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What will the fall bring for air cargo?

As we leave summer behind and enter the very beginning stages of what many hope will be a busy fall and winter for those in the air cargo supply chain, we decided to take a look at how carriers and forwarders stacked up last year using freshly released rankings from the International Air Transport Association and Armstrong & Associates. None of the rankings contained any earth-shattering revelations — there was no changing of the guard, and, for the most part, the carriers and forwarders you’d expect to see at the top finished at the top.

Both listings, however, contained a few new entries toward the bottom. These are companies who decided, last year, to dedicate themselves to cargo. They found a way to make airfreight work for them in a down market. While most prognosticators see flat growth for the air cargo industry until, at least, the end of next year, it will be interesting to see how these newcomers fair in the months ahead.

One thing that will certainly change, however, is the number of Asian carriers at the top of IATA’s ranking. The region has been hit hard this year, and Asian carriers are seeing significant losses. Cathay Pacific Airways posted a huge decline in revenue in the first half of the year, after seeing a large profit in 2011. And Cathay is not the only carrier that has seen a tough road so far in 2012. The whole story, and how these sea-changes might affect the international industry, is on page 32.

Speaking more specifically about the fall, I’ve been thinking a lot about the upcoming Air Cargo Forum, hosted by The International Air Cargo Association in Atlanta at the beginning of October. Of course, it’s not entirely about the host city, but it should be a nice way to highlight Atlanta’s contribution to the industry. Next month, we’ll have an all-encompassing Atlanta feature with interviews from air-cargo heavyweights based in Atlanta, and we’ll also be handing out an exclusive guide to the ACF during the event.

As always, if you have any questions, thoughts or concerns about the issues covered in these pages, please send me an email at jon.ross@aircargo.com, or find me on Twitter or Facebook. ACW
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Tonnage slides marginally at IAG Cargo

IAG Cargo’s traffic stalled slightly in July, with tonnage declining 1 percent, year-over-year, on a 4.1 percent, year-over-year, capacity surge. These figures are in line with the merged carrier’s statistics for the first half of 2012, which showed freight volumes dropping 1.8 percent, year-over-year, despite IAG Cargo offering 3.7 percent more capacity than in the first six months of 2011.

The parent company to British Airways World Cargo and Iberia Cargo also saw sales slide marginally during the first half of 2012, with commercial revenue falling 0.3 percent, year-over-year, to €590 million. Even so, IAG Cargo’s overall yield swelled 1.5 percent, year-over-year, during the first six months of 2012, according to a press release.

Steve Gunning, managing director at IAG Cargo, said these numbers are impressive, considering the economic woes permeating markets around the globe. “However, due to continued questions over the pace and consistency of economic recovery, we remain cautious about future performance,” he said in a statement.

British Airways World Cargo’s impressive performance in July gave IAG Cargo executives reason for optimism, however. The carrier saw tonnage spike 3.2 percent, year-over-year, in July; from a seven-month perspective BA World Cargo’s volumes are 1.4-percent higher than those seen in the first seven months of 2011.

Such growth didn’t extend to Iberia Cargo. Although Iberia comprises a smaller segment of IAG Cargo’s business, the carrier’s freight volumes plunged 16.4 percent, year-over-year, in July — a decrease more marked than the 12.7 percent, year-over-year, decline Iberia Cargo posted from January to July.

Still, Iberia Cargo’s decline didn’t impair IAG Cargo’s business too greatly — the merged carrier saw freight revenues increase 3.7 percent, year-over-year, in July.

Carrier leaves a big mark on Airbus program

Late last summer, Airbus made the call to cancel its A320P2F conversion program, a decision that reverberated throughout the industry. Officials for the manufacturer cited weak market demand and the lack of suitable A320 feedstock. It appears that the relatively small European charter carrier West Atlantic — which, nonetheless, correctly bills itself as Europe’s largest cargo airline — may have had more to do with the cancellation than its stature would suggest.

West Atlantic was to take delivery of an initial order of three A320P2F aircraft on lease from AerCap. Deliveries were set for between 2012 and mid-2013, with the option of a further four aircraft by 2015. The first planes, of course, never made it.

“We were attracted to the A320P2F for the capabilities it was offering, particularly with its 21-22-tonne payload,” Russell Ladkin, sales and operations director of West Atlantic, said. “Also, obviously, we were being offered very advantageous terms to become the launch customer for this aircraft.”

West Atlantic officials became concerned about the order, Ladkin said, not for its initial aircraft intake, but for the four aircraft that were to follow. “We were looking for fixed-cost savings, which could match the B737-400F,” Ladkin said. “What Airbus was offering was a freighter with fixed costs 20-percent higher than the B737-400F.”

So it comes as little surprise that West Atlantic has now gone for the B737F option with the acquisition of two B737-300Fs. “Ideally, we want to move onto the B737-400F, which has a comparable payload to the proposed A320P2F and offers an extra pallet position over the B737-300F,” Ladkin said. “If we do head in that direction, we would be looking at a fleet size of between six and seven aircraft over the next two years.”

West Atlantic’s customers are the express operators, integrators and European mail companies looking for supplementary and largely overnight freighter lift. Currently, the company’s business mix is divided almost evenly between the European mail houses and the express operators. West Atlantic is, in fact, something of a newcomer, being created just four years ago from the merger of Sweden’s West Air Europe and Atlantic Airlines of the UK, both previously doing under separate banners what
the enjoined company does today.

The Swedes are viewed as the more senior partner in the joint venture, which is why the current operation is headquartered in Gothenburg, Sweden, while the UK side of the business maintains a presence at Coventry Airport, with a further operational base established in Luxembourg. It was very much a merger of like minds, Ladkin said.

“We were both turboprop operators and started sharing maintenance and spares, which eventually developed into a full merger in 2008,” he said. “It also enabled us to make critical cost gains during the economic downturn at that time, and it has helped us remain effective in what is still a very difficult market.”

West Atlantic sees its role as providing the capacity its customers want at the most effective unit cost. “We have an advantage, to some extent, in that most of the integrators do not want to get involved with turboprop capacity, so by that virtue, we are fulfilling a market niche for them,” Ladkin said. “At the same time, they will always want to contract in a certain amount of capacity to allow them the flexibility of shedding capacity quickly when demand drops.”

Ladkin complains that the market still suffers from over-capacity and too many operators. They are faced with an end customer — notably, the big four express operators — pressing for ever-greater costs savings across their European networks. It is a fragile existence at best. “We have long-term contracts with some customers, which can extend to three years, but all these contracts have a 90-day notice of termination,” Ladkin said. “So, in effect, any contract can be terminated at relatively short notice.”

But aren’t the integrators committed to maintaining their overnight networks whatever their business volumes? “In theory, they are, but they can adjust their networks, by operating double-drop flights or even substituting a road-feeder service at times,” Ladkin said. He also pointed out that West Atlantic, as a second-tier support, does not necessarily operate directly into the major client hubs in Europe. “Many of our flights are cross-country operations, which will feed into a sub-hub and the integrator’s own flight to its main European hub,” Ladkin said.

Ladkin maintained that the current West Atlantic fleet mix provides the most cost-effective option for its customers.

“The BAE ATP turboprop freighter provides an 8-tonne capacity and offers what we believe is the lowest unit cost of any comparable aircraft,” Ladkin said. “Similarly, the Lockheed Electra, with the larger 15-tonne capacity, has very low fixed operating costs.”

—the end—
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Ladkin is a former Electra pilot and still has a high regard and affection for the aircraft. “They may be beginning to show their age, but are still very effective at what they do,” he said. “We have recently refurbished the fleet and believe we can get another three years flying out of our Electras.”

West Atlantic is able to achieve and balance its unit costs because of the relatively low number of flying hours it operates each month, he said; the preservation of the Electras, for example, is assisted by the fact that they rarely operate more than 40 hours a month.

It seems like this little-big airline, after a small hiccup with an Airbus deal that never went through, is back on track. ACW

Virgin Atlantic Cargo sees record-high revenues

Fiscal-year 2011-2012 brought record-breaking growth to Virgin Atlantic Cargo. The UK-based freight carrier saw revenue surge 7 percent, year-over-year, to £239.6 million, the highest annual revenue Virgin Atlantic Cargo has ever seen in its 28-year history.

In a press release, the freight carrier attributed this performance to a 12 percent, year-over-year, improvement in yield during the financial year. Despite this substantial increase, Virgin Atlantic Cargo actually saw volumes slide 5 percent from fiscal-year 2010-2011.

Still, the carrier’s double-digit gains in Europe, the Middle East and Africa, as well as the Americas regions, offset such declines. Virgin Atlantic Cargo saw revenues rise 13 percent, year-over-year, in the EMEA region during the fiscal year, with business in the Americas improving 15 percent, year-over-year.

The carrier’s business in the Asia-Pacific region wasn’t quite so profitable, however. Virgin Atlantic Cargo’s revenue in the Asia-Pacific lagged 7 percent from fiscal-year 2010-2011 — a testament to sluggish economic conditions and the absence of a peak season in some Far East markets, the carrier asserted in the press release.

John Lloyd, director of Virgin Atlantic Cargo, said these conditions make the carrier’s strong performance in the fiscal year even more impressive. “What marks this result as particularly significant is that it was achieved in the context of both a marginal decline in our share of capacity and in a year when total market volumes failed to grow,” he said in a statement.

“At the root of our second successive year of record cargo revenues was a series of internal initiatives designed to improve our efficiency,” Lloyd continued.

