

Air Cargo World

THE SOURCE FOR AIRFREIGHT LOGISTICS

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FREIGHT 50

THE DEFINITIVE RANKING OF THE WORLD'S TOP 50 CARGO CARRIERS

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AT AIRBRIDGECARGO?

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WHEN WILL DRONE TECHNOLOGY
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FREIGHT 50

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Editor's Note

What's in a number?

"Numbers don't lie." That's what they always say. "Do the math. Make sure it all adds up."

It's usually good advice, but it's not always so simple. While numbers themselves are usually innocent, it's who's doing the counting – and who may be withholding other numbers – that really matters in the end.

In this issue, we discuss a lot of numbers – tonnage, FTKs, net income – that can help us better understand trends in the air cargo logistics business, but it's never easy to reach definite conclusions. Here are a few important numbers for this month:

50 – That's the number of large cargo carriers that we list in our "Freight 50" cover story (see page 26). Supplied by our friends at the International Air Transport Association (IATA), the annual list of top 50 cargo carriers provides one of the more definitive snapshots of the major players in the industry, but it's hardly the last word on carrier performance. Some airlines don't report their figures to IATA. Some may have been late sending their data before the deadline. Others, such as DHL, carry so much of their cargo on other carriers that it's almost impossible to get a firm grasp on the total and to avoid double-counting.

That's why, for our Freight 50 ranking, we delved deeper into the data, with a little help from our sister publication, *Cargo Facts* (www.cargofacts.com), and provided a modified list, based on scheduled freight tonne kilometers carried, and ranked according to major airline groups, where applicable, as well as individual carriers. We think this will give readers the best possible sense of which carriers have the greatest lift.

4 – That's the number of propellers used on a standard "quadcopter" unmanned aerial vehicle (UAV), the subject of our next feature (see page 32). Just a year or two ago, the idea of using drones in any serious cargo delivery capacity may have sounded ludicrous. But in the last few months, some express companies and cargo carriers have begun to take the technology seriously and are beginning to take steps toward creating viable drone-based systems.

The question, however, will be the degree to which governments embrace the use of drones in the logistics industry. At the moment, UAVs are severely limited in their capabilities due to stringent regulations. But as UAV systems become larger and more sophisticated and carriers make stronger business arguments in favor of drones, there may come a time when the regulations soften and your next express package may land at your doorstep. Literally.

10 – That's the number of countries that make up ASEAN, the Association of South East Asian Nations, members of which are currently riding a wave of e-commerce success that is transforming the logistics landscape across the region. From a rising middle class in countries like Indonesia and Malaysia, to a growing network of low-cost factories in Vietnam and the Philippines, Southeast Asia is becoming an e-commerce powerhouse in terms of both affordable labor supply and consumer demand. On page 36, we talk to some forwarders in the region and discuss how these revving economic engines are giving China a run for its money – and its market share.

Speaking of digits, here are a few more: +1-206-801-8478. Dial those and let's chat sometime about numbers that are affecting your air cargo logistics business. We want to hear from you – you can count on that.



Randy Woods

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Going further.



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Fly forward

LAN Cargo, TAM Cargo, Mas Air and LAN Cargo Colombia introduced “Cargo Rewards” in August, a new corporate rewards program that allows cargo customers to accumulate credit for travel for each ton of cargo they book internationally. The program is for cargo agents who use LATAM Airline Group’s network and cargo affiliates. With each shipment, loyal customers are rewarded with cargo credits, which can be exchanged for tickets on oneworld airlines.



Photo: © MK2010 @WikiMedia

Show me the (lost) money

A shipment of 13 bags of cash worth approximately NZ\$10 million (US\$6.5 million) bound for the Bank of China on the Mainland was being shipped in late July from Cathay Pacific’s cargo terminal at HKIA. The box containing the money, however, was transferred by trailer with no guards – bad idea. When it stopped at the HKIA cargo terminal, only 10 bags could be found. Two were later recovered, but a third bag, containing about \$654,000, was never seen again. The transportation service responsible for the transfer, Hong Kong Airport Services, a wholly owned subsidiary of Cathay Pacific, will likely have to file a claim with its insurer to cover the loss, said insurance-sector lawmaker Chan Kin-por. Meanwhile, a Hong Kong Legislative Council security panel member has asked Cathay Pacific to review its transport procedures – good idea.



