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Editor's Note

Air cargo's butterfly effect


Randy Woods

Is it really true what they say about the flap of a butterfly's wings on one side of the planet causing a hurricane on the other? Sounds remotely possible in theory, but certainly not very likely, right?

The theory in question is actually "chaos theory," which is a branch of mathematics focusing on the behavior of systems that are highly sensitive to initial conditions. Minute differences at the start of a complex system, the theory goes, can yield widely diverging final outcomes. In other words, what may seem insignificant at the start may end up having profound effects down the road.

Consider, for instance, trade between Latin America and Asia, our cover story this month (page 24). If you're a shipper of perishable produce like asparagus, one quick glance at the vast ocean between you and the equally vast Chinese market gives the first impression that airfreight between these distant markets would be prohibitively expensive.

But when you look at the growth of air hubs such as Viracopos in São Paulo, El Dorado in Bogotá, and Miami in the United States, you can see how it's not too difficult to send feeder flights to the U.S. or Europe, consolidate shipments and tie into the robust northern trans-Pacific trade corridors. Then, when you factor in the growing appetite in Asian markets for exotic perishable goods from South America, the distance traveled becomes less of an issue. Eventually those insect wings don't seem so tiny.

We also address the new Canada Post/Purolator contract won last year by Cargojet and starting officially this month. Looking back at the fleet situation at the start of 2014 for general cargo carrier Cargojet and the previous contract-holder, Kelowna Flightcraft, a casual observer may have predicted disaster. How could Cargojet possibly double its capacity in one year? How could Kelowna possibly survive as a carrier after losing its main express customer? As you'll see in our feature on page 30, the outcomes for both carriers – and for the Canadian forwarding community – may seem a lot brighter given the preparations made over the previous 13 months.

While it might be easy, even prudent, to make snap judgments about small-but-growing niche markets or risky business plan overhauls based on broad, historic trends, it's also important to keep track of the smaller details – the countless little butterfly wings making subtle changes in the market that might lead to the next paradigm shift in the airfreight business.

Finally, we also want to congratulate the winners of *Air Cargo World*'s 10th Annual Air Cargo Excellence Awards, many of whom are profiled in this issue (page 36). The airports and carriers who made the cut, from the Certificate of Excellence recipients to the Gold, Platinum and Diamond Award winners, all deserve a round of applause for going above and beyond in providing excellent cargo service to their customers.

It was a pleasure traveling to Shanghai, China, in March to meet the attendees at our ACE Awards event, held in conjunction with IATA's World Cargo Symposium. Many thanks to IATA for yet again being such a gracious host. I look forward to attending many more symposiums in the future. And to watching those butterfly wings flutter.

Randy Woods,
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UpFront

"Please, please, please join in the debate. The effect of e-commerce *will* affect your operation."

–Stan Wraight, executive director and co-founder of Strategic Aviation Solutions, imploring air cargo professionals at Air Cargo 2015 in New Orleans to modernize their equipment and train their staff to handle e-freight.

Ode to Joe

In early March, Cargolux took delivery of a new 747-8F, and as it's the carrier's custom to name its freighters, this one was named Joe Sutter, after the "Father of the Boeing 747." Joe Sutter was the lead engineer and project manager for the development of the original jumbo jet in the late 1960s, when engineering was done with slide rules and drafting pens. Joe's still going strong at well over 90 years old, and when the first 747-8 flew in 2010, he was there.

Winged migration

Photo: ACTP

Two small blue parrots – Spix's macaws, to be exact – named Carla and Tiago were flown from Berlin to São Paulo on an Iberia flight for their release into the wild. Born in captivity, they were flown with their human keepers, who handed them over to Brazilian authorities. Carla and Tiago are part of a breeding project by the German Association for the Conservation of Threatened Parrots (ACTP), and will be released into their native territory in 2021. Only 93 specimens of the bird exist today, and all are in captivity. Precious cargo, indeed.

Tenth anniversary gift: Pharma

What better way is there to celebrate a 10th anniversary than a 747 full of drugs? In 2005, Cargolux, in cooperation with forwarder DB Schenker, started weekly freighter service from Luxembourg to Indianapolis, U.S. A year later, the frequency bumped up to twice a week. Last month, Cargolux, in its 10th year operating the Indy route, delivered its first full charter flight carrying critical and valuable pharmaceuticals. Cargolux, which now serves 15 destinations with healthcare products for DB Schenker, ensured the chartered pharma was kept at an ambient temperature of 68 degrees Fahrenheit by using a thermal Tyvek cover. It's always nice to have fancy wrapping on your anniversary.

No shortage of lingerie

No secret here – Victoria's Secret loves airfreight. The lingerie retailer avoided any shortages of shorties going to its stores by eluding the West Coast port labor dispute. Sharen Jester Turney, president and CEO, said the decision to move Vicki's goods by air helps the chain move quickly to adjust to customer tastes. "We're so passionate to air everything," she said. "There's not going to be a reduction in airfreight. It more than pays for itself."

Ready for launch

Satellites may be built for orbital speeds, but they still have to get to the launch pad at a slightly slower pace. That's where Volga-Dnepr Airlines stepped in to deliver two Russian telecommunications satellites – Express AM7 and Express AM8 – from Toulouse, France, to Kransnoyarsk, Russia, to the Baikonur Cosmodrome in Kazakhstan. The AM7 was scheduled for a March 19 launch, with AM8 following on April 6. To keep the delicate equipment safe, Volga-Dnepr's experts ensured the An-124-100 cargo hold was maintained at very specific pressure and temperature. Volga-Dnepr delivers one in three of all satellites in the world.

An AN-124 arriving at Baikonur with Express AM7 in the hold.

Fast & Luxurious

Etihad Airways and Universal Pictures unveiled the luxury "Fast & Furious" 777 airliner at LAX. Actor/producer Vin Diesel was on hand as Etihad Airways Flight 171 arrived from Abu Dhabi to kick off the global junket and world premiere of his latest film, "Furious 7." The aircraft will fly directly between Abu Dhabi and L.A., a route Etihad opened last June.

Jan Krems on the turnaround at United Cargo

Before launching his successful career in aviation, Jan Krems earned a bachelor's degree in commercial economics from Utrecht University in the Netherlands and a post-graduate degree in marketing. He then spent 27 years at Air France-KLM, where he was instrumental in merging Martinair's operations into the AF-KLM cargo business. Last year, Krems crossed the Atlantic to become president of United Cargo. In this role, he is responsible for all aspects of United Cargo's operations, customer service, sales and marketing activity, revenue management, product quality and technology solutions. Within weeks of his arrival, in June 2014, the fortunes of the then-struggling cargo operation began to improve, along with the rest of the industry. We spoke with Krems to get some insight on the secrets to United Cargo's success and see how he's handling the transition to another carrier after his long tenure at AF-KLM.

United Cargo has enjoyed strong RTK growth in recent months. To what do you attribute this turnaround?

I believe the turnaround is the result of a three-step process that has involved our whole team and is still ongoing. First, we shifted our focus from internal to external, then we listened to our customers to learn specifically what they wanted from us, then we focused 100 percent of our energies on fulfilling our customers' needs. The reversal started in the second half of 2014, as we began to fully recover from two major challenges: implementing a completely new technology system and transitioning many of our warehouse service partners. Customers told us expressly that we needed to get back to basics and execute our operations at the highest level possible, so we concentrated our efforts, and our service levels made a steady recovery. The attitude and quality of our team are also key factors. We have a number of new people with fresh ideas, and the entire staff is re-energized by our recent successes. Everyone is working together toward a single goal – improving our service and our business to earn and retain customer preference.

How has the planned joint venture with ANA progressed?

Because the strengths of the two carriers mesh and support each other so well, we believe our proposed trans-Pacific cargo joint venture with ANA would generate significant service benefits for the customers of both carriers. So ANA and United Cargo are continuing our very productive series of meetings, with the shared objective of realizing the customer and carrier benefits as soon as possible.

Krems came to United from Air France-KLM, which used to carry much of its air cargo on freighters. Now at United Cargo, he must learn to work with the ample belly capacity of United's fleet of widebodies, such as this 777.

Was it difficult transitioning from the freighter-focused Air France-KLM operation to the belly-only approach at United?

Many of the lessons learned from bringing the KLM and Air France – and then Martinair – cargo operations, technologies and cultures together have been very valuable at United. With a freighter or a passenger airline, the fundamental mission is the same: to maximize the value of the carrier's cargo capacity. The best way to do that is to provide the products and services customers need most, and then deliver consistently reliable service they can trust.

How has the drop in oil prices affected your operation?

Lower oil prices have definitely been an advantage for the airline industry, though the impact of hedges has reduced the level of benefit. We continue to work closely with our customers on the issue of fuel surcharges, and we will do what is best for our customers and for United. One thing I've learned in my years in the industry is there are few things less predictable than the movement of fuel prices. You may plan for prices to move a certain way, but you should be ready for the opposite – or nothing at all – to happen.

What are the biggest challenges United Cargo faces today?

I think our primary challenge is the same as nearly every business: how to remain consistently successful through all the turmoil – good and bad economic conditions, incidents and factors that impact the global business climate, etc. Our response to this challenge is to gain customer preference by being highly reliable and easy to do business with, and then grow our added-value products and business. This is the best way to reduce the impact of any future negative economic cycles.

What's your economic outlook for the cargo industry in 2015 and beyond?

At United Cargo, we believe the long-term outlook for air cargo is positive – better than it has been in recent years. We realize the global recovery is not benefitting all regions equally, and we know a few positive quarters won't fix the industry's chronic overcapacity. But along with the favorable economics, we sense there is a willingness in our industry to confront a number of issues we must address to ensure our sustainability – and that we're gaining traction toward solutions. ACW

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Photo: Toll Group

Japanese players buy international logistics heft

By Ian Putzger

How much global logistics clout can one purchase in a single day? On Feb. 17, two Japanese firms may have given us a rough idea.

Within hours of each other, Kintetsu World Express announced an agreement to acquire APL Logistics for US$1.2 billion, and Japan Post unveiled a deal to fork out almost $5.1 billion for Toll Group. Both purchase prices reflect premiums of around 50 percent on the share value of the acquired companies at the time the deals were announced.

Faced with tepid prospects at home, Japanese logistics firms are reaching deep into their coffers to build up a stronger international footprint. The question is whether these two pairings will be the right fit at the right time.

"In general, logistics demand in Japan is not increasing. If anything, it is decreasing," said Tomoyasu Fukuyama, president of Tokyo-based logistics firm Logi-Rex. The exodus of manufacturing to other parts of Asia has largely run its course, but an aging and shrinking population in a lackluster economic climate augurs meager domestic prospects for logistics firms, other than in niche markets, he adds.

Japan Post has not been impervious to these conditions, not to mention the decline in traditional letter mail. In the first half of fiscal year 2015 – which runs from April 1, 2014, to March 31, 2015 – its revenues declined. 2.6 percent.

Kintetsu – which saw net earnings drop 14.2 percent in the period from April 1 to Dec. 31, 2014 – stands to boost its international position significantly with the acquisition of APL Logistics, which has a strong roster of U.S.-based customers. According to one Japanese logistics executive, Kintetsu has a stronger need for growth outside its home market than its larger rival, Nippon Express, which has closer ties with many of Japan's leading manufacturers and formed joint ventures with them in recent years, essentially taking over their in-house logistics subsidiaries.

Toru Takahashi, president and CEO of Japan Post, described the Toll takeover as the start of a new chapter of "looking outward and becoming a leading global player" for his outfit. "We believe the combination of Japan Post and Toll will be a transformational transaction for both our companies," he declared in a statement.

According to Japan Post, Toll will generate about 24 percent of the combined revenues, not counting Japan Post's banking and insurance businesses, which exceed the mail and logistics arm's revenues. Postal operations will account for 49 percent.

Toll's board of directors, which advised shareholders to give their blessing to the proposed takeover in a vote due in May, noted in its comments that, "Japan Post is aiming to be a leading global logistics player and has selected Toll as the key growth platform."

Photo: ©nicolas/Acker

Japan Post vans sit idle. Japan's declining population, the country's troubled economy and the decline in letter mail have all pushed Japan Post to seek growth opportunities outside Japan.

Andrew Jillings, CEO of Hong Kong-based Tiger Logistics, which focuses on international e-commerce, commented that the acquisition of Toll takes the postal agency "into the global freight market and probably gives them some synergies with Toll's Australian express business and their postal parcel business."

Fukuyama of Logi-Rex, on the other hand, questioned the synergies between the two. He noted that the announcements from both offer no clear indications of future directions or shared goals.

Toll grew aggressively in Asia a few years back, but has slowed down its expansion in the wake of the global downturn. Its results for the first half of fiscal 2015, which were released in mid-February, show a 2.6 percent decline in revenues and a 22.3 percent drop in net profit. Management attributed this largely to challenging conditions in Australia, a reflection of the relative magnitude of its home market in its overall business.

Besides questions over Toll's international position, observers wonder about the future of the Japan Post-Toll axis. The future parent has signaled that it intends to run Toll at arm's length, under its current name and management. In a similar vein, Satoshi Ishizaki, group president and CEO of Kintetsu, said, "We intend to retain the headquarters of APL Logistics in Singapore and to run it as a separate unit."

Fukuyama noted that this stance may be due, in part, to the structure of many large Japanese companies. With relatively small international departments,

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they lack the manpower and wherewithal to take over and manage overseas acquisitions, and are therefore inclined to leave them running as before.

Japan Post had several international forays via cooperation deals with large partners, such as TNT Express and La Poste, but none of these produced convincing results, he remarked.

The postal agency stands on the brink of a large IPO due this summer. Plans for its privatization, which were released in December 2014, call for the opening of the holding company and two of its four subsidiaries (tasked with banking and insurance) to investors, with the holding firm subsequently divesting itself of banking and insurance to concentrate on mail and logistics. Privatization of Japan Post has been on the agenda several times before – the most recent push in 2007 was derailed by a change in government.

One observer in Japan links the bid for Toll with the IPO, suggesting the planned $5.1 billion acquisition could be largely a gesture to demonstrate readiness for a future in the open market. But, so far at least, there seems to be no clear focus on where this foray is headed.

Indian airfreight expected to soar through 2018

The Indian airfreight market is often described as an industry with great potential but little follow-through on planned projects. This may change over the next three years, according to a recent report by market research analysts at Frost & Sullivan.

At its present compounded annual rate of growth – 5.5 percent – cargo demand in India is expected to boost the country's airfreight services capacity to 2.8 million tonnes by 2018, the report found. Most of this growth, however, will benefit foreign-owned, rather than domestic, carriers. The aggregate demand for air cargo, the analysts concluded, comes from a renewed emphasis on international trade over the last several years and a relaxation of regulations on the amount of foreign direct investment (FDI) allowed in India's aviation sector.

"The Indian government's FDI policies have been particularly favorable towards private participants entering the market," said Srinath Manda, program manager, transportation and logistics practice for Frost & Sullivan. "Major policies fueling market growth include the allowance for 100 percent FDI in existing airports and under automatic routes, as well as 100 percent tax exemption for airport projects for the next ten years."

India's merchandise export and import activity grew by an annual rate of 9.5 percent, on average, from 2009 to 2013, which helped drive the nationwide demand for air cargo to 2.26 million tonnes in FY 2014, the study found.

While growth has been strong, it has been hampered by the country's perennial lack of dedicated airfreight warehousing, Frost & Sullivan said. As a result, most warehousing facilities that exist cater to international, rather than domestic, cargo. Restrictions imposed on providing licenses to operate bonded warehouses have caused severe capacity constraints.

"Evidently, opportunities for market participants lie in common-user cargo terminal development and management at airports, domestic air cargo carrier services, commercial and passenger cargo handling at airports, and perishable cargo storage facilities development and operation," Manda added.