Virgin Atlantic Cargo also benefited from its partnership with Virgin Australia during the financial year. Cargo traffic on Virgin Australia’s U.S.-to-Australia routes contributed to the 25 percent, year-over-year, hike in revenue from joint venture partners that Virgin Atlantic Cargo reported during fiscal-year 2011-2012. ACW

Frankfurt’s freight volumes lag amid night-flight ban

Cargo volumes dropped steadily at Frankfurt Airport during the first half of 2012, Fraport Group traffic figures show. In addition to recording a 9.9-percent, year-over-year, drop in domestic freight volumes, the airport saw an overall tonnage stall of 9 percent from the first six months of 2011. Such declines were “strengthened” by the night-flight ban imposed last fall, according to a press release.

In October, the Hesse Administrative High Court ordered the cessation of all flights between 11 p.m. and 5 a.m. at FRA, a ruling that a higher court upheld in April. It was a move many in the industry deemed damaging to cargo.

“Slots are a major battle ground for airlines at major airports across the globe. In recent years, to satisfy the requirements of passengers, all-cargo operations have been pushed into the hours of the day, and usually the night, when passengers don’t want to fly,” Oliver Evans, TIACA’s industry affairs committee chair, said in April. “The air cargo industry has adapted to this and made it work. Today, night-time cargo flights are part of a seamless supply chain.”

Along with being impaired by the night-flight ban, freight volumes at FRA were affected by the European debt crisis and the general weakness of the global economy during the first half of the year, according to the press release.

Fraport AG, which owns and operates FRA and holds majority stake in Peru’s Jorge Chavez International Airport, Turkey’s Antalya Airport and Bulgaria’s Bourgas International Airport, also saw declines in the first six months of 2012. The group result plunged 17.4 percent, year-over-year, to €86.9 million.

Fraport’s revenue and EBITDA bucked this trend, however, rising 2.5 percent and 2 percent, year-over-year, respectively, during the first half of the year. FRA’s record-breaking passenger loads helped propel this increase. Fraport statistics revealed that the airport welcomed 27.4 million travelers during the first half of the year, a 3.4-percent, year-over-year, increase. This figure is especially notable since the airport contended with employee strikes in February and March, which led to the cancellation of 2,150 flights. ACW
Amid challenges, El Al makes gains

El Al Israel Airlines saw freight revenue plunge 7 percent, year-over-year, to $47.6 million, in the second quarter of 2012. Despite this decline, the Israeli flag carrier’s net loss narrowed to $6.2 million during the quarter – a marked improvement from the $20 million net loss the carrier posted during the same period in 2011 and the $23.5 million net loss El Al incurred during the first quarter of 2012. While the immediate results seem negative, the trend is surely positive for the carrier.

A 7-percent, year-over-year, drop in El Al’s operating expenses contributed to the carrier’s financial gains during the second quarter. El Al’s gross profit also rose significantly during the second quarter, surging from $60 million in April-to-June 2011 to more than $75 million. Even so, the carrier’s total revenue slid slightly during the second quarter, declining 3 percent, year-over-year, to $516.8 million.

In a press release, El Al officials said these numbers are strong, particularly amid a host of challenges. Officials have been dealing with the economic problems affecting global markets, the “open skies” policy and the unstable rollercoaster that has defined recent fuel prices.

EL Al President and CEO Elyezer Shkedy also spoke out about these challenges, highlighting the actions El Al has taken to offset them. “Our ongoing efforts to increase efficiency to adjust to the reality of the current business climate, as well as carefully control expenditures, have proven to be instrumental in reducing losses,” Shkedy said in a statement. “We are continuing with our medium- and long-term business strategy to reflect our targets and policies for the coming years.”

Fleet renovation is one of these strategies, according to the press release. The Israeli carrier recently purchased two additional 737-900s from Boeing and is currently in talks to procure a wide-body aircraft as well.

Air Mauritius, Emirates deploy IT solutions

Air Mauritius has inked a three-year deal with aviation service provider mercator to incorporate the company’s cargo accounting platform into its existing Rapid Passenger Solution system. The deal was announced just 10 days before mercator delivered its new safety and compliance management system to launch customer Emirates Airline.

In separate press releases, Air Mauritius and Emirates both touted the technologies’ ability to propel flight operations. Air Mauritius’ new cargo management system, for instance, will enable the carrier “to maximize revenue and profitability via optimizing costs and increasing efficiencies,” according to Air Mauritius officials.

Dinesh Laljee, Air Mauritius’ head of revenue accounting and control, said the technology will be a tremendous asset to the carrier. “Within today’s mixed airline environment of constant change and aggressive competition, the revenue accounting system must be flexible, responsive and a future-geared solution,” he said in a statement.

“Air Mauritius Cargo Revenue Accounting is undergoing a transformation whose objective is to ensure that better quality information is delivered rapidly and accurately in the most cost-effective way,” Laljee continued. “We are confident that mercator’s system will help us deliver on these dimensions.”

Emirates officials expect mercator’s newly launched safety technology to make a similarly strong impact. The technology, which an Emirates project team developed side-by-side with mercator officials, will help Emirates comply with the International Air Transport Association’s SMS guidelines. The new technology will be available to the industry as a whole after a pilot period.

“There is nothing in market today that addresses the need for integration between the various internal components that drive safety in an organization.” Captain Henry Donohue, senior vice president of Emirates Group Safety, said in a statement. “Our new product manages
the reactive, proactive and predictive aspects of safety, ensuring that every hazard is managed and every risk contained.”

“The level of integration and intelligence that we have been able to feed into the product from our years of experience, plus the valuable know-how of our people, makes this the most purpose-built product for aviation safety,” Donohue added.

In addition to aviation safety, route expansion is another key priority of the Middle Eastern carrier. In August, Emirates launched non-stop A340-300 service between its Dubai International Airport hub and Erbil International Airport, its third Iraqi gateway. The route, which was upgraded from four-times-weekly to daily on September 1, increases Emirates’ weekly belly-hold freight capacity to Erbil by more than 400 tonnes. Oil and gas equipment are expected to comprise the chief commodities transported, according to a press release. ACW

Saudi Cargo’s activity rises

In the first half of 2012, amid strife and turmoil across much of the industry, Saudi Airlines Cargo carried 251,500 tonnes of cargo. The number is a 26-percent, year-over-year, increase in activity. Cargo revenue rose 25 percent, year-over-year, during the first six months of 2012.

“We experienced all-time records in May and June 2012. The main contributors to our growth were exports from Europe, East Africa and the UAE as well as cargo from our network into Saudi Arabia and West Africa,” Saudi’s CEO, Fahad Hammad, said in a statement. “We expect the growth spurt to continue in the second half of 2012.”

The large increase in activity happened mostly on freighter services. Saudi officials said belly-hold activity remained flat from 2011 to 2012. Charter business also contributed, but is expected to play a more significant role in the second half of the year due to the addition of two freighters, according to a company press release.

In April, Saudi added freighter services to Vienna, Frankfurt, Dubai and Ho Chi Minh City, while also increasing capacity in a few key cities in the Asia-Pacific. Officials highlight these strategic moves as the main drivers for the carrier’s significant increase in cargo activity, but an increased flow of goods on established routes also helped. Exports from Europe expanded by 75 percent, year-over-year, while goods coming from East Africa presented a 65-percent increase over the first six months of 2012.

Tonnage totals for the first half of the year have also broken records for other carriers in the region. In early July, Etihad announced a record-breaking tonnage figure for the first half of the year, resulting in a 21-percent increase in cargo activity when compared to the first six months of 2011. The carrier’s second-quarter results showed a 22-percent, year-over-year, rise in tonnage, with cargo revenues up 11 percent, year-over-year. Officials pointed to passenger network growth, more freighters and expanded cargo routings as reasons for the record numbers. ACW

In the news...

Etihad and Alitalia have launched a codeshare on direct flights between Rome and Abu Dhabi. The routing, which is set to begin December 1, will be operated four times a week by Alitalia on Airbus A330 aircraft. Etihad will also codeshare on separate Alitalia flights routed from Rome to Venice and Zurich. Etihad officials signaled their intention to codeshare with Alitalia back in December 2009 and have since helped out on flights starting in Rome and ending in Milan, Frankfurt, Munich, Geneva and Athens. Etihad also recently signed a codeshare agreement with Aer Lingus, following Etihad’s purchase of a stake in the Irish carrier. Under the deal, Etihad Airways will place its code on Aer Lingus flights between Dublin, Manchester and London Heathrow, as well as destinations in Ireland, the British Isles, the Channel Islands, Portugal, the Netherlands and the U.S. In return, Aer Lingus will place its code on Etihad flights between Abu Dhabi and Dublin and gain access to Etihad’s network beyond Abu Dhabi... Emirates has commenced A380 service between Dubai and Amsterdam. The carrier is the first to offer scheduled flights with the Airbus aircraft into Amsterdam, according to a press release... Global airlines increased airfreight capacity by 1.7 percent, year-over-year, in June, while carrying 0.8 percent more cargo.

The International Air Transport Association, which gathered this data, explained in a press release that these numbers reflect the continued weakness of the global airfreight sector. The strong volumes recently carried by Middle Eastern and African airlines has propelled this growth, with tonnage for these carriers surging 17.9 percent and 15.9 percent, year-over-year, respectively, in June. Middle Eastern and African carriers also increased capacity considerably in June, offering 14.2 percent and 12.1 percent more freight space, respectively, than in June 2011. To IATA Director General Tony Tyler, these figures highlight a larger issue at play. “The uncertainty that we see in the global economic situation is being reflected in air transport’s performance,” he said in a statement. “Although there are some pockets of solid performance, it is difficult to detect a strong trend — positive or negative — at the global level.”... Globe Express Services has commenced operations at its AED35 million warehouse and office facility in Dubai’s Jebel Ali Free Zone. GES’ warehouse, which features six loading doors and approximately 4,780 pallet locations, offers 67,449 square feet of industrial space. ACW

ACW SEPTEMBER 2012 11
Cargo volumes soar at DWC in second quarter

Freight volumes at Dubai World Central-Al Maktoum International Airport rose considerably during the second quarter of 2012, surging 153 percent, year-over-year, to 56,271 tonnes. The Middle Eastern airport recorded even more dramatic growth from a six-month perspective, with cargo traffic increasing 226 percent, year-over-year.