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Ghost of Quixote

In 2008, just before the recession took Spain in its grip, an airport called Ciudad Real opened in La Mancha, home of one of the country’s most famous deluded fictional characters, Don Quixote. By 2010, the literary connection was prophetic, as the quixotic project quickly went belly-up and has been out of service ever since. Built at a cost of just over €1 billion, the “ghost airport” was recently snapped up at auction by Chinese consortium, Tzaneen International, which was the only bidder, for a bargain at just €10,000. Assets included a 4,000-meter-runway (perfect for tilting at phantom windmills), aircraft hangars and a control tower. Tzaneen and other Chinese companies have indicated they want to purchase the terminal building and parking garages, and convert the airport into a European point of entry for e-commerce cargo. But not just yet – because Tzaneen’s offer fell well below 70 percent of the €40 million asking price, the court presiding over the sale has given other bidders until Sept. 15 to submit a better offer. Any takers?

Say it ain’t so

The Boeing Co. is considering moving key parts of its operation to other countries if the United States Congress doesn’t revive the Export-Import Bank, which expired at the end of June, according to Boeing CEO James McNerney. McNerney said Boeing is the biggest beneficiary of the bank in total dollars lent to other countries to buy U.S. goods, but there are more actual deals for smaller and midsize companies than for big companies. “Every time a 777 lands in Beijing, it takes seven or eight thousand small businesses to Beijing,” McNerney said. Is Boeing bluffing? We’ll wait and see. At last look, the Senate voted 64-29 on Aug. 3 to add an amendment to a highway bill that could revive the bank.

Now hear this

A special, super-size loudspeaker built by animal communication researchers at the University of Vienna was transported by logistics firm Logwin to Addo Elephant National Park in South Africa, where it will send out ultra-low-frequency sounds of other elephants – inaudible to the human ear – in order to observe the reactions of members of the species. Logwin transported the highly sensitive equipment to the elephants over several legs by truck and aircraft – ensuring that protective measures were observed over the entire journey. The loudspeaker was taken as airfreight from Vienna to Port Elizabeth, where the journey continued by truck to the national park.



SkaterBIRD migration

DSV Global Transport and Logistics transported a massive stainless steel sculpture that weighs 3,500 pounds, is 22 feet tall, 6 feet wide and 10 feet deep, from China to Dallas. The sculpture, called “SkaterBIRD,” was created by artist Brad Oldham at his foundry in China, but it did not “skate” easily. The journey took the bird around the West Coast, avoiding the massive back-ups from the port slow-down earlier this year; sailed through the Panama Canal; was slammed with unprecedented weather along the East Coast during vessel rotation; delayed by a Houston Port Canal collision; finally making its way into Dallas without damage or incident. Perhaps this bird should have flown?



Gerber aims for LH Cargo's 2020 vision

Three years ago, Lufthansa Cargo embarked on an ambitious future strategy to modernize its cargo operations – a strategy inherited by Peter Gerber, CEO of Lufthansa Cargo. Called “Lufthansa Cargo 2020,” the program involved the purchase of five new freighters, an overhaul of its IT system, and, as the crown jewel, a new, automated US\$775 million cargo terminal at Frankfurt, to be called LCCneo that would increase productivity by 35 percent.

Along the way, however, a wrench was thrown into the plans. Earlier this year, while Gerber was still months into his new role as CEO of LC, revenues failed to meet expectations. Lufthansa said the plan was too costly for now, and would be delayed indefinitely.

Throughout this difficult time, Gerber has remained upbeat about the future of the “2020” program.

Air Cargo World spoke with him about it, as well as about some creative ventures by the German carrier.

How is the Lufthansa Cargo 2020 program shaping up?

It's moving along – our next steps will just be trying to get every completed project integrated right now. The big news is that we just finished the rollout of our IT project [on June 30], where we got rid of our old legacy systems and replaced it with a new system called the IBS iCargo system. This new system is closely linked to the freight handling system and it's workflow-based, so it will make our operations much more efficient. iCargo IT went live at 120 stations in its network, including the major hubs at Vienna, Munich and Frankfurt.

With the recent postponement of the US\$775 million LCCneo project, how will this affect the 2020 program?

It was unfortunate that the Lufthansa Cargo Center [LCCneo] had to be put on hiatus, but the reason was a purely financial decision. When [LH] looked at the quarterly figures and realized the costs, they looked for the biggest project they could identify, and this was our billion-dollar baby. We're still moving forward with every other step of the 2020 program. Some of these steps are half done, some have had no change, but we will get them done, although it may take one or two years more. LCCneo's future is still up in the air right now, but we know that this will be something we will be discussing for next year.

LH Cargo recently added an unusual stop in Natal, Brazil, on the São Paulo-to-Frankfurt run. How did that come about?

That's one of those cases where we look for whatever business we can make along our existing routes. Natal is directly along the route of the Viracopas-Dakar-Frankfurt service, so there's no detour needed. There are mostly mangoes, passion fruit and papayas there for export, and it gives us another option to bring in car parts for car manufacturers in the area; they can get no one else to fly there. It just makes an ideal stopover point.