–Randy Woods

Shippers demand more data

Shippers gave the airfreight industry an earful regarding its slow progress on digitizing its processes, poor customer service and its reluctance to provide adequate data about shipments at IATA's four-day World Cargo Symposium in Shanghai, China, last month.

Joost Van Doesburg, of the European Shipper's Council, said the industry should try harder to satisfy its younger customers and embrace digital technology.

"I represent your customer and, I must say, your customer is not really happy with your industry," he said. "We need to invest in people who can create what shippers are asking for. We need to support more IT people, instead of investing in another salesperson."

> "We need to support more IT people, instead of investing in another salesperson."
>
> –Joost Van Doesburg, Air freight policy manager, European Shipper's Council

Robert Mellin, head of distribution logistics at electronics company Ericsson, was particularly vocal about the need for more data within the airfreight process. Mellin described how more information and data should be passed on to shippers. This data should not just be about pickup/delivery times, but also, for example, data "on when things go wrong." Presumably, this would include more substantive geo-tracking data.

Airfreight "is so old-fashioned," Mellin said, adding that "everyone knows what the problem is."

The "problem" is not solved just with electronic air waybills (e-AWB), he added. Rather, the entire airfreight system needs to be wrapped in greater data and information transmission. If it is, the satisfaction levels with airfreight among shippers will climb above the current level of 7.08 on a scale of 1 to 10, as per IATA's recent survey of shippers.

Mellin also called for the creation of one common airfreight data cloud, within the next 12 to 18 months, for all parties to access – and leverage. "If we get the solution in place … you will take out cost, and I, as a shipper, am interested in investing in this," he said. "It would save billions of trees, give us faster speed, better execution and better lead times."

Ericsson, which has annual sales of about US$35 billion, spent around $264 million to ship approximately 80,000 tonnes of airfreight to more than 160 destinations last year, but only for products for which express delivery was absolutely essential. In fact, Mellin added, the 2014 airfreight figures for Ericsson were reduced "quite drastically," compared to other years, and will continue to drop rapidly unless customer service improves.

– JJ Hornblass & Randy Woods

Silk Road revisited: blending rail and air in Asia

The ancient Silk Road, popularized in the West by Marco Polo in the 13th Century, has largely been overtaken by modern air and ocean cargo networks.

But during a session at IATA's World Cargo Symposium last month on supply chain management, the old land route from Asia to Europe was discussed as an economically viable option for today's shippers. The main question was: Is this a threat to airfreight, or is it multimodal opportunity?

Session moderator Joost Van Doesburg, with the European Shipper's Council, emphasized the latter, saying his clients still needed an option that is "cheaper than air, but faster than the ocean." Nover Jin, product head, airfreight, for DHL Global Forwarding's Shanghai and East China region, duly presented about DHL's rail services: RailLine, for full-container-load (FCL) shipments, and RailConnect, for less-than-container load (LCL) shipments.

The service runs from coastal China through the former Soviet republics to Europe, with one option using part of Russia's famed Siberian railway. From there, cargo can be unloaded at air hubs and shipped by air to various markets in North and South America and Africa. Most of the cargo shipped so far has been high-tech electronics.

Door-to-door service using this rail/air option is 18 days, Jin said, compared with about 41 days to make a similar ocean journey. "Not every shipment is that urgent," he told the packed session room. "Airfreight is no doubt faster, but … customers still need an option in between."

Lothar Moehle, director of air security standardization for Schenker AG's global airfreight division, said the forwarding company naturally has embraced rail, considering how Schenker is a subsidiary of German rail giant Deutsche Bahn. Rather than being a "Trojan Horse," the rail mode is not likely to undermine the airfreight business, he said.

"Customers of ours were caught in a double-whammy," Moehle said. As many moved freight on the ocean, they were hit with the "slow-steaming" practices of some shipping lines to save on fuel, "so they were stuck with even longer wait times."

DB Schenker's rail service, he said, uses standard 20- or 40-foot intermodal containers to move freight from China to Duisberg, Germany, where the containers are taken by bonded truck to air hubs such as Frankfurt, Luxembourg, Liége or Amsterdam. Total door-to-door time cited by Moehle was 23 to 25 days, compared to about 50 to 55 days by ocean vessel or four to five days by aircraft alone.

–Randy Woods

Photo: ©Maarten Visser

AF-KLM Cargo: From here to obscurity

By Roger Turney

Where did it all go wrong for Air France-KLM Cargo?

The short answer probably is, "from Day One." That's when the cargo divisions of two of Europe's strongest airlines became allied as part of a grand merger between Air France and KLM. That was more than a decade ago, in 2004, in a move which brought together what was then recognized as a couple of air cargo's most professional outfits, with a perhaps slight deference to Lufthansa Cargo, to create Europe's biggest cargo carrier.

But the seeds of uncertainty were all too quickly sown. As the lead partner, Air France demanded overall control of the passenger business of the new joint venture. For KLM, well it could, by way of a concession, take care of the cargo side. Immediately, the two business strands were split between Paris and Amsterdam.

This arrangement came despite the fact that Air France Cargo probably had the stronger business model. It certainly had the stronger candidate to head up the new organization in the form of Marc Boudier, an industry veteran known for a close accord with his workers, and thereby the unions.

KLM Cargo, on the other hand, had a relative newcomer at the helm, with Michael Wisbrun walking into the job just four years before the merger. He already had the unenviable task of taking over from the legendary Jacques Ancher, who had guided KLM Cargo for so many years.

The new cargo set-up created a core management team, based in Amsterdam, requiring the French members to commute between the two hubs. Boudier was soon to be effectively sidelined by this strategy. It was perhaps from here that the plight of what has become of AF-KLM Cargo today began to evolve.

According to *Cargo Facts*, the sister publication of *Air Cargo World*, prior to the merger, Air France operated an oceanic-sized fleet of twelve 747-400Fs, while KLM Cargo was able to field a fleet of three 747-400Fs. That combined total was further boosted when fellow Dutch carrier Martinair was brought into the Air France-KLM fold in 2008 and, with it, seven MD-11Fs and four 747-400Fs. AF-KLM-Martinair Cargo, it seemed, would be invincible. But that is not how it has turned out.

The glut of freighter capacity proved to be a burden rather than a bonus. Appalling operating returns have forced a rapid divestment. The AF Cargo 747 freighters have gone and, even more telling perhaps, the carrier will only retain two 777Fs, for which it was the launch customer.

KLM Cargo has fared little better. Its cargo fleet, rolled-up with that of Martinair, has also been depleted. All that will soon be left will be three 747-400ERFs. This could spell the end for Martinair, which last month announced the layoffs of more than 100 pilots and 220 ground staff – a move that is being protested by Martinair's works council in Amsterdam.

It is argued that new passenger aircraft equipment will replace much of the outgoing freighter capacity. Ironically much of that belly hold capacity is being provided by the passenger variant of the 777. But even so, that does not really chime with any ambition to be a major force in cargo.

When the freighter realignment is completed by the end of this year, main-deck capacity will be responsible for just 15 percent of the group's cargo production, as compared previously with 30 percent. It was perhaps not such a difficult call to make after it was revealed that freighter operations have been responsible for half of the continuing losses of the cargo business.

And no one can argue with the catastrophic scale of the cargo results that have haunted AF-KLM over the last three years and, with it, serious questions about its entire viability.

Posted results for 2014 show continuing high operating losses of US$240 million, exceeding losses of $230 million for 2013. The group says,

Photo: ©Sergey Peterman/iStock

A decade after its merger with KLM, Air France Cargo has been forced to shed most of its freighter fleet, caused by severe main-deck overcapacity on the market. Operating losses for 2014 were US$ 240 million.

if the effects of a strike by Air France pilots last year are excluded, the cargo losses would be reduced to $215 million. Even so, there has been little year-on-year improvement from the $253 million in losses incurred in 2012.

And it does not look like it is going to get better any time soon. The most optimistic forecast the airline can come up with is that its cargo business will break even by 2017.

The majority of the losses incurred so far are laid at the door of KLM Cargo, it being argued that AF Cargo still runs a tighter ship. That leads to the notion it is poor management on the part of the KLMers that has marred the entire business.

Certainly, there seems to be a lack of depth in the ranks of KLM Cargo. Jacques Ancher was, by no means, a one-man show and included in his team such latter-day industry luminaries as Oliver Evans and Stan Wraight.

Yes, it is still a tough market out there, with increasing competition in particular from the Gulf carriers. But it is a situation faced by all the European carriers. Put into perspective, standalone Lufthansa Cargo achieved cargo revenues of $3.75 billion in 2013, a 3.9 percent fall, while the combined force of the Franco-Dutch duo could barely match those returns, with joint revenues of $3.74 billion, reflecting a 5.1 percent decline.

Could it get any worse? Well yes, it could. AF-KLM Cargo effectively became a rudderless ship at the beginning of the year when Erik Varwijk, it's executive vice president, announced that he would not be seeking renewal of his contract in July. Instead, he packed his bags and departed on March 1.

Time for a decisive response? Not necessarily. The response, as such, has been to shoe-horn Bram Graber, current CEO of Transavia, the group's Dutch budget carrier, into the job. Graber, a former KLM Cargo executive, will retain his role at Transavia and hold the reins at AF-KLM Cargo on a temporary basis for a few months until … well, until another decision is made.

AF-KLM Cargo, it would seem, still has plenty of challenges ahead. Jacques Ancher, where are you now?

ACW

Swissport fortunes boom after Servisair deal

Swissport International Ltd., the ground and cargo handling service, saw its overall revenue increase by 38 percent in 2014, partially due to its late 2013 acquisition of Servisair and the ground handling business that came with it.

Total revenue and operating income for the year was US$2.94 billion. Even without Servisair, Swissport's operations alone represented a 6 percent increase in revenue, compared to the previous year.

Swissport's cargo business delivered a positive year, accounting for an increase of 5.4 percent in airfreight tonnage, year-over-year. Aircraft turnaround frequencies increased

Continued on page 16

Continued from page 15

5.8 percent, year-over-year. Including Servisair, the number of turnarounds in 2014 totaled 2.1 million flights, and tonnage moved came to 4 million.

In addition to the Servisair acquisition, growth came from new contract wins, including the multi-year, pan-European ground handling contract with Germanwings; a multi-year agreement with Saudia Airlines Cargo for Brussels and Amsterdam; global strategic partnerships with Cargolux and Transaero; and contracts with United Airlines at London Heathrow and Washington Dulles International.

swissport

"2014 was an eventful year for Swissport, mainly characterized by the complex but successful integration of Servisair, the biggest acquisition in Swissport's history," said Per H. Utnegaard, group president and CEO of Swissport International. "For 2015 we have a well-defined strategy and will put a special focus on ensuring we achieve our high global quality and operational standards."

–Linda Ball

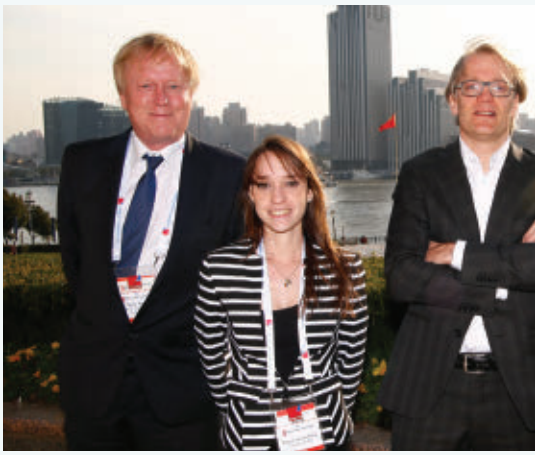
CHEP's high-tech ULD wins IATA Innovation Award

At the end of four days of meetings, workshops, networking and discussion about the dire need for innovation in the airfreight industry, IATA closed its World Cargo Symposium last month by announcing the winner of its inaugural Innovation Award: CHEP Aerospace Solutions.

The award honors individuals and companies that have created products or services aimed at making the air cargo business more competitive compared to other modes of transportation. The winner receives a trophy and a US$20,000 prize.

CHEP's winning entry was a high-tech ULD called CANTrack, which is powered by solar-charged batteries and contains a GPS/GSM tracking system that allows operators to record its movements in real time. The units also have a temperature sensor that can alert shippers, handlers and forwarders if the contents are getting too warm or too cool, as well as an impact sensor that can help determine liability in cases of damaged cargo.

CHEP's IT director Floris Kleijn accepted the award on behalf to the CANTrack team, saying the ULD system is being tested on trial basis with Air Canada and Hawaiian Airlines. If expanded throughout the industry, he added, CANTrack has the potential to reduce ULD damage rates and increase availability of container stock worldwide.



The two other finalists in the Innovation competition included an intuitive decision support tool called CLIVE, and an online claim management system called Cargo Claims, by CargoHub. These runners-up – Niall Van de Wouw, managing director at CLIVE, and Kiona van de Burg, business development manager at CargoHub – each accepted checks for US$8,000 for being finalists. *–Randy Woods*

Innovation awards finalists, from left to right: Floris Kleijn, Kiona van de Burg, Niall van de Wouw at the IATA World Cargo Symposium in Shanghai

Lufthansa Cargo eyes more joint ventures

Building on the success of the 2014 joint venture with Japan's ANA, Lufthansa Cargo is in talks with other parties interested in a similar arrangement. CEO Peter Gerber spoke at the company's annual press conference on March 19, Reuters reported, but said he could not give any other details about which companies he is in talks with due to antitrust approvals needed for such a partnership.

Gerber said the first two months of 2015 have been good, and with low fuel prices and a weak euro supporting exports from Germany, he expects it to be a good year. The company's 2014 annual report states Lufthansa Cargo's operating profit of €100 million for the year was up 26.6 percent compared to 2013, with a cargo load factor of 69.9 percent, up 0.8 percent. Cargo traffic for the year was down 1.4 percent from 8.73 billion revenue tonne kilometers (RTKs) in 2013 to 8.61 billion in 2014, while capacity declined 0.8 percent to 12.35 billion RTKs.

The ANA partnership, which started in December 2014, enabled Lufthansa to send an extra 300 consignments via ANA's aircraft that it would otherwise not have been able to accommodate because its own aircraft were already full. The partnership with ANA covers routes from Japan to Europe, and will be expanded to include service from Europe to Japan this summer.

Lufthansa Cargo has been plagued with pilot's strikes since October 2014, including one as recent as late March 2015. The carrier wants to build a new €700 million cargo center in Frankfurt and would like to exercise some of its options to order more 777 freighters from Boeing, but Gerber said, "given the situation in the group with the labor strikes, it's not getting any easier to get approval for investments." *–Linda Ball*

A South African Airways Airbus A340 fronts several heavies at Johannesburg OR Tambo Airport.

Photo: Fedor Selivanov /Shutterstock

South African, German airports sign historic accord

By Randy Woods

Some of the toughest hurdles facing the growth of the airfreight industry in Africa have been a lack of cooperation between the various countries and inadequate infrastructure to handle the growing demand. At the third biennial Air Cargo Africa Conference and Exhibition, held Feb. 25-27 in Johannesburg, South Africa, both of these topics were front and center, prompting a historic agreement between South African and European airports.

Airports Company South Africa, manager of the nine largest airport hubs in South Africa, signed an accord with Mitteldeutsche Airport Holding, representing Leipzig Halle Airport (LEJ), that will increase cooperation and share expertise between LEJ and OR Tambo International Airport (JNB), as well as expand cargo handling operations in the South Africa hub.

"This strategic partnership will provide industry-leading guidance in developing the company's cargo business model and approach," said Tebogo Mekgoe, chief operating officer of Airports Company South Africa. The agreement follows the recent creation of a Cargo Management division at JNB, which is the largest air cargo hub on the African continent.

"Given the centrality of air cargo to ... the automotive, electronics, telecommunications and perishable industries, an active exchange of experiences and analyses of potential will develop the capacity and reach of both airport management companies," said Markus Kopp, CEO of Mitteldeutsche Flughafen AG. The company has similar cooperation agreements in place with four Asian and two North American airports, but this is the first with an African airport.

Also during the Air Cargo Africa 2015, Tom Crabtree, regional director for market analysis with Boeing Commercial Airplanes, shared some encouraging statistics about the vast potential of greater trade opportunities across Africa. Citing a study from the United Nations' Commission for Africa, Crabtree said that more than 80 percent of Africa's exports (about 1.73 million tonnes per year) is destined for outside markets. Europe has always been the largest trade partner, he said, but its lead is rapidly shrinking from a high of roughly 70 percent of exports to around 57 percent today. Much of the change is coming from inroads being made by Middle Eastern and Asian carriers, whose shares of the export market have grown by 14.4 percent and 12.9 percent, respectively.

"There is massive growth potential within African air trade," he added. In fact, African air trade is expected to grow by an average rate of 4.3 percent for Europe, 5.2 percent for North America and 6.6 percent for Asia, through 2033, according to Boeing-released data.

With a population of 1.1 billion people, Africa has the world's fastest growing continental economy, Crabtree said, with an expected average annual economic growth rate of 4.6 percent per year up to 2033. At that rate, air cargo traffic on African airlines is predicted to grow faster than any other regional block — at 6.1 percent per year until 2033.

Other panelists agreed that Asian imports to the continent will be the most important driver for growth of African-Asian trade, and that e-commerce and the rising demand for consumer goods, particularly in India and China, will boost air trade growth in the Asia-to-Africa direction. Others remarked that there is a critical need for "just-in-time" shipments into Africa of less than five days, as opposed to the current average of seven to eight days.

In his keynote address at the start of the conference, Nico Bezuidenhout, acting CEO of South African Airways, encouraged the removal of barriers to trade in Africa and called for an "open trade" environment that would allow air cargo to be a catalyst for growth throughout the continent. He said the industry has only seen the "tip of the iceberg" of potential African airfreight opportunities.

According to *STAT Times*, the organizers of the event, the conference attracted a record-high 527 delegates, 80 exhibitors and nearly 3,000 trade visitors came to the three-day event. ACW

> "This strategic partnership will provide industry-leading guidance in developing the company's cargo business model and approach"
>
> –Tebogo Mekgoe, COO, Airports Company South Africa

Qatar adds L.A. as 4th U.S. cargo destination

This month, Qatar Airways will go Hollywood. Beginning April 4, the Gulf carrier will start twice-weekly 777 freighter service to Los Angeles, providing 100 tonnes of cargo capacity with each flight. The move makes LAX the fourth freighter destination for Qatar in the United States. The other cities are Houston, Chicago and Atlanta.

The flights will depart Doha on Wednesdays and Saturdays from Luxembourg, connecting through Mexico. LAX ranks fifth in the U.S. in terms of air cargo volumes processed. In 2014, the airport handled more than 2 million tonnes of air cargo, valued at more than US$91.6 billion. Qatar Airways carried more than 49,000 tonnes of airfreight from the U.S. market in 2014.

L.A. is also becoming a major player in the perishables market. Last year, 100,000 tonnes of perishable products were exported by air from LAX, including 40,000 tonnes sent to the Middle East and Europe. Qatar Airways Cargo intends to tap into this market with its dedicated QR Fresh cool-chain handling and storage facilities. *–Randy Woods*

Cargolux to India via Oman

In its quest for new routes to India, Cargolux Airlines has found a new partner in the sultanate of Oman, which has been looking to expand its cargo capacity. Beginning April 15, the all-cargo carrier will begin full freighter service from Luxembourg to India by way of Muscat, Oman.

Oman Air and Cargolux also signed a letter of intent last month, with a formal signing to take place April 16, when the first Cargolux freighter arrives in Muscat International. The agreement enables Cargolux to use Oman Air's facilities in Muscat, Salalah and Sohar.

The Times of Oman reported that Oman recently launched a pan-Gulf Cooperative Council (GCC) and pan-European trucking services, as well as a joint cargo service with DHL operating between Oman and Dubai, United Arab Emirates.

Photo: ©Alex Kwanten

After the program rollout, Cargolux plans to increase frequencies to Oman to several each week, with connections to Chennai, Mumbai and Hyderabad in India. Other cities in India are under consideration, as well as connections to Europe, China, Africa and the United States. Oman Air will provide access to Cargolux to use the bellies of its passenger planes, which fly to 11 destinations in India and three in Pakistan, plus other destinations in Nepal, Bangladesh and Sri Lanka. *–Linda Ball*

Outlook stormy as U.S. open skies debate rages

By Linda Ball

What began as a slow-simmering disagreement over the use of government subsidies – one that has lasted for years – has recently mushroomed into a thunderhead of angry rhetoric, threats of lawsuits and proposed legislative action to roll back open skies agreements. The major U.S.-based carriers continue to accuse Middle Eastern airlines of exploiting the American market with an unfair advantage.

The debate is centered on six major airlines: the top three legacy carrers in the U.S. (American, Delta and United) vs. the three rapidly expanding Persian Gulf-based carriers (Emirates, Qatar Airways and Etihad). While most of the routes in question involve passenger aircraft, the amount of belly space being used to carry cargo is enough to have a profound impact on how airfreight is imported and exported throughout the rest of the world.

> "The 'subsidy' word is misused in many situations. Unless there's proof and you put it there, you should not use the word 'subsidy.'"
>
> –Sultan bin Saeed al-Mansouri, Economy Minister, United Arab Emirates

In February, representatives from the American carriers met with U.S. government officials to express their discontent with Emirates, Etihad and Qatar Airways, complaining that these "Big Three" Gulf carriers have received US$40 billion in interest-free loans from their home countries of United Arab Emirates and Qatar since 2004. On March 4, representatives from the Air Line Pilots Association International, the Allied Pilots Association and the Association of Professional Flight Attendants, joined the U.S. carriers in Washington, D.C., to campaign against the Gulf carriers.

The U.S. carriers proposed action to alter the government's current open skies agreements with the Gulf carriers to limit their ability to operate in the U.S. market. They claim Qatar Airways benefitted from billions of dollars in unsecured loans from the state that do not have to be repaid; that Eithad received $6.3 billion in direct equity, plus $4.6 billion in interest-free loans; and that Emirates was allowed to remove $2.4 billion in 2014 oil hedging losses from its books while it received $2.3 billion in subsidies for airport expansion in Dubai.

Emirates, Qatar and Etihad have repeatedly denied charges that they receive illegal subsidies, saying they are run as completely independent businesses, despite the fact that they are state-owned.

The economy minister for the United Arab Emirates fired back on March 9.

According to a Reuters report, Sultan bin Saeed al-Mansouri said "You cannot throw accusations without proof. The 'subsidy' word is misused in many situations. Unless there's proof and you put it there, you should not use the word 'subsidy.'"

Mansouri said that the increasingly heated exchanges between airline executives was not healthy and could affect relations between the various nations. "We shouldn't underestimate the value of the aviation industry in terms of its contribution to nations – Germany, the U.S., Europe," Mansouri said.

The actions of the U.S. airlines also raised the ire of FedEx Express and Boeing. The Gulf carriers' orders from Boeing have been robust, mainly because of the open skies agreements they have negotiated. FedEx pointed out to government officials that the air cargo industry is an essential component of a rebounding American economy that would be impossible without the use of open skies agreements.

"The connectivity we provide for U.S. businesses, both small and large, is critical for their global expansion," said David Bronczek, president and CEO of FedEx, in a powerful letter sent to the U.S. secretaries of State, Transportation and Commerce.

Bronczek pointed out that the U.S. carriers that are complaining don't fly as extensively between foreign points as FedEx, so they believe they have

little to risk by limiting foreign carrier access to the U.S.

"Under the [open skies] agreement with the U.A.E., we have established a hub in Dubai, where FedEx flights from the U.S. criss-cross with our flights from India and Asia in order to move U.S. products into local markets," Bronczek continued. "Presently, FedEx alone operates almost two-thirds more flights to the Middle East than all the U.S. passenger carriers combined. Modifications to this agreement might spell the end of these opportunities."

What the carriers really want, Bronczek said, is for the U.S. government to protect them from competition – to stop the Gulf carriers from adding any new flights to the U.S. until their allegations have been considered. "The U.S. should not capitulate to the interest of a few carriers who stand ready to put their narrow, protectionist interests ahead of the economic benefits that open skies provides to the people of the United States," he wrote in the letter.

As reported in our sister publication, *Cargo Facts*, the U.S.-based carriers, while making these accusations, have also ignored the question of whether they are just as effectively subsidized through their access to Chapter 11 bankruptcy protection, which each of them has sought in the past.

At Air Cargo 2015 in New Orleans last month, Stephen Alterman, president of the Cargo Airline Association, said open skies are an absolute necessity, and that they keep more people flying where freight needs to go.

Are the Big Three right about the Middle East carriers, though? Perhaps not.

Stan Wraight, executive director and co-founder of Strategic Aviation Solutions, said the Middle East carriers aren't growing because of subsidies, but because of cargo. No other major carriers have voiced an opinion on the matter as *Air Cargo World* went to press, although JetBlue had expressed general opposition to any changes in open skies.

Reuters reported that Emirates President Tim Clark has hinted at legal action over potential harm that could be done by the U.S. carriers' complaints. Clark said the service provided by his American rivals is "shoddy," suggesting that perhaps they should focus instead on improving their own product.

Speaking at an arts conference in Doha, the always outspoken Qatar Airways Chief Akbar Al-Baker said, "I am delighted that Richard Anderson of Delta is not here. First of all, we don't fly crap airplanes that are 35 years old. The Qatar Airways fleet [average age] is only four years and one month. We have ultra-modern airplanes. We have invested – my country has invested – huge amounts to make sure we are the lowest CO2 contributor in the aviation industry."

Others echoed Al-Baker.

"As one of the newest national airlines anywhere in the world, we've had to create everything from scratch," said James Hogan, president and CEO of Etihad Airways, addressing the U.S. Chamber of Commerce Foundation in Washington, D.C. "In many cases, those [U.S.] established airlines were gifted amazing infrastructure – airports, terminals, slots, landing rights – over decades. To take them on, we've had to work smarter. That's called competition." ACW

LATAM opens new São Paulo cargo terminal

The LATAM Airlines Group has opened its largest cargo facility in Brazil, at Guarulhos Airport in São Paulo. The US$11.5 million facility, intended exclusively for domestic cargo, has a total surface area of nearly 162,000 square feet.

The largest and most modern cargo terminal that LATAM owns in Brazil, the facility will have the capacity to handle more than 1,000 tonnes of cargo daily. At 36 feet in height, the terminal allows for the simultaneous handling of cargo transported by freighters or in bellies.

The new terminal is fully automated, with an intelligent identification system. Cargo and platforms are labeled and tracked using bar codes, allowing for products to be easily located throughout the supply chain. A 1,000 square foot cold storage area, with 76 rack positions, is designed to store perishables including fish and pharmaceuticals. Perishables – along with electronic products, automobile parts, and other machinery – are the most commonly transported products through Guarulhos, mostly catering to markets in northern and northeastern Brazil.

Guarulhos Airport's cargo imports and exports grew 3 percent, while the overall market dropped by the same amount in 2014. Throughout the year, the airport oversaw more than 255,000 tonnes of international cargo, compared to 248,000 in 2013. The airport handled 508,000 tons in 2014, maintaining a 33 percent market share. *–Linda Ball*

Airlines


Bram Graeber

Bram Graeber has been appointed temporary executive vice president of **Air France-KLM Cargo**, replacing the departed chief executive **Erik Varwijk**. The carrier's board of directors will continue to search for a permanent replacement. Graeber started with KLM in 1995 and has held a variety of management positions with the airline, including on the cargo side. Since 2006, he has been the director of Transavia, a leisure airline arm of Air France-KLM.

Wolfgang Prock-Schauer has left the **airberlin group** management board. Prock-Schauer started working for airberlin as chief strategy and planning officer in October 2012 before taking the position of CEO from January 2013 until January 2015. Hans-Joachim Körber, chairman of the airberlin board of directors, said "we note this decision with regret."

Ulf Hüttmeyer has been named senior vice president, finance equity partners, at **Etihad Airways**, effective April 1. Hüttmeyer, 41, joins Etihad from airberlin where he was chief financial officer for the past nine years. He will now work closely with Etihad's equity partner airlines, and lead the profitability analysis in Etihad Airways while building key relationships with global suppliers.

John Friel has been appointed general manager in South Africa for **Etihad Airways**. Based at the airline's offices in Johannesburg, Friel will be responsible for leading Etihad's commercial operations in South Africa. He is a 16-year veteran in the travel sector and has worked for a number of leading international airlines.

Third Parties

DB Schenker chairman **Thomas Lieb** has left the company effective March 31. He has resigned from his position as head of business unit DB Schenker Logistics and as chairman of the management board of the company. Until a permanent successor is named, **Lutz Freytag**, member of the management board of Schenker AG for finance/controlling, will serve as chairman of the management board on an interim basis.

Des Vertannes, former chief of IATA Cargo, has come out of retirement to become a strategic advisor to **Smart-Kargo**, a cloud-based IT solutions company. Vertannes will offer strategic support, from his dual home bases in the U.K. and Portugal.


Charles Suggett

Charles Suggett has joined **MIQ Logistics** as business development manager for the Los Angeles area. He will be responsible for strategic account development and new business efforts. Suggett was with MIQ Logistics in San Francisco before leaving to serve as operations manager for TOBI.com, an e-commerce retailer.

Matthias Hansen is the new regional vice president for Europe, the Middle East and Africa, with freight management company **Geodis Wilson**. He has been acting as interim regional vice president for several months, replacing **Alain Chimene**. Hansen became managing director for Germany in 2009 and also served as managing director North Europe.

Philippe Gilbert has been named the regional CEO, Americas, for freight forwarder **DB Schenker**, effective March 1. Gilbert joined DB Schenker Americas in March 2013 as regional director, Europe West. He takes over the role from **Heiner Murmann**, who is retiring from that position, but continuing as a member of the Schenker AG global board of management

Jorge Quintana has been appointed vice president of airfreight at **Dependable Global Express**. Quintana has been with DGX since 2007, most recently as the company's corporate sales manager. Prior to joining DGX, Quintana worked as export manager at another company. Quintana takes over from **Gloria Whittington**, who will continue working with the company in a specialized role with respect to TSA and FAA compliance.

John Costanzo, president of **Purolator International**, has been named a 2015 "Pro to Know" by *Supply & Demand Chain Executive* magazine. Since becoming president in 2001, Costanzo has taken Purolator from a small U.S. freight forwarder to a leading provider of cross-border expedited and freight services.


Doug Coull

B&H Worldwide, a specialist in aviation parts and logistics, has appointed **Doug Coull** to the newly created position of senior regional director. Coull, who joined the company in mid-2014, is a highly experienced senior executive, previously serving as U.K. operations director at DB Schenker and BAX Global, as well as sales director at Exel in the U.K.