DWC, which opened in June 2010 to freight carriers only, also saw a marked increase in aircraft movements during the first half of 2012. The number of takeoffs and landings at DWC grew 196 percent, year-over-year, from January to June, transitioning from 2,526 movements in the first half of 2011 to 7,474 movements; 3,961 of these aircraft movements occurred during the second quarter, according to Dubai Airports’ statistics.

In a press release, Dubai Airports’ officials attributed much of this growth to the launch of Saudi Airlines Cargo’s thrice-weekly flights to DWC during the first half of the year. National Air Cargo also added a dedicated service to the airport starting this year. These carriers join roughly 34 other airlines that fly to DWC, although negotiations with a number of other interested airlines are currently underway.

Paul Griffiths, CEO of Dubai Airports, expects DWC to become an even bigger part of the Middle Eastern cargo landscape moving forward. “Dubai Airports’ total cargo volumes are expected to top 4 million tonnes by 2020, and an increasing portion of that growth is expected to spill over to DWC,” he said in a statement. “Right now, we are seeing tremendous incremental growth as airlines come to recognize the many advantages that DWC offers them.”

Griffiths added that DWC’s accessibility to the Jebel Ali Free Trade Zone, along with the airport’s abundance of takeoff and landing slots, are “very attractive propositions for cargo carriers.”

DWC’s operations have also been bolstered by the presence of dnata, Emirates Airline’s ground-handling subsidiary. In fact, dnata handled 127,665 tonnes of cargo at Freight-Gate-8 — its terminal at DWC — during fiscal-year 2011-2012, a whopping 700-percent, year-over-year, increase.
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HKIA’s exports lag in July

Despite a 4-percent, year-over-year, surge in imports in July, declining export and transshipment levels led to Hong Kong International Airport officials seeing a 1.6-percent, year-over-year, drop in cargo volumes. In a press release, HKIA also revealed that Southeast Asia “outperformed” other key regions for cargo in July.

HKIA, which surpassed Memphis International Airport as the world’s busiest cargo airport in 2010, saw transshipments slide 3 percent, year-over-year, in July. Exports out of Hong Kong took an even steeper tumble during the month, falling 4 percent, year-over-year.

Lagging cargo volumes aside, HKIA’s passenger traffic soared in July. The airport welcomed a record-breaking load of more than 5 million passengers; this figure represents a 0.5-percent increase from July 2011, when the previous record was set. The airport also saw a marked increase in air traffic movements in July, with 29,880 total landings and takeoffs — another record-breaking figure.

“We are pleased that both passenger and air-traffic movements have once again set records, and we believe that the growth trend will continue in the coming months,” Stanley Hui Hon-chung, CEO of Airport Authority Hong Kong, said in a statement.

Freight volumes at HKIA plunged 3.1 percent, year-over-year, from July 2011 to July 2012, dropping to 3.9 million tonnes. Industry insiders hope Cathay Pacific’s HK$5.9 billion freight terminal at HKIA, which is slated to open in early 2013, will lead to cargo gains in the near future.

**CORRECTION:** Due to an editing error, the July issue contained a report in the Asia World News section about the construction of a logistics center at HKIA. The development is actually planned for Incheon Airport.

DHL’s path forward is intra-Asian business

At the end of August, DHL Global Forwarding was due to open a new regional hub facility in Korea. By bundling shipments from various Asian markets for transportation to their destinations, the hub will reduce transit times and costs, the company indicated. Details of the facility were not available at press time.

DHL staff may be forgiven for being a trifle hazy on details of Asian mega-facilities. These days, DHL top brass have plenty of opportunities in Asia to toast the opening of new strategic facilities. The Korean forwarding hub follows the inauguration of a new DHL Express hub in Shanghai in July and a new distribution and consolidation center in Hong Kong that came on stream in May. Later this year, by late October or early November, the company will celebrate the expansion of its bonded airfreight facility in Shanghai.

The airfreight expansion is designed to upgrade service, particularly for the firm’s clientele in the fashion industry, as space in the old facility was insufficient to meet the requirements of this sector for value-added services, a spokesperson for DHL remarked.

The flurry of expansion activities indicates that DHL top management is bullish on Asia — the region’s struggle to keep its exporting momentum notwithstanding. On a recent visit to Asia, Deutsche Post DHL CEO Frank Appel declared that the company aims to generate one-third of its revenues in the Asia-Pacific region by 2017. Last year, this part of the world accounted for 19 percent of the integrator’s revenues.

Asia has been going strong for DHL this year. Management identified it as the chief driver behind 7.3-percent growth in revenues, year-over-year, in the second quarter, as express revenues surged 10.7 percent to $3.9 billion. Boosted by these results, DHL raised its earnings outlook in early August, predicting that its earnings-before-interest-and-tax should grow to €2.6 billion–€2.7 billion from €2.44 billion in 2011; a previous forecast predicted growth of between €2.5 billion and €2.6 billion.

UPS has also been upbeat on Asia. Brendan Canavan, who recently took
Boeing and China team up for biofuels

Over as president of UPS Asia-Pacific, noted that exports to the U.S. and Europe have been weak, but intra-Asian business is on the rise and showing good near-term growth potential. Nevertheless, UPS has been less bullish than DHL on the near term. In late July, management downgraded its outlook, citing increasing uncertainty in the U.S., continuing weakness in Asian exports, and the debt crisis in Europe. The announcement came after the integrator’s results for the second quarter showed a 4.1-percent drop in international revenues and a 10.1-percent, year-over-year, drop in operating profit in the international segment.

DHL officials have responded to comparisons with UPS and FedEx, arguing that its own network and market position give it more traction in the intra-Asian arena. “In the past three decades, we have built ourselves a unique platform in the Asian markets and established the basis for the sustained success of our DHL divisions,” Appel said.

According to Jerry Hsu, CEO of DHL Express Asia-Pacific, the company has outperformed GDP growth, market growth and its competitors.

China is at the heart of DHL’s expansion drive in Asia, and management views the region as the most important engine for growth for years to come. The company generates more than half of its Asian revenues, more than $4.2 billion, in China. To position the company for future growth in the region, DHL has earmarked €400 million for investment in the area in the coming years, which may include some smaller, “bolt-on” acquisitions to strengthen its position in some segments, Appel revealed.

The $175 million North Asia Hub at Shanghai is a central plank in the company’s forwarding and supply-chain divisions, this hub will be of little direct relevance. “The DHL North Asia hub in Shanghai is purpose-built for the express business, and not for DHL Global Forwarding,” the company spokesperson commented. The expansion of the bonded airfreight facility should go some way toward meeting the needs of the forwarding division, which should also stand to benefit from capacity on the new flights in the region. ACW
Fuel prices lead to Cathay’s Q2 declines

Cathay Pacific Airways posted a HK$935 million loss in the first half of 2012, a marked contrast from the HK$2.8 billion profit the carrier saw in the first six months of 2011. In a press release, the Hong Kong-based carrier blamed sky-high fuel prices, sluggish freight volumes and global economic woes on this decline.

Cathay Pacific’s cargo revenue tumbled 7.6 percent, year-over-year, in the first half of 2012, falling to HK$11.9 billion. Freight capacity and yield also shrunk during the first six months of 2012, slowing 4.3 percent and 0.4 percent, year-over-year, respectively. Despite measures to match capacity with demand, Cathay’s load factor similarly took a hit during this period, declining 4.1 percent, year-over-year, to 64.3 percent.

According to the press release, cargo demand in Hong Kong and Mainland China was “well below expectations” during the first half of the year, although the introduction of certain electronics in March led to a brief spike in volumes. Even so, Cathay launched twice-weekly freighter service to Zhengzhou, China, in late March, with twice-weekly cargo service to Hyderabad, India, commencing roughly two months later.

But the financial stress Cathay experienced during the first half of the year was extreme, with fuel accounting for 41.6 percent of its total operating costs. In an effort to contain costs, the carrier retired older, less fuel-efficient aircraft from its fleet; three Boeing 747-400BCF freighters were also taken out of service.

Cathay Pacific Chairman Christopher Pratt explained that such actions demonstrate the cyclical nature of the industry. “Aviation will always be a volatile and challenging industry, and our business will always be subject to factors, including economic fluctuations and fuel prices, which are beyond our control,” he said in a statement.

“We will continue to take whatever measures are necessary to protect the business, managing short-term difficulties while remaining committed to our long-term strategy,” Pratt said in a statement. “Our financial position remains strong, and we are in a good position to deal with our current challenges.”

Cathay Pacific will also continue investing in its HK$5.9 billion cargo terminal at Hong Kong International Airport — a project that will benefit operations in the long term, according to the press release.
Halifax Stanfield International Airport is the smart choice for moving product. Starting this November, our expanded 10,500 ft. runway, combined with our proximity to major Canadian, European and U.S. markets & quality service, offers you a quick, cost-effective transportation solution. Our cargo team will handle the details. You set a course for growth.
FedEx boosts green-thumb goals


FedEx is well on its way to hitting these targets, according to a press release. By the end of fiscal-year 2011, the company effectively curbed aircraft emissions by 13.8 percent and boosted vehicle fuel efficiency by 16.6 percent. FedEx officials hope the June retirements of 18 fuel-inefficient Airbus A310-200s and six Boeing MD10-10s from the company’s U.S. Express fleet will improve these figures even more.

