is a forum for supply chain professionals involved in global trade. The focus is on Latin America, and the event will include panels by industry insiders, interactive discussions and networking opportunities. Visit *www.alacat2012.org* for more information.

JUNE 5-7

Shanghai: Held in conjunction with Transport Logistic China, the Air Cargo China conference will take place at the Shanghai New International Expo Centre. In 2010, more than 13,500 people attended the event. For more information, visit *www.aircargochina.com/en/home/home.html*.

SEPTEMBER 9-12

Calgary: Details for the 21st iteration of the ACI-NA's annual conference are sparse, so be sure to check out *www.Aci-na.org/event/1280* for more information as the event gets closer.

SEPTEMBER 30-OCTOBER 2

Abu Dhabi: Abu Dhabi Airports Company, Etihad Airways and the Abu Dhabi tourism board are banding together for the 18th World Routes event. Abu Dhabi hosted the exhibition in 1996; more than 15 years later, organizers are anticipating that about 2,700 delegates will come back to the city. For more information, visit *www.routesonline.com/events/150/the-18th-world-route-development-forum*.

OCTOBER 2-4

Atlanta: The biennial Air Cargo Extravaganza heads to the Georgia World Congress Center in Atlanta this October. The event features a conference and exhibition, and is co-located with the Council of Supply Chain Management Professionals' annual global conference. For more information, visit *www.Tiaca.org/tiaca/acf.asp?snid=756955195*.

OCTOBER 8-12

Los Angeles: The International Federation of Freight Forwarders Associations (FIATA) will hold its annual world congress in Los Angeles for the first time since 1977. Calling it the largest port of entry for foreign-produced goods, LA seems like a fitting place for forwarders and other logistics professionals from all over the world to meet. More information will eventually be available on FIATA's website, *www.fiata.com*.

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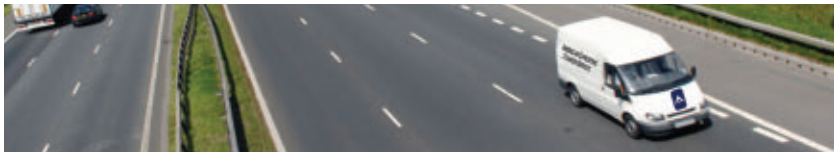

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Brandon Fried is the executive director of the U.S. Airforwarders Association

Screening program to sort out cargo security

In her second annual "State of Homeland Security" address, Secretary of the Department of Homeland Security Janet Napolitano outlined DHS's 2012 plan, which contained few policy changes, but may have surprised the audience with its priorities. As expected, Napolitano's speech provided an update of the department's efforts in areas including homegrown terrorism avoidance, disaster recovery, immigration enforcement and cyber security.

A case could be made, however, that the overarching priority of the department is to continue to encourage a U.S. economic recovery through the efficient, yet secure, movement of people and goods across U.S. borders. This emphasis means that international cargo security is yet again at the forefront of the DHS agenda.

International cargo security is yet again at the forefront of the DHS agenda.

How to best understand this shift in policy? Comparing it to finding a needle in a proverbial haystack, the secretary said the best method for looking for the hypothetical needle is to know all that is possible about the individual pieces of hay that obscure it.

If this is the backbone of the DHS' new policy, the airfreight industry would welcome it. This risk-based approach should be the guiding principal of proposed trusted-shipper programs and future cargo regulations. The secretary even mentioned that for this reason, international partnerships and air cargo information-sharing are becoming as important as the physical screening of air cargo itself.

The best hope at present for a haystack sorter is the Air Cargo Advanced Screening program. The ACAS is a voluntary program, now in its pilot phase, which accepts advanced electronic house bill of lading data from forwarders and carriers in order to target high-risk cargo. The ACAS pilot establishes communications systems with forwarders and carriers while allowing both to provide shipment-level data for air cargo inbound to the U.S.

Since thousands of tonnes of cargo fly throughout the world every day, finding dangerous packages is as tough as determining whether the needle is even in that particular haystack. Analyzing shipment data before departure provides an opportunity to pinpoint those shipments that may be the most threatening.

The ACAS pilot program has three phases. The first phase has been to review shipment data from express carriers such as FedEx and UPS. The next will scan information from passenger airlines and forwarders, and the third phase focuses on data submitted by all-cargo airlines.

The Global Air Cargo Advisory Group, a body representing associations, carriers and shippers recently met with senior CBP officials to express its support and concerns about the initiative. The group expressed that there are many issues to be resolved through the ACAS pilots; of particular concern are the details of how the passenger airlines and their forwarder customers will be involved.

GACAG also urged that ACAS data elements be consistent with those of the World Customs Organization's Data Model and that the interface and interaction between forwarders and airlines be an important consideration. Furthermore, the group called for shippers to be invited into future ACAS discussions.

The Airforwarders Association agrees with GACAG and further urges CBP to recognize that many airfreight forwarders deliver efficient and flexible shipping solutions through vast international agent networks. While these agents provide excellent support through their local knowledge and expertise, they may not share the same electronic platforms of their U.S. forwarder customers. It is likely that they rely on equally effective alternative communications, though. Such diversity must be understood and considered when exploring the various filing data options before departure.

While the ACAS program has no mandate through regulation or statute at this point, U.S. Congressional legislation has been introduced to require the advanced screening of shipment data before departure. There is also talk of a proposed rule that may be introduced by the end of 2012. Forwarders now have an opportunity to provide their suggestions by participating in the airline and forwarder phase of the pilot program. ACW

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