Unlike the other members of Europe's “big three,” Lufthansa has retained a large fleet of freighters, including 14 MD-11Fs.

Unlike the other two “Big 3” combination carriers in Europe, LH Cargo has remained committed to freighters. How has this strategy worked out so far?

We remain committed to freighters, and it's really paying off commercially. We're doing quite well. We think it's still very important to having a worldwide network of main-deck capacity, like the five 777s we received and the fleet of MD-11s. We may even decide to order another freighter. We also have no plans to get rid of our MD-11s. At the moment, they are fine for two reasons: 1) the price of fuel has come down enough that they are no longer too expensive to fly; and 2) they happen to be some of the youngest MD-11s ever built, near the end of the production line, so there are still many years left in them.

This summer, you planned to expand the joint venture with ANA Cargo. What are some of the early results from that partnership?

Indeed in the first quarter, the joint venture, from Japan to Europe, was quite a good one – in fact, it was a lot better than we expected, probably because of the effects of the U.S. West Coast port crisis. By the end of April, more than 800 additional consignments had been carried with a total volume of around 940 tonnes. Now we're about to expand it from Europe to Japan. We're already seeing a lot of demand in that direction. Both partners are offering their flights in a shared network on the cooperation routes. European customers will now have access to the shared network, made up of over 90 weekly direct flights between Europe and Japan. First customers in Germany, France, United Kingdom and Austria will participate in the partnership. All other European countries will follow, step by step.

What is your outlook for the rest of 2015?

Business has been quite volatile in Asia and greater China in recent months. We will remain cautious about the Asia-Pacific lane for the rest of the year. But the ex-Europe market is developing much better than we had expected. Traffic from Europe to the United States has also been very good business.

Bio: Since 2014, Peter Gerber has served as the chairman of the executive board and CEO of Lufthansa Cargo AG. Gerber has been responsible for human resources, IT and services on the executive board of Lufthansa German Airlines since June 2012. Prior to that, he was in charge of finance, IT and human resources on the executive board of Lufthansa Cargo from 2009 to May 2012. **ACW**



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Ashgabat, Turkmenistan's capital and home to the Presidential palace (with the gold dome), remains a tempting destination, but its regulatory environment remains a challenge.

Central Asia beckons, but red tape still tangles

By Ian Putzger

As capacity growth goes, Turkmenistan is a hot mid-year contender to be crowned “shooting star of the year.” Admittedly, the Central Asian country did not require a huge influx of lift, given its relatively low stature as an international air cargo market so far.

The start of regular flights by Cargolux through Turkmenbashi, on the eastern shore of the Caspian Sea, at the end of June marked the second launch of international widebody freighter flights to Turkmenistan this year, following the introduction of Lufthansa's all-cargo flights from Frankfurt to Ashgabat in March. Cargolux's 747 freighters now touch down in Turkmenbashi four times a week – twice each eastbound from Luxembourg and westbound from Hong Kong.

A spokesperson for the airline listed Turkmenistan's huge natural resources, related investments and an “interesting market” as reasons for the new service. Lower oil prices don't necessarily help investment in the region, but Cargolux's volumes into Central Asia have remained stable, she reported. “Furthermore, the geographic location of Turkmenbashi is advantageous for our flights going to or coming from Southeast Asia,” she added.

“These are small markets. Fifteen years ago people hardly knew where they were; now they go in,” remarked Larry Coyne, CEO of Coyne Airways, which pioneered many airfreight routes into Central Asia.

While the Central Asian region is in the spotlight these days as the ideal way-station between Europe and Asia, the daily realities of doing business in the region have caused some misgivings among many carriers. With difficult regulations, poor infrastructure, a weakened oil and gas market, and increased competition from rail, the bloom may already be fading for this region as an air cargo center.

For instance, Lufthansa, which has a weekly flight to Turkmenistan, using a 777-200F en route to Hong Kong, is eagerly awaiting a new airport for the capital city of Ashgabat, scheduled to open in 2016. Christian Becker, Lufthansa's regional director for Russia and the Commonwealth of Independent States, said he is looking forward to the new cargo terminal, as the current facilities and available handling equipment are limited.

Lufthansa had opted for Ashgabat, rather than Turkmenbashi, as its hub.

Besides oil and gas – the mainstay of Turkmenbashi's volumes – the capital also attracts other commodities, such as healthcare products, flowers and baby chicks. Becker noted, “We concentrate on Ashgabat because we want to offer a broad spectrum of products, not just oil and gas.”

Becker said he expects Lufthansa to move about 1,400 tonnes into Ashgabat this year. However, Turkmenistan is a pure import market for the carrier. Exports are small and leave the country by truck, for the most part.

Coyne noted that one appeal for freighter operators in Turkmenistan lies in low kerosene prices, although they are also lower in Baku, the better-established Azerbaijani air hub on the other side of the Caspian.

More challenging than the infrastructure can be the rules for operators. In 2013 the authorities loosened traffic restrictions, but this was compensated by a steep rise in offloading charges levied on aircraft. If carriers brought in hazardous materials, the charge doubled, which famously produced a levy of US\$86,000 for an An-124 that was carrying cars and ended up stuck in Ashgabat for a week in the ensuing dispute. “The joke is: They don't offload. There is no equipment,” one industry executive said privately.

Those who look elsewhere in the Central Asian region are finding similar

“These are small markets. Fifteen years ago people hardly knew where they were; now they go in.”

–Larry Coyne, CEO, Coyne Airways

Continued on page 14



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Continued from page 12

problems in nearby countries, as red tape stymies ambitions to move cargo beyond the designated gateways or build up regional flows. The complexities are overwhelming, commented Lufthansa's Becker, adding that road conditions pose another challenge for road feeder service activities.

Lufthansa has a weekly freighter to Tashkent, capital of neighboring Uzbekistan. Like the Ashgabat flight, it continues east, where it turns into a DHL flight back to Europe. And, like Turkmenistan, Uzbekistan is a pure import market for Lufthansa, albeit a growing one.

Kazakhstan, on the other hand, provides both import and export opportunities for the carrier, which serves Almaty and Astana with freighter flights. While Almaty's market has been relatively stagnant, Astana is growing, Becker reported. But transit activities in Kazakhstan also face stiffening red tape. The customs union between Russia, Kazakhstan and Belarus has curbed the flexibility previously shown by Kazakh customs, due to pressure from Moscow to adopt the Russian customs codex, one operator observed.

Coyne regards the imposition of these customs standards as a roadblock to broader flows through the Central Asian republic. "I cannot see Kazakhstan develop as a hub until these restrictions are removed," he commented.

Meanwhile, competition is creeping in from an unlikely source: railfreight. Operators in the region are watching the evolution of DB Schenker and DHL rail services from China into Kazakhstan and further west. For his part, Becker said he sees opportunities for rail-air activities, saying that rail should boost overall cargo demand in Kazakhstan. But Coyne was less sanguine about the new Silk Road 2.0. "This is going to impact badly on the air cargo business," he predicted.

The most functional hub for the Central Asian region has been Tbilisi, as the Georgian government has been quite liberal in granting traffic rights to international carriers. However, Georgia has become a victim of its own success. According to Coyne, as many as nine widebody freighters a week pass through Tbilisi now, which he said is far too much for this market.



By far, the biggest question in Central Asia air cargo today is "What will happen if sanctions are eased in Iran?" Above, an Iran Air aircraft.

"The China export business is down, so a lot of aircraft owners have spare capacity, and lower fuel costs have brought back some 747-400s," he said. "Now you have a lot of capacity chasing little freight. Some get 12 to 15 tonnes on a 747, which does not make any sense at all." Moreover, the region has been hit by the drop in oil price, which has led to the postponement of energy projects and weakened demand for airfreight.

Where this market is headed is difficult to predict, especially with one huge factor looming on the horizon. "The big question in the region is Iran," Coyne added. "If that opens up, it should be huge."

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Australian forwarders expect more business from ChAFTA

The Famous Pacific Shipping Group (FPS), a sea- and airfreight network covering the Australian states of Victoria, New South Wales, South Australia and Tasmania, said it is gearing up for an expected boom in freight traffic to and from China and Australia. In June the governments of Australia and China signed the China-Australia Free Trade Agreement (ChAFTA), which would remove most of the trade tariffs between the two nations.

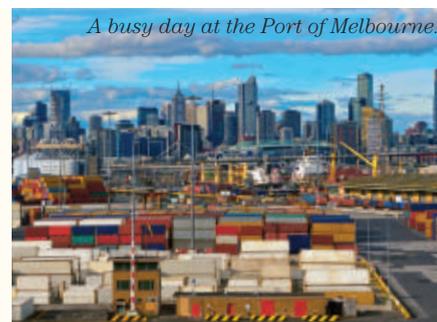
The ChAFTA treaty has been in talks since 2005, and now the Australian Joint Standing Committee must review the agreement and report back to Parliament, which will consider if it needs amending. Once these talks are completed, the Australian government is expected to ratify the trade deal. When both countries are satisfied with the agreement, ChAFTA should take effect 30 days later.

Presently, China levies tariffs on most imports from Australia, such as beef, milk and cream. Only around 8 percent of these imports are duty-free. When

the agreement is in force, more than 85 percent of Australian goods will be duty-free, increasing to 93 percent in four years, and eventually 95 percent. Meanwhile, Australia's tariffs on 80 percent of imports from China will be removed immediately, if the agreement commences; the removal of remaining tariffs will happen in stages, with full removal in four years.

"Our biggest trade lane is China, and since the announcement of the signing of the agreement we have been inundated with enquiries from both importers and exporters about how the agreement will benefit them," said Karen Marsh, customs manager for FPS. "With the removal of customs tariffs, goods will be cheaper for both countries, and this can only result in a healthy increase in shipments between Australia and China."

Until the trade deal takes effect – possibly later this year – Marsh said she is advising her clients about whether or not their products will qualify for the removal of the tariffs under the agreement, based on the origin of the goods.



A busy day at the Port of Melbourne.

"We are currently consulting with importers in order to determine if it's in their best interests to apply for tariff concessions now – a process which can be costly and take considerable time – or wait until [ChAFTA] is fully implemented."

China is already Australia's largest trading partner and its top export market for agricultural produce. The new ChAFTA agreement is expected to encourage trade and investment, and improve market access. Although China is the world's second-largest economy, it currently has few free trade agreements with developed countries, so ChAFTA is likely to provide Australian business with an advantage over international competitors.

—Linda Ball

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The mainstay of Hawaiian's inter-island service is the carrier's Boeing 717 fleet. ATR freighters will soon offer a main-deck complement to this belly capacity.



Photo: ©Daniel Bettis/Flickr

Hawaiian gives inter-island cargo 'Ohana treatment

By Linda Ball

Living on the most isolated island chain on the planet, separated by nearly 2,400 miles from the nearest dry land, Hawaiians have a special relationship with air cargo. "Being an island state, we do have to rely on the mainland," said Brad Matheny, the director of operations for Hawaiian Airlines Cargo. Indeed, the 1.4 million people in the archipelago depend on airfreight for much of what cannot be produced or grown on the islands.

With population growth in the Hawaiian Islands projected to grow steadily through 2040, demand will also expand for inter-island cargo shipments, prompting Hawaiian Airlines Cargo to look inward, as well as outward. Last month, the airline added three ATR 72 turboprop freighters to its fleet in order to expand its inter-island cargo delivery capacity. Airline Contract Maintenance & Equipment will own the planes, and Empire Airlines, which already operates several ATR passenger aircraft for Hawaiian, will operate the service.

Matheny said 80 percent of inter-island cargo traffic consists of perishables, whether from the mainland

United States, the other islands in the state or from international connections. The lion's share of the perishables goes to local supermarkets, but some also goes to the large, luxury hotels and resorts of the islands. That said, imports from abroad could be anything, given the state's isolation, Matheny said. Hawaii imports electronics from Asia and "whatever the need is" from everywhere else.

The ATR 72 can carry about 8.2 tonnes of cargo and accommodate five 88 x 108-inch pallets or up to seven LD3 containers, as well as skidded cargo. "This new business will help fortify our belly market," said Matheny, adding that express services for smaller shipments will still be available on Hawaiian's 160 daily short-haul flights throughout the day, using belly space on 717 aircraft.

The new inter-island freighter service will begin in the first half of 2016, with flights between Honolulu International Airport and Kona, Kahului, Lihue and Hilo. Matheny said the new aircraft and new service will allow Hawaiian to make seamless onward connections to the carrier's many

destinations in the continental U.S., as well as its international destinations. Hawaiian currently flies to New York, Seattle, Portland, San Francisco, Oakland, Los Angeles, San Diego, San Jose, Phoenix and Las Vegas in the U.S., and to Australia, New Zealand, Korea, Japan, China, America Samoa, and Tahiti.

Hawaiian is just beginning to offer cargo service to Asia, so the carrier doesn't have a firm grasp on what types of cargo will be carried to foreign markets, but Matheny said that for now the carrier is focusing on supporting Hawaii's farmers and businesses.

The inter-island flights will be branded 'Ohana (meaning "family" in Hawaiian), an extension of the current 'Ohana interisland passenger flights. The livery of the ATR 72 aircraft will feature the same kapa patterns created by Hilo-based artist Sig Zane and his son Kuha'o for the 'Ohana passenger operation. No schedules have been set yet, but the new inter-island flights will connect with the international and domestic routes Hawaiian operates.

"This [service] is something we've been looking at because our customers have been asking about skidded freight. We're really excited about boosting the state economy and local farmers," Matheny said. And, as an added incentive, Customers will also be able to accumulate double miles for each mile of cargo shipped. These miles can then be converted for passenger travel.

"[O]ur customers have been asking about skidded freight. We're really excited about boosting the state economy and local farmers."

—Brad Matheny, director of operations for Hawaiian Airlines Cargo

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UPS chases Coyote Logistics

UPS has confirmed that it plans to acquire Coyote Logistics from private equity firm Warburg Pincus for US\$1.8 billion. Chicago-based Coyote is a non-asset-based truckload freight brokerage company, which markets itself as a tech-savvy firm with a young staff. The 17th largest 3PL in the United States, Coyote reported annual revenues of \$2.1 billion in 2014.

As this issue went to press, closing of the deal was expected quickly, perhaps as soon as early September, subject to the usual conditions and regulatory approvals. UPS said the transaction will be financed with cash and through existing and new debt. The acquisition will be added to UPS's earnings in 2016.

Coyote arranges shipments with trucking companies, which the company said number more than 35,000 in its network. Coyote employees, along with their systems and culture, will be supported by UPS. Coyote CEO Jeff Silver will continue to lead Coyote as a UPS subsidiary.

Coyote has seen very rapid growth since it was founded in 2007. It enjoys

strong market positions among food-and-beverage and consumer-goods customers, as well as paper, packaging, industrial and retail segments. Following the acquisition and integration of Access America Transport to its network last year, Coyote added flatbed service segments, such as heavy equipment and construction.

The addition of Coyote to UPS would give the latter a foothold in the freight brokerage business, which grew 20 percent overall last year, according to Nasdaq. The 3PL sector is expected to reach almost \$200 billion in overall sales revenue by 2018, according to research firm Armstrong & Associates.

This has been quite the year for mergers and acquisitions in the logistics sector. FedEx is getting closer to accomplishing its \$4.8 billion bid for TNT Express, and U.S.-based XPO Logistics is in the process of acquiring the larger French logistics firm Norbert Dentressangle.

—Linda Ball

AirNet, Kalitta Charters pair up

Kalitta Charters, LLC, has acquired operational assets of U.S.-based charter service firm AirNet, and will provide financial and operational backing for the company.

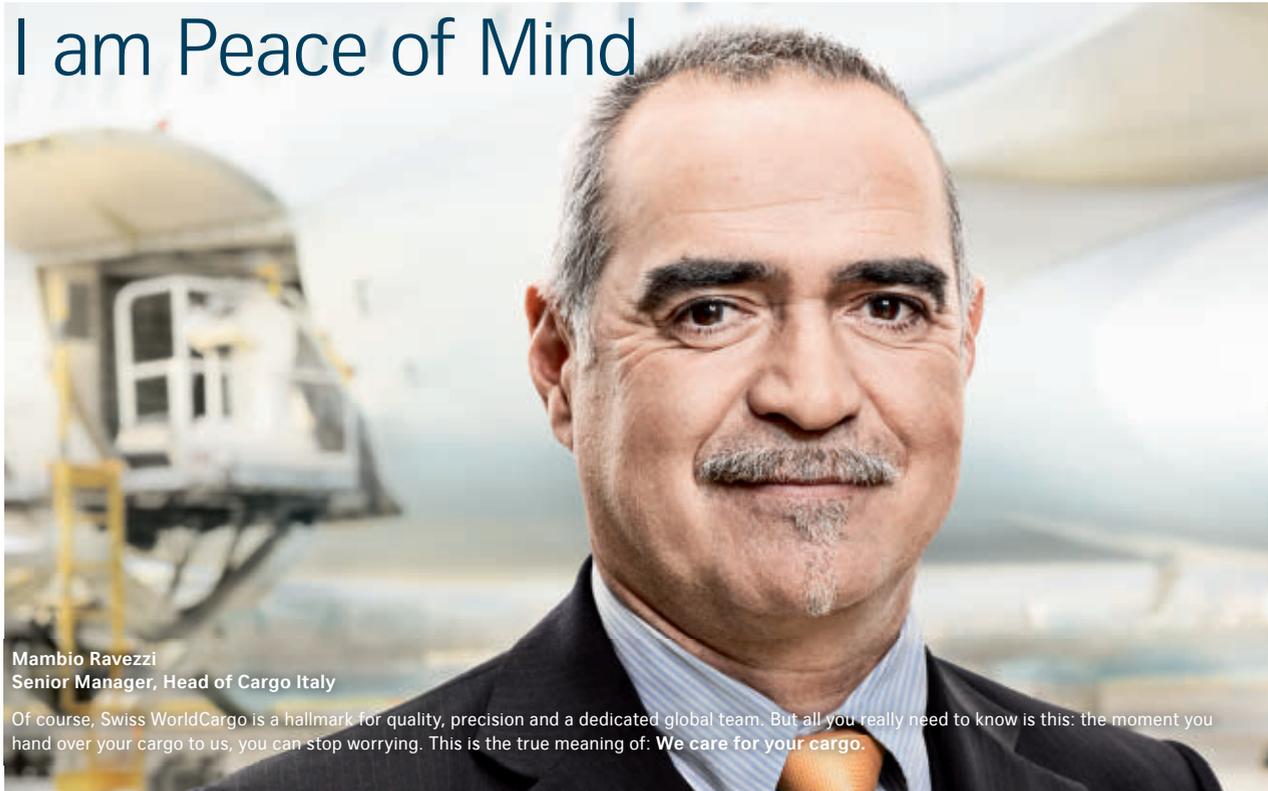
Based primarily in Columbus and St. Louis, AirNet provides scheduled and on-demand cargo charter services, avionics installations and aircraft maintenance. AirNet has a fleet of Beechcraft Barons and Bombardier Learjets.

AirNet also offers specialized services for transporting nuclear materials for radiopharmaceutical uses. The company is one of a few carriers granted special permits from the U.S. Department of Transportation and Transport Canada to provide the highest level of radiopharmaceutical cargo charter service.

Kalitta, owned and operated by Doug Kalitta, provides executive charters, air ambulance service, and air cargo service, and is also a Department of Defense-approved air carrier.

—Linda Ball

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Photo: © Alex Kwanten

Can it really be as easy as ABC?

By Roger Turney

The Russians certainly have their own way of doing things. Volga-Dnepr Group's apparent intent to order twenty 747-8Fs on behalf of AirBridgeCargo Airlines caught most by surprise. Equally so was the follow-up news of the carrier's intent to set-up a U.K. affiliate for its line-haul carrier.

Which of the two moves is the more profound and far-reaching remains to be seen. The first question, asked of the freighters order was, "Is it for real?" News of the order was jointly released by Boeing and Volga-Dnepr at the back-end of the last Paris Air Show in June. Seasoned observers noted that the order had all the hallmarks of being hastily drawn-up on the back of a

cigarette pack, if one were available at the *non fumeur* event.

Yes, it was genuine, although Boeing was characteristically coy about the details. While other orders presented by Boeing at the show spoke of "announced orders" and "intent to purchase," the Volga-Dnepr deal was described as a "Memorandum of Understanding to further Volga-Dnepr's fleet expansion."

The vague wording spoke of a mix of direct purchases and leases over a seven-year time frame, but did not specify any actual make-up of firm orders, options and leases, or, for that matter, a planned delivery schedule. It could be that, within the deal, Volga-

Dnepr has agreed to take up a couple of 747-8F white tails Boeing currently has parked-up.

It should be noted that ABC is, by no means, new to the 747-8F, already operating six of the type, taking its first delivery in 2012. It also has a current fleet of eight 747-400Fs, which it has said would be phased out as the newer capacity arrives. But if ABC makes good on its full commitment to all 20 747-8Fs, what will it do with all the extra capacity?

That question has been answered, in part at least, although it was never officially announced by Volga-Dnepr. The carrier has set up a U.K.-based company called Cargo Logic Manage-

Lufthansa, Swiss go (almost) all in with new pricing

As forwarders continue to clamor for more simplified and transparent "all-in" cargo price structures, Swiss WorldCargo and Lufthansa Cargo have come up with an unusual answer to the volatility of external cost factors that are out of their control. Effective Oct. 25, both airlines will switch to a new pricing model, consisting of a net rate, plus an "airfreight surcharge," which will replace the separate surcharges currently in place for fuel and security.

The new surcharge will be "much lower" than the total amount of the current surcharges, the airlines said. Also, the net rate will be "re-aligned" – read: raised – so that overall prices of transportation will remain at current levels.

Alexis von Hoensbroech, Lufthansa Cargo Board member, product and sales, described the new rate system as "uncomplicated" and will be more adaptable to future market changes. "We have listened to our customers," he said. "The net rate will be considerably more important, and we will be able to significantly reduce special processes, such as negative rates, with the lower airfreight surcharge. That cuts down on complexity and makes us faster."

Oliver Evans, chief cargo officer for Swiss, said the new structure will be even more transparent than an all-in rate, which the carrier had reviewed extensively before coming up with the new system. "The new airfreight surcharge reflects the volatility of external cost factors beyond the air-

lines' control, such as fuel, currency rates, airport charges and fees," he explained. "The airfreight surcharge will be adjusted whenever one of these external cost factors changes significantly and thus will display necessary price adjustments in a transparent way."

To accommodate customer requests for price stability for long-term contracts, it will be possible in the future to fix the overall price for the entire term of some contracts, but it will still be subject to a "risk add-on," the carriers said. For legal reasons, the current surcharge structure will remain in place only in those countries where pricing is subject to government regulation, for example Japan and Hong Kong. —Linda Ball

ment, located at London Stansted Airport and has applied for a local AOC on behalf of AirBridgeCargo. The sole shareholder of this new British offshoot is another of the group's subsidiaries, Amsterdam-based Volga-Dnepr Logistics BV. This is the same vehicle used to acquire the ill-fated 49 percent stake in Air Cargo Germany in April 2012, before that carrier became insolvent just a year later.

Volga-Dnepr president and founder, Alexey Isaikin, was named as director of the new company. Isaikin is a strong Anglophile and is extremely well-connected in the U.K., having previously accompanied Russian President Vladimir Putin on a state visit. On Isaikin's most recent personal visit to London he was awarded a Fellowship to the prestigious Royal Aeronautical Society, its highest accolade.

All of which points to the fact that Volga-Dnepr will likely expect that any application for a U.K. AOC would be viewed upon favorably by its civil aviation authority.

Documents released by the U.K. CAA show that ABC applied in early June for licenses to operate both scheduled and charter services to and from the U.K. The move is similar to that made by Cargolux to acquire an Italian AOC, with which it established Cargolux Italia, albeit with strong resistance from the Luxembourg carrier's unions.

"ABC-UK," or whatever moniker by which the British entity will be known, seemingly will have a ready-made source of staffers. The former operation of Global Supply Systems, which operated the now-defunct fleet of three 747-8Fs on behalf of British Airways World Cargo, was also based at Stansted Airport. This proximity could prove useful if BA World Cargo extends its concept of leasing main-deck capacity as per its recently expanded block-space agreement with Qatar Airways Cargo, a fact not lost on ABC, which has indicated that it is in the market to take on such contracts.

ABC, certainly, has been no slouch in muscling in on global trade routes with its current freighter network, depressed though the market has been. In the first half of this year, the airline reported uplift of 218,000 tonnes – a 17 percent increase over the same period last year, and perhaps an indica-

tion that the huge 747-8F order isn't as strange as it seems at first glance.

Expanding its network and strengthening its existing routes over its Moscow Sheremetyavo hub, the carrier has added service to Los Angeles and increased frequencies to existing U.S. hubs in Chicago and Dallas/Fort Worth. ABC also said it wants to start trans-Pacific flights out of Hong Kong and Shanghai soon, with Atlanta the likely touchdown point in the U.S.

In Asia, Vietnam has been added to the schedule, with two weekly flights out of Hanoi. Almost unnoticed, ABC has also been adding frequencies to destinations it sees as being underserved by freighter capacity, such as Helsinki in Finland and Basel in Switzerland.

ABC has come a long way in a relatively short period of time. It obviously believes it still has many new places to go.

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Fresh vegetables await export at Jomo Kenyatta International Airport.

Siginon Aviation calls for direct Kenya-U.S. flights

By Randy Woods

Following President Obama's historic state visit to Kenya in July for the Global Entrepreneurship Summit 2015, a cargo carrier from Nairobi took the opportunity to make the case for establishing more direct cargo flights between the United States and Kenya in order to foster trade between the two nations and attract more global airfreight business.

Jared Oswago, the divisional manager at Kenya-based Siginon Aviation,

said that Kenya should follow the example of other African countries such as Senegal and South Africa, which have secured several nonstop flights to the U.S. He suggested a Nairobi flight to either New York City or Washington, D.C., as being the most feasible.

"Currently, we're exporting cargo to the U.S. through various connecting flights," Oswago said. "The multiple connections make the trip longer and

compromises on-time performance, as there may be connection delays or missed connections. Multiple handling in the hubs exposes the cargo to mishandling which, at times, may reduce or degrade the cargo quality. The cases of pilferage are also prone in the connections."

To address security concerns U.S. regulators may have, Oswago said Siginon Aviation recently launched a

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new US\$10 million air cargo terminal at Nairobi's Jomo Kenyatta International Airport, which meets strict global security standards, including cargo screening machines on the airport apron and rigorous safety and security training for its staff. The Sigonon Aviation terminal also placed physical barriers, such as manned gates and 24/7 CCTV surveillance, as well as access control to ensure the warehouses remain "sterile," and restricts access to only authorized individuals and vehicles.

The terminal also has a small cool-chain perishables handling center, comprised of an express corridor that maintains perishable cargo in the specified cool temperatures up to a few minutes prior to loading on to the aircraft. "This is a unique service we offer as most of our competitors would expose the cargo to the unfriendly temperatures while awaiting loading onto the aircraft," Oswago added.

Kenya, he said, mostly imports medical and engineering equipment, industrial products, aircraft engines and chemicals from the U.S., while exports include textiles and perishables, such as flowers and vegetables. **ACW**

Air Djibouti takes flight

Just three months after announcing the re-boot of Air Djibouti, the carrier relaunched on Aug. 10, carrying six tonnes of cargo from Djibouti to Hargeisa, in a region of Somalia now called Somaliland.