In July, FedEx revealed that it will replace these retired aircraft with 19 Boeing 767-300s. The 767-300s, which boast greater fuel efficiency, will be delivered to the integrator between fiscal-year 2015 and fiscal-year 2019.

FedEx is also looking to grow its fleet with 757 aircraft, according to the Global Citizenship Report. By 2015, FedEx Express will have substituted all of its Boeing 727s for more fuel-efficient 757 aircraft. Boeing 777F aircraft are also on FedEx’s radar, according to the company’s sustainability report, since the aircraft offer greater payload capacity and emit 18-percent less carbon than the older-generation MD-11s.

In the Global Citizenship Report, officials with the integrator also reiterated their commitment to obtaining at least 30 percent of FedEx’s jet fuel from biofuels by 2030, a target that had been previously announced. The company’s recent introduction of carbon-neutral envelope shipping will also help FedEx reach its sustainability goal.

Atlanta airport looks to South America

Total air cargo activity for June at Hartsfield-Jackson Atlanta International Airport fell 3.24 percent when compared to the same period in 2011. Year-to-date, tonnage was down by 2.97 percent. Taking into account the monthly totals for the first half of the year, cargo growth has hovered between an April low of -5.54 percent and a February high of -2.04 percent when compared to 2011.

According to recently released Airports Council International data, Hartsfield-Jackson finished 2011 at the top of the worldwide list for total movements. Still, the 2011 number finished at a 2.7-percent drop from 2010.

One way he hopes to turn 2012’s tonnage results around is by turning his gaze toward the south. Jones sees Miami International Airport as a major player in South American cargo, and he wants to bring a bit of the airport’s success to Atlanta.

“We are looking to expand in South American regions,” he said. “Of course, traditionally, Miami is the gateway to South America. But we feel that can offer more services to our freight forwarders.” Jones added that he is specifically looking at opportunities in Belize and believes that...
Singapore Airlines Cargo has launched weekly Boeing 747-400 freighter service to Sao Paulo’s Viracopos-Campinas Airport, its first South American freight route. The service, which will be upgraded to twice-weekly in the fall, is routed through Hong Kong International Airport and Dallas/Fort Worth International Airport on the first leg. The plane will return to Singapore via Dallas, Brussels and Sharjah, United Arab Emirates.

SIA Cargo’s Tan Tiow Kor spoke out about the new route, which complements Singapore Airlines’ thrice-weekly passenger service to Sao Paulo’s Guarulhos International Airport. He said the decision to add more cargo capacity to the fast-growing economy was strategic. Chief imports into Brazil will consist of machinery, electrical and transport equipment, cotton, automotive parts and accessories, footwear and food products, and chemicals.

“These new freighter services demonstrate our confidence in the growth potential of the Brazilian market and have no restrictions, no curfews.”

According to Ian Morgan, Cargolux’s vice president for the Americas, a lot of this activity could come from a ramp up in electronics and automotive components; he sees a lot of those commodity types flown through Atlanta. He added that the airport is located in a part of the U.S. that is still growing with manufacturing jobs.

“We’ve seen the automotive sector increasing in that area in the Southern states,” Morgan said. “So we’re definitely seeing an increase in automotive and cars in the market.”

The upcoming development of a Porsche plant in the area could add more substance to talk of Atlanta’s impending cargo growth. Reports of a development on the site of an old Ford plant tie Porsche officials to 33 acres of land, plus a possible 20 additional acres.

Harold Hagans, for one, is excited about the prospect. As the president of Atlanta Customs Brokers, he has a vested interest in the success of the airport.

“It’s the biggest economic shot in the arm to that particular geographic location there that they’ve had in many, many years,” he said. “So that’s exciting, to say the least.”

India may also hold some potential growth opportunities for Atlanta.

And when more business rolls in, Jones is confident Atlanta will have ample room to handle the increased activity. He’s actually in the process of helping put together a cargo masterplan, which will be ready sometime in 2013. The masterplan will highlight Atlanta’s benefits, including no curfew restrictions, while highlighting future needs and developing a strategy to take advantage of upcoming opportunities.

“We have enough cargo capacity in our warehouses to grow,” he said. “The runways have capacity, and we will extend our network coverage to over 70 cities in more than 30 countries,” he said in a statement. “We hope these services will give our customers more choice of flights to ship their freight between Brazil and various markets.”

SIA Cargo’s route also marks DFW airport’s first direct freighter flight to South America and the airport’s first direct link between Asia and South America. DFW CEO Jeff Fegan said he expects this route to propel the airport’s freight operations tremendously and “hopefully lead to more growth at DFW and in support of the Dallas/Fort Worth economy.”

American Airlines, which filed for chapter 11 bankruptcy protection in November, detailed plans to lay off 36 cargo agents and four cargo coordinators at DFW in a letter to Tex-

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Dallas: Singapore adds South American route, AA to cut workers

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“These new freighter services demonstrate our confidence in the growth potential of the Brazilian market and
as labor officials. This action is in line with AA parent company AMR Corp.’s announcement in February to cut 13,000 jobs from its workforce as part of a massive restructuring plan. AA downgraded this figure slightly, however, after negotiating with labor unions.

Michael Waldron, American Air-

lines’ managing director of diversity and talent development, revealed in a letter to the Texas Workforce Commission that the 40 cargo workers will likely lose their jobs on or around September 21.

“Each workgroup was obligated to reduce costs necessary for the successful reorganization of American Airlines,” Waldron wrote in the letter. “Regrettably, reducing our costs requires that we must make a number of tough decisions. Several of these very difficult decisions include a reduction in force.”

In the letter, Waldron said that American Airlines is offering “voluntary separation options” in an attempt to mitigate the number of workers that will be laid off. “Unfortunately, the reality is that our employee population will be affected by the steps we must take,” Waldron wrote.

Overall, American Airlines incurred a net loss of $241 million during the second quarter of 2012, a byproduct of the bankruptcy restructuring costs. The carrier’s cargo segment has particularly struggled in recent months, with tonnage falling 4.9 percent, year-over-year, in July; passenger traffic was also down in July.

In response to reports of a potential takeover of American by IAG, an IAG spokeswoman said that the rumors aren’t off base. “We have a strong partnership with AA and wouldn’t rule out investing in a restructured AA if they would welcome that,” she said.

**Study says FAA sequestration will hurt the airfreight market**

The U.S. Federal Aviation Administration’s proposed sequestration could expunge the U.S. of nearly 2 billion pounds of airfreight capacity, according to a study conducted by the Aerospace Industries Association and Econsult Corp. The budget cuts — which are scheduled to take effect in January — could also strip the U.S. of 132,000 aviation jobs and zap $80 billion a year from the nation’s GDP, the report indicates.

The AIA and Econsult Corp. further asserted that the U.S. economy could lose $80 billion annually by 2035 as a result of the FAA budget cuts, in addition to seeing an annual loss of 1 billion to 2 billion pounds of transported airfreight. The looming sequestration will also impair passenger operations, the report indicated, resulting in 37 million- to 73 million fewer passengers a year.

“If sequestration is not stopped, it will be by far the most devastating budget cut to the FAA in its 54 years,” Former Secretary of Transportation and Congressman Norman Mineta said in a statement. “The FAA is a critical safety organization that regulates our national air transportation system. Putting it at risk is folly beyond comparison.”

Sequestration will also delay deployment of the Next Generation Air Traffic Control System by a decade or more, according to the study. NextGen, which advocates say will reduce carbon emissions by 216 metric tonnes and save 27 million hours in flight delays, is currently slated to take full effect in 2025.

To Stephen Mullin, vice president and principal of Econsult Corp. and author of the study, the budget cuts’ effect on NextGen “reveals the draconian effect of sequestration on the FAA.”

In a statement, Mullin said that the cuts “would force the FAA to slash operations, bringing gridlock to the skies today, or de-fund modernization and infrastructure work. The closer we study sequestration, the more destructive it turns out to be.”

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AIR CARGO-CONSCIOUS BRITAIN

By Courtenay Edwards
London Daily Mail
Air Correspondent

Cargo loaded into the nose of the Bristol Freighter

Britain has recognized air freight and it means to keep abreast of the field

IN a small London office an ex-RAF officer and a former United States fighter pilot are planning a tramp service of the air.

Starting early in 1947, they hope to operate a fleet of cargo-carrying planes which will ply for hire all over the world. These flying boxcars will work to no fixed schedule but will fly wherever there is business to be picked up.

One of their airfreighters might start from Birmingham with a load of machine tools urgently needed by a factory in France. In that country it might be chartered to fly a cargo of perfume to, say, Turkey. It might arrive there just in time to fly on to India with a party of business men who wanted to get there in a hurry.

When they leave England these “free lance” airfreighter crews will have to go prepared for anything. They might be home the following day; they might be away for weeks, flying halfway around the world and back.

“We shall aim at following the sun around,” Captain Douglas Conner, chairman of Global Aviation, Ltd., told me. “We hope to keep our cargoplanes fully employed by dodging the European Winter, moving south to some extent during the bad flying months.”

Global Aviation’s plan for a tramp service of the air is one of many signs of a big expansion in commercial cargo-carrying by air. Regular freight services across the Atlantic are forecast for the near future—when suitable planes are available. The possibilities of such a service were demonstrated when six racehorses were flown from Erie to California in a four-engined Skymaster chartered from American Overseas Airlines and specially fitted up as a flying horse-box.

International Shipments

There is big scope, too, for regular air freight services between the European capitals. K.L.M. the go-ahead Dutch airline company, has made a start with a daily cargo service between London and Amsterdam. They have taken across to the Continent a variety of British livestock, including pigs.

In the United States, a country which was slow off the mark in the air freight field, there are now a number of regular air cargo services. In England, as elsewhere, the lessons of the wartime transportation of huge volumes of military supplies by air have been well learned. Recent American experiments in carrying cattle by air include the flight of a Jersey bull calf and two heifers from Newark to Athens, Greece; 52 racing greyhounds were flown from Miami to Boston; Ten Guernsey calves took wing from New Jersey to Colombia, in South America, doing the journey in 24 hours compared with 57 days by sea.

In comparing air cargo charges with surface transport costs you must make allowance for the big economies conferred by the flying boxcars in such items as insurance, packing costs, the idleness of market goods in transit, and the breakage rate. With perishable freight, of course, and fashion goods governed by short-lived fancies, air freighting wins every time.

In both Britain and the United States the great bulk of cargo-carrying has so far been done by charter firms. Already, the American non-scheduled cargo-carriers use almost as many planes as the regular passenger lines. One expert predicts that by 1950 air cargo will have reached an annual total

(Concluded on Page 24)
"Air cargo-conscious Britain" appeared in the February 1947 issue of Air Transportation. It has been reprinted here in its original form.
Doing business in an emerging market can sometimes feel like driving a car without a seat belt — there is significant risk, and the road is littered with potential dangers. Uncertainty is something Larry Wenrich, vice president of government services at Pilot Freight Services, learned about the hard way when Pilot made its foray into the African market four years ago. He reveals that Pilot, which regularly handles shipments to Africa via a partnership with the U.S. military, encountered a lack of transparency among African businesses.

“For us, the hardest part of establishing ourselves in Africa was finding dependable companies to partner with,” Wenrich says. “I don’t want to say that it was trial and error, but that’s what it was.”

Wenrich says it’s not a problem anymore, as the U.S.-based forwarder has found two African companies to employ. But he acknowledges that fraud, or the potential for misrepresentation, is more prevalent in Africa than in many other regions. “We had some issues where shipments would be delayed, or we realized that somebody couldn’t get something out of Customs because they had no expertise, when they told us they did,” Wenrich says. “So we ran into that kind of stuff a lot.”

Dealing with African border disputes has also been an obstacle, he says, albeit a surmountable one. Instead of trucking goods from one contentious nation to another, Pilot Freight Services often ships cargo on alternative routes to avoid altercations. In fact, he says, Pilot may have to fly freight traveling only a few hundred miles thousands of miles out of the way to prevent violence or theft.

Some in the aviation sector think the problems in Africa are overblown, however. Yannick Erbs, CEO of Togo-based AfricaWest Cargo, says that although security breaches do exist in Africa, they aren’t exclusive to the continent. Erbs also maintains that African airports take strong measures to protect cargo.

“Based on AfricaWest Cargo’s 15 years of operation, I can say that [security issues] are very marginal at most airports in Western and Central Africa due to the strict and efficient security measures that are put in place,” Erbs says. “In addition to this, it should be made known that there is an assuring presence of a large group of security personnel roving around the concerned areas, who are well-trained and reliable.”

Like Erbs, Air France-KLM Cargo’s Joost Ruempol says that his company’s operations in Africa haven’t been impaired by safety breaches. He also asserts that cargo theft — a problem commonly cited in South Africa and the west-
Martinair’s B747 freighter service to Harare — will likely be inundated with mining equipment, he projects. After all, Zimbabwe is a land known for its rich natural resources.

Ruempol says mining equipment is also a key commodity on the carrier’s flights to Luanda. “Angola’s oil and gas industry is developing,” he says, “and therefore we mainly transport equipment related to this industry, complemented with personal effects.”

Flights to Zambia, however, are commonly filled with spare parts, in addition to oil and gas equipment. And without airfreight, Ruempol says, such goods might not reach the Southern African nation. “There is no seafreight option to Zambia, and therefore the success of international trade depends a great deal on air cargo.” Still, he thinks the industry has only begun to realize the potential of the Zambian market. Take the nation’s flower export sector, for example. Ruempol says the launch of additional, nonstop flights from Europe could better address the market and its potential for growth.

Whether more carriers target this market or not, one thing’s for certain: Cargo in Africa is on the rise. Nowhere is this more evident than in the International Air Transport Association’s June statistics. Although carriers in several regions reported lagging airfreight volumes in June, African airlines recorded a 15.9 percent, year-over-year, increase in traffic amid a 12.1 percent, year-over-year, capacity surge.

Despite this positive development, African carriers also reported an alarmingly high accident rate in June. On June 2, an Allied Air Cargo freighter overshot the runway at Ghana’s Kotoka International Airport and crashed into a minibus, killing a dozen passengers. One day later, Dana Air Flight 992 slammed into a residential building in nearby Nigeria. The crash — which reportedly stemmed from an engine fire — resulted in 159 casualties.

Tragic coincidence or not, these incidences highlight the aviation problems that have long plagued Africa — issues that IATA addressed in its 2011 global accident rate report. Although the total number of accidents among African carriers fell from 18 in 2010 to eight in 2011, Africa is still the most problematic region in the industry, according to IATA. In fact, IATA reports, the accident rate for African carriers not appearing on the IATA Operational Safety Audit registry is quintuple the global average; the rate among African carriers on the IOSA registry, however, is nearly equivalent to the world average.

Such a discrepancy led aviation authorities to devise the Africa Strategic Improvement Action Plan. The plan, sanctioned by IATA and the In-
International Civil Aviation Organization, calls for all African carriers to complete IATA Operational Safety Audit registration and contains specific ways to improve aviation safety in Africa from now until 2015. Key objectives range from the establishment of independent African civil aviation authorities to the implementation of flight data analysis and safety management systems. IATA and ICAO also encourage African officials to employ “transparent” safety oversight systems and accident-prevention measures, with the latter focused on runway safety and loss of control.

Tony Tyler, IATA’s director general and CEO, believes such developments could drastically improve Africa’s aviation infrastructure. “Over the years, there have been many initiatives to improve African safety,” he says. “While progress has been made, the problem has not been solved. This time could be different.” After all, Tyler says, “The eyes of the world are on the continent’s economic expansion.”

Much of Africa’s economic growth is stemming from intra-regional trade, insiders say. AfricaWest Cargo, for instance, has seen such strong volumes out of Western and Central Africa that it is looking to serve 10 new African destinations in the near future.

Demand for petroleum, oil and gas equipment, and telecommunications products is propelling the need for increased services, Erbs says. He reveals that AfricaWest Cargo has also been eying the Far East for growth, in hopes of better addressing the Africa-to-China trade lane.

Pilot’s Wenrich expects more carriers to follow suit, as “more people want to get their hands on the natural resources that Africa has to offer.” He says some are even referring to Africa as the “new India or China.” Industry hype or not, trade in Africa shows no signs of slowing down, Wenrich maintains. “And Africa’s is an interesting place because we still don’t know the potential there,” he says.

Whether that potential is hindered by the continent’s high accident rate and cross-border violence or fostered by improvements to Africa’s aviation infrastructure remains to be seen, however.

“Africa is an interesting place because we still don’t know the potential there.”
— Larry Wenrich, Pilot Freight Services
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The cargo people.
The word “volatile” has become a common descriptor of the air cargo market for, it seems like, the past couple of years. No matter who is doing the talking — representatives from carriers, integrators, forwarders or shippers — everybody has been echoing the same phrases. Though the wider market has turned around in some areas, for freight forwarders, uncertainty and, yes, volatility are still very much present challenges.

In this awkward, if not quite dark, scene exist the top forwarders in the world. Ranked by Armstrong and Associates according to gross revenue and all-around tonnage (air and sea), these 25 companies represent the best of the best when it comes to international freight forwarders. Some of them rely heavily on the ocean, and a few take a more balanced approach than others, but all the busiest forwarders are on the list. From the top-of-the-pack DHL Global Forwarding to Sankyu, which handled 18,060 tonnes in 2011, many firms have stayed in the top positions all throughout the downturn and the slow recovery. (Air Cargo World has taken the original rankings and listed the companies, top to bottom, by airfreight volume.)

Dachser, which was ranked last in 2010, rose to 23rd last year on the strength of 50,000 tonnes of airfreight and gross revenues of $5.92 million. Though still a small player in the international airfreight industry, company officials feel the seismic shifts of the market just as much as the larger firms.

In the current market, Thomas Reuter, Dachser’s managing director of air and sea logistics, is seeing less demand for the company’s services from important, established economies. This, he says, leads to a diminution of important freighter services. In spite of this, the air business is growing, with the success of Dachser’s GLOB-AL program and the inauguration of its second iteration. According to Reuter, the second part of the program will coincide with new offices in 21 countries and a planned doubling of activity to 2.2 billion. The company’s strongest trade routes are China to Europe and to the U.S. According to Reuter, Dachser recently ramped up its activities in Singapore and Malaysia, with an increased presence in Vietnam coming soon.

“The airfreight market is still a very volatile business,” Reuter says. “Rates and surcharges are rising and falling within short time frames,
which makes it challenging to predict stable rates, especially when it comes to tender requests.”

Though Dachser has experienced increasing success with airfreight, the path forward, Reuter says, is still rife with challenges. Cargo screening is always an issue when dealing on the international airfreight stage, and while the U.S. and EU recognition of worldwide programs has helped alleviate screening headaches a little bit, bottlenecks still exist. Fuel is also a very-present concern, as is the resulting shift toward seafreight. But even though Dachser’s path is a bit obscured, Reuter is optimistic.

“It is hard to predict the next months to come, as air and seafreight business is and was always tightly connected with the international world trade economy,” he says. “In times like these, where European economies are losing ground, where the U.S. economy was on hold due to the presidential elections, and even China starts to lower their own economic expectations, it really does become a challenging environment for air and seafreight forwarders.”

Georges Van Hove, corporate airfreight director at SDV/Bollore Logistics, saw his company clear 520,000 tonnes of activity last year, up from 500,000 tonnes in 2010. The 2011 total puts SDV at No. 10 on the list. Van Hove says the current market seems positive, but lower than last year. He’s holding out hope for a peak toward the end of the year, which could possibly mean activity mirrors 2011’s results, which, in his estimation, would be excellent. At SDV, the company is more attuned toward airfreight than some others on the list, with 35 percent of the group’s turnover dedicated toward air cargo as opposed to about 17 percent geared toward seafreight, he says.

Most of this airfreight comes from Africa, where SDV is at the top of the heap, Van Hove says. The company has 250 offices in 43 countries in the continent, which gives them great positioning for a shift that van Hove says is coming.

“Overall, our activities have remained quite steady; tonnages are following the global economic trends. But the center of gravity, which was China to Europe, is now moving from China to Africa,” he says. SDV workers are also focusing on what they see as the top emerging market: the area of India and Pakistan.

Van Hove, though, anticipates more of a problem in seafreight. He’s seeing a “more and more frequent translation” of airfreight to seafreight due to the cheaper ocean voyages. Customers that need goods flown to Asia are now asking him to ship commodities to a hub point like Singapore.

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Source: Armstrong & Associates

Actual Armstrong & Associates rank, by gross revenues, sea and airfreight volumes, in parentheses.
and then fly the goods to their final Asian destinations.

Even though Van Hove has experienced some positive signs during the first few months of the year, he’s not hopeful for anything more than a flat year for 2012. Early expectations were for 5-percent to 10-percent growth, but the way things are looking, a steady path forward might continue for at least another year.

“The worrying thing ... is that nobody really talks recovery,” he says. “It’s flat growth at the best — at least for 2013, which will again be a bleak year.”

DB Schenker Supply Chain and Global Forwarding saw nearly 1.15 million tonnes of airfreight in 2011, slightly down from 2010’s mark of 1.225 million. Thomas Lieb, chairman of the DB Schenker Logistics board, says the slight contraction in airfreight has carried through to this year. He estimates the market fell by 3-percent to 4-percent in the first half of the year.

Lieb describes the aim to reach 2011’s activity as a fight. The firm’s activity from Asia, which accounts for half of its volumes, is weak. He points to new challenge of communicating across the board electronically as another reason for the airfreight declines. Finally, a bit of in-house reorganization in Schenker’s domestic U.S. market, which occurred last summer, has also contributed to slow airfreight numbers.

“New aircraft deliveries and a shrinking market create difficulties for our carriers in the meantime,” he says. “Reasons for the shrinking market are the softening economies and the shift of cargo to other modes of transport.”

Lieb’s other concern, of course, is the sea. He says that once customers make the switch from airfreight to seafreight, there’s really no reason for them to return to the skies. If transporting goods by sea works well, and it saves money, why would they switch back?

“Also in the past years, we have seen new or better technology on the ocean side, which made transportation of traditional airfreight goods in a container possible,” Lieb says. “Intercontinental railway solutions are on the rise as well.”

Route-wise, he sees Asian routes, both within the region and between Asia and North America and Europe, as the biggest lanes, purely due to market size. He does say, however, that Latin America and Africa could become larger players as production and labor costs in Asia increase.

Even with darkening prospects, Lieb remains confident that airfreight will be of major importance to Schenker moving forward. He declares that a return to growth will occur, at the latest, by the end of 2013. He notes that nearly one-quarter of Schenker’s revenues is derived from airfreight, a mode of transport he calls “a major building block of our sophisticated product offering toward our customers” — words that enforce the importance of airlines to Schenker’s path forward.

But, of course, it won’t be easy. “Ever since mid-2008, the airfreight industry has been a roller coaster ride,” he says. “Unfortunately, after 2010, the market has not yet returned to pre-crisis growth rates, but rather stagnation to small losses.”

The challenges have been targeted, and Lieb has a plan. To return to profitability, he’ll steer airfreight in a few new directions, while maintaining the course in areas where activity will soon return.

“Building on our healthcare expertise, which is now organized within a vertical market setup, we will further extend our pharma competence and activities,” he says. “In addition, we are looking into other niche markets, like perishables, which also mostly originate from those regions where we expect the fastest growth rates within the next years.” ACW
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The top nine carriers in the 56th edition of IATA's recently released World Air Transport Statistics for 2011 — ranked by scheduled freight-tonnes carried in domestic, international and total tonnage categories — were unchanged from the previous year. There were significant movements in the rest of the top 50, determined largely by geography, but this is the year in which the tectonic plates are really beginning to shift. When the league tables for 2012 are published in a year's time, the world could see a reshuffling of the pack right from top to bottom. (The current top 50 list appears on p. 34.)

The reason for the impending shift? Asia’s carriers are not exactly breathing fire in this Chinese Year of the Dragon. The region’s heavy hitters — Cathay Pacific, Korean Air, Singapore Airlines, China Airlines and EVA Air, who are all ranked in the top 15 for total tonnage — are losing ground. Europe’s big three — Lufthansa, Air France and IAG, the British Airways/Iberia creation — are shedding capacity in response to reduced passenger numbers and shrinking freight volumes. Neither can the leading U.S. players expect to improve their positions on next year’s chart, except on the technicality that United, which this year experienced a free fall to 30th in the total rankings, and Continental, down to 44th, may just scrape inside the top 20 as a combined entity.

The leading Chinese and Taiwanese carriers may have held their ground in 2011, but Asia already had its struggling as faster-growing carriers overhauled Korea’s Asiana and Malaysia Airlines. Japan Airlines fell eight places in the total rankings, but this may have been more a result of its bankruptcy and subsequent restructuring than the tsunami, since its Japanese competitors fared better. All Nippon Airways overtook JAL, but Nippon Cargo Airlines fell two places.

The Middle East continues its inexorable rise. Qatar Airways, Etihad and Turkish Airlines all took a considerable jump up the ladder, finishing 2011 at 16th, 23rd and 28th place, respectively. Ethiopian Airlines (one to watch for the future) moved into the top 50 for the first time. Brazil’s TAM Airlines was the biggest mover of all, soaring from 51st to 33rd place in total tonnage, while LAN Airlines of Chile crept up four places to 15th. The carriers merged in June to form LATAM, Latin America’s largest airline. Cargo accounted for 17 percent of LATAM’s total sales last year, and...
the group aims to increase this proportion to 25 percent by 2016.

TAM's international growth highlights the resilience of the Brazilian economy and the strength of the Brazilian real against other currencies, says a spokesman. “There has been growing demand for Brazilian goods, but equally, Brazil has increased its imports. In 2011, TAM increased the number of international destinations it served, as well as frequencies, meaning greater cargo capacity to match growing demand in both directions,” he comments.

TAM also soared in domestic cargo, reflecting the fact that Brazil is the fifth largest country in the world, and air transportation is now more efficiently bridging the large distances between its states and cities. “For example, it would take over 13 hours to transport urgent medicines and pharmaceutical supplies by road between Sao Paulo and the Brazilian northeast,” the spokesman says.

**Asia still suffering**

Cathay Pacific cut 25 percent of European and 15 percent of trans-Pacific freighter capacity in the first half of the year. A spokeswoman says three Boeing 747-400BCFs have been taken out of operation so far, and further adjustments may be necessary. The carrier is putting more focus on intra-Asian services and has added two new freighter destinations this year, launching twice-weekly services from Hong Kong to Zhengzhou, China, and Hyderabad, India. Frequencies have also been increased to Benga- luru, India (three flights per week, up from one) and to Osaka, Japan (five flights per week, up from one).

A 10-percent fall in cargo volumes and widening losses at Air Cargo China, Cathay Pacific’s joint venture with Air China, contributed to first-half losses of HK$9935 million for CX. The carrier blamed the slowdown in shipments out of its main Hong Kong and Shanghai hubs, with European routes especially weak, as well as increased competition from Middle Eastern airlines.

Cathay's first-half cargo revenue fell 7.6 percent, year-over-year, and load factor was down by 4.1 points from last year, ending at 64.3 percent, despite the capacity reduction. Nick Rhodes, director of cargo, has commented that Cathay is prepared to lose market share in an effort to maintain its above-average rates out of China.

Presenting the interim results, Cathay CEO John Slosar noted that rival carriers, repositioning aircraft from North American and European routes, were creating more competition in stronger markets, such as India. He sees gradual signs of recovery, but acknowledges that Chinese manufacturers’ relocation away from the coast may leave Cathay less well-placed to benefit. However, Slosar claims a new cargo terminal in Hong Kong will cut cargo transit times in half, helping overcome the geographic penalty through greater efficiency.

South Korea’s international air cargo volumes fell 2 percent, year-over-year, when compared with the first half of 2011. The drop comes from slowdowns in the Chinese and U.S. economies and the European economic crisis. The Ministry of Land, Transport and Maritime Affairs predicts further shrinkage in the second half of the year, partly due to reduced global demand for IT products. Weakness in its cargo business drove Korean Air into the red in the second quarter, despite increased passenger traffic on all routes.

Conversely, Singapore Airlines moved back into profit in its first quarter, but officials said continued weakness in airfreight demand had eroded yields. SIA Cargo’s operating loss widened, and carrier officials say the cargo outlook remains weak.

**State subsidies criticized**

Lufthansa Cargo is cutting its cargo capacity by 4.5 percent this year, up from the 2-percent reduction it announced in May. The company is looking toward a modest recovery in volumes in the fourth quarter, but said in its half-year presentation to investors that the night-flight ban at Frankfurt Airport “will exacerbate distortions to competition, in particular against state-subsidized airlines and air-traffic systems.”

Middle East carriers are benefiting from their “geocentric” position linking the world’s major production and consumer markets rather than any artificial stimulus, insists Ram Menen, Emirates’ senior divisional vice president, cargo. The carrier increased volumes by 1.7 percent last year, but revenue was 8.4-percent higher, thanks to a yield improvement of 5.4 percent. “It’s about offering the right product mix for the right market,” Menen says.

The slowdown in Chinese exports has seen Emirates reduce freighter capacity this year from seven or eight per week to four, though routes to the Indian subcontinent and Africa are performing better. Menen describes Emirates’ African network as “very potent.” Freight flows are seasonal, but tend to be have higher yields.

Overall, however, Emirates SkyCargo has traded only “slightly above flat” in the last two quarters. Yields remain under pressure, Menen admits, with consumers on the defensive. Traffic from Europe is encouraging, but inbound volumes to Europe and the U.S. are “extremely slow,” he says. “Even South America is weak.”

Unhelpfully from a cargo perspective, the passenger division has focused strongly on North America and South America in its network development this year, with Rio de Janeiro, Buenos Aires, Seattle and Dallas-Fort Worth all added between January and March. More promisingly, Lusaka and Harare have also been launched this year and a service to Tripoli, Libya, is set to resume. Capacity has also increased to Khartoum and Tunis.

One B747-400 freighter has left the fleet this year and another goes in September. However, three B777Fs will join the fleet before the end of (Continued on p. 36)
## Top 50 Carriers in 2011

By scheduled freight-tonnes carried

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### INTERNATIONAL

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* 2010 Top 50 ranking in parentheses

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* 2010 Top 50 ranking in parentheses

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### Feature Focus: Top Carriers

(Continued from p. 33)

this year. Menen is optimistic that a good peak season will help fill the new capacity. Apple’s iPhone 5, arriving this fall, together with a number of other major electronic product launches based on Microsoft’s Windows 8 and Google’s Android platforms, could stimulate the market, but he points to a lack of charter platforms, could stimulate the market, but he points to a lack of charter demand, suggesting that it remains a buyer's market with so much scheduled capacity available.

Emirates has suspended its freighter service to Lomé, Togo, that it operated as a codeshare with Africa West, but new freighter destinations include Erbil in northern Iraq, where oil and gas equipment is in demand. Osaka and Seoul will follow from September. Menen’s main concern remains fuel prices. “With the world economy doing what it’s doing, oil at $114 per barrel makes no sense. It should be $40 to $60. Where is the demand [to justify this]?“ he asks. “We have split out our surcharges and made it totally transparent, but you can’t recover the entire cost.”

The steady expansion of Moscow-based AirBridgeCargo’s scheduled freighter fleet lifted Volga-Dnepr Group four places up the IATA table to 25th place. After selling off its last B747 Classics, ABC currently operates eight 747-400s and two 747-8s, with a third due for delivery in the last quarter. “Nothing is older than three years, so it’s one of the world’s youngest and most efficient fleets,” says Wolfgang Meier, the carrier’s executive vice president of sales.

Meier is optimistic about prospects for the rest of this year despite the continuing surplus of freighter capacity out of China. “We don’t allow ourselves in this industry to talk about ‘peak season’ any more,” he says. “But we’re making a big change in our footprint and trying to give customers a wider product spread.”

The China-U.S. service that began three times a week in August, linking Chengdu and Moscow to Chicago and returning east via Amsterdam, increases to a fourth frequency in September and will go daily in October. Some Chengdu-Chicago services will take a direct trans-Polar route before the end of the year, Meier confirms, with the ex-China flights stopping at a currently unspecified hub in eastern Siberia to pick up additional feeder cargo from Shanghai, Beijing and Hong Kong.

ABC has moved to serve inland Chinese points of origin, following the relocation of much of the country’s industry. As well as Chengdu, it is serving Chongqing and Zhengzhou. Without commenting specifically on yields and load factors, Meier says: “It’s transition time in China. It will take time, but we came in early at locations, such as Chengdu, and the -8s bring a new dimension.”

Westbound into Europe, ABC is now focused on Frankfurt, with a twice-daily frequency, plus Amsterdam (10 per week), Paris, Zaragoza and Milan Malpensa (each twice-
weekly). A Beijing-Hannover service proved short-lived, but Meier says this concerned bilateral agreements — not commercial issues.

Cargolux has also added two weekly services to Chongqing. Maintaining the carrier’s historic “milk run” model, the services call at intermediate points including Doha, Qatar; Sharjah, United Arab Emirates; Singapore; Kuala Lumpur; Tbilisi, Georgia; and Baku, Azerbaijan. A weekly service to Sao Paulo and Manaus was launched in May, returning to Europe via Quito and Bogata. Frank Reimen, who recently stepped down from the post of interim president and CEO of Cargolux, describes Brazil as “the economic engine of the region.”

The fourth B747-8 freighter out of 13 joined the Cargolux fleet in May. The more fuel-efficient aircraft are gradually replacing 747-400s, but Cargolux is reducing fleet size and cutting back frequencies on some established routes.

Revenue management is key

Virgin Atlantic reported a 7-percent increase in cargo revenue in its 2011-2012 financial year. Tonnage is down by 5 percent, year-over-year, but yield increased by 11 percent. This reflected revenue and capacity management rather than any change in the product mix, says John Lloyd, director of Virgin Atlantic Cargo.

“It’s more difficult in soft markets to hold the line on rate, but it’s easier as a smaller operator compared with the freighter operators,” he says. “We have just one daily service to Hong Kong and one to Shanghai, so it’s not as if we have 100 tonnes to sell. We can be more disciplined about how much we will discount. We’re still flying close to 100-percent full.”

Tonnage from the UK was stable in the first five months of the new financial year, and yields improved by 2 percent, year-over-year. Overall yields have weakened, however, primarily driven by the sluggish Asian market. “We have no clue what will happen in peak season,” Lloyd says.

He is disappointed that Virgin has stopped its daily Nairobi service due to falling passenger numbers. “Our side was doing OK. We’ve also pulled Kingston [Jamaica], but that has allowed us to restore a daily Mumbai service from the end of October and add a fourth daily frequency to JFK,” he says.

“We have also thickened up San Francisco and Vancouver, and Cancun is going up from three to four services a week,” he continues. “It’s not a big cargo destination in itself, but our onward trucking service to Mexico City is proving popular with forwarders.”

Astrid Schoenenberger
Continuous improvement & Kaizen Executive

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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

**CARRYING ASIA**

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

Source: Association of Asia Pacific Airlines

**U.S. AIRLINES**

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

Source: Air Transport Association of America

**SHARING MARKETS**

International air cargo year-to-date percent change for June 2011 vs. June 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
Five Questions with... Tony Charaf

Chief Cargo Officer Neel Shah’s departure from Delta Airlines sent shockwaves throughout the industry. Fortunately, 16-year Delta veteran Tony Charaf, who served in a similar capacity from 2000 to 2004, took up the job and will serve initially in a temporary capacity. Charaf recently discussed with Air Cargo World how the industry has changed since 2004 and how he plans to keep Delta Cargo profitable despite these challenging economic times.

1. In addition to serving as chief cargo officer, you’re maintaining your previous role as president of Delta TechOps MRO. How will you balance these responsibilities?

I’m fortunate to be leading two great organizations, both of which are delivering tremendous value to Delta. The MRO group, including its experienced leadership team, is executing the plans and initiatives we put in motion this year.

In the near term, I will be devoting a majority of my time and focus to the Delta Cargo operation. My immediate efforts will be centered on maintaining the momentum we have had from a commercial perspective and building a world-class cargo operation that is simply the best in the industry.

2. How do you view the current state of cargo and Delta’s place in the international cargo marketplace moving forward?

Delta’s unique corporate culture, combined with our extensive global network, positions us well in the market. We are performing exceptionally well, considering the economic headwinds facing our industry. Cargo is a vital component of Delta’s corporate strategy, and the support we have at all levels of the company is strong and unwavering.

There has been no change in the strategic direction of Delta Cargo. Protecting the integrity of our operation is our top priority. Our leadership team will continue to build on the improvements we have made, enhance our processes and measure results. We know that we must be successful in the eyes of our customers to truly succeed, and Delta Cargo will continue to focus on running a reliable operation and providing excellent customer service.

3. Cargo worldwide has been sluggish, as evidenced by Delta Cargo’s slight year-over-year decline in the second quarter. What steps are you taking to offset such declines in the future?

Actually, Delta Cargo had a very strong second quarter with revenues of $262 million. While revenues were slightly lower than the same quarter of last year, we continue to outperform the industry in volume.

4. What new products or services do you see on the horizon that will help Delta Cargo achieve continued success?

Investing in our employees and providing them with the tools they need to be successful is a foundational element of our operation. In June, Delta Cargo launched a new customer resolution team that serves as a single point of contact to assist customers who are tracking shipments. This is an example of how we are improving the service we provide to our customers. Customer service is a core tenet of our business plan, and this goes hand in hand with operational integrity.

Our U.S. mail product remains healthy, as evidenced by strong year-over-year growth. Delta recently invested in a new mail sorter system that will allow us to more efficiently manage that segment of our growing business. We’re also investing in a redesign of our online platform at deltacargo.com that offers our customers an enhanced shipping experience. Together, these improvements will allow us to offer our customers a better product, which will, in turn, drive more business to Delta Cargo.

5. How has the worldwide cargo landscape changed since you last served in this role in 2004?

Our cargo business has grown significantly since 2004. Delta’s global footprint has also changed greatly since I was last in cargo, most notably with the growth of our business in Asia. I’m looking forward to visits that I have scheduled with the teams there in the near future. Delta Cargo also has become an increasingly important part of Delta’s overall corporate strategy.

We hosted a cargo leadership meeting in Atlanta on August 8 and 9 that included more than 70 leaders from across the cargo division as well as frontline team members. Delta’s president, Ed Bastian, spoke to the team, acknowledging the division’s efforts and reinforcing Delta’s corporate commitment to the cargo operation.

In short, I’m excited to have the opportunity to lead this great team of professionals at Delta Cargo and to work together to build a world-class cargo operation with industry-leading customer service.
Airlines

Following the resignation of former Cargolux President and CEO Frank Reimen after 20 months on the job, Cargolux has named Richard Forson interim president and CEO. Forson, who serves as the company’s senior vice president and chief financial officer, will retain his CFO responsibilities during the interim period. Reimen is now Luxembourg’s high commissioner for national protection.

Derek Vanstone will take over as Air Canada’s vice president of corporate strategy, industry and government affairs on September 10. Vanstone, who currently serves as deputy chief of staff to the Canadian Prime Minister, will be responsible for Air Canada’s federal, provincial, municipal and community relations, as well as industry affairs. He will assume the strategy, government and industry affairs portfolio held by Duncan Dee, Air Canada’s executive vice president and chief operating officer, who is taking early retirement.

Libano Barroso has stepped down as chief financial officer of LATAM Airlines Group, although he will continue to serve as vice president of TAM S.A. Alejandro de la Fuente, who has been CFO of LAN Airlines since 1995, has been named interim CFO of LATAM Airlines Group. In his previous role, de la Fuente was responsible for corporate financing, treasury, accounting, tax planning and investor relations, among other tasks.

Atlas Air Worldwide has named Gen. Duncan McNabb to its board of directors. Prior to joining Atlas Air, McNabb served as commander of the United States Transportation Command, which provides logistics services for the U.S. Department of Defense. During his military career, McNabb served as the Air Force deputy chief of staff for plans and programs, director of logistics on the Joint Chiefs of Staff, and was responsible for operational logistics and strategic mobility support to the chairman of the Joint Chiefs and the Secretary of Defense.

Third Parties

The supervisory board of Lufthansa Technik AG has appointed Deutsche Lufthansa AG CEO Christoph Franz board chairman, in addition to electing Johannes Bussmann to the executive board. Bussmann, who assumed the role vacated by Uwe Mukrasch, is now responsible for human resources, engine and VIP services. Prior to this appointment, Bussmann served as senior vice president of engine services at Lufthansa Technik AG. Also new to the supervisory board is Simone Menne, chief officer of finance and aviation services of Deutsche Lufthansa AG. She replaces Stephan Gemkow, who resigned the post in June.

Lothar Moehle has left his post of regional director for Europe, the Middle East and Africa at Cargo 2000 to return to DB Schenker. Before assuming a full-time role at Cargo 2000 in 2003, Moehle headed the Schenker department responsible for managing relationships with the company’s overseas partners. His new assignment with Schenker combines quality and security responsibilities. Moehle’s successor at Cargo 2000 has yet to be announced. In other news, Michael Kluger has resigned from Schenker Deutschland AG’s management board in order to perform tasks outside of DB Schenker Logistics. Kluger was responsible for contract logistics/supply-chain management at Schenker Deutschland AG, Germany and in the Central European region within the DB Schenker Logistics business unit since April 2009.

Jay Shelat has joined Worldwide Flight Services as senior vice president of terminal services for North America, a post based in Dallas. Shelat comes to WFS from Jet Airways, where he most recently served as vice president of cargo in Mumbai. During his five-year career with Jet Airways, Shelat helped lead the expansion of the airline’s network in India and abroad.

Shah to Leave Delta

Neel Shah, who has served as chief cargo officer at Delta Airlines since 2008, has decided to leave the company. According to a Delta spokesperson, Shah will stay on at Delta in a “consultant role” to help the company transition to its new cargo boss, Tony Charaf.

“Charaf, who led Delta Cargo from 2000 to 2004, has assumed responsibilities as chief cargo officer. Tony is a champion of safety as well as customer service and operational excellence,” Delta’s Betsy Talton wrote in an email.

“Delta Cargo will continue to focus on running a reliable operation and providing excellent customer service in every interaction and with every shipment,” she added.

Shah currently sits on the board of the The International Air Cargo Association and the CNS Advisory Board.

Last year, Shah told Air Cargo World that belly-hold cargo is a large part of Delta Airlines’ strategy, and that his views about new routes are as valued as the input of his colleagues on the passenger side. “At a lot of carriers, the passenger guys are just like, ‘Ah, the cargo thing; I’ll make an assumption, and we’ll just go from there,’” he said at the time. “That’s absolutely the way it used to be at Delta, and now we’re equals.”

Delta’s latest cargo numbers showed resiliency in a tight market. Year-over-year, the carrier saw a 1 percent decline in revenue in the second quarter.
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SEPTMBER 9-12  
Calgary: Officials call the 21st iteration of the ACI-NAs annual conference the premier event for airport industry professionals. Topics include risk-based security, technology and customer relations. For more information, and to register for the event, visit www.aci-na.org/event/1380.

SEPTMBER 16-19  
Xiamen: The 2011 version of the Sinoforeign Freight Forwarders Conference, which is now in its ninth year, attracted more than 2,000 delegates, according to official estimates. To read more about the conference, visit www.sinoforeignforwardersconference.com.

SEPTMBER 29-OCTOBER 2  

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. The course features incredible views of Stone Mountain, with its famous Confederate Memorial carving. To register, go to http://acfgolf.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 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.statetimes.com/aca2013 for more details.

MARCH 7-10, 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.
Brandon Fried is the executive director of the U.S. Airforwarders Association.

Credentials for truckers protect forwarders

If a speeding trucker making a pick up for a forwarder gets in a wreck, chances are that not only the motor carrier, but also the forwarder, will be sued.

Highway accident victims are already successfully holding property brokers and shippers liable for the negligent conduct of their selected motor carriers — and forwarders could easily be next. These “negligent-selection” lawsuits often allege that the freight intermediary, when choosing the motor carrier, failed to heed adverse safety data, including scores maintained by the Federal Motor Carrier Safety Administration’s (FMCSA) Compliance, Safety, Accountability program on motor carriers operating trucks in excess of 10,000 pounds.

The scores, derived from traffic citations, crashes, and other roadside inspection data, are reported under seven Behavioral Analysis and Safety Improvement Categories (BASICs), which include unsafe driving, fatigued driving, and driver fitness.

Some say that more than half of the carriers have concerning scores in at least one of these categories. One carrier’s representative recently described the situation as “rocket fuel” for plaintiffs’ attorneys. Forwarders may find themselves defending negligent selection claims as a result of a trucker’s excessive scores.

A lawsuit recently filed by the Alliance for Safe, Efficient and Competitive Truck Transportation, together with numerous other plaintiffs, challenges the federal government’s use of its own agency publication describing available resources for shippers, brokers and insurers. The publication includes FMCSA’s Safety Measurement System (SMS) as a resource, and the organization has previously recognized and affirmed its statutory duty to make a safety fitness determination upon which brokers and shippers could rely. The plaintiffs contend, then, that FMSCA is abdicating its safety fitness obligations to the shipper and broker community, and they have no concern for the resulting prejudicial effect on safe carriers branded under SMS methodology.

Critics of the SMS methodology contend that there is no proven correlation between traffic violations — warnings and citations, on the one hand, and safety, on the other. In fact, a recent report issued by Wells Fargo could not find a meaningful statistical relationship between a carrier’s actual accident incidence and the BASIC scores.

Attorneys Daniel R. Barney and Nathaniel G. Saylor recently wrote that because the courts are nonetheless allowing SMS information into evidence, forwarders selecting motor carriers to perform pick ups, deliveries or long-haul ground moves should “strongly consider adopting motor carrier selection criteria.” They contend that establishing a reasonable selection protocol could go a long way toward protecting forwarders and their 3PL counterparts from liability.

Any selection protocol, they say, should also check for a carrier’s active operating authority, FMCSA “Satisfactory” safety rating (which exists separately from the CSA scores), and liability insurance.

The government has an inherent responsibility to credential motor carriers, airlines and other public utilities for our safe use. Deputizing forwarders, third-party intermediaries and shippers to assist in the obligation undermines the mandate by forcing them to make fitness determinations using a potentially flawed and unproven scoring system. This drags freight transportation purchasers into a risk-laden situation, where picking the wrong option could render them and our nation’s commerce losers in the process.

Still, until the U.S. Congress corrects the situation, forwarders can and should help themselves limit their exposure to potentially devastating lawsuits by adopting reasonable carrier-selection protocols. ACW
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