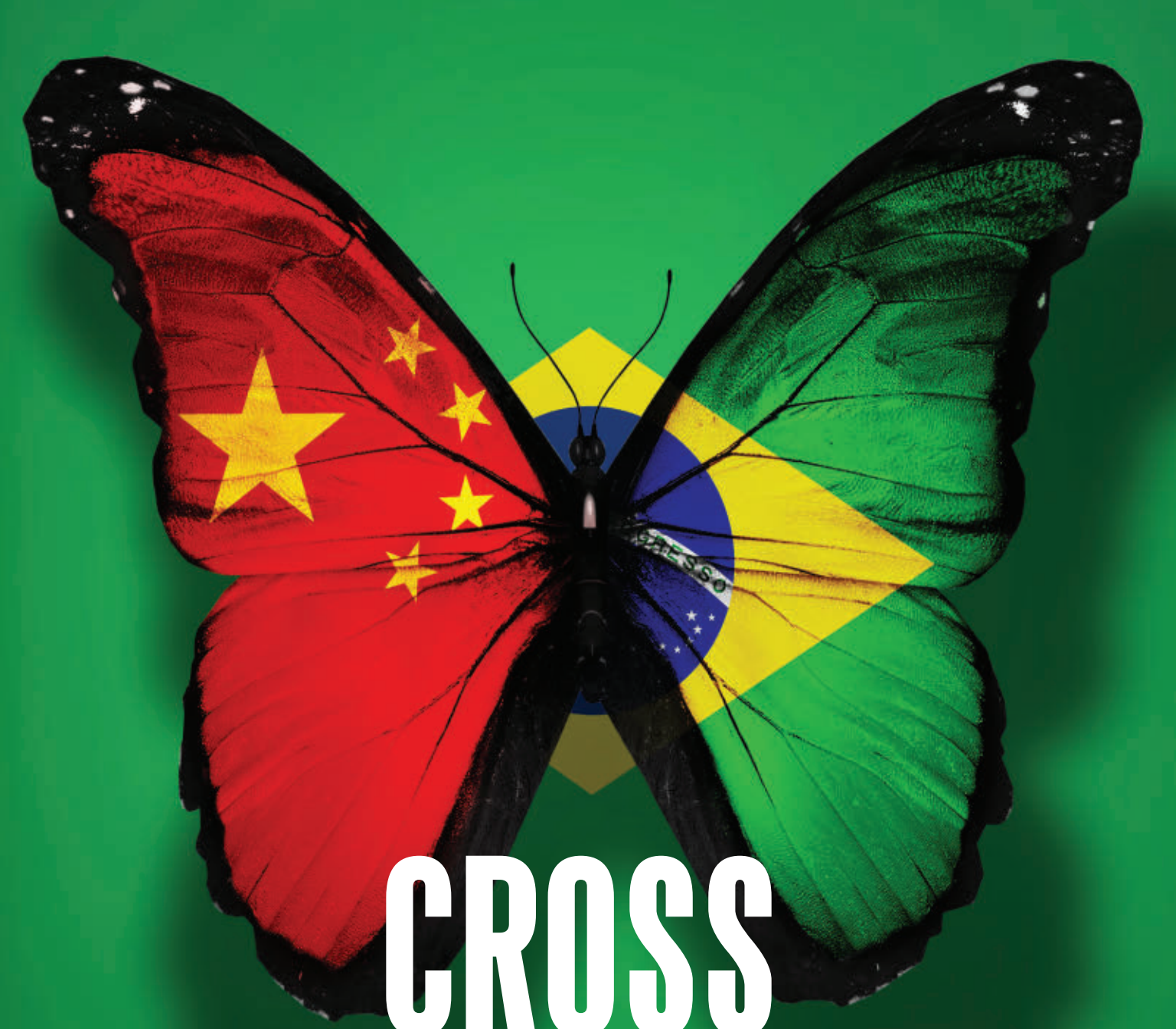
Emma Deane has been appointed vice president, commercial and business development, at **dnata**. Deane will support the growth of dnata's U.A.E. ground-handling and Marhaba operations. Previously part of Emirates Group's legal team, Deane also worked with one of dnata's joint ventures, Alpha/LSG in London.

Randi Norfleet has joined **Walker SCM, LLC**, a minority-certified global transportation and logistics firm, as executive director, global business development. Norfleet was a sales and marketing leader with DuPontMerck, Johnson & Johnson and Daiichi Sankyo. She will be responsible for developing Walker SCM's life sciences program.

Nils Pries Knudsen has been promoted to executive vice president of global cargo services at **Swissport International**. Knudsen joined Swissport in January 2009. Most recently, he was senior vice president and head of global cargo services. With the promotion, Knudsen becomes a member of Swissport's group executive management.

Maintenance & Manufacturers

Pastor Lopez has been appointed chief executive of **PEMCO World Air Services**, replacing **Kevin Casey** as part of PEMCO's restructuring program. Lopez, who previously served as vice president of AAR Aircraft Component and Landing Gears, will be responsible for the growth of PEMCO's maintenance and conversion operations. Also, **Shane King** was named vice president of maintenance for PEMCO and **George Fedeanis** now oversees all commercial PEMCO business.



CROSS POLLINATION

ASIAN DEMAND FOR LATIN AMERICAN GOODS STRENGTHENS TRANS-PACIFIC LANES

By Randy Woods

In early March, a loaded 747-400 freighter, operated by Atlas Air on behalf of forwarding firm Panalpina, pushed back from the gate in Hunstville, Alabama, and took off at sunset, full of machine parts from the American Midwest. It was the inaugural flight of Panalpina's twice-weekly "Brazil Wings" main-deck service from Huntsville to São Paulo, Brazil. On its return journey to Hunstville from Viracopos International Airport, the freighter flew on to Hong Kong International, with a load of perishable goods from Brazil and other South American markets.

The total transit time for the new VCP-HSV-HKA route was less than 40 hours – pretty impressive for a journey of more than 11,300 nautical miles.

The Brazil Wings service was designed for U.S.-based manufacturers to send machinery to the well-established agricultural and mining industries in Brazil. Panalpina offers road feeder service from 10 U.S. cities each day to Huntsville. "This allows for fast expediting and full control on the ground," said Roberto Schiavone, head of airfreight for the Americas region at Panalpina. "In addition, customers benefit from cargo consolidation and customs clearance services."

But the Asia-bound leg of the service, from Brazil to Hong Kong – and other cities such as Shanghai, Tokyo and Seoul – is becoming increasingly popular as demand grows in Asia for fresh food and other perishables from the South American market.

The Pacific Ocean, at its widest point, between Indonesia and Colombia, is about 10,700 nautical miles – too far for most commercial aircraft to fly fully loaded with cargo or passengers. But the value of goods along the Pacific Rim – from pharmaceuticals and high-tech electronics in Asia to fish, fruit, vegetables and other perishable goods in South America – are making this niche Latin America-to-Asia lane one of the fastest growing in the world.

"We call it 'south to south' trade," said Jim Ramsay, vice president of UPS's Americas region. "It's a global trend that's gathering some tremendous momentum, and it's an area we're very interested in."

What's being carried

According to 2014 figures from CEVA Logistics, based on research by the Seabury Group, the trade flows from Asia-Pacific countries to Latin American are centered on high-tech and manufacturing. Last year, CEVA said, electronics, machinery, and components and supplies, combined to make up nearly three-quarters of the shipments to South and Central America.

"Trade from Asia to Latin America Singapore is very technology-driven," said Janet Ang, regional trade lane director of air products at CEVA Logistics' Singapore office. "A lot goes from China to Brazil, including high-tech components and consumer personal electronics."

> "It's a global trend that's gathering some tremendous momentum, and it's an area we're very interested in."
>
> –Jim Ramsay, vice president, Americas, UPS

Looking in the other direction, however, the view looks very different. Temperature-controlled shipments, including perishables, made up 33 percent of the export market from South America to Asia-Pacific countries, followed by 19 percent for high-tech goods. The largest year-over-year increase in 2014 for the trade lane was a 21 percent growth in temperature-controlled products, CEVA said.

The volumes of these Latin American exports are relatively small, compared to, say, Asia-Pacific routes to North America or Europe. "But the trending is pretty positive, with a significant percentage growth coming from Latin America," Ang said.

Robert Villamizar, head of air product capacity management, intra-Americas, for DHL Global Forwarding, said some of the goods being transported from Latin America to Asia include clothing, automotive parts, electronic components and machinery. "There are also perishable commodities like asparagus from Peru, flowers from Colombia and Ecuador, and fruit from Chile and Argentina," he said. "Some of these commodities have a seasonality factor throughout the year that impact the air capacity, thus the airfreight rates."

Besides the Brazilian airports Guarulhos International and VCP, other Latin American hubs with growing Asia-bound cargo exports include Juan Santamaria in San José, Costa Rica; Jorge Chávez in Lima, Peru; and El Dorado International in Bogotá, Columbia. "These airports handle a variety of commodities, from perishables to finished goods bound for China, South Korea, Japan, Taiwan, Singapore and Malaysia," Villamizar said.

What's driving it

So, how does a trade lane with such vast distances and such large trade imbalances become a sought-after market? In short, East is starting to look a lot more like West.

Most of the exports coming out of Latin America are perishables destined for Western regions, such as North American and Europe, which expect to have seasonal berries, flowers and vegetables in their stores year-round. However, with the developing world increasingly adopting many of the same Western diets and shopping habits, the demand for fresh imported produce continues to rise. In response, a growing percentage of these goods are being pulled into Asian markets.

"After Europe and the U.S., Japan is the third-largest market for flowers," said Juan Carlos Serna Velez, vice president of Latin American air products for CEVA Logistics. "From Bogotá, we're seeing a positive flow, year-over-year, to Japan."

Because some perishable foods have an extremely short shelf life, airfreight

Continued on page 26

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is sometimes the only option for Asian markets that want fresh – not frozen – food delivered to their kitchen tables and restaurants. In Argentina and Chile, Velez said, fish and berries are becoming a hot export to Asia, as well as salmon coming from Peru. "We're currently a strong player in the asparagus trade," he added. "The majority goes to North America, but there is a developing niche for Asia."

The lower cost of fuel since the middle of 2014 may also have had some effect. "Some of the export lanes are seeing some sort of cost reduction," Velez said. "Outbound traffic is also affected by all-in pricing, but it all depends on the capacity they have."

Even at these long distances, however, fuel prices may not be a major factor in the market. "I do not see it has much of a role, since perishable commodities demand very low rates out of Latin America in order to be accessible to the end consumers," said Villamizar. "Even when the fuel price was high, the rates for perishable commodities did not increase substantially."

"The yields on the Asia-Latam route are probably the most interesting ones," Schiavone said. "With the long distance comes high yield rates, and for this reason carriers and forwarders are focusing more and more on this trade lane. The quantity of perishables and other products going from Latam to Asia is much lower than the high-tech products coming into the region, so, in this case, the carriers don't return the flight on exactly the same route they came in on."

The linchpin: a huge percentage of the freight traveling to and from South America transits Miami-Dade International airport.

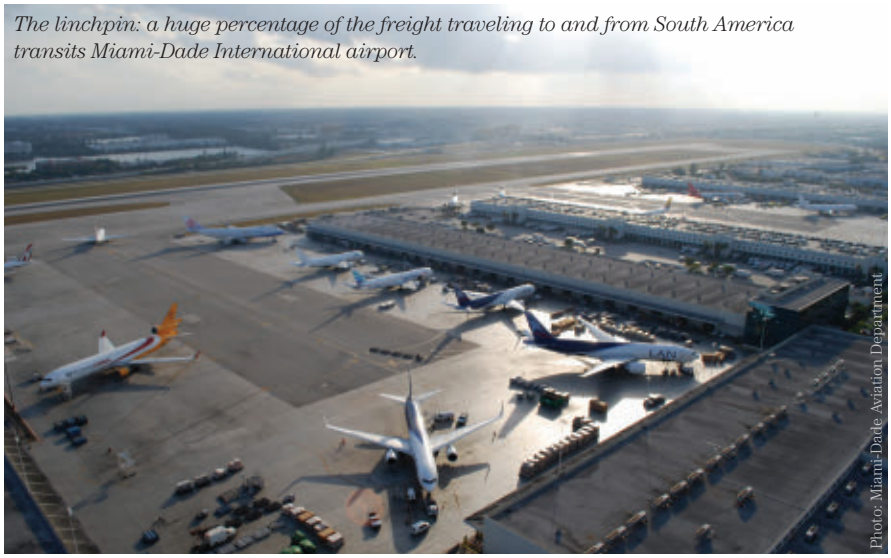

Photo: Miami-Dade Aviation Department

How it gets there

Because of the enormous distances involved, shippers wishing to put fresh Peruvian asparagus on the menu in Shanghai must rely on some circuitous routes involving well-established trade lanes. For instance, Miami International is still the undisputed linchpin in most Latin America-to-Asia trade.

The seasonal quality of most perishables coming from the south means shippers and forwarders have to rely heavily on trans-shipments and consolidation to maintain profitable yields. Miami – which serves 43 destinations in Latin America, including 29 in South America – has been the perfect location to send most of this Latin American cargo, where it can be sent on to North America, Africa, Europe or Asia.

"The northern part of South America has a lot of flowers moving through Miami and then on to Europe," Velez said. "Brazil, Argentina and Chile have also leveraged their logistics using widebody passenger capacity through their hubs. As long as the cool-chain process is maintained and you work closely with your suppliers, products can manage within 48 hours, along with holding and processing."

Other consolidation hubs often used in these trans-Pacific flights include Atlanta, Chicago O'Hare, JFK and LAX. And now Hunstville, with the Panalpina/Atlas operation. "It's a complex logistics because simply there is no direct flight attending the route," Schiavone said. "You have to either use Europe or USA as connecting points, especially if we talk about freighter services, which can transport big shipments and cargoes that do not fit on passenger flights."

The other way around

In more recent years, shippers, carriers and forwarders have been getting more creative with their routing of Latin American goods to Asia, always searching for the right balance of cost-reduction and expedience. Some solutions being tried seem entirely counterintuitive, like taking the longer way around the globe by flying east across

Continued on page 28

Although South America-Asia trade is increasing across the board, Brazil, Chile, and Colombia are the largest economies with the most activity.

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Continued from page 26

the Atlantic and then across Africa and Eurasia to reach those coveted Chinese, Japanese and Korean markets. The key has been the rapid rise of the Middle Eastern carriers, which are continuing to grab market share through their hubs in Doha, Dubai and Abu Dhabi. Emirates, for example, now has flights to São Paulo and Rio de Janeiro, as well as to Buenos Aires, and freighter service to Quito, Ecuador.

"It all depends on the connectivity and planned routes available," Velez said. "If you can do some trans-shipment via Abu Dhabi, with eight-hours trans-shipment connectivity, you can expedite products [to Asia] in one and a half to two days. But realistically you don't always have that connectivity."

Transportation technology has reached such a point where more road, rail and air modes are being combined to bring west to east, said UPS's Ramsay. "Surface-based transport has always been the focus of the supply chain," he said. "We're now seeing interest in moving as fast as we can on land and using the Middle East as a consolidation point. The concept of multimodal transportation is on the rise."

Integrators such as UPS and DHL, as well as forwarder DB Schenker, are even experimenting with the concept of air service from South America to the many hubs of Europe, which then link with rail that extends through the Central Asian steppes all the way to markets in coastal China.

These rail journeys usually take 18 to 24 days, depending on the route and the Siberian weather, so they won't work for the most sensitive perishables, but they are an option for durable goods that is cheaper than airfreight but about twice as fast as putting it on the water.

> "The current situation in some Latin American countries favors their exports due to weakening of their currencies against the U.S. dollar. This allows for moderate growth, so I foresee a positive outlook for Latin America-Asia trade for 2015."
>
> – Robert Villamizar, DHL Global Forwarding

"You need to add some creativity with perishables," Ramsay added. "You have to get the volume to get to Asia fast. We're starting to see companies looking at the surface option."

CEVA's Ang is seeking to cut costs with a road option through part of the U.S. Air rates, she said, are lower flying from Asia to Chicago, so CEVA is experimenting with flying shipments to O'Hare and then trucking it south to Miami to make connections to Latin America. "This is tested and ready to go," she added. "The market is dying for an alternative."

One option many forwarders say will never be a viable Asia-Latam option will be seafreight, given the types of commodities shipped and the 40- to 50-day journey that is required. "With seafreight, there have been some innovations with temperature-controlled containers on the flower side," Velez said. "But compared to the size and volume of airfreight, it's still a very small percentage."

"Especially on the high-tech sector, the higher cost for airfreight [vs. seafreight] is paid back very easily if we consider inventory costs, faster planning and the ability to fill instant market opportunities," Schiavone said.

The Brazil question

Of all the South American countries involved in trade with Asia, none is as inextricably linked to its success as Brazil, which has the world's 7th largest economy, based on GDP, and is a dominant player in the automotive, manufacturing and mining industries. Unfortunately, the news coming out of Brasilia has not been good for the past four to five years. A massive corruption scandal in Petrobras, the state-run petroleum industry, near stagnant growth in GDP, rising inflation, disastrous over-spending for the 2014 World Cup and a slowdown in exports all indicate that the largest country in Latin America is headed for a deep recession. However, Schiavone said there may be some silver linings to all of this economic mayhem.

"The present economic situation in Brazil is driving a considerable currency devaluation and this, for sure, will boost the exports of perishables," he said. "Brazilian products will become more competitive not only because of the reduced price in U.S. dollars, but also because they will enjoy more competitive freight costs due to already existing overcapacity and a decrease in dry cargo demand."

Panalpina sees a lot of potential in the Latin American-to-Asia route for perishables. Here, one of its 747Fs takes off from Anchorage, a critical link along the trans-Pacific trade lanes.

Photo: ©BrYYZ/flickr

"Brazil has been no stranger to volatility, but it's not like it's in a complete tailspin," Ramsay said. "Brazil still has a very large economy with a high middle class population. A lot of their economy is based on exports. Its economy will always have some variations, but it has consistently strengthened each time." The South American economy will always be led by Brazil, he continued. "In Colombia, there is lots of growth in Bogota and Medellin. We are also seeing a rise in trade through Costa Rica. But none of these are ever going to overtake Brazil as the anchor for the whole continent."

Despite the poor economic outlook, "the perishable market continues to thrive," CEVA's Velez said. "We're still seeing large volumes, even though the GDP has become a real problem." He also said he's seeing growth in leather goods from Brazil being sent to Vietnam and Hong Kong.

The key to Brazil's consistent success in the eyes of freight forwarders is variety. "There are so many other products – it's a much more diversified economy," Velez said. Some other export niches include mangoes, limes and live ornamental fish from Manaus. "If one begins to falter, you can start to look at other options."

DHL's Villamizar also has confidence that Brazil's economic engine will continue to dominate the region.

"I do not foresee that the high cargo demand of Viracopos will be replaced by another major inbound airport in Latin America," he said. "There are still many factories in Brazil that need the raw material and parts coming from Asia Pacific for the different industry sectors that make up the volume of this important airport."

Cautious optimism

For some forwarders and logistics experts, 2015 may be a difficult year to predict regarding trans-Pacific trade, given the reduction in China's economic growth, the lingering backlog effects of the West Coast port crisis and a possible rise in fuel prices.

"We're three months in and we're still not sure which direction it will head," said Ramsay at UPS. "But thinking longer-term, we feel that Asia-Pacific to Latin America is a growing trade lane. We just need to see where this 'new normal' is going to land before we make any decisions."

The current situation in some Latin American countries favors their exports due to the weakening of their currencies against the U.S. dollar. "This allows for moderate growth, so I foresee a positive outlook for Latin America-Asia trade for 2015," Villamizar said.

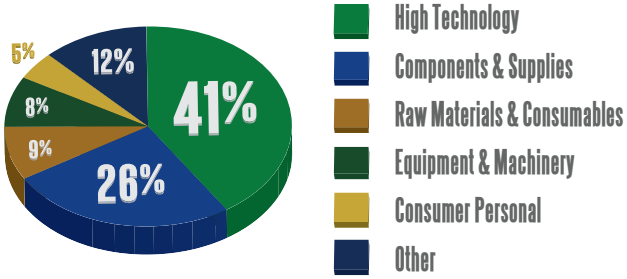
At Panalpina, Schiavone said he thinks this was still a good time to launch the company's Hong Kong-Hunstville-São Paulo service.

"Although we may have a reduction on the volumes available, Panalpina has high expectation to increase its market share by exploring our recently launched product Brazil Wings. 2015 will be an important year for us within this trade lane." ACW

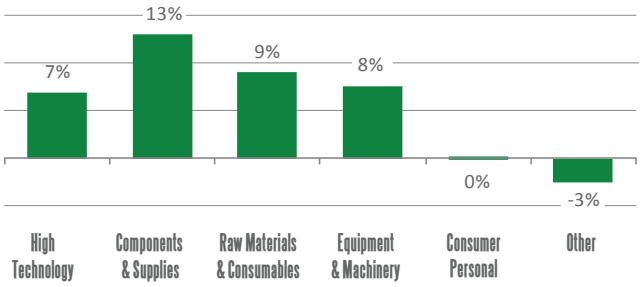
Go with the flow

Using 2014 research provided by the Seabury Group, CEVA said the breakdown in commodity flows from Latin America to Asia, and vice-versa, reveal interesting cargo trends, such as the dominance of electronic goods flowing east and the rapidly growing market for perishables being sent west.

COMMODITY SHARE ASPA TO LATAM 2014 %



COMMODITY GROWTH ASPA TO LATAM 2014 YOY %



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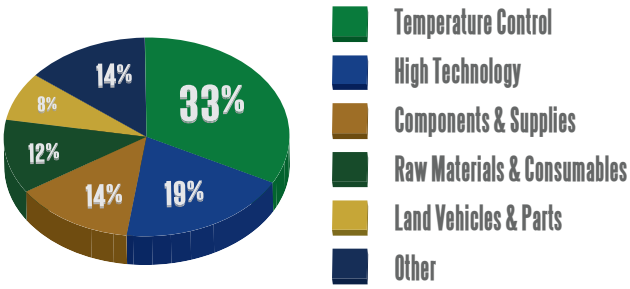

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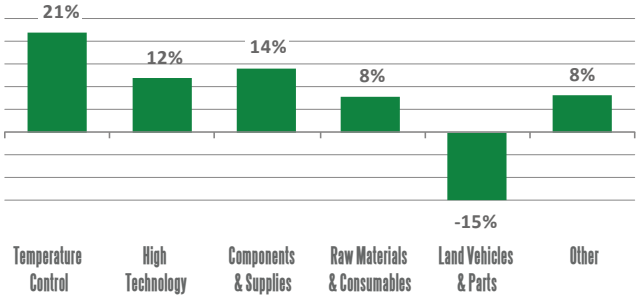

Source: CEVA Logistics

CANADA'S OVERNIGHT

CAN CARGOJET'S CANADA POST EXPRESS CONTRACT BE A WIN FOR ALL PARTIES?

By Randy Woods

Normally, when two companies bid for a competitive contract worth nearly a billion U.S. dollars, the story becomes one of winners and losers. This month, however, when Canada-based Cargojet officially takes over the seven-year contract to deliver express mail for Canada Post's Purolator Express, Cargojet may not be the only winner.

The previous holder of the Purolator contract, all-cargo carrier Kelowna Flightcraft, is also undergoing a transformation. After holding the contract since 1987, Kelowna is reinventing itself as a general freight carrier and expanding its horizons beyond the Canadian border.

Not to be forgotten, the freight forwarders across Canada may also be winners, as Cargojet and the reborn Kelowna are both adding capacity for general cargo. Where there was once a dedicated, one-customer express carrier and a general cargo airline with an aging fleet, there are now more and newer aircraft available, added intra-Canada and international routes, and improved flexibility in the nation's express delivery market to better handle the rapid increase in e-commerce.

"In mid-March we will begin the main part of the transition that will go until April 1," said Cargojet's executive vice president Jamie Porteous. "We've already started to transition a small portion earlier this year and will be slowly ramping up deliveries until the start date."

WONDER

Photo: ©Rainer Bexten

"Canada is simply not big enough for two express cargo carriers," conceded Grant Stevens, spokesman for Kelowna Flightcraft. The Great White North, however, with its affluent populace and booming oil and gas trade, clearly has room for more general cargo services to flourish.

Untangling the express market

For all its majestic size, Canada, the second largest country in the world by landmass, is mostly empty. About 75 percent of Canada's 35 million-resident population lives near the border with the United States, which stretches from the eastern Maritime Provinces to Vancouver at the extreme southwest corner of the country. These demographics create a mail delivery corridor that is roughly 3,000 miles long and about 100 miles wide, with only a few detours to northern cities like Calgary and Edmonton.

"It's difficult to serve the whole market on a traditional basis; there are no hubs," Porteous said.

In such a linear arrangement, the cost to deliver mail to remote areas keeps rising at a time when mail volumes are plummeting. As a result, Canada Post has been seeking ways to cut costs. The problem is that there are few carriers large enough to compete with Kelowna's two DC-10-30 freighters and thirteen 727Fs.

Because Canada Post is a government-owned service, it could not partner with a foreign carrier. That pretty

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much left Cargojet as the only potential rival.

But Mississauga-based Cargojet was not seen as much of a threat for many years, mostly because of the long history between Kelowna and Purolator. Back in 1977, Kelowna first began providing air services for the express carrier, a relationship that continued in 1993, after Canada Post purchased a majority stake in Purolator. Today, Purolator is 91 percent owned by the postal service, and Kelowna's founder, Barry Lapointe, sits on Purolator's board.

Behind the winning bid

The seeming lock that Kelowna had on the coveted Canada Post contract, however, did not intimidate Cargojet. The executive team, Porteous said, knew they had the right business model already in place. They had also learned from the last time they bid for the overnight business – and failed.

"We had tried to bid for the contract seven years ago and lost out to Kelowna," Porteous said. At that time, Canada Post was happy to continue the fixed "cost-per-package" model that Kelowna had always offered. But that was well before e-commerce had begun to dominate the express delivery market and when the steep declines in mail volume became most alarming.

"By the time this new contract came back up for bid, [Canada Post was] clearly looking for a way to save costs, so they went with our cost-per-pound route," Porteous said. "The RFP came out of our business model. It almost describes our business to a T, and gave us a real competitive advantage."

The RFP was sent out in December 2012, letting the interested carriers know the size and scope of the business. From December 2012 to the spring of 2013, Cargojet worked on documentation and formalizing its offer, which it submitted it by the end of that year.

Cargojet had some experience with express mail, flying routes for UPS, DHL and Canada-based Loomis Express, but at nowhere near this scale. Purolator estimates it handles about 750,000 to 1 million pounds of express mail for Canada Post every night. To handle this increase, Cargojet would have to effectively double its fleet capacity with new aircraft in less than a year.

Last February, Canada Post officially awarded its Domestic Air Cargo Network Services contract to Cargojet, which signed a Master Services Agreement for an initial seven-year term, with three 36-month renewal options. Projected revenues are estimated to be C$1 billion (US$782 million) for the first seven-years.

The one element of the RFP that Porteous said may have sealed the deal for Cargojet was its willingness to provide comprehensive airfreight services and assuming all the risk for aircraft and pilots. "It was all done at our expense," he said.

While some in the industry were surprised by Cargojet's win, Porteous said he was not. "From a reliability standpoint, ours was just a better mousetrap," he added. "We were very pleased to be awarded, of course. It's a very competitive business, and we recognize how big this is."

The addition of five 767-200s and five 767-300s to the Cargojet fleet by the end of this year will greatly enhance the carrier's ability to handle both general cargo and Canada Post's mail.

Change in the air

Almost immediately after the contract was finalized, Cargojet began its 13-month scramble to boost its airfreight capacity to meet the expected increase in e-commerce volumes. In an interview with the *Financial Post* last year, Cargojet's CEO Ajay Virmani said that e-commerce and the small-parcel business was rising so fast in Canada that, in the next three to five years, it would at least catch up to the U.S. in the percentage of users making online purchases.

At the time the contract was awarded, Cargojet had just 12 freighter aircraft – mostly 727s that were more than 40 years old. By the end of this year, the carrier will add 12 more freighters, including newer 757s and widebody 767s, bringing the total aircraft to 24. And by the end of 2016, the fleet will be exclusively 757s and 767s as the aging 727s get phased out. The balance of the fleet has been purchased, Porteous added, at a cost of roughly C$300 million.

"This timeline puts us in a unique position," Porteous said. "We've effectively doubled the size of our business in one year. That's probably unprecedented, that we doubled in size based on a competitive contract rather than through acquisition."

What's perhaps more remarkable than the fleet expansion was Cargojet's ability to retain so much of its previous business. The addition of so much widebody space with the 767s has allowed it to add on the Canada Post business without disrupting any of its already established charter services and general cargo operations.

"We still have 20 percent of ad hoc open space for sale," Porteous said. "We always had this network designed in the past. We contract out 80 percent of our capacity on any heavy-demand leg."

From a freight forwarding perspective, this can only be positive news. "This new contract with Cargojet means there will be more capacity,

Continued on page 34

Past Reflections, New Directions

The 2015 CNS Partnership Conference celebrates its Silver Anniversary with the theme of "Past Reflections–New Directions."

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Past Reflections. New Directions.

Continued from page 32

newer aircraft and a larger schedule, which is always a good thing," said Debbie Hanlon, manager, Alberta region, for logistics firm Agility.

Hanlon said she often uses Cargojet for large domestic moves, including "all types of goods related to oil and gas." The added capacity with the new fleet will only give her more options from which to choose. "We prefer to use local airlines as much as possible." In addition to the Canada Post contract, Cargojet now holds 10 to 12 other cargo contracts and operates a scheduled cargo network serving 400 to 500 customers in 13 locations. A significant portion of the linehaul traffic will fly on the Vancouver-to-Hamilton, Ontario, freighter route, but some of it will also be carried in the bellies of planes operated by Air Canada, which Cargojet had partnered with just before the Canada Post contract was inked.

"We've been able to achieve our business model, where our customers have some flexibility with variable costs," Porteous said. "Canada Post was on more of a fixed-cost model, but they've switched to ours. We've given them a larger scale and more capabilities."

Besides the costs to upgrade the fleet, Cargojet spent another C$6 million (US$4.8 million) on new ground-support equipment as it seeks to expand its facilities in Hamilton. "Purolator had its own ground handling equipment, and we're buying that," Porteous said. The carrier is also adding about 200 new employees to handle the increase in cargo, introducing new scanning equipment, and purchasing a new main-deck loader at its Halifax facility to accommodate the larger 767-300 aircraft.

> "We've effectively doubled the size of our business in one year. That's probably unprecedented, that we doubled in size based on a competitive contract rather than through acquisition."
>
> –Jamie Porteous, Executive Vice President, Cargojet Airways

Looking east

Back in British Columbia, the mood at Kelowna Aircraft's corporate headquarters last year was gloomier, of course, due to the loss of its main source of cargo revenues, but the activity level was no less hectic than it was at Cargojet. As the company prepared to wind down its Purolator business, it began searching for new business to fill the void.

"Last year, given our fleet composition, we decided to look for a combination of domestic and international business," said Kelowna's Stevens. As part of its rebranding efforts, the carrier created a new "KF Cargo" division and focused its attention on trans-Atlantic routes. In February, the new KF Cargo decided it was time to move to where the opportunities were ripest and announced that it was shifting its main operations about 60 kilometers northeast from Hamilton to the nation's largest city, Toronto. The shift to Toronto will provide much better access to trans-Atlantic routes, but the corporate offices will remain in the small city of Kelowna in British Columba.

"Most of the forwarders are based in Toronto, and most of the freight comes in there in belly space," Stevens explained. "The move seemed better than moving the cargo by truck from Hamilton to Toronto."

While it plans to keep its 727s in domestic service, KF Cargo will begin operating DC-10 service from Toronto to Brussels, Belgium, starting this coming May. "We have our own airplanes, and we're trying to break into a marketplace," Stevens said. "Since a 767 is about C$30 million (US$24 million), we want to see what we can do with the planes we already have."

Some of the key commodities it plans to ship to points in Europe and beyond will be live lobsters and other perishables. Other markets it will pursue include pharmaceuticals and oil-and-gas-related equipment. "We noticed that there were no good Europe-to-Canada routes for these products," he added. "We are also looking at flying to Anchorage to give us possible access to Asia."

Growing pains

The change in the Purolator contract did not come without difficulties for both carriers, of course. Kelowna had to go through an initial round of layoffs at the end of last year, some of whom were later retained. "We had 75 pilots

Kelowna Flightcraft may be down, but not out. With the formation of a new "KF Cargo" business, it plans to fly its widebody DC-10-30s to Europe and Asia, working with forwarders to find new general cargo business on the international market.

based in Hamilton, and we will now move about 65 of them to Toronto," Stevens said. "So there will unfortunately be some reduction in staff." But the company will continue with its well-established aircraft maintenance facility in Hamilton, where it has 600 employees. In December 2014, this lucrative maintenance arm of Kelowna Flightcraft secured a contract with WestJet to upgrade the interiors of all 100 of the carrier's aircraft.

Cargojet's journey also endured a few hardships, too. The preparation "was by far the most intense review of our business," Porteous said. "[Purolator] really did their homework. But I think they made the right decision."

The carrier also struggled mightily with the bureaucracy of Transport Canada, the nation's transporation department, as it tried to add aircraft to the fleet. Under the contract, Cargojet had to have committed agreements on its new aircraft by Nov. 1, 2014, or it would have been subject to timeliness penalties.

"It was easy to find aircraft. The hard part was the sitting around," Porteous said. "We had converted, freshly painted, C-checked aircraft waiting for weeks and weeks to be approved. With Transport Canada, if a process was designed for days, they would do it in months."

Aside from a few white-knuckle days before Cargojet made its Nov. 1 deadline, most other surprises during the transition period have been good, including the unexpectedly strong peak season, allowing Cargojet to operate at full volume at yearend and testing its ability to handle holiday surges.

Proving themselves

Now that the start date of the new contract has arrived, it's time for both carriers to show their mettle – for Cargojet to demonstrate that it can handle the daily demands of the express market while still retaining its general cargo business and for KF Cargo to find new international customers. Because the overnight Purolator contract only requires daily flights Monday through Thursday each week, with limited service on Friday, this leaves a lot of availability for weekend and evening flights, Porteous said. "We expect to get even more global charter business," he said. "We're can add some new destinations to smaller cities, such as Saskatoon and Regina. Our charter business has doubled every year since 2008 and we plan to continue that."

Cargojet will extend the 12-year contract it has held with UPS as an exclusive supplier for the integrator, along with some flights for Canadian DHL and Loomis. Service will also continue on a few other ad hoc and charter routes, such as Newark to Bermuda, Montreal to Cincinnati, Toronto to Havana, New York to Warsaw, and Halifax to Cologne. The 727s should be in rotation for at least another 18 months until they run into their next C-check.

"Right now, the big focus will be to ensure the transition to the new customer goes smoothly, internally and externally," Porteous stressed. "We don't want to forget the importance of the customer."

Meanwhile, as KF Cargo reinvents itself as a general cargo carrier, it will still retain a bit of its old express business. Last October, it was awarded the contract to operate the BC Feeder Service for Purolator at Vancouver International. While Cargojet will handle the main-line flights, KF will provide the ground handling and air movement services at YVR for a minimum five-year term.

But mostly, KF Cargo is looking toward its new future – specifically May 17, which is the target date to begin its DC-10 service to Brussels. By mid-July, Stevens said the carriers will begin Vancouver-to-Anchorage service with the other DC-10. Down the road, the company may consider using Brussels and Anchorage as jumping-off points to reach into other international markets, such as Africa and Asia. Currently, he added, the company is going through some avionics upgrades with the aircraft, conducting crew training and working with various forwarders along these routes, but could not provide more details as this issue went to press.

Stevens did say that KF will plan to go after general cargo business first before seeking more specialized cargo, such as perishables and pharmaceuticals. "We're putting together a number of deals with forwarders to get access through the pipeline," he said. ACW

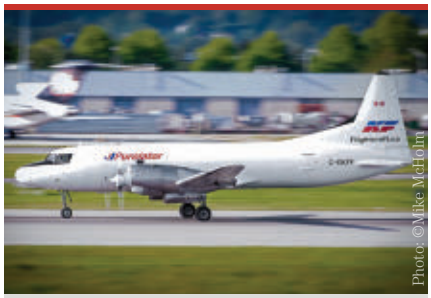
Photo: ©Mike McHolly

45 Years and still flying

For nearly half a century, Barry Lapointe, founder of Kelowna Flightcraft, has been an aviation legend in Western Canada, amassing an empire of 50 aircraft and 1,000 employees, as well as a series of maintenance facilities capable of servicing 80 types of aircraft. His fleet of 727s, Convair 580s and DC-10s ruled the night skies, carrying 500,000 pounds of express freight every day to 17 locations across Canada. Here are a few of the milestones of the company he built.

1970	Commercial pilot and aircraft engineer Barry Lapointe, along with Jim Rogers, co-found Kelowna Flightcraft, an aircraft maintenance operation for small aircraft in Canada's Okanagan Valley.
1974	Kelowna Flightcraft begins charter flight operations.
1977	First began negotiations to carry parcels for Purolator.
1995	Partnered with the short-lived Greyhound Air, where the company first began flying surplus 727s.
2005	Awarded a 22-year, C$1.8 billion contract as the prime contractor in a team of companies providing maintenance for the Canadian Forces Air Command.
2005-2009	KF expands rapidly, adding new hangars, plus engine and landing-gear shop facilities.
2008	With Purolator, KF begins support operations for Canada Post with the purchase of two DC-10-30s, the largest dedicated freighters in Canada.
2009	Awarded a contract to maintain and modify the Buffalo and Twin Otter Search & Rescue aircraft based in Western Canada.
2014	Awarded a contract to upgrade the interiors of the entire WestJet fleet of more than a hundred 737-600/700/800 aircraft.

SHINING STARS

RECOGNIZING LEADERS IN LOGISTICS AT THE 2015 AIR CARGO EXCELLENCE AWARDS

By Linda Ball

There were many familiar faces in Shanghai last month during the Air Cargo Excellence (ACE) Awards ceremony. But there were also some notable newcomers that climbed the ranks in this celebration of the top air logistics industry firms, as chosen by *Air Cargo World* readers.

All three air cargo carriers that were honored with a Diamond Award last year repeated the feat during the March 10 awards gala, held in conjunction with the International Air Transport Association's World Cargo Symposium at Shanghai's Pudong Shangri-La hotel.

The ACE Awards, now in their 10th year, are determined by surveys that are distributed to *Air Cargo World* subscribers throughout the world. Carriers are voted on by forwarders, cargo agents and third-party logistics providers. Subscribers identified as those working for an airline voted on the airports.

Airlines are rated on customer service, performance, value and information technology. Airports are rated on performance, value, facilities and regulatory operations. For a full explanation visit aceawards.aircargoworld.com/project/ace-methodology.

Top carriers repeat 2014 wins

Continuing its long streak of Diamond wins, the top carrier that handled 1 million or more tonnes of cargo in 2014 was Emirates SkyCargo.

"With Dubai's geographical advantage of being in the center of east and west, we are able to carry products across the world with just one stop in Dubai," said spokesperson Sandy Barqawi. "Many multi-national companies have chosen Dubai – which is our hub – as their regional/global distribution base from where they move their products to the Middle East, Africa and Eastern Europe."

She said serving both primary and secondary cities in key markets with multiple frequencies is also key to its success. Emirates has continued to expand its freighter operations along with its belly-hold capacity. The carrier provides belly hold cargo services to more than 140 destinations in addition to 50 scheduled freighter services.

In the 400,000 to 999,999 tonne category, Japan Airlines was also a repeat victor. JAL reduced its surcharge February 1 to US$1.05 per kg, and US$0.85 per kg. from Hawaii.

However, right on JAL's heels was Platinum runner-up IAG Cargo. John Cheetham, regional commercial manager, Asia-Pacific and India, at IAG said the decision to remove its freighters was a significant step to address the key industry issue of overcapacity.

"In 2014 we entered into a strategic agreement with Qatar Airways which has provided further lift on key trade lanes and positioned the carrier for future growth. Later in the year, we went a step further with the launch of

EuroConnector, which has provided customers with a simple, cost effective and time-definite solution for shipping freight into, around and out of Europe," Cheetham said.

IAG said it will build on its performance this year by working in partnerships with other airlines and forwarder networks to improve its position.

Once again Southwest Airlines was the winner for the carrier that handled up to 399,999 tons of cargo in 2014. Wally Devereaux, senior director of cargo and charters for Southwest, said he credits the airline's success to its "fantastic network with a lot of flights in the lower 48" contiguous United States.

"Our high-frequency network allows for a lot of creativity, redundancy and capacity," Devereaux said.

Emphasizing what great people are in Southwest's employ, he said they load all of the cargo exactly like they do passenger luggage. For the most part, the handlers and ramp people are Southwest employees – therefore they take ownership in their roles.

This year Southwest is building a new automation system to allow it to put cargo on its own international flights as well as track cargo.

"It will also allow us to be a much more viable partner for our interline flights," Devereaux said. Internationally, Southwest flies to Mexico City, Cancun, Aruba, Montego Bay and Cabo San Lucas.

Asian airports close in performance

Hong Kong International Airport (HKIA), the world's busiest cargo airport for the last four years, was the Asian Diamond winner in the 1 million-tonnes-or-more category.

HKIA, which handled 4.38 million tonnes of cargo in 2014, is a major gateway connecting Hong Kong, mainland China and the rest of the world, including about 180 destinations worldwide. With its location near the center of several major Asian cities, half of the world's population is within a five-hour reach.

The airport has more than 40 parking stands for cargo aircraft, and four cargo terminal operators. As a whole, HKIA has cargo terminal capacity of 7.4 million tonnes a year.

Since HKIA opened in 1998 the growth in air cargo has been dramatic. The airport's Master Plan 2030, announced in 2011, estimated that its existing two-runway system would reach capacity somewhere between 2019 and 2022, but more recent forecasts suggest it will max out between 2016 and 2017. With the fast growth of freighters at HKIA and the associated growth of air cargo, expedited airport infrastructure is a challenge HKIA is prepared to face.

Also of special note were Certificate runners-up Singapore Changi (SIN) and Tokyo Narita (NRT), which ran a close second and third to HKIA in the 1 million-tonnes-or more category.

Kansai International Airport (KIX), near Osaka, Japan, was tops in the 400,000-to-999,999-tonnes category, and is also a repeat Diamond Award

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winner. The relatively new airport, built in 1994, has 15 freighter slots and is home to the FedEx Express North Pacific regional hub. The airport has 138 cargo flights a week, with extensive connections to China and other parts of Asia.

European airports retain crowns

Amsterdam's Schiphol Airport (AMS) once again won the Diamond Award for handling 1 million tonnes, or more, of cargo in 2014. Enno Osinga, senior vice president, cargo, said the airport's cargo volume was up 6.7 percent in 2014, three to four times more than other European airports.

"This is the gateway to Europe for China," Osinga said. "The Chinese airlines have decided to base their operations in Amsterdam." He said it's a logical choice because Amsterdam is a major distribution point for goods. Osinga said the Netherlands has a highly qualified, multi-lingual workforce, as well as a government and customs bureau that are both very business-oriented.

"The entire public/private sector is focused on international trade," Osinga said. "At Schiphol Cargo, we have focused, very strongly, in establishing that marketplace."

This year Osinga expects marginal growth only because KLM is reducing its cargo capacity. But the first quarter should see strong flower imports from Ecuador, Colombia and Africa for International Women's Day – a huge event in Russia – which took place on March 8. From Amsterdam, the flowers are trucked to Moscow, or flown to Russian destinations farther away.

Cologne-Bonn (CGN) ruled supreme in the 400,000-to-999,999-tonnes-handled category. Like Schiphol, it is a repeat winner from last year. Cargo director, Franz van Hessen, said Cologne is very lucky due to its location right in the middle of Europe's strongest cargo market.

"We have marketed ourselves very well," he said. "UPS, FedEx and DHL all have their gateways in Cologne, so their substantial [presence] helps us with further cargo business."

AIRPORTS NORTH AMERICA - 1,000,000+ TONNES

Airport	Performance	Value	Facilities	Operations	Overall	Award
Anchorage, ANC	117	116	115	120	117	Diamond
Louisville, SDF	117	111	113	118	115	Certificate
Chicago, ORD	98	97	101	99	99	
Memphis, MEM	96	95	102	96	97	
Miami, MIA	96	100	97	96	97	
Los Angeles, LAX	94	99	95	92	95	
New York, JFK	81	82	78	80	80	

AIRPORTS NORTH AMERICA - 400,000 TO 999,999 TONNES

Airport	Performance	Value	Facilities	Operations	Overall	Award
Ontario (CA), ONT	113	113	115	106	112	Diamond
Toronto, YYZ	104	105	110	107	106	Certificate
Cincinnati-Northern Kentucky, CVG	101	106	99	106	103	Certificate
Indianapolis, IND	107	98	101	101	102	Certificate
Dallas/Fort Worth, DFW	95	101	104	100	100	
Newark, EWR	97	97	95	104	98	
Houston, IAH	95	98	98	100	98	
Atlanta, ATL	89	84	90	87	88	
Honolulu, HNL	95	89	81	80	86	

AIRPORTS NORTH AMERICA - UP TO 399,999 TONNES

Airport	Performance	Value	Facilities	Operations	Overall	Award
Minneapolis-St. Paul, MSP	113	114	110	118	114	Diamond
Portland, PDX	109	113	114	117	113	Certificate
Philadelphia, PHL	110	115	117	109	113	Certificate
Vancouver, YVR	109	116	106	113	111	Certificate
Phoenix, PHX	108	109	108	106	108	Certificate
Seattle-Tacoma, SEA	113	108	103	106	108	Certificate
Boston, BOS	99	99	100	108	102	Certificate
Denver, DEN	97	99	100	101	99	
San Francisco, SFO	94	84	94	104	94	
Detroit, DTW	91	84	101	91	92	
Washington Dulles, IAD	87	82	82	76	82	

AIRPORTS EUROPE - 1,000,000+ TONNES

Airport	Performance	Value	Facilities	Operations	Overall	Award
Amsterdam, AMS	117	115	113	118	116	Diamond
Frankfurt, FRA	106	99	109	103	104	Certificate
Paris De Gaulle, CDG	84	99	91	88	90	
London-Heathrow, LHR	92	87	88	91	90	

AIRPORTS EUROPE - 400,000 TO 999,999 TONNES

Airport	Performance	Value	Facilities	Operations	Overall	Award
Cologne/Bonn, CGN	116	113	117	118	116	Diamond
Leipzig, LEJ	103	101	108	99	103	Certificate
Liege, LGG	92	92	101	98	96	
Milan, MXP	95	95	92	94	94	
Brussels, BRU	92	92	90	91	92	
Istanbul, IST	89	87	77	82	84	

AIRPORTS EUROPE - UP TO 399,999 TONNES

Airport	Performance	Value	Facilities	Operations	Overall	Award
Zurich, ZRH	124	124	129	132	127	Diamond
Frankfurt-Hahn, HHN	107	113	105	139	116	Certificate
Vienna, VIE	120	109	113	121	116	Certificate
Munich, MUC	109	117	109	112	112	Certificate
East Midlands, EMA	116	109	105	103	108	Certificate
Manchester, MAN	116	104	100	103	106	Certificate
Copenhagen, CPH	106	109	97	102	103	Certificate
Madrid, MAD	103	103	101	98	101	Certificate
Rome, FCO	77	92	79	95	86	

Van Hessen said Eurowings, a subsidiary of Lufthansa, would be positioning itself in Cologne this year, and Slovakia's Air Cargo Global has decided to operate out of Cologne as well. "In the general cargo field we're growing and we expect to grow more," Van Hessen said. "Our entire customer base is growing."

Europe's up-to-399,999-tonnes-handled category was one of the most competitive fields in the ACE awards, with eight of the nine finalists earning above-average certificates. Perennial favorite Zurich Airport (ZRH), however, took the prize, with a dense road network connecting it to economic centers not only in Switzerland, but also in southern Germany, France, Italy and Austria. Zurich is small, yet big enough to process a large amount of freight quickly and efficiently at peak times.

Puerto Rico jumps four spots

First-time winner San Luis Muñoz Marin International Airport (SJU) in San Juan, Puerto Rico, was the clear victor in Latin America, with 138 points – the highest overall score in the entire ACE survey.

CEO Augustin Arellano said the airport owes its success to its location between North and South America, which facilitates exporting and importing goods between the Americas and Europe. Fifty percent of the cargo is imports, he said, while the other half is exported to North or South America, or to Europe. Top exports include perishable food, agricultural products, flowers, manufactured goods and pharmaceuticals.

This year, SJU is working on a major revamp to modernize the cargo area, including auxiliary installations like ramps and illumination.

Dubai takes Doha's title

It's no surprise that Dubai International (DXB) was the facility winner in this category, taking the title from Doha, Qatar, since the combined freight handled by it and neigh-

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AIRPORTS LATIN AMERICA

Airport	Performance	Value	Facilities	Operations	Overall	Award
San Juan, SJU	134	135	140	144	138	Diamond
Mexico City, MEX	117	118	123	126	121	Certificate
Bogota, BOG	107	100	101	96	101	Certificate
Santiago, SCL	90	98	102	99	97	
Campinas, VCP	95	100	84	94	93	
Lima, LIM	92	87	101	89	92	
Sao Paolo, GRU	74	78	69	76	74	
Buenos Aires, EZE	74	74	72	66	71	

AIRPORTS AFRICA, INDIA, & MIDDLE EAST

Airport	Performance	Value	Facilities	Operations	Overall	Award
Dubai, DXB	121	118	133	126	125	Diamond
Bahrain, BAH	126	118	125	129	124	Certificate
Doha, DOH	108	107	105	106	107	Certificate
Sharjah, SHJ	108	101	102	100	103	Certificate
Johannesburg, JNB	92	94	93	101	95	
Abu Dhabi, AUH	95	97	91	95	94	
Mumbai, BOM	94	96	95	89	93	
Madras, MAA	84	97	89	96	91	
New Delhi, DEL	88	89	94	88	90	
Nairobi, NBO	84	83	73	72	78	

SURVEY CRITERIA FOR AIRPORTS

PERFORMANCE
Fulfills promises and contractual agreements; dependable, prompt, and courteous customer service; allied services - ground handling, trucking, etc.

VALUE
Competetive rates; rates commensurate with service level you require; value-added programs

FACILITIES
Apron, warehousing, perishables center; access to highways and other modes of transportation

OPERATIONS
Customs, security, FTZ

More about the structure and methodology of the ACE awards can be found at aceawards.aircargoworld.com/project/ace-methodology/

AIRPORTS ASIA - 1,000,000+ TONNES

Airport	Performance	Value	Facilities	Operations	Overall	Award
Hong Kong, HKG	123	119	119	125	122	Diamond
Singapore, SIN	123	118	119	124	121	Certificate
Tokyo-Narita, NRT	123	117	113	125	119	Certificate
Incheon, ICN	115	108	110	107	110	Certificate
Taipei, TPE	100	111	98	99	102	Certificate
Bangkok, BKK	88	87	88	91	89	
Guangzhou, CAN	85	87	92	87	88	
Shanghai-Pudong, PVG	80	84	82	79	81	
Beijing, PEK	61	69	79	63	68	

AIRPORTS ASIA - 400,000 TO 999,999 TONNES

Airport	Performance	Value	Facilities	Operations	Overall	Award
Osaka-Kansai, KIX	132	123	133	133	130	Diamond
Kuala Lumpur, KUL	107	112	112	118	112	Certificate
Tokyo-Haneda, HND	116	106	116	110	112	Certificate
Chengdu, CTU	100	95	90	96	95	
Shenzhen, SZX	88	103	98	89	95	
Jakarta, CGK	88	90	83	95	89	

Continued from page 39

boring Dubai World Central (DWC) jumped 18.1 percent in 2014. Ali Zaigham, manager of press relations, said that the airport's success is the result of farsighted vision of the leadership that correctly recognized the aviation sector as being at the core of the nation's economy. He said that is why Dubai has been a supporter of open skies policy since the opening of Dubai International in 1960.

The last major expansion at DXB will be completed this year in the form of Concourse D, which will increase passenger capacity from 75 million to 90 million per annum. The airport expects 79 million passengers to pass through this year.

North America: Two repeats, one new competitor

Location, location, location is what Trudy Wassel at Ted Stevens Anchorage International Airport (ANC) cites as the main reason the airport is number one yet again for cargo handled in the 1 million-or-more-tonne category. Anchorage, (Alaska) is a nine-and-a-half-hour flight from 90 percent of the industrialized world.

"Everyone stops here for gas," Wassel, division operations manager, said. "We have three runways, a record of never being closed, and we're very security conscientious. We have great services and great ground handling."

She said cargo volume is inching up as the U.S. economy improves. Also, Alaska has special "starburst" cargo transfer rights, a law that permits air cargo to be transferred from a foreign cargo carrier to another cargo carrier without being considered to have broken its international journey. For example, a large 777 freighter coming in from abroad, can unload its cargo onto smaller cargo aircraft headed for multiple destinations in the lower 48, then go back to its base to load up again.

"The bottom line is they (carriers) want to make money, and they can come here, get fuel, and great service," Wassel said.

The North American airport that took home the Diamond award for handling 400,000 to 999,000 tonnes was LA/Ontario International Airport (ONT), which was in third place in this category last year. Jess Romo, manager of the Southern California airport, said the facility has two tremendous partners on the field: UPS and FedEx Express.

"They account for well over 90 percent of the cargo movement at Ontario," Romo said. "Our goals are to provide as attractive an environment as possible, and this speaks directly to cost efficiencies that result in very reasonable landing fees, long runways located on a well-maintained airfield, and great weather throughout most of the year."

He said UPS made ONT its western region hub in the early '90s, and recently completed construction of a new sorting facility that will enable more efficient handling of its air and ground business at ONT. FedEx also recently reconfigured its ramp areas and worked closely with the airport to resize cargo hardstands to better accommodate its fleet mix, which is slated to up-gauge in the coming years. Both of these initiatives will help UPS and FedEx prepare for increased cargo uplift as warranted by overall business cycles. ONT has seen

AIR CARRIER - 1,000,000+ TONNES

Carrier	Customer Service	Performance	Value	Information Technology	Overall	Award
Emirates Sky Cargo	110	112	109	113	111	Diamond
Lufthansa	110	110	99	114	108	Platinum
Korean Air	110	109	106	106	108	Gold
Singapore Airlines	107	107	103	107	106	Certificate
Cathay Pacific	107	108	103	107	106	Certificate
All Nippon Airways	103	106	108	105	105	Certificate
FedEx Express	102	103	97	114	104	Certificate
Qatar Airways	104	99	105	100	102	Certificate
UPS Air Cargo	96	97	96	101	98	
DHL	97	95	97	98	97	
China Airlines	95	97	101	90	96	
Air France-KLM	95	95	94	98	96	
TNT Airways	98	93	93	94	95	
China Southern Airlines	93	93	98	89	93	
Air China	90	93	99	88	92	
China Cargo Airlines	80	84	92	75	83	

AIR CARRIER - 400,000 TO 999,999 TONNES

Carrier	Customer Service	Performance	Value	Information Technology	Overall	Award
Japan Airlines	106	111	110	115	111	Diamond
IAG	103	107	107	113	107	Platinum
EVA Air	108	107	106	105	107	Gold
Thai Airways	106	109	104	103	106	Certificate
Etihad Airways	105	102	104	107	105	Certificate
Cargolux	106	108	103	99	104	Certificate
Asiana Airlines	104	104	100	98	101	Certificate
American Airlines	100	100	97	101	100	
LAN Cargo	103	98	91	98	98	
AirBridge Cargo	99	96	102	93	97	
Malaysia Airlines	98	96	98	96	97	
Delta Air Lines	92	92	96	98	95	
United Airlines	91	91	94	99	94	
Saudi Arabian Airlines	90	92	94	88	91	
Turkish Airlines	88	86	92	86	88	

year-over-year cargo volume growth since 2010, and Romo expects 2015 to be another good year.

Minneapolis-Saint Paul International Airport (MSP) is the winner for the airport handling up to 399,999 tonnes of freight, a repeat of last year. Eric Johnson, the director of commercial management and airline affairs for MSP, said part of the airport's success is due to the fact that Minneapolis-Saint Paul is home to 19 Fortune 500 companies – 3M, General Mills and Target among them. He said the vast majority of the cargo handled through MSP is carried by FedEx and UPS, since they both have significant facilities at the airport. Johnson said DHL, also a big player at the airport, is looking at a proposal to expand its facilities at MSP this year.

Minneapolis-Saint Paul was hit by hard winter weather this year, but Johnson said it is always ranked near the top for its ability to remove snow. "It's a very rare occasion that we close," he said.

ACW

SURVEY CRITERIA FOR CARRIERS

CUSTOMER SERVICE
Claims handled with expedience; problems solved in a prompt and courteous manner; professional and knowledgeable sales force

PERFORMANCE
Fulfills promises and contractual agreements; dependable; accomplishes scheduled transit times

VALUE
Competetive rates; rates commensurate with service level you require; value-added programs

INFORMATION TECHNOLOGY
Tracking and tracing of shipments; Internet; electronic commerce capabilities

AIR CARRIER - UP TO 399,999 TONNES

Carrier	Customer Service	Performance	Value	Information Technology	Overall	Award
Southwest Airlines	126	131	129	118	126	Diamond
Virgin Atlantic	114	115	115	121	116	Platinum
Alaska Airlines	121	115	106	117	115	Gold
Nippon Cargo Airlines	112	115	108	113	112	Certificate
Polar Air Cargo	107	109	109	111	109	Certificate
Dragonair	108	105	111	112	109	Certificate
Martinair	105	107	107	115	108	Certificate
Swiss WorldCargo	110	107	102	113	108	Certificate
Air Canada	102	106	103	113	106	Certificate
Air New Zealand	106	111	99	106	106	Certificate
TAM Airlines	102	102	102	102	102	Certificate
Qantas	104	101	96	107	102	Certificate
Amerijet International	100	100	96	97	98	
Vietnam Airlines	99	99	104	90	98	
Jet Airways	96	93	98	100	97	
Hong Kong Airlines	94	90	98	97	95	
Kuwait Airways	97	95	91	96	95	
Finnair	96	94	92	94	94	
Avianca Cargo	95	94	94	93	94	
US Airways	93	90	95	97	94	
Gulf Air	91	94	93	95	93	
Air India	88	86	96	96	91	
South African Airways	89	85	89	94	89	
Aeroflot	92	90	88	80	88	
Hainan Airlines	86	86	94	71	85	
Ethiopian Airlines	84	78	85	82	82	

More about the structure and methodology of the ACE awards can be found at aceawards.aircargoworld.com/project/ace-methodology/

(Left to right): Host JJ Hornblass, publisher of Air Cargo World *magazine, with award-winners Franz Van Hessen, of Cologne-Bonn Airport; Cissy Chan, of Hong Kong International Airport; Trudy Wassel (partly obscured), of Ted Stevens Anchorage International Airport; Saskia Van Pelt, of Amsterdam Airport Schiphol; Thilo Schaefer, of Lufthansa Cargo; Toshihiro Shimizu, of Japan Airlines; Marco Gredig, of Zurich Airport; Nabil Sultan of Emirates Airlines; Jian Xiao, of IAG Cargo; Clay Sun, of EVA Airways Corp.; Jaedong Eum of Korean Air; and co-presenter Mark Whitehead, of Hactl.*

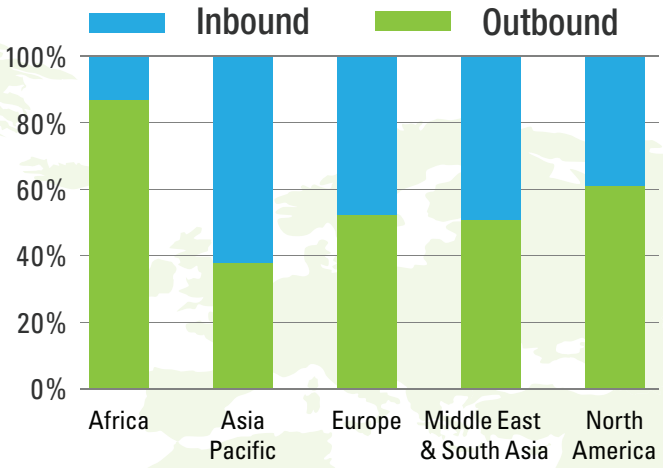
IATA: Total Freight Growth by Region

REGION	% GROWTH YoY in FTK Jan. 2015	2014 vs 2013
Africa	5.2%	6.7%
Asia / Pacific	6.9%	5.4%
Europe	-1.2%	2.0%
Latin America	-6.4%	0.1%
Middle East	9.2%	11.0%
North America	-1.0%	2.4%
Industry	**3.2%**	**4.5%**

Source: IATA

Airfreight volumes, measured in freight tonne kilometers (FTKs), for January 2015 rose by a moderate 3.2 percent, year-over-year, which was "relatively slow," given the 4.5 percent annual growth in 2014, IATA said. The Middle East, again, led the growth with a 9.2 percent rise, y-o-y, followed by Asia-Pacific, at a strong 6.9 percent growth rate. Europe and North America, however, had minor contractions for the month, while Latin America, continues it's slump with a 6.4 percent decline.

WorldACD: Trade Imbalance, Central & South America (Jan. 2015)



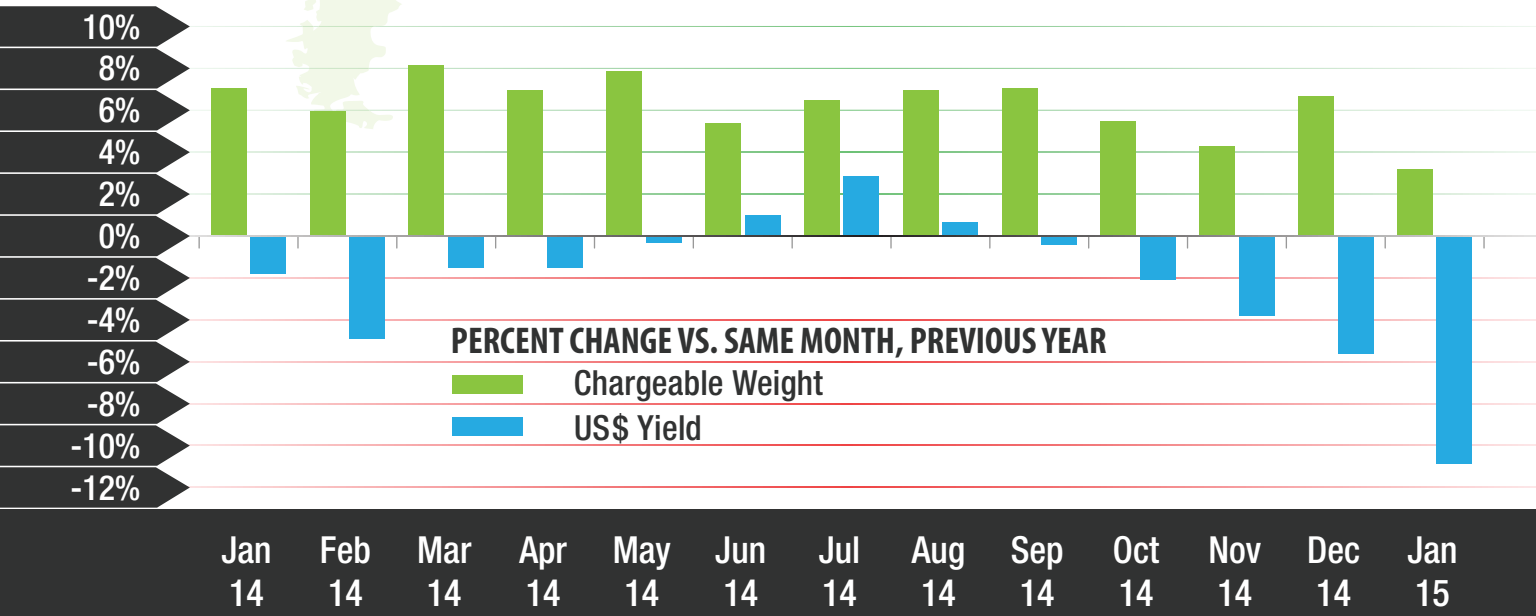
Source: WorldACD

In the January figures from WorldACD, the Central and South American market is a net exporter to all regions except for the Asia-Pacific region, which has only 38 percent outbound traffic. The region with the greatest imbalance was Africa, which accepted 87 percent of outbound shipments from Latin America and represented only 13 percent inbound. The trade with the Middle East and South Asia, however, was basically in balance, with 51 percent outbound and 49 percent inbound.

WorldACD: Worldwide Chargeable Weight & Yield (Jan. 2015)

The drop of almost 11 percent, year-over-year, in yields for worldwide cargo in January may seem distressing, but WorldACD said that "alarm bells can remain silent." Nearly two-thirds of the decrease may be attributed to a decrease in surcharges, based on worldwide AWB data from the more than 50 airlines participating in WorldACD. Also, yields were affected by the deterioration of most currencies against the U.S. dollar. At the same time, global volumes were up 3.2 percent, y-o-y, which was relatively strong considering that the recovery had already begun in January 2014. The January 2015 figures may not represent a bad start to the year, but it remains to be seen whether it's a return to "business as usual," WorldACD said.

Source: WorldACD



AIR CARGO ATTORNEY

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PET SHIPPER/PET MOVERS

EVENTS

CARGO LOGISTICS

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

Hard lessons from the west coast port crisis

by Brandon Fried

When McDonald's restaurants in Japan could no longer wait for French fries delayed by the West Coast port labor slowdown, the company turned to air cargo, shipping 2,600 tonnes from the United States to Japan.

With that, the popular food chain joined other companies affected by the port congestion, which has had a significant impact on the entire supply chain – particularly those who rely on the West Coast ports to move their goods and products around the world and throughout the country. Labor and management may have reached an agreement to end the deadlock, but now we are left to ponder its residual impact and what lessons, if any, were learned.

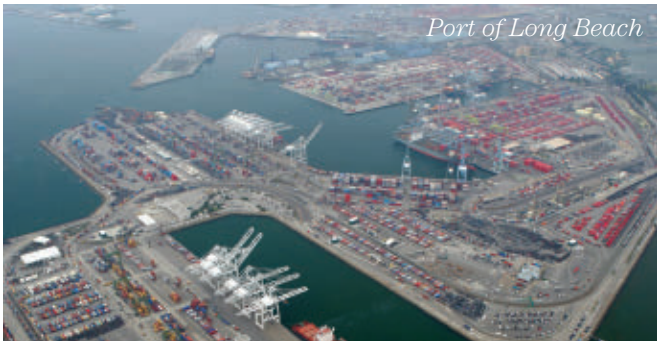
The 29 West Coast ports that were affected by the slowdown together handle more cargo volume than any other region in the U.S., and an estimated 12.5 percent of the nation's GDP. During the negotiations, the work that was stopped during the Presidents' Day long weekend resulted in an estimated cost to U.S. trade of US$1.9 billion a day.

During the port crisis, airlines offering cargo services saw their volumes reach new heights as shippers on both sides of the Pacific clamored for space on freighters and in the bellies of passenger jets. November shipments from Asia-Pacific to North America increased 17 percent, year-over-year, with yields improving 9 percent.

The International Longshore and Warehouse Union (ILWU), which represents workers at West Coast ports, places blame for the crisis on the ocean carriers that have added new, larger ships and also decided to exit chassis ownership. The larger vessels have up to three times the carrying capacity of previous-generation ships and save about 25 percent in operating costs, with full loads. Today, chassis are owned mostly by third-party leasing companies or truckers, and this has resulted in shortages that have played a role in increased truck waiting time and congestion.

> "Unfortunately, while the West Coast ports and their labor union may be adversaries, both are fighting the even larger opponent of an internet-driven economy..."

Cities and states, anxious to attract increased economic activity, have also played a role, attracting shipping lines with low fees while subsidizing the true cost of port operations and expansion. The new ships save money for carriers but increase port costs by billions of dollars, as harbors need to be dredged to accommodate their larger size.



Port of Long Beach

The Pacific Maritime Association, which negotiates labor contracts with the ILWU on behalf of the West Coast ports, claims that ILWU members pay no health care premiums, pay $1 per drug prescription and receive generous pensions. Workers receive a compensation package that is among the most lucrative for blue-collar workers in the United States. Full-time workers earn an average of $147,000, annually, along with a non-wage benefits package costing more than $82,000 per active worker, per year.

Unfortunately, while the West Coast ports and their labor union may be adversaries, both are fighting the even larger opponent of an internet-driven economy, where retailers selling computers and flat-screen TVs are putting pressure on transportation providers. How many of us have seen an item in a store and purchased the same one for a lower price through an internet provider? As a result, large retailers are less willing to pay viable rates for ocean transportation because their customers will not allow a corresponding increase in merchandise cost. During one of the worst global recessions in history, budget-minded consumers seeking savings favored big-box discount retailers such as Wal-Mart, Target and Costco for inexpensive prices, most likely derived from aggressive supply-chain negotiating, including transportation rates.

Despite the massive volumes of cargo transiting through the ports of Los Angeles and Long Beach, shippers and importers may have learned a lesson during the slowdown and the nine-month negotiation process. Some shifted cargo to Canadian and Mexican ports and have begun to consider the future viability of bypassing the West Coast in favor of the East as soon as the new generation of larger ships can transit the newly dredged Panama Canal. The lesson learned is that importers are savvy and will use any means necessary, including air cargo, to get products onto the shelves.

As West Coast dock workers enjoy the benefits of this new contract, this lesson should be kept in mind, as the next negotiation and slowdown is likely to be met with better-prepared customers with adjusted, more flexible supply chain strategies. These adjustments may avoid U.S. port disruptions – or worse, any port in our country – in favor of inexpensive destinations in Mexico and Canada willing to accommodate the challenge of new market realities. ACW

Events

APRIL 7-9

Intermodal South America – São Paulo, Brazil: This three-day conference will include presentations from the main suppliers in all transport modals. The event promotes businesses and partnerships, and works as a platform for launchings, brand reinforcement, joint-ventures, sales and networking. For more information, *visit www.intermodal.com.br/en*

APRIL 14-16

Logipharma Europe 2015 – Montreux, Switzerland: Now in its 14th year, Logipharma brings together personnel from the leading pharmaceutical companies responsible for logistics, supply chain management, distribution, sourcing/procurement, planning, transportation, supplier relations and demand management. For more information, visit *www.clocate.com/conference/Logipharma-2015/294*

APRIL 19-21, 2015

The CNS Partnership Conference – Orlando, U.S.: More than 500 air cargo professionals from the U.S. and around the world are expected to attend this year's CNS show, including executives from airlines, freight forwarders and shippers. Check out daily news updates at the conference, sponsored by *Air Cargo World*. For more information, visit www.*cnsc.net/events/Pages/cns-partnership-conference.aspx*

APRIL 21-22, 2015

Cargo Facts Asia – Hong Kong, China: Produced by *Air Cargo World*'s sister publication, *Cargo Facts*, and Air Cargo Management Group, Cargo Facts Asia brings together the world's air freight community for meaningful networking and strategy discussions centered on Asia. For more information, visit *www.cargofactsasia.com*

APRIL 25, 2015

Cargo Airline of the Year awards – London, England: Cargo Airline of the Year Awards will be announced at the Lancaster London Hotel. For more information, visit: *http://www.aircargonews.net/cargoairlineoftheyear/book*

APRIL 28-30, 2015

Multimodal – Birmingham, U.K.: One of the U.K. and Ireland's freight transport, logistics and supply chain management events. For more information, visit: *www.multimodal.org.uk*

APRIL 26-29, 2015

28th Annual IGHC Ground Handling Conference – Istanbul, Turkey: IATA's Ground Handling Conference, hosted by Turkish Airlines, will include sessions on such topics as global industry standards, ramp innovations and business growth. For more information, visit *www.iata.org/events/ighc/Pages/index.aspx*

MAY 5-8, 2015

Air Cargo Europe – Messe Munchen, Germany: This 7th annual exhibition and conference usually attracts more than 50,000 visitors from 110 countries. For more information, visit *www.aircargoeurope.com*

MAY 11-13, 2015

The 9th Annual WCA Projects Conference – Prague, Czech Republic: Each year, the WCA Projects Conference gives fellow forwarders around the world a chance to mingle, network over the latest large-scale freight projects and discuss how to meet their clients' needs at a time when integrators are gaining market share. For more information, visit www.*conference.wcaworld.com/wcaprojects2015/info/eng/about.php*

SEPTEMBER 1-3, 2015

Air Cargo Handling Conference – Bangkok, Thailand: The seventh annual ACH conference will be held at the Shangri-La Hotel, the first time this event has been held outside of Europe. Panel discussions, workshops and focused presentations covering the most up-to-date developments in airport and cargo operations. For more information, visit *evaint.com/our-events/air-cargo-handling-conference*

SEPTEMBER 21-23, 2015

Freighters and Belly Cargo World Conference – Budapest, Hungary: Held this year for the first time in Eastern Europe, industry professionals have the opportunity to debate, discuss, listen, learn and network. For more information, visit: *www.aircargonews.net/freighters-and-belly-world-conference.html*

SEPTEMBER 27-30, 2015

Council of Supply Chain Management Professionals conference – San Diego, Calif.: Over 95 educational sessions, 15 continuing education units for SCPro certification holders, networking and exhibits. For more information, visit: *cscmp.org/annual-conference/2015-registration*

OCTOBER 26-28, 2015

Cargo Facts Symposium - Miami, U.S.: The Cargo Facts Symposium is where the air cargo aviation community gathers to network and shape the future of the industry. Presented by Air Cargo Management Group, *Air Cargo World*'s new sister company, the symposium promises the latest industry information and updates, the highest-quality presentations, and accessible and thought-provoking interactive discussions. For more information, visit *http://cargofactssymposium.com*

NOVEMBER 4-6, 2015

Air Cargo Americas - Miami, U.S.: The Air Cargo Americas International Congress and Exhibition in 2014 was the largest air cargo exhibition in the Western Hemisphere. For more information, visit *www.aircargoamericas.com*

DECEMBER 14-16, 2015

Life Sciences and Pharmaceuticals Conference – London, U.K.: This will be of interest to those engaged in the supply and distribution of pharmaceutical and life sciences products, including product wholesalers, airlines and air cargo suppliers, ground handlers and more. For more information, visit *www.aircargonews.net/lifescienceandpharma-conference.html*

Advertiser's Index

Ned Laird is the founder of Air Cargo Management Group

Where has all the heavyweight gone?

by Ned Laird

What happened to the U.S. domestic overnight, heavyweight freight business over the past six years? FedEx and UPS have some of the higher-yielding, mostly second-day traffic on board today. BAX Global, Emery, CF Air Freight, DHL and Kitty Hawk all operated five-night-per-week overnight delivery systems via their own dedicated Midwest hubs and carried, collectively, 57 million pounds a night of door-to-door heavyweight traffic.

The answer: It's gone, due to poor service, low yield and limited IT investment and performance available to shippers/customers. The less-than-truckload (LTL) truckers at the same time added online tracking with linehaul at roughly 30 percent of air service costs for roughly comparable service and delivered much, if not most, of this traffic door-to-door in two to five days, coast-to-coast. The value proposition for air transportation-based service was judged by shippers to not be worthwhile.

FedEx and UPS today carry 2 million pounds per night of "domestic express freight" and currently have no real competition for this domestic next-day and second-day door-to-door traffic. Airfreight forwarders and third-party logistics providers today use a combination of passenger airline bellies, road feeder services, and LTL truckers for their remaining domestic "airfreight accounts."

Further, UPS and FedEx today offer extensive LTL options of their own, along with their overnight and second-day guarantee service, which in most cases requires air linehaul.

Another capacity change is represented by the substitution of 777 and A330 aircraft on many scheduled domestic passenger flights providing four to seven LD 7-sized containers on each frequency. Innovators like Southwest Airlines designate the aft belly compartment on 737s solely for airfreight on most flights providing predictable, low-cost air linehaul capacity that generated more than US$250 million in annual revenue in 2014 for SWA.

With jet fuel at $2.50 per gallon in late March, the incremental cost of carrying freight on passenger aircraft has been reduced by 50 percent on larger aircraft over the previous nine months. Freighter operations, where fuel represented 50 percent-plus of direct operating costs at $120 barrel oil, may see a revival if oil remains at current prices through 2015. The 747-400F and MD-11F were rendered uneconomical due to high fuel prices following the 2008 market collapse. Some of these aircraft may return from the desert if oil remains below $50 per barrel.

Do these current economic circumstances suggest a return of U.S. domestic overnight freighter aircraft operations? Probably not now, or ever, except for growth of premium express freight for UPS and FedEx at the top end of the service/yield curve. While FedEx originated premium guaranteed delivery, the heavyweight commodity sector never provided sufficient value for money, nor was the service offered on a consistent basis that could be measured by forwarders and shippers with robust IT systems.

International air cargo transport, which is still controlled for the most part by freight forwarders, has different service characteristics requiring individual customs procedures, ground-handling, and often distribution services at destinations that vary from one shipper or commodity to the next. These are difficult for UPS/FedEx/DHL to provide, especially for large consignments.

Expeditors, Kuhne + Nagle, Schenker and Nippon Express have successfully defended their key customers from significant penetration by the integrators in most markets due to the specific shipment handling characteristics of heavyweight freight consignments. Adoption of e-freight by carriers and forwarders, which is moving very slowly, is an absolute must if forwarders/air carriers are to maintain control of international air tonnage in the future. IATA says about 25 percent of forwarders, by volume, have embraced e-freight to date. The higher prices charged by FedEx/DHL/UPS for international express freight, door-to-door, will eat into the legacy air cargo business, if the services offered by the forwarder/air carrier partnership does not improve, near-term. Universal e-air waybill (e-AWB) adoption made mandatory is a good starting place.

The rollup of Purolator/CF/Emery to create UPS supply chain solutions, now called "UPS Logistics," has given shippers almost all the transport options required from one company. DHL, likewise, has a complete service offering and FedEx is currently building out the forwarder and 3PL piece of its offering as well.

The combination of services under the UPS Logistics banner, on display on the ramp.

Will the forwarders and air carriers add seamless IT capability, using the e-AWB, which the integrators created in the 1990s? Or will the international air cargo business go through the same migration back to surface transportation as the U.S. domestic air cargo industry experienced over the past six years?

The handwriting is on the wall. The growing Middle East giants, led by Emirates, are in the vanguard of change in e-freight. Qatar Airways Cargo, now led by Ulie Ogiermann, former CEO of Cargolux, clearly understands forwarder needs and air carrier deficiencies on the service side.

Lower oil prices may be the catalyst that gets air cargo growth back on a solid, sustainable footing. Let's hope the lessons of the last six years have been well-learned by both carriers and forwarders.

Ned Laird, the founder of Air Cargo Management Group (acmg.aero) and the Cargo Facts *newsletter, is a long-time air cargo industry professional and former Boeing executive. The Manifest will appear quarterly.* ACW