INTERNATIONAL EDITION

Air Cargo World

AUGUST 2012

THE SOURCE FOR AIRFREIGHT LOGISTICS

The freighter capacity influx

Air Cargo World
THE SOURCE FOR AIRFREIGHT LOGISTICS

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

August 2012
Volume 15, Number 7

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Air Cargo World (ISSN 1933-1614) is published monthly by UBM Aviation. Editorial and production offices are at 3025 Highland Parkway Suite 200, Downers Grove, IL 60515; telephone 866-624-4457. Air Cargo World is a registered trademark of UBM Aviation©2012. Periodicals postage paid at Downers Grove, IL and at additional mailing offices. Subscription rates: 1 year, $80; 2 year $128; outside USA surface mail/1 year $120; 2 year $216. Single copies $20. Express Delivery Guide, Carrier Guide, Freight Forwarder Directory and Airport Direc tory single copies $14.95 domestic; $21.95 overseas. Microfilm copies are available from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. Opinions expressed by authors and contributors are not necessarily those of the editors or publisher. Articles may not be reproduced in whole or part without the express written permission of the publisher. Air Cargo World is not responsible for unsolicited manuscripts, photographs or artwork. Please enclose a self-addressed envelope to guarantee that materials will be returned. Authorization to photocopy items for internal or personal use is granted by Air Cargo World, provided the base fee of $3 per page is paid directly to Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923, and provided the number of copies is less than 100. For authorization, contact CCC at (508) 750-8400. The Transactional Reporting Service fee code is: 0745-5100/96/$3.00. For those seeking 100 or more copies, please contact the magazine directly. Member of Audit Bureau of Circulations Ltd.

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

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THE SOURCE FOR AIRFREIGHT LOGISTICS

editorial

Jon Ross
Editor

A threat to freighters?

Recently, Cathay Pacific officials decided to pull the plug on two 747-400BCFs due to slow demand, just as they started cutting capacity to routes where demand had dried up. Two other Asian freighter operations completely bowed out in June, and Air France-KLM is planning to take five freighters out of service.

These are somewhat isolated reports, and most of these decisions are coming out of or are related to Asian freight demand, but the fact is that the cargo landscape is shifting. Carriers are retiring freighters, and some are disappearing from the freighter scene altogether.

Does this signal the end of freighters and the rise of belly-hold capacity? Of course not, but it is interesting to see how shifting demand is leading to a decrease in freighter usage.

In June, the Air Cargo Management Group published a report on freighter capacity, openly wondering if there were too many freighters being born into the world. The author, Alan Hedge, noted the number of new-production freighters that have been introduced in the past three years and outlined the massive backlog of freighters on the books at Boeing and Airbus. The group then presented three scenarios for the future, reasoning that demand would either increase at a rate of 5 percent annually, slow to a 3-percent growth rate with no new orders or slow to a 3-percent rate combined with a continued robust growth in freighter capacity. It's anyone's guess what happens.

In this issue we've taken this very pressing problem and examined it from the view of a belly-hold carrier and a carrier with a number of freighters in its fleet. Neither of them knows what the future will bring, and both are simply trying to move forward in a sticky business environment without losing business to ocean or other freight-transport means.

Both conclude that there will always be a place for wide-body freighters in air cargo, but that the spot might be shrinking. If only they knew which way the winds would blow.

Since I enjoy hearing from readers, please drop me a line at jon.ross@aircargoworld.com or send us a tweet @acwmagainze to share your thoughts about the constricting freighter market.

EU forms group on European transport, faces ETS opposition

The European Union recently convened in Brussels the first meeting of the High Level Group on Logistics, a 14-member assemblage devoted to advancing European transport policy measures, headed by European Commission vice president Siim Kallas. This inaugural gathering was to include discussion about transport bottlenecks, creating a sound business environment and strengthening the bonds between the EC and the supply-chain industry. The group includes Frank Appel, CEO of Deutsche Post DHL; Hjoerdis Stahl, executive vice president of LUXAIR Cargo; and Marie-Christine Lombard, CEO of TNT Express. Other members include academics and supply-chain executives.

The main purpose of the High Level Group, Kallas said, is to recognize the importance of logistics to the EU economy and work to promote supply chain issues. "Logistics is a crucial business for the EU," he said in a statement. "It is an inseparable part of the European transport policy and a major contributor to business success. It is, therefore, paramount that we discuss the challenges ahead together with the stakeholders in order to fully unlock the potential of the European logistics and freight transport sector."

One logistics challenge to supply chain companies outside the EU continues to come in the form of the EU ETS. The U.S. House of Representatives recently approved an amendment to their transportation appropriations bill for 2013 that bars the Federal Aviation Administration and the U.S. Department of Transportation from imposing the emissions regulations on U.S. carriers. The House approved a similar bill last fall.

The president of the U.S. industry group Airlines for America, Nicholas Calio, recently gave his full support to this decision, joining countless organizations around the world who have voiced their opposition to the EU's ETS. ACW

Cargolux and other airlines may soon face a 30-percent increase in landing fees at Budapest Airport

Budapest confronts growing pains

It seems like it can't get any tougher for Budapest Airport. Rocked by the collapse of Hungary's national carrier, Malev, earlier this year, the Eastern European gateway is now facing a large land tax.

State-owned Malev was grounded in February after the Hungarian government withdrew further funding and nervous suppliers started to demand payments upfront. Two of its aircraft were impounded in Dublin and Tel Aviv. But Malev's fate was already sealed following a decision by the European Commission a month earlier that ordered the airline to repay $390 million in "unlawful state aid," which the carrier received between 2007 and 2010.

The impact of the airline's collapse on Budapest Airport was nothing short of seismic; the carrier was responsible for 40 percent of passenger flows. An immediate contingency plan was introduced by German airport operator and majority shareholder HOCHTIEF AirPort.

Reflecting the scale of the Malev's departure, the airport took the decision to close one of its two passenger terminals and concentrate operations on the newer Terminal 2 building. All further planned investment has been halted. This includes what was regarded as one of its flagship projects, the construction of Cargo City.

A revised business plan and strategy has been introduced to help revive the airport's fortunes, but the Hungarian parliament recently voted through land tax amendments that bring up more challenges. If fully implemented, this will see Budapest Airport's land tax burden for this year increase by 330 percent.

Last year, airport officials paid the equivalent of $2.9 million in land taxes; this total was raised nearly 250 percentage points to $7 million by a parliamentary vote in December 2011. The latest amendment will increase the airport's tax bill to around $9.7 million.

In view of the current situation, Budapest has argued that these tax hikes are unsustainable and has lodged an appeal with the Constitutional Court of Hungary. Even so, Budapest Airport is likely to have to sustain a substantial cost burden at a time when it least

needs it. Not surprisingly, airlines serving the Hungarian gateway have recently received notice proposing a 30-percent hike in aircraft landing fees for 2013.

The one bright spot in all this apparent gloom is the fact that BUD's cargo business has been thriving, according to Christa Soltau, Budapest's vice president, cargo and logistics. Freight traffic has taken only a marginal hit from the collapse of the national carrier.

"Malev provided around only 10 percent of our cargo business, which is a sizeable proportion, but more bearable than the losses we had to take with the passenger business," Soltau said. "Otherwise, we were expecting to sustain and build on the 4-percent increase we saw in cargo traffic last year."

What hurts most for Soltau is the denial of her beloved Cargo City project, which would have provided 11,000 square meters of modern frontline cargo space. "We were all set to cut turf and have the project up and running later this year," Soltau said. "Officially, it has been delayed by two years, but I am determined to implement it next year."

She insisted that the delay will not impact the airport's cargo-handling ability. "We already have sufficient space, but current cargo-handling facilities are spread between three buildings," she said. "The Cargo City project is aimed at providing a more modern and efficient operation."

One indication that Budapest's cargo prospects remain on the up is the recent arrival of a twice-weekly A330 freighter service operated by Qatar Airways Cargo between Doha and Budapest. Other cargo operators, such as Turkish Cargo, have reaffirmed their commitment to serving Budapest by increasing the frequency of its A310 freighter service from Istanbul to a twice-weekly rotation. The airline also wants to increase capacity on the route to larger A330F aircraft. "We see great potential in the Hungarian market," said Levend Arisoy, general manger for Turkish Cargo in Hungary. "Hopefully, we can soon expand to three flights a week with the larger aircraft and build up to what we would like to see as a daily operation."

Cargolux remains the airport's mainstay cargo operator and has developed Budapest as its fully fledged gateway for Eastern Europe and beyond. The airline currently operates five B747 freighters a week through Budapest, originating in Hong Kong and flying onward to its main European hub in Luxembourg. According to Tony McNichol, Cargolux's manager for Central and

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Eastern Europe, the airline's traffic figures have held up, but the nature of the business has changed. "We used to move huge volumes of microchips from Asia into Eastern Europe on behalf of companies like Nokia," McNichol said. "But now Nokia is closing down plants in Hungary and Romania and moving production to places like Vietnam."

Cargolux has recovered the losses, McNichol said, but the balance of its business has shifted. "Around 20 percent of our Budapest traffic was previously transit cargo, now the figure has climbed to nearly 40 percent," McNichol said.

"We have been able to spread the risk by developing a very intensive trucking operation out of Budapest to other Eastern European points," he continued.

Even with the possibility of a 30-percent hike in landing fees, McNichol said it's unlikely Cargolux would consider a move away from Budapest. "We are very firmly established here and work well with the airport," McNichol said. "Besides, we would consider any such proposed increase in landing fees as merely the starting point for discussions."

Soltau is also hopeful that Budapest will retain sufficient attraction to enable it to gain further cargo business. She is still on the lookout for her first elusive Asian cargo carrier, but also has her eyes set further afield. "I was quite surprised at the trade volumes moving between Latin America and Eastern Europe — Brazil, in particular," she said. "I think this could provide a real opportunity to attract a freighter operation from that part of the world." ACW

DHL opens North Asia Hub, targets Asia for growth

The $175 million DHL Express North Asia Hub at Shanghai Pudong International Airport is officially open for business, the German postal and logistics firm announced in a press release. In addition to creating the biggest express hub in Asia, DHL said the logistics center will provide customers in major northern Asian cities and beyond with guaranteed, time-definite deliveries.

The DHL Express North Asia Hub spans 105,000 square yards and can process up to 20,000 documents and 20,000 packages an hour, according to the press release. It will also complement the company's already-established hubs in Hong Kong, Bangkok and Singapore — which, together, link to more than 70 regional gateways.

Deutsche Post DHL CEO Frank Appel called the completion of the facility "a logistics milestone in DHL's Asia-Pacific network" and said it cements the company's position as an industry leader.

Li Derun, president of Shanghai Airport Authority, said the hub will also enhance freight operations at Pudong International Airport, improving capacity and speed. In a statement, Derun said the launch of the DHL Express North Asia Hub "marks a step forward for Shanghai's air cargo hub and also opens a new chapter of collaboration between the Shanghai Airport Authority and DHL."

In anticipation of increased freight volumes out of Shanghai, DHL announced that it will add eight dedicated aircraft to service routes between Shanghai and North Asia, Europe and the U.S. over the next two years, a $132 million investment. The announcement came one day after Appel revealed in a press conference that the company is targeting Asia for growth. Although the Asia-Pacific already holds a big chunk of DHL's global business — nearly 20 percent — company executives hope to increase that number even more in the near future. By 2017, profits generated in the Asia-Pacific should account for nearly one-third of the company's total revenues, Appel asserted during the press conference.

Preparing for such growth led DHL to invest more than $2.5 billion in Asia in recent years. In addition to the DHL Express North Asia Hub, the company also has high hopes for DHL Supply Chain's upcoming MegaHub, a state-of-the art center that will be located in Tsing Yi Island, Hong Kong. China remains DHL's top focus, however, since the nation accounts for more than half of its total revenue earned in Asia.

Appel told the press that the company will continue to grow its operations in China to address current and future growth. "We are committed to retaining our market-leading position here by helping international players to be successful in China as well as supporting Chinese fast-growing enterprises on their international growth path," he said. ACW

In the news...

Although **Air France-KLM**'s freight traffic fell 2.8 percent, year-over-year, in June, the drop was less steep than in previous months, according to a press release. The carrier saw much more marketed declines in April and May, with freight volumes in these months plunging 8.3 percent and 8.8 percent, year-over-year, respectively.

Even so, Air France-KLM's load factor slid slightly in June, falling 0.9 percent, year-over-year, to 63.9 percent. Such losses led the carrier to cut capacity by 1.4 percent, year-over-year, in June.Regionally, Air France-KLM saw the most dramatic losses in Europe, with RTK plunging 20.6 percent, year-over-year, in June and load factor sliding 2.2 percent from June 2011. The Americas and the Asia-Pacific also saw declines in June, although at varying levels. RTK in the Americas fell 2.8 percent, year-over-year, while the carrier's load factor in this region declined 4.2 percent, year-over-year, to 60.7 percent. Air France-KLM's cargo revenue in the Asia-Pacific also dropped in June. ACW

Nestle to establish manufacturing facility at DWC

Nestle has invested more than AED500 million to construct a manufacturing facility for nutrition, culinary and coffee products at Dubai World Central. The facility will sit on a 175,000-square-meter plot at the airport.

In a press release, Nestle and DWC revealed that the facility is expected to create 800 new jobs, which showcases "DWC's commitment to reflecting the government strategy of Dubai and UAE in terms of economic and social development."

Nestle's technical director, Hans Juergen Jung, explained that manufacturing locally has two blatant advantages: speed and quality.

"The construction of a new facility at Dubai World Central strengthens our local manufacturing capabilities, giving us more flexibility in adopting our products to local consumer preferences and using local and regional raw materials," he said. Plus, Jung said, a secondary facility in Dubai will also provide "opportunities to gain synergies in our warehousing and logistics to serve the whole Middle East region."

Khalifa Al Zaffin, executive chairman of Dubai Aviation City Corp., also spoke out about Nestle's investment, remarking that DWC will connect the company to markets worldwide — not just in the Middle East. "The partnership with Nestle further strengthens the reputation of DWC as a destination of choice among investors and businesses seeking to capitalize on its purpose-built aviation and logistics infrastructure," Al Zaffin said in a statement.

"DWC will continue to explore more innovative ways to cultivate an environment that supports the growth plans of leading multinationals, such as Nestle," he continued.

In addition to the food manufacturer, a number of global enterprises, including Aramex, Kuehne + Nagel, Panalpina and RSA Logistics, have established a presence at the two-year-old airport. ACW

Etihad Crystal Cargo's numbers excelled during the first half of 2012. The carrier's passenger side also experienced major growth

Etihad Cargo sees record tonnage in 2012

The first half of 2012 brought historic growth to Etihad Crystal Cargo. In addition to experiencing a 22 percent, year-over-year, increase in freight tonnes carried from January to June, the carrier saw cargo revenues jump 13 percent from the first six months of 2011.

June was a particularly profitable month for Etihad Cargo, according to a press release. The carrier saw eight of its 10 highest-ever daily cargo volumes at its Abu Dhabi hub in June, with traffic exceeding 2,000 tonnes a day, on average.

Kevin Knight, chief strategy and planning officer at Etihad Airways, said these numbers reflect a variety of factors. "Cargo traffic into and out of Asia and the subcontinent remained particularly strong for us over the period, and we are pleased to have maintained a performance lead there and elsewhere at a time when many cargo carriers are cutting capacity," he said in a statement.

The freight carrier launched service to four new destinations in the first half of 2012, adding Benghazi, Libya; Dammam, Saudi Arabia; and Djibouti to its freight network. The weekly Dammam service, which launched at the end of June, is flown on Airbus A300-600F aircraft. Etihad's first dedicated freighter routing to the city is expected toboost trade between Saudi Arabia and the UAE.

Knight said the commencement of these routes demonstrates Etihad Cargo's commitment to growth despite the "geographical, political and economic headwinds in many challenging areas."

Fleet expansion further affirms the carrier's commitment on growth, according to the press release. Etihad Cargo ordered two additional Airbus A330-200 freighters in the first half of 2012, aircraft that will complement the two Boeing 777Fs it purchased in 2011. All four freighters are slated to arrive over the next two years.

For the second quarter of 2012, Etihad Airways experienced a 31-percent, year-over-year, increase in reve-

nues. From January to June, revenue growth bested 2011's numbers by 30 percent. Officials attributed the rise to a growing number of codeshares and other partnerships in Etihad's passenger business. Etihad also either added or expanded minority stakes in Virgin Australia, Aer Lingus, airberlin and Air Seychelles.

"We are very pleased to see the projected revenue benefits and cost synergies for both Etihad Airways and our partners tracking in line with, or even above, plan, which shows once more that our partnership strategy delivers value to all parties' shareholders," Etihad's CEO, James Hogan, said in a statement. ACW

Qatar eyes Australian cargo growth

Qatar Airways CEO Akbar Al Baker recently met with top Western Australian officials to discuss opportunities for business growth, particularly cargo. This meeting came on the heels of the Chamber of Commerce and Industry of Western Australia's conclusion that Perth "desperately needs" more freighter capacity to meet high cargo demand.

The region's booming mining sector is propelling demand, according to a press release. It's a situation reminiscent of the oil and gas boom seen in Qatar Airways' domestic market, Australian authorities asserted during their meeting with Al Baker.

Although Qatar recently invested in Western Australia — launching non-stop passenger flights between its Doha hub and Perth on July 3 — a dedicated freight route could be a game-changer for the carrier, Qatar explained in the press release. Al Baker said he would consider such a venture; the routing would likely be inundated with agricultural and pharmaceutical goods.

Whether Qatar launches an all-cargo route to Western Australia or not, the carrier is looking to expand its services worldwide. Since the beginning of 2012, Qatar has commenced services to Baku, Azerbaijan; Tbilisi, Georgia; Zagreb, Croatia; Kigali, Rwanda; Erbil and Baghdad, Iraq; as well as Perth. Kilimanjaro, Tanzania; Mombasa, Kenya; Yangon, Myanmar; and Maputo, Mozambique will join this roster in the next few months, according to the press release. ACW

HKIA sees revenue surge, cargo drop in FY 2011

Hong Kong International Airport continued its reign as the No.1 cargo airport in the world in fiscal-year 2011-2012, despite a 5.9 percent, year-over-year, drop in traffic. In total, HKIA saw 3.9 million tonnes of cargo pass through its doors in the financial year that ended March 31, a volume that contributed to the airport's 14.8 percent, year-over-year, revenue surge during the fiscal year.

HKIA also saw a substantial increase in profit attributable to the equity shareholder in fiscal-year 2011-2012, with profits surging 32.2 percent, year-over-year, to HK$5.3 million. The airport's respective 7.2 percent and 6.6 percent, year-over-year, improvements in flight movements and passenger volumes played a strong role in this profit increase, according to a press release.

"The strong performance is a result of healthy traffic growth, and it is indicative of our ongoing efforts to contain costs, enhance operational efficiency and explore every possible means to increase revenue by leveraging HKIA's growing passenger traffic," Airport Authority Hong Kong CEO Stanley Hui Hon-chung said in a statement.

Many at HKIA are championing a three-runway system to address this demand. In late May, the airport made significant progress in its push for a third runway, with AAHK submitting its project profile to the Director of Environmental Protection; this action launches a probe into the environmental impact of a three-runway system, according to the press release.

Hui said the project profile defines the scope of the initiative and identifies any environmental roadblocks in the foreseeable future.

HKIA is also looking to reduce its environmental impact from an airport-wide perspective. The airport, which has pledged to slash its carbon intensity by one-quarter of 2008 emission levels by 2015, is on track to achieve this goal, according to the press release. Currently, HKIA is 10 percent below 2008 emission levels. ACW

Cargo operators take flight for Vietnam

Air China Cargo is poised to enter the Vietnamese market. According to Titus Diu, the carrier's chief operating officer, all-cargo service to China's neighbor will kick off in the third quarter. The service will be combined with a routing to Singapore, going from Shanghai to Singapore to Ho Chi Minh City and back to Shanghai.

"This is part of a network expansion plan to strengthen Air China Cargo's presence in regional markets," he said.

German logistics provider Dachser is also expanding into Vietnam. Thomas Reuter, managing director of Air & Sea Logistics, the company's international forwarding arm, said he expected the company's latest branch office to become operational before the end of August. This follows the establishment of a Dachser office in Malaysia in May.

The German forwarder and the Chinese carrier join a number of operators that have pushed into Vietnam in 2012. Earlier this year, Saudi Airlines Cargo launched twice-weekly B747F flights to Ho Chi Minh City, and Emirates launched daily passenger flights between its home base and Ho Chi Minh City in early June. Air Hong Kong recently began five flights per week into Vietnam on behalf of DHL. Not to be left behind, Asiana Cargo intends to start freighter service to Hanoi this summer, according to Kee Chul, the Korean carrier's senior vice president of cargo sales. It probably will fly the Hanoi-Seoul route twice a week with a B767-300 freighter.

Forwarders have been equally sanguine. During the past 12 months, Logwin doubled its warehousing capacity with a new distribution center in Ho Chi Minh City, and Kerry Logistics opened a 10,000-square-meter logistics center in Hanoi. Also, Agility opened a branch in Vung Tau and relocated to a larger facility in Hanoi. Continuing the trend, Damco started a 26,000-square-meter distribution center in Binh Duong to support its growth in both its international and domestic volumes.

"We see continuous growth in our activities and volumes in and out of Vietnam," remarked Charles Kaufmann, head of airfreight, Asia-Pacific, for DHL Global Forwarding.

Migration of production out of China is a major engine of Vietnam's growth. This development has been most pronounced in the garment sector, where most large producers have moved part of their production from China to Vietnam. "With China becoming more expensive, production is increasingly being moved to Vietnam and other developing countries," Peter Scholten, vice president, commercial, at Saudi Airlines Cargo, said.

According to the Association of Asia Pacific Airlines, creaking airport infrastructure is a growing headache for aviation in Southeast Asia, particularly in light of the $47 billion worth of aircraft on order from carriers from the region for the next 10 years. AAPA officials warned this spring that Jakarta's Soekarno-Hatta airport has been struggling with passenger volumes twice the maximum of its designed capacity; Bangkok Suvarnabhumi has been running over capacity barely six years after it opened. Several other airports are sorely stretched to meet projected throughput volumes.

Operators, however, seem undeterred by the shortcomings in infrastructure. Several airline employees expressed optimism that the problem can be fixed. "There are times where space at airports gets tight, including in Vietnam, but overall, it's manageable," Kaufmann said. "Governments and airport authorities are faster in developing cargo-handling facilities and/or cargo villages."

However, he did inject a note of caution. "No doubt, with the fleet expansion in Asia, the infrastructure development needs to follow at the same speed. If not, we will see bottlenecks," he stated.

Nick Rhodes, director and general manager of cargo at Cathay, sees no immediate need for capacity expansion at airports. "I honestly have no concerns about infrastructure in Southeast Asia. All airports — including Bangkok, Jakarta and those in Vietnam — seem to have plans in place to maintain capacity in line with demand. There seems to be a recognition within Asia that infrastructure must keep pace with demand. There is a willingness to invest accordingly." ACW

The High Court of New Zealand has ordered Japan Airlines to pay NZ$2.28 million for participating in an airfreight cartel. JAL, which has pleaded guilty to conspiring to fix fuel and security surcharges on flights to and from New Zealand, is the fourth carrier to settle with the Commerce Commission since it launched its investigation in December 2008.

"The commission is pleased to have settled with another airline," Mary-Anne Borrowdale, the Commerce Commission's general counsel, competition, said in a statement. "Wherever possible, if a party is prepared to admit liability we will seek to resolve issues through settlement. This provides welcome certainty for the litigants and is significantly less costly and drawn out for all parties."

In exchange for JAL's public mea culpa and cooperation with the commission's ongoing investigation, the high court waived 35 percent of JAL's original fine, according to a press release.

Along with JAL, the commission has worked to get 12 other carriers charged with price-fixing, violations that allegedly occurred for more than six years. In March, British Airways, Cargolux and Qantas Airways agreed to plead guilty to the high court's charges, with BA and Cargolux fined a total of $NZ7.6 million; Qantas was reportedly slapped with a more than $NZ6 million fee.

The high court is slated to finish bringing its cases against Air New Zealand; Cathay Pacific Airways; Emirates; Korean Air Lines; Malaysian Airlines; Singapore Airlines Cargo, as well as Singapore Airlines; and Thai Airways International in March 2013. It dropped its proceedings against PT Garuda Indonesia, United Airlines and six Air New Zealand executives in April 2011.

The New Zealand high court isn't the only Australasian government agency doling out fines for price fixing, however. In June, the Federal Court in Sydney fined Malaysia Airlines Cargo AUS$6 million for engaging in price fixing over a four-year period. This fine followed an action by the Australian Competition and Consumer Commission.

According to an ACCC press release, Malaysia Airlines Cargo conspired to set security surcharges between October 2001 and October 2005; fixed fuel surcharges between April 2002 and September 2005; and conspired to set Customs fees between May 2004 and October 2005. The ACCC brought the charges against Malaysia on April 9, 2010.

Cases against Singapore Airlines, Cathay Pacific, Emirates, Air New Zealand and Thai Airways are ongoing. But the ACCC, Australia's consumer watchdog, has already seen AUS$58 million in fees imposed against members of the cartel. In 2008, the commission saw price fixing fines levied against Qantas and British Airways. In February 2009, the ACCC saw Air France-KLM hit with a AUS$6 million fine, and Martinair and Cargolux fined AUS$5 million each. ACW

In the news...

Singapore Airlines Cargo and **China Cargo Airlines** began operating joint freighter services between Singapore Changi Airport and Shanghai Pudong International Airport on June 26. The amalgamation of services came 18 months after SIA Cargo purchased a 16-percent stake in the Chinese freight carrier. "We have anticipated a greater partnership with China Cargo Airlines since we signed the joint venture agreement in 2010," SIA Cargo President Tan Kai Ping said in a statement. "The new joint service agreement provides more flexibility and better services to customers as it provides more choices of flights for air cargo shipments between Singapore and China." Zhu Yimin, president of China Cargo Airlines, agreed, stating that the joint services will enable SIA Cargo and China Cargo Airlines to "tap into each other's networks" via their respective hubs in Singapore and Shanghai. For SIA Cargo, this means better connectivity to domestic China, he said, while China Cargo Airlines will benefit from better access to Africa, Australia, Latin America and the Middle East via SIA Cargo's routings. Yimin said this will then "provide a more comprehensive and extensive network for customers of both airlines." The launch of joint services isn't the only initiative undertaken by SIA Cargo and China Cargo Airlines, however. The carriers are also looking to improve transshipment times in Shanghai and Singapore via more integrated ground-handling services, and to enhance system integration, according to a press release…

Philippines budget carrier **Cebu Pacific** dominated its domestic airfreight market in the first quarter of 2012, carrying 22,100 tonnes. This volume exceeded the combined freight loads transported by competitors Philippine Airlines and Airphil Express, according to Civil Aeronautics Board data, and bested the carrier's performance in the first quarter of 2011 by 23 percent. The Civil Aeronautics Board reported that Cebu Pacific also led its domestic airfreight market in 2011, closing the year at 89,500 tonnes. Cebu Pacific's Candice Iyog attributed this volume and the carrier's first-quarter tonnage to its vast domestic network. Iyog added that Cebu Pacific Cargo — which currently serves 30 domestic and 15 international destinations — works with 16 interline partners to attain worldwide reach. In preparation for more anticpated growth, the carrier boosted capacity during the first quarter of 2012, acquiring an Airbus A320 in January. Airbus will hand over three more A320s to Cebu Pacific in the second half of 2012, according to a press release. These aircraft will provide the necessary capacity as Cebu Pacific launches four-weekly flights from Daveo, Philippians, to Kalibo and Puerto Princesa and augments its network in the near future... Boeing has signed an MoU with the **Indonesian Ministry of Transportation** to jointly establish training programs covering flight, air traffic control, dispatch and maintenance technology. ACW

Kuehne + Nagel acquires Canadian forwarder

Kuehne + Nagel has agreed to take over the client list of Perishables International Transportation Inc., a Vancouver-based freight forwarder specializing in the handling and shipment of fresh and frozen goods. Although the logistics company didn't disclose the financial terms of the deal, K + N explained in a press release that the acquisition will expand its perishables business worldwide.

According to K + N, PIT has access to all of the major airlines from its location at Vancouver International Airport's cargo area. This proximity not only allows shippers of perishables like fruits, vegetables and seafood, to enjoy later cutoff times, it also shortens the food's transit time, according to the press release.

Tim Scharwath, K + N's executive vice president of air logistics, said the acquisition of PIT will benefit more than just K + N customers. "Following the general expansion of our perishables logistics business in Australia, Europe and South America, the acquisition of Perishables International Transportation allows us to grow these activities in North America," he said in a statement.

Scharwath projected that K + N's airfreight operations in Canada will especially see dividends from this acquisition. Previously, he highlighted the logistics provider's interest in the perishables sector. "In airfreight, we have always followed a strategy of both achieving organic growth and growth through acquisitions in niche segments to enlarge the customer-oriented product portfolio, as we did in the perishable market in Latin America," he said.

"This approach will remain in place, as it proved to be very successful." ACW

The Airbus facility in Mobile, Alabama, is expected to come online by 2015

Airbus is U.S.-bound

Airbus/EADS announced plans last month to open a $600 million A320-family manufacturing facility in Mobile, Ala., the company's first production facility in the U.S. Construction is expected to being next summer, with completion slated for 2015.

The first plane deliveries could occur as early as 2016, according to an Airbus news release. Production of up to 50 aircraft a year will be established by 2018.

"The time is right for Airbus to expand in America," Airbus' new president and CEO, Fabrice Bregier, said in a statement. He added that the U.S. airline market will need 4,600 more aircraft in the next 20 years; the move into the U.S. is simply bringing Airbus closer to this demand.

Mobile officials said the move will create 1,000 permanent jobs — the construction process will reportedly generate three times as many jobs over a three-year period — and will be a boost to the local economy.

"This will be the catalyst that will further strengthen Mobile's foundation for the future," Mobile Mayor Sam Jones said during the unveiling. "There is no doubt that we'll see an influx of suppliers in the aerospace industry moving to our city and the region. This will create even more construction and manufacturing jobs for Mobile. It will also have a positive impact on the city's housing market."

The saga of bringing Airbus to Mobile, according to a city press release, has been slowly evolving for the past seven years. In June 2005, EADS targeted Mobile for a $600 million plant to assemble military aircraft. Later that year, backed by Northrop Grumman, Airbus submitted a bid for a contract with the U.S. Air Force. When the $40 billion contract was awarded in 2008, Boeing protested, and the Air Force eventually canceled the contract. Northrop Grumman then left EADS alone to compete with Boeing, with the U.S.-based carrier eventually winning the contract.

When EADS lost the contract, in 2011, Mayor Jones tried to calm the uproar. "While they won't be building the Air Force refueling tanker, there's still a chance EADS could build something in Mobile," he said at the time. ACW

Passenger forecast up, cargo down, says Boeing

Boeing's latest fleet forecast predicts a doubling of the world's fleet of aircraft in the next 20 years, generating demand for 34,000 new planes, at a cost of $4.5 trillion. At the same time, officials said the demand for freighters will remain sluggish over the next two decades, and the company revised downward its previous forecast. Even so, freighters will nearly double to 3,200 by 2031.

The total freighter number includes 940 new planes and 1,820 conversion freighters.

The majority of the passenger-plane demand will come in the form of single-aisle craft. Boeing is also expecting a demand for 7,950 twin-aisle planes at a cost of $2.08 billion, according to the company's 2012 Current Market Outlook.

"The world's aviation market is broader, deeper and more diverse than we've ever seen it," Boeing's Randy Tinseth said in a statement. "It has proven to be resilient even during some very challenging years and is driving production rate increases across the board."

Demand for the most planes over the next 20 years will come from carriers in the Asia-Pacific region; Asian officials will require 12,030 aircraft, according to Boeing. In the Americas region, officials will require nearly 10,000 planes, and European carriers will need just more than 7,500 aircraft. ACW

> **"The world's aviation market is broader, deeper and more diverse than we've ever seen it."**
>
> **— Randy Tinseth, Boeing**

FedEx Express to grow fleet with a helping of 767-300s

FedEx Express announced in a press release that it will purchase 19 Boeing 767-300 aircraft in an effort to boost fuel efficiency and improve aircraft reliability. The freighters, which will replace the 18 Airbus A310-200s and six Boeing MD10-10s FedEx retired from its U.S. Express fleet in June, will be delivered to the integrator between fiscal-year 2015 and fiscal-year 2019.

According to the press release, the 767-300s will provide FedEx Express with similar capacity to the MD-10s, but offer two distinct benefits — a 30-percent improvement in fuel efficiency and a 20-percent reduction in unit operating costs. Plus, FedEx will be able to share tooling, spare parts and flight simulators from the Boeing 757s it already operates with the 767s.

David Bronczek, FedEx Express president and CEO, anticipates that the new aircraft will have a strong impact on the integrator's bottom line. "FedEx Express is positioning itself for more profitable growth by modernizing its aircraft fleet and better aligning its U.S. domestic air network to match current and anticipated shipment volumes," he said in a statement.

As part of the purchase agreement, Boeing will also convert four B777s to 767s for FedEx Express, with two scheduled for delivery in fiscal-year 2016 and the final two aircraft slated to arrive in fiscal-year 2017.

This agreement comes six months after FedEx Express inked a deal with Boeing to purchase 27 767s, which will be delivered between fiscal-year 2014 and fiscal-year 2018, and delay delivery of an undisclosed number of 777s. Currently, FedEx Express counts 19 777 freighters among its fleet and plans to purchase 24 more. ACW

Airshipping Activity

Edited by Viola Castang

This piece on shipping activity appeared in the October 1970 issue of Cargo Airlift.

SHIPPER: Burroughs Corp.
COMMODITY: Computer.
AIR CARRIER: Japan Air Lines.
FORWARDER: Interamerican Forwarding Corp.
ROUTE: Los Angeles to Tokyo.
DESCRIPTION: There's something almost awe-inspiring about the idea of a multi-million dollar shipment. If it was a Rembrandt it would be surrounded by guards. A 25,000-pound computer would be rather harder to get away with, of course. However, the delicate Burroughs-6500, which has scientific as well as commercial capabilities, rated the supervisory presence of (left to right) George Marchetta, JAL cargo salesman; Geoff Hopkins, Burroughs International Products rep; and Henry Arnold, operations manager of Interamerican Forwarding Corp. Consignee was Mitsubishi Oil Co.

SHIPPER: Kedco Inc.
COMMODITY: Dune buggy.
AIR CARRIER: Air France.
ROUTE: Los Angeles to Paris.
DESCRIPTION: Europe's first American-style dune buggy to be sold commercially has hit Paris—and thereby hangs a tale. Briefly, an American resident of Paris needed a dune buggy for sales promotion purposes. During a visit to Los Angeles he discovered the Kedco model, which uses a Volkswagen running gear and its own style fiberglass body. The next thing that happens, he is named Western Europe sales rep for Kedco; and the next, that the $2,300 vehicle arrives in Paris per Air France and is introduced (this is the part we like) at a cocktail party. We don't know if any drunken driving went on at the party—hopefully, not, as the buggy can attain 100 mph—but we do know that three orders were taken on the spot.

Page 26—Cargo AirLift

SHIPPER: HPE Colton Corp.
COMMODITY: Pool apparatus.
AIR CARRIER: Air Canada.
ROUTE: Los Angeles to Canadian points.
DESCRIPTION: There has been a pretty steady flow of swimming pool filters and maintenance kits from Los Angeles to Eastern Canada markets this summer. On one particular Saturday Air Canada had to schedule a Vickers Vanguard freighter to take the overflow from combination DC-8s. Shown literally in the middle of things are (left to right) Gordon Everhardt, cargo supervisor; Joe Sawka, ramp supervisor; and Bert Laing, cargo sales rep.

SHIPPER: Leobuchhandlung.
COMMODITY: Books.
AIR CARRIER: Sabena Belgian World Airlines.
ROUTE: Zurich to New York.
DESCRIPTION: For ourselves, we have remained somewhat in the dark as to precisely what the Age of Aquarius means. Now is our chance to find out. Sabena brought over a shipment of 144,000 hard cover Zodiac giftbooks from Switzerland recently—19,400 pounds of astrological lore, no less, and all 12 signs of the zodiac explored. This much we do know about the Age of Aquarius: it would work a lot worse without jets.

SHIPPER: IBM.
COMMODITY: Printed matter.
AIR CARRIER: Scandinavian Airlines.
FORWARDER: Jet Air Freight.
ROUTE: New York to Copenhagen.
DESCRIPTION: Since IBM opened its European distribution center in Copenhagen recently the firm has been dispatching containerized airshipments daily. Jet Air Freight picks them up at the Fishkill, N.Y. plant and delivers them to SAS at Kennedy International Airport. The first shipment, 2,500 pounds of documents and literature, was clearly of interest to (left to right) SAS' Patrick Tierney, cargo sales representative, and Joseph Koehler, airport cargo reservations manager; and Joseph Catania, of Jet.

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Riding **Canada's** rocky cargo landscape

Canada has weathered the global downturn markedly better than its neighbor to the south, but that has not insulated its air cargo market from turbulence. Jamie Porteous, executive vice president of sales and service at Cargojet, says the domestic market stabilized recently after a marked downturn in the latter half of 2011.

"The domestic peak last year was almost non-existent, although customers had projected a peak," he recalls.

In response to the adverse conditions, Cargojet rationalized its network to drive down costs. One B727F aircraft that came to the end of its lease term was returned to the lessor. This was not purely a reflection of Cargojet's domestic business, which consists, to a large extent, of overnight line-haul flights for the integrators. The carrier's nightly freighter to Toledo, Ohio, was scrapped when DB Schenker pulled the plug on its overnight airfreight service in North America.

International markets have been no better than Canada's domestic arena, although there are a few bright spots. Lise-Marie Turpin, managing director of cargo at Air Canada, says South America has been kind to the Canadian cargo market. "We are just limited by our capacity. In the summer, we fly 767 aircraft instead of the 777," Turpin says, adding that management is looking to bring a 777 back earlier in the fall because of cargo demand.

The North Atlantic, on the other hand, has been painful for carriers. The lack of activity on trade lanes between Europe and Canada, says Paul Nugent, senior director and general manager of cargo at Air Transat, is a key problem. "The strength of the Canadian dollar does not help with exports, and too much capacity is putting downward pressure on yields. Imports are stabilizing somewhat," he says. Due to the uncertainty, Nugent reports that he's seen some shippers move freight to ocean carriers.

Somewhat ironically, Canada's maritime provinces on the Atlantic coast emerged as a hotbed for freighter activity in this challenging market. Within barely four months, two freighter services to Europe kicked off from the Maritimes. After Icelandair launched a weekly B757F run from Halifax over Reykjavik to Liege last December, Cargojet followed with a weekly 757F operation from Moncton to Cologne. This has since come down to one operation. After the Icelandair flight came to an end, Cargojet shifted its Canadian departure point to Halifax. The flight now goes to Brussels — a larger market for seafood exports from eastern Canada — and is ferried over to Cologne to pick up European exports to North America.

According to Cargojet's Porteous, demand from Cologne has been strong, whereas loads were not as heavy as hoped for out of Moncton. "The problem is that seafood ship-

pers are not prepared to commit 100 percent of their traffic to a freighter out of the Maritimes and give up their allocations on Air Canada [out of Montreal]. They have seen too may freighters come and go. On the other hand, we need a full load commitment," he says. The Greater Moncton Airport Authority, which had been a major driver behind the establishment of the service, found it could no longer sustain its support at the original level.

Cargojet's presence in eastern Canada has grown considerably in the wake of UPS' expansion in the area, which made a significant investment in infrastructure, facilities and staff in Atlantic Canada. This enabled Cargojet to set up a regular overnight freighter operation to the region. "That was one gap we had in our domestic overnight network. We didn't really have a connection from eastern Canada to western Canada," Porteous says.

The return of one 727 freighter to the lessor aside, the carrier's fleet has remained flat. Down the road, management is looking to replace the 727s with 757 cargo aircraft, when more feedstock becomes available. "The 757 is a little larger, but we think it is the right aircraft," Porteous says. Cargojet management is currently evaluating the B767-300, which would give the airline more range for international operations than the pair of 767-200Fs it is currently using.

With no 787s scheduled for delivery this year, Air Canada's fleet is also largely unchanged. The airline's top brass had signaled for some time that it saw a need to push into the low-cost carrier arena. Earlier this year, it indicated that this would likely play out in the international sector — most likely across the Pacific — but questions remain about how this would affect cargo.

"Nothing has been decided. We have been clear about the need to play in that market, but nothing has been decided on what business model we will choose and how cargo will be managed," Turpin says. Like most large airlines, she adds, Air Canada has put much emphasis on selling its network. When market conditions deteriorate, there is more focus on interline traffic to develop cargo that goes beyond its own network.

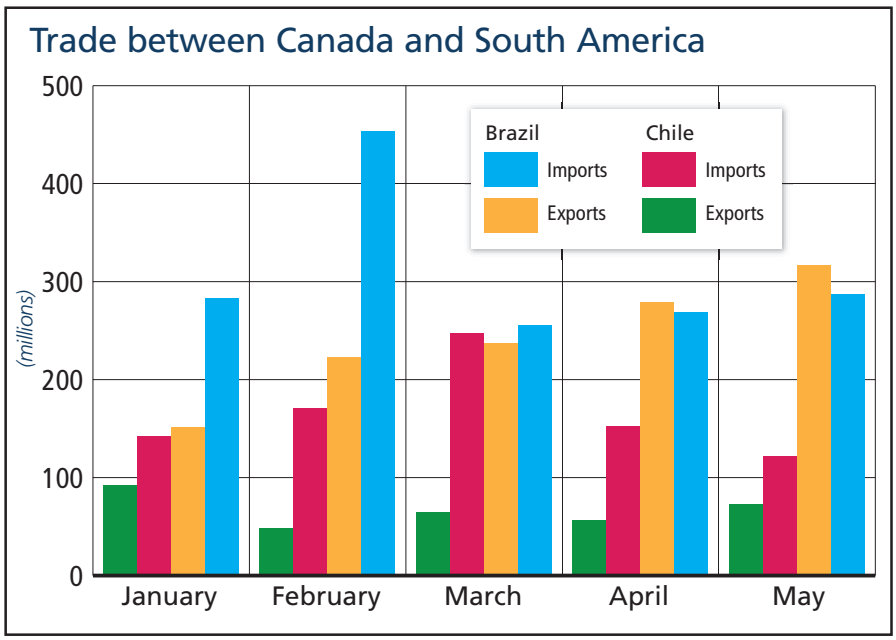
Air Transat has a considerably smaller network than its larger competitor, but it has also taken great strides to develop its reach beyond the destinations on its schedule. Over the past year, it has concluded more than 20 interline agreements. According to Nugent, the exercise of obtaining a global network is now more or less complete. "We've got the markets where we want to be. Our goal is not to cover the world, but those areas that are complementary for us. We are strong in Central and South America, the Middle East and India. We are really pushing Eastern Europe now," he says. Air Transat's interline strategy has developed an unusual link to Russia via Punta Cana, Dominican Republic, which is served by Russian carrier Transaero.

Freight forwarders and airlines in Canada have their hands full with preparations for a tighter airfreight security regime. Starting December 31, all belly-hold cargo on passenger aircraft taking off from Canadian airports will have to be screened prior to departure.

Operators pointed out that they have little time to get ready for the new regime. "Clear directions came out only recently that by the end of the year, if you are not regulated, your freight needs to go through a screening procedure," says Donna Letterio, CEO for Canada at DHL Global Forwarding and president of the Canadian International Freight Forwarders Association.

Air Canada's Turpin stresses the importance of pushing screening up the supply chain, echoing the creation of the Certified Cargo Screening Facility program in the U.S. "If everything ends up on the airline docks for screening, we'll face backlogs. We'll need longer tender times if freight is not screened," she warns. "There is still concern about the state of readiness in the industry, but we have seen good progress over the last month. I think we, as an industry, will be there."

At least Air Canada and other carriers will not have to re-screen cargo transiting Canada en route between the U.S. and other parts of the world. Officials in Washington, D.C., and Ottawa recently agreed to extend formal recognition to each other's cargo security programs. "This does not change much on pure trans-border freight, but it's significant for international freight moving via Canada. It will help smooth



the flow of goods," Turpin says.

Operators are less enthusiastic about efforts to advance e-freight in Canada, notably Cathay Pacific's current push to get forwarders to file their data electronically. At DHL, Letterio has said that the company is generally in support of e-freight and the e-airway bill. "But we take exception if we are the ones required to enter the information into Cathay's website. They have not given us any other alternative," Letterio comments.

Canadian forwarders have historically had to be creative in finding routings for their cargo, particularly for traffic requiring all-cargo aircraft, given the shortage of international freighter flights out of Canadian gateways. For all the needs for main-deck connections, Letterio does not automatically welcome the entrance of new freighter operators, though.

"Competition is good, but at what cost? It does not help if a carrier jumps in, destroys the pricing in the market and then exits after a few months and the others battle to get the rates back to a sustainable level," she says, adding that too many international carriers —both all-cargo operators and passenger airlines — have pulled out after brief stints in the Canadian market.

Even without a new entrant trying to price his way into the market, the current situation has put pressure on rates and yields. "We are chasing business. The market is very volatile. It is very hard to plan strategically," Letterio says. "We have no significant expansion plan at the moment. We did expand in Montreal in warehousing and distribution. That was a dedicated facility for a customer in the aerospace sector."

Jeff Cullen, CEO of forwarder Bellville Rodair International, says his firm has also concentrated, to a large extent, on particular market segments to grow its business. Among the more recent additions to the company's portfolio has been the establishment of a branch in Calgary and the creation of a department that targets the mining industry.

Gerald Hess, executive vice president of project forwarder Albacor Shipping, reports that activity in the oil sands business in Alberta has been lively. "A lot of projects that were put on ice during the 2008 crisis have now geared up, and we are seeing a lot gearing up for 2013," he says.

The mining and energy sectors have been buoyant. "There is lots of activity in the oil sands. We had a charter to Fort McMurray a month ago," remarks Ron Buschmann, managing director of Aerodyne, a Calgary-based charter broker and GSA. He adds that international traffic for the oil and gas sector has also been going well. Aerodyne officials have seen an increase in business to the Caspian Sea, Venezuela and Brazil.

"We are also seeing bigger shipments," Buschmann says. "I wonder if this is a sign of things to come." ACW

CARGO GOES HIGH-TECH

INNOVATIONS IN AIRFREIGHT SCREENING

In roughly four months, all cargo bound for the U.S. on passenger flights must be screened due to a directive by the Transportation Security Administration. Officials pushed back the rule, which was originally slated to go into effect on Dec. 31, 2011, after heated industry feedback. The new deadline — December 3 — "builds additional risk-based, intelligence-driven procedures into the prescreening process to determine screening protocols on a per-shipment basis," according to the U.S. agency. Specifically, shipments deemed "high-risk" will undergo enhanced screening, while those marked "low-risk" will go through different physical screening measures.

It's a relatively straightforward process, the TSA's Jim Fotenos explains. The agency provides shippers with a catalog of approved screening modes via the TSA Air Cargo Screening Technologies List, with technologies generally grouped into one of four categories: X-ray, explosives detection systems, explosives trace detection and metal detection. Fotenos says the agency regularly informs shippers about new screening developments. It also updates the TSA ACSTL as technologies emerge, which enables parties to "stay ahead of the marketplace," he maintains.

Daniel Gomez, vice president of security at DHL Express Americas, says the TSA's process isn't foolproof, however. Despite praising the agency for making significant strides in airfreight safety — including its mutual recognition of Canada, Switzerland and the European Union's security programs — Gomez cites some roadblocks to success. For one thing, he says, the agency's list of approved technologies is restricted, "and because equipment supplies are limited, delivery deadlines may exceed the TSA's deadline."

Gomez says another glaring problem is that most of the technologies available are designed to screen baggage — not cargo. What the industry lacks, he says, is "approved, cost-efficient and cargo-specific technology" that can screen bulk freight at the piece level. One major concern right now is this piece-meal screening process. And without the collaborative effort of regulators, carriers and manufacturers, pushing to develop economical screening technologies for bulk cargo, it's a problem that will remain, Gomez says.

Fotenos agrees that screening technology is somewhat limited, but says this is not for lack of effort. He maintains that the TSA has directly implored the industry to develop technologies capable of screening containers with multiple types of freight. "[This] is how large ULDs are typically packed," he says.

Whether such innovations come to market before the TSA's December deadline or not, one fact remains: Manufacturers worldwide are scrambling to develop technologies that help the industry better screen cargo.

Hottest technologies

Several of Morpho Detection's systems appear on the TSA ACSTL — including the Itemiser DX desktop explosives trace detector, the CTX 5800 and the HRX line of X-ray scanners. The firm also has other technologies in the pipeline, Jay Hill, Morpho's executive vice president of global strategy and technology, reveals. Currently, however, Hill is most optimistic about the Itemiser system.

"One of the most effective ways to stay ahead of potential threats is to deploy a screening program that automatically detects the presence of explosives," Hill says.

He explains that traditional X-ray systems only detect abnormalities — not explosives. Along with wasting time, this can lead to "potentially dangerous" manual inspections of airfreight, he says. Not that Hill thinks the technology should be completely eliminated, he's quick to point out. "We believe X-ray systems are useful, but believe that they should be combined with trace detection for accurate identification of explosives," he says.

In addition to trace detection, Hill cites vapor collection, as well as high-energy X-ray and CT, as other methods that could potentially change the face of cargo screening. Plus, he projects, future technologies will allow security agents to automatically screen

"The greatest screening technology in the world is useless if the private industry can't afford to use it."

— Andrew Goldsmith, Rapiscan Systems

mixed-bulk pallets without having to remove individual packages — a true advancement, Hill maintains.

"Next-generation screening technologies have the potential to revolutionize the air cargo industry from packaging to final destination," he says. "But these developments will require strong collaboration between the public and private sector to ensure optimal utilization and efficiencies."

Technologies also need to be economical, according to Andrew Goldsmith, vice president of global marketing at Rapiscan Systems. After all, he says, "the greatest screening technology in the world is useless if the private industry can't afford to use it." Goldsmith projects that this rationale will lead to the utilization of outsourced, or "screening-as-a-service," models as nations prepare to meet the TSA's December deadline. He reveals that his company has already found great success implementing outsourced models in Puerto Rico and Mexico. Rapiscan officials are aiming to streamline screening and air cargo operations, helping to create a model for outsourced security.

Entities that can afford the newest screening technologies, however, have a variety of options. High-tech X-ray systems are arguably Rapiscan's bread and butter, but Goldsmith sees a lot of promise in materials discrimination — a technology that will come to market very soon, he reveals. Goldsmith explains that materials discrimination allows systems to analyze the chemical makeup of freight, which, he says, tells cargo agents whether the content of the container matches up with the manifest.

Although freight agents can currently distinguish dense cargo from non-dense cargo, Goldsmith says materials discrimination modernizes the process. "In the future, thanks to materials discrimination, these same operators will be able to pick out specific narcotics or threats, allowing for far more sophisticated screening techniques than those used today," he says. Along with adding another layer of security, this technology will also ease the burden on freight inspectors. It's a win-win situation, Goldsmith says.

"Airports must select systems that not only properly inspect cargo, but are also operator-friendly," he says. "If no one can use the screening technology, it doesn't improve security, does it? Threat-detection software should be included in whatever system is selected, making it simple for operators to swiftly inspect cargo and identify potential threats in cargo images."

Moving forward, however, Goldsmith says "integration" will be the buzzword in cargo screening. He envisions the global airfreight industry taking a cue from the maritime sector and better integrating their data management systems with screening technology. Such integration provides a layered approach to screening, Goldsmith says, "and it's where we will likely see air cargo screening technology in the future — as an integrated piece of the cargo puzzle, rather than a standalone, separate system."

And as cargo agents, governments and freight forwarders around the world prepare to meet the TSA's rapidly approaching screening deadline, it's a concept that will likely serve the industry well. ACW

CAPACITY INFLUX:

IN THE FUTURE, WILL FREIGHTERS BE A THING OF THE PAST?

The year is 2016. Demand for freighters and wide-body, belly-hold cargo, which had been rising at an annual rate of 5 percent, has sucked up all the world's extra cargo capacity. Carriers have been retiring older planes at a steady pace in order to fill their fleets with new-production aircraft. Passenger-to-freighter conversions continue in this new utopia, but at a low level. Welcome to the perfect scenario.

This ideal, envisioned in "The Freighter Overcapacity Threat," a report published recently by the Air Cargo Management Group, is one of three situations created to determine whether the world's airfreight market will face an oversupply of wide-body freighter capacity in the near future. In this high-demand growth situation, there is enough need for cargo space to satisfy the current backlog of 213 wide-body freighters, which includes three sparkling new aircraft types announced in the past three years (Boeing's 777F and 747-8F; Airbus' 330-200F).

Alan Hedge, who wrote the report and serves as ACMG's research director, notes in the study that wide-body freighter aircraft and belly-hold space currently share a 50:50 division of freight movement. If the division shifts even a little bit toward more passenger use, a 10-percent reduction in freighter capacity will be necessary. This would also reduce the needed freighters in the above alternate future from 236 to 110.

As an alternate to the above scenario, Hedge presents additional futures, both focused on low-demand growth. The first situation anticipates a 3-percent annual increase in capacity, which would keep pace with demand and lead to the absorption of the 213 new freighters now on order, but nothing more. Along with increased freighter retirements and a decrease in conversions, capacity would not run wild.

Hedge's third scenario, though,

in which delivery of new freighters continues unchecked at 5 percent annually and growth keeps pace at 3 percent, would force massive cuts to conversion programs (a 60-percent reduction) and a 70-percent increase in plane retirements. In this situation, MD-11s and 747-400s would be taken out of the sky, Hedge writes.

Some of these scenarios — Hedge writes that each one is possible, and a number of factors muddy the prediction process — leave the world with an embarrassment of freighter capacity. This could force cancellations of freighter orders, speed up plane retirements or force carriers to accept smaller load factors. Hedge wrote in the report that a 5-percent demand increase is "more than twice the average rate observed during the last decade." In the last scenario that foresees 3-percent growth, excess freighter capacity will hit 9 percent by 2016.

There's a lot up in the air, obviously, but one byproduct of the massive amount of freighters coming online is a shift of the balance between freighters and belly-hold capacity. With new wide-body passenger planes providing ample room for cargo, freighters might actually be passe, if not for the massive backlog of new all-cargo planes on the books at Airbus and Boeing. Capacity, in the current market, is a dangerous game — one that could soon spin out of control.

"We do not believe overcapacity due to new freighter and wide-body passenger aircraft deliveries has yet risen to a critical risk to the air cargo industry, but in today's fragile world economy, it does pose a significant risk," Hedge wrote in the report.

John Lloyd, director of Virgin Atlantic Cargo, admits that the current environment is tough on cargo operators. A decrease in demand from Asian markets, which was spurred on by troubles in the eurozone and the U.S., has hurt carriers around the world. Virgin officials focus on belly capacity instead of using a mixed fleet.

"The danger with a mixed fleet

New Freighter Aircraft Backlog (April 2012)

Manufacturer	Model	Gross Payload (000 kg)[1]	Range at Max Payload (km)	On Order
Airbus	A330-200F	64	7,400	47
Boeing	747-8F	140	8,100	56
Boeing	767-300F	57	5,800	42
Boeing	777-F	109	8,400	68
Total				213

[1] *Maximum Takeoff Weight (MTOW) minus Operator's Empty Weight (OEW). Includes tare weight of pallets and containers.*

Sources: Airbus & Boeing

Air Cargo Management Group June 2012

is that you direct your focus on the freighter profitability, which can dilute your belly-hold operation," he says. Lloyd notes that today's wide-body passenger planes can stack up against freighters on some routes, even making freighter flying sometimes a bit superfluous. "We can move over 40 tonnes on our Airbus A340-600s, even on long sectors such as Japan-U.K.," he continues.

Virgin officials are planning to keep cargo capacity at its current level for 2012. Lloyd says the carrier has experienced some changes in its cargo routes and belly-hold fleet, but that no big developments are underway. The carrier recently withdrew from the Kenyan market due to a combination of the lack of business and the bad political climate. But Virgin has also added new frequencies to New York and Mumbai. Services to Vancouver, Cancun and San Francisco are planned.

"The overall picture is one of stability, as far as we're concerned," Lloyd says. "We believe this positions us well in the current market and will give us the opportunity to further improve our capacity and revenue management activities."

If there is a shift away from freighters toward these new wide-body planes — which Lloyd says offer better advantages — the industry has been moving in this direction for some time, he thinks. One development that turned this change from a nice idea into a possible new reality is the introduction of the A340-600 and the Boeing 777, Lloyd says. The two new planes have a vast cargo capacity, and with high fuel prices, make more sense to operate than some freighters, he thinks.

Jude Winstanley, senior vice president of cargo revenue and optimization for IAG Cargo, looks at the market a little differently. He still sees the current environment as extremely delicate and fragile, but as part of an airline that operates belly-hold and freighter capacity, he's happy about the current opportunities for freighters. The merger of British Airways and Iberia, which created the new carrier, has also helped strengthen cargo offerings.

"Our upgraded freighter fleet, introduced last year, is complementing our long- and short-haul belly-hold capacity, satisfying customer demand for more route depth, over and above our passenger capacity on key trade lanes," Winstanley says.

Freighters will always be necessary in some capacity, and though wide-body passenger planes offer increased cargo space, their all-cargo cousins aren't shrinking back or going away any time soon. Winstanley says that there will always be oversized cargo that needs a specialized airplane, and specific routes will always make more sense when flown only on freighter routings. IAG has a long-term wet lease for freighters with GSS, and these planes offer the carrier additional capacity on proven trade lanes like London Stansted, Chicago, New Delhi and Hong Kong. New lanes like Madrid, Nairobi and Johannesburg are also proving to be good for freighters, he says.

At IAG, the path forward seems to be flat. Winstanley says that the company won't be buying any new freighters, but also has no plans to downsize its fleet. "Due to the strength of our short- and long-haul belly-hold proposition, we haven't needed to follow the line of our close competitors and invest in a large freighter fleet," he says. "But we continue to look at our passenger belly-hold and freighter capacity in combination and with great care."

Winstanley does concede, however, that challenges from wide-body passenger planes do exist, confirming Lloyd's view as well. Whether this move away from freighters toward wide-body passenger freight is just talk or an emerging trend is debatable.

In the report, Hedge points out that if demand grows apace with capacity, load factors rise, yields grow and airlines start seeing more money. But wide-body passenger planes could conceivably present a problem. By 2016, Hedge predicts seeing as many as 1,500 new wide-body passenger planes. These aircraft will come with space for five pallets of freight, with eight planes carrying as much as one 777 freighter. In four years, new wide-body passenger capacity will equal nearly 200 777 freighters, he projects.

"It is obvious that the growth of the wide-body passenger fleet will add significant cargo capacity in the years ahead," Hedge wrote. "Such a capacity increase in the passenger belly segment represents a significant threat to demand for wide-body freighters."

How the mighty freighter weathers challengers from bigger passenger planes is anybody's guess. ACW

Figure 5: Widebody Aircraft Production Rates (2010-2013)

Based on Freighter Production Proportion of Type

Aircraft Type	2010 Deliveries	2010 Avg Production Rate (/mo)	2011 Deliveries	2011 Avg Production Rate (/mo)	Jan-Apr 2012 Deliveries	2012 Avg Production Rate (/mo)	April 2012 Backlog	Backlog Freighters	Freighters of Backlog	Target Rate (/mo)	Target Date	Backlog @ Target Rate (yrs)[1]
A380	18	1.5	26	2.2	5	1.3 [2]	181	0	0%	2.7	1 Oct 12	5.6
747-8			9	3.0 [3]	8	2.0 [4]	89	56	63%	no change		3.7
777	74	6.2	73	6.1	26	6.5	358	68	19%	8.3	31 Mar 13	3.7
A340[5]	4	0.3										
A330[6]	87	7.3	87	7.3	34	8.5	328	47	14%	10	1 Apr 13	2.8
787			3	0.8 [7]	6	1.5 [8]	843	0	0%	10	31 Dec 13	7.7
767-300ER	12	1.0	20	1.7	9	2.3	67	42	63%	no change		2.5
Total	195	16.3	218	18.2	88	22.0	1,866	213	11%	35.3	31 Dec 13	5.5

≈2x

[1] Assuming continuous linear ramp up from current rate to target rate
[2] Rate depressed in short-term due to wing crack investigation
[3] Average rate over months of delivery. First delivery, October 2011.
[4] Average rate for entire year could be higher as Boeing draws down work-in-process aircraft now held in inventory at various stages of completion
[5] Out of production
[6] The A350 is excluded from the table to avoid double counting, assuming that the all new type will significantly cannibalize A330 deliveries upon introduction, currently scheduled for 1H14
[7] Average rate over months of delivery. First delivery, September 2011.

Sources: Airbus, Boeing, and Air Cargo Management Group

Air Cargo Management Group
June 2012

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Five Questions with... Kenji Hashimoto

To say that Kenji Hashimoto assumed the helm of American Airlines Cargo at a challenging time would be a vast understatement. AA is currently in the midst of a full-scale restructuring, a byproduct of its November bankruptcy filing. Hashimoto has also had to contend with volatile fuel prices and sluggish cargo volumes around the globe during his first three months as president of AA Cargo. Hashimoto recently sat down with *Air Cargo World* to discuss how he plans to bring a new perspective to AA Cargo and achieve profitability in these uncertain times.

1. Airfreight volumes have lagged around the world recently. What steps is AA Cargo taking to overcome this unfortunate trend?

While airfreight volumes across the globe have been trending downward recently, the International Air Transport Association's global traffic results for April showed that air cargo volumes were 2-percent higher than in November 2011. We remain optimistic that airfreight will continue to rise over the long term, and American Airlines is committed to providing our cargo customers with a robust network and the highest-quality product and service offerings. Our dedication to building international alliances and expanding relationships with our industry peers will help to ensure that AA Cargo remains a leader in the marketplace moving forward.

Hashimoto

2. How will American Airlines' restructuring process affect airfreight operations?

Until we emerge from the restructuring process, we will continue to focus on our customers in a business-as-usual approach. Looking ahead, the work we are doing will build a stronger airline. We expect to compete well, invest well and deliver additional customer value on many levels.

3. Dave Brooks ran AA Cargo for 16 years before his retirement. What will you do to bring a fresh outlook to American Airlines?

I'm very excited to take on this new role leading American Airlines' global cargo operations. We will continue to focus on the customer by making the kinds of investments that allow us to deliver the products and services that our customers value most. This includes strengthening our global network and building strong alliance programs, which bring additional customer value. And this is particularly exciting in light of the new wide-body aircraft that will begin to come on board in December.

4. How has your passenger experience at American Airlines prepared you for running the airline's cargo operations?

American does a good job developing leaders by providing us with opportunities to broaden our expertise through a variety of means. My recent focus has been on strategically enhancing the global reach of the American Airlines network. I'm grateful for the experience I have gained and plan to leverage this for the organization and our customers.

I joined the cargo team in May after 14 years with American Airlines, serving for the last three years as American's vice president of strategic alliances. In this role, I led the airline's entry into and participation in joint business agreements with British Airways, Iberia, Japan Airlines and Qantas. Prior to that, I was very engaged in the analysis of American's routes, as well as labor and competitive issues. I have also served as managing director of investor relations and managing director of finance for Europe and the Pacific, roles based in London. Prior to serving in these positions, I held roles in sales and financial planning.

5. How will you leverage your experience in building international partnerships and alliances in your new role?

Although I've enjoyed a wide range of experiences during my tenure at American Airlines, I recently focused on growing American's global partnerships and alliances. This work included the expansion of the oneworld alliance and the development of American's joint business agreements, which I already mentioned. Our relationships with British Airways, Iberia, Japan Airlines and Qantas will enable us to grow and strengthen our international operations, expand our cargo capabilities, and better serve our customers in markets across the globe. I'm grateful for this experience and will leverage it to expand opportunities for our cargo customers.

AIRLINES

David Ranger has been named **Etihad Airways**' partner relationship manager for the south Asia-Pacific region. Ranger, whose aviation career spans more than 30 years, previously held senior management roles with British Airways, the Qantas/BA Joint Services business and Airnorth. At Etihad, he is responsible for the carrier's partnerships with Air New Zealand, Bangkok Airways, Malaysia Airlines, Philippine Airlines, Vietnam Airlines and Virgin Australia. **Xenia Adamou** has ascended to the post of general manager, South Africa. She has worked as sales manager at the airline for the past four years; before that, Adamou worked for more than 30 years at South African Airways. **Maurice Phohleli**, who previously served in the South Africa post, is the new general manager of Nigeria. His duties include overseeing the airline's new Lagos operation, which launched July 1.


ADAMOU

When **LAN Airlines** and **TAM** merged to become **LATAM Airlines Group**, a number of personnel changes took place. **Mauricio Rolim Amaro**, who previously served as vice chairman of TAM, took over the chairmanship of LATAM. **Maria Claudia Amaro** has kept her position as chairwoman of the TAM board, but has also become a member of the LATAM board. The former executive vice president and CEO of LAN, **Enrique Cueto**, serves in that role with the new company. **Ignacio Cueto**, LAN's COO and president, is the new CEO of LAN Airlines.

AIRPORTS

The supervisory board of **Fraport AG** has appointed **Michael Muller** as the new executive board member for labor relations, succeeding the retiring **Herbert Mai**. Muller, who joined the Frankfurt Airport operating company in 1984, most recently served as executive vice president of Fraport AG's ground services strategic business unit. In his new role, Muller has responsibility for human resources, the airport security management strategic business unit and the central purchasing unit. The supervisory board has also appointed **Anke Giesen** to the Fraport executive board, with responsibility for the retail and properties, and ground services strategic business units. Giesen, who comes to Fraport AG from Douglas Holding AG, also oversees management development activities for the board.


GIESEN

Mohamed Yusuf Al Binfalah will take over as CEO of the **Bahrain Airport Company** in September. Al Binfalah, who currently serves as CEO of Olive VFM Holding Company and sits on the ATYAF Telecommunications and Infrastructure International board of directors, brings 27 years of private-sector experience to the position. Some of his previous roles included general manager of DHL Aviation Service WLL and working in facility management at Gulf Petrochemicals Company.


AL BINFALAH

Airport Authority Hong Kong has appointed **Cissy Chan Ching-sze** executive director of commercial for the airport. Chan comes to AAHK from Hysan Development Company Ltd., where she served as director of retail portfolio and marketing. In her new role, Chan will be developing and implementing commercial strategies at Hong Kong International Airport, as well as identifying potential tenants and operators for the airport's commercial portfolio, which spans retail, advertising, aviation logistics and airport property.

THIRD PARTIES

Richard Hawkins is the new group quality director for **Pattonair**, with responsibility for health, safety and the environment. The more than 20-year aerospace veteran joins Pattonair from Rolls-Royce, where he worked as a supplier development executive for the company's marine sector. Hawkins also served in a quality-control capacity with Airbus.

C.H. Robinson Worldwide has promoted **Bryan Foe** to president of C.H. Robinson Europe. Foe has worked at the company for 22 years, serving for the past nine years as president of T-Chek Systems, which was acquired by C.H. Robinson in 1983. Foe's new goals include developing talent in the region and accelerating growth.


FOE

Malcolm Bermingham has joined Los Angeles-based freight forwarder **Consolidators International** as president of sales and operations, a newly created post. Bermingham, who has more than 20 years of experience, most recently served as vice president, USA, at a medium-sized forwarder.

Swissport Cargo has appointed **David Bermingham** CEO, cargo, for the UK. The 25-year industry veteran worked at TNT for 17 years, most recently as divisional managing director of TNT Post UK. At Swissport, Bermingham is focusing on service quality and customer satisfaction. ACW

events

SEPTEMBER 9-12
Calgary: Officials call the 21st iteration of the ACI-NA's annual conference the premier event for airport industry professionals. Topics include risk-based security, technology and customer relations. For more informaton, visit *www.aci-na.org/event/1280*.

SEPTEMBER 16-19
Xiamen: The 2011 version of the Sino-International Freight Forwarders Conference, which is now in its ninth year, attracted more than 2,000 delegates. To read more about the conference, visit *www.sinoforeignforwardersconference.com*.

SEPTEMBER 29-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 last hosted the exhibition in 1996. For more information, visit *www.routesonline.com/events/150/the-18th-world-route-development-forum*.

OCTOBER 1
Atlanta: Organized by *Air Cargo World*, the Air Cargo Forum's highly anticipated golf event will take place at the scenic and historic Stone Mountain Golf Club and is sure to be a memorable experience for every golfer. The course features incredible views of Stone Mountain, with its famous Confederate Memorial carving, and dramatic elevation changes that appeal to all golfers. For more information and to register, go to *http://acf-golf.aircargoworld.com*.

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. Visit *www.fiata.com* to read about the panels, keynote speakers and to register for the event.

OCTOBER 25-26
Geneva: For more information about the IATA Cargo and Mail Supply Chain Forum, visit *www.iata.org/events/pages/cargo-security.aspx*.

OCTOBER 27-28
Erbil, Iraq: Details for the second annual Iraq Airport, Aviation and Logistics Conference and Exhibition are still being firmed up. More information is available at *www.http://www.arabianreach.com/iraq/why_exhibit.aspx*.

NOVEMBER 14-15
London: The Transport Security Expo brings airports and airlines, port and vessel operators and mass transit companies together annually in a unique high-level conference, workshop and exhibition environment. The event is devised to promote close cooperation on security issues across these globally strategic domain spaces. Visit *www.transec.com* for more information.

FEBRUARY 10-12, 2013
Cartagena de Indias, Colombia: The sixth staging of Routes Americas will be hosted by Cartagena-Rafael Nunez International Airport. Visit *www.routesonline.com* for more details.

FEBRUARY 20-22, 2013
Johannesburg: The second biennial international air cargo conference to take place in Africa aims to top the February 2011 Nairobi event. Scheduled for the Emperors Palace in Johannesburg, the event will focus on discussing and finding air cargo opportunities in Africa. Visit *www.stattimes.com/aca2013* for more details.

MARCH 3-6, 2013
Bangkok: For the 15th consecutive year, members of the World Cargo Alliance, a global network of independent international freight forwarders, will come together to meet face-to-face with their peers to build new business relationships and strengthen existing ties. Details are sparse, so keep checking *www.wcafamily.com* for updates.

JUNE 4-7, 2013
Germany: Celebrate the sixth annual Air Cargo Europe exhibition and conference at the New Munich Trade Fair Centre. Keep checking *www.aircargoeurope.com* for more details.

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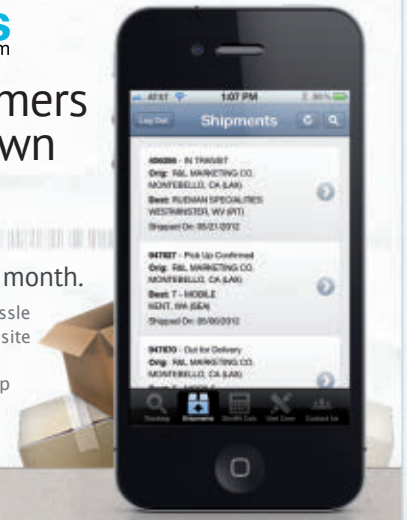

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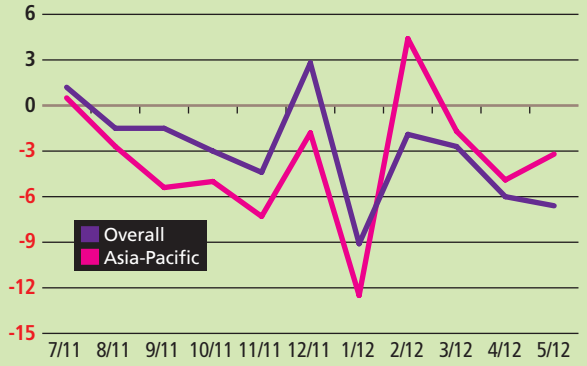
CARRYING EUROPE

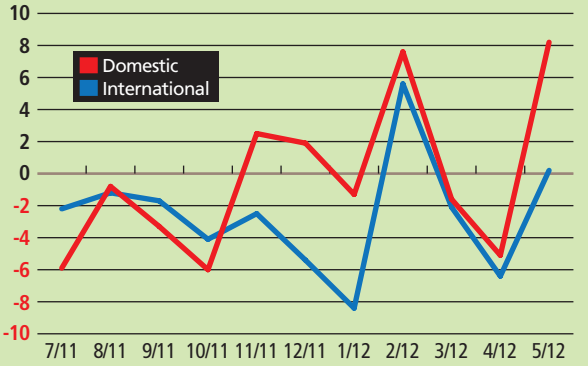
Monthly year-over-year percent change in overall freight traffic and Asia-Pacific freight traffic for European airlines.



Source: Association of European Airlines

U.S. AIRLINES

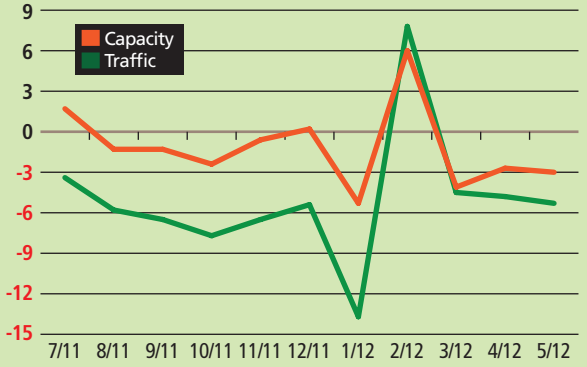
Monthly year-over-year percent change in domestic and international cargo traffic for U.S. airlines.



Source: Air Transport Association of America

CARRYING ASIA

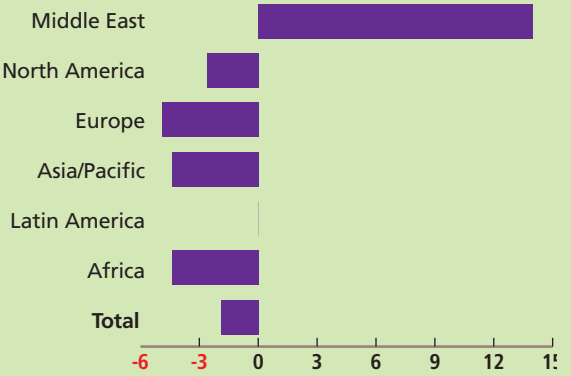
Monthly year-over-year percent change in capacity, in available-tonne kilometers, and traffic, in freight-tonne kilometers, of Asia-Pacific airlines.



Source: Association of Asia Pacific Airlines

SHARING MARKETS

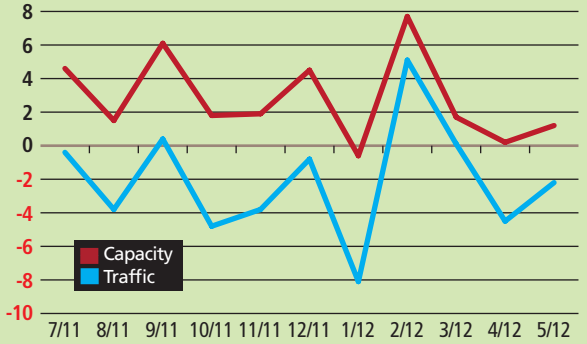
International air cargo year-to-date percent change for May 2011 vs. May 2012



Source: IATA

CARRYING INTERNATIONAL

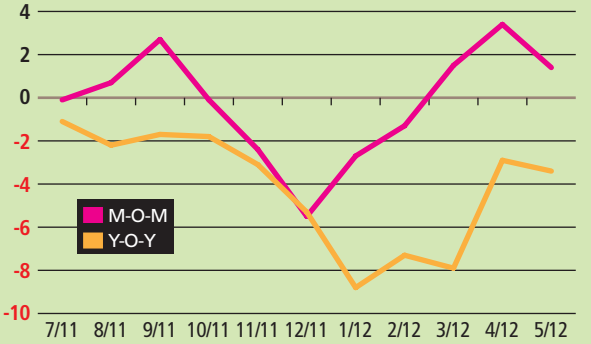
Monthly year-over-year percent change in total scheduled international freight traffic and capacity worldwide in freight-tonne kilometers and available-tonne kilometers.



Source: IATA

SEMICONDUCTORS

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



Source: Semiconductor Industry Association

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

U.S. highway bill good for entire industry

On June 29, the U.S. House and Senate approved the long-awaited highway reauthorization bill, which sets the U.S.'s transportation policy for the next two years. The bill includes a commitment to streamline the approval process for project completion and provide states with greater flexibility when utilizing federal funding. The bill also provides $105 billion in funding for essential programs.

Forwarders have long believed that highway infrastructure funding throughout the world is essential for maintaining a viable air cargo system and a vibrant economy. Roads are an integral part of transporting freight to and from airports. Delays created by poor road conditions directly impact the forwarding industry. Another repercussion of deteriorating road services is high vehicle maintenance costs.

Highway infrastructure funding throughout the world is essential for maintaining a viable air cargo system and a vibrant economy.

Unfortunately, while the bill contains important provisions to streamline the delivery and reduce the bureaucracy that surrounds infrastructure projects, it also continues the trend of decreasing investment in road transportation. Despite the majority of funding being allocated for highway spending, the overall trend toward decreased transportation spending is likely to continue.

Freight forwarders who did not pay much attention to the transportation debate awoke the next morning to find a surety bond requirement that takes effect one year after the bill's enactment. This applies to forwarders who arrange truck shipments with no prior or subsequent air component.

The Airforwarders Association and the National Customs Brokers and Forwarders Association of America overcame the challenge and successfully removed the change to existing law from the legislation. For quite some time, freight forwarders arranging ground truck shipments without a prior or subsequent air portion had been required to register with the Federal Motor Carrier Safety Administration. This requirement will continue. Despite our lobbying efforts to the contrary, such registration will also require a $75,000 surety bond.

In essence, we won a significant battle, yet the war continues. The Airforwarders Association will continue to press for the removal of this surety bond requirement and will monitor opportunities to influence policy in that direction.

In addition to the latest bill, Congress is considering multiple other pieces of legislation that could potentially affect the forwarding community. The House recently passed the Aviation Security Stakeholder Participation Act that was introduced last year in order to establish the Aviation Security Advisory Committee in the Transportation Security Administration. The ASAC is a valuable stakeholder input group that was recently re-chartered after a three-year period of inactivity. This welcomed legislation makes the committee a permanent part of the TSA, and we look forward to monitoring its progress in the Senate.

Senator Susan Collins of Maine may introduce the Secure International Air Cargo Act of 2012 within the next few months. The legislation would codify the Air Cargo Advanced Screening program into law before its pilot program expires. While the Airforwarders Association is confident that the ACAS program will enhance air cargo security, it does not believe that the time is right to make the ACAS a permanent part of the TSA's security system. We believe that the pilot should run its course and continue to collect data, especially in relation to passenger airlines and their forwarder customers.

Perhaps the U.S. Customs and Border Protection should see the proposed ACAS legislation as a message to understand and implement shipment advanced data analysis more quickly. Delaying or failing to act means that the CBP will lose its flexibility in deciding how to run the program as Congress could step in to impose a more prescriptive and permanent solution. As with the MAP-21 bond requirement, legislators are quick to find solutions when government agencies and industry cannot, regardless of how those solutions may affect those they most concern. ACW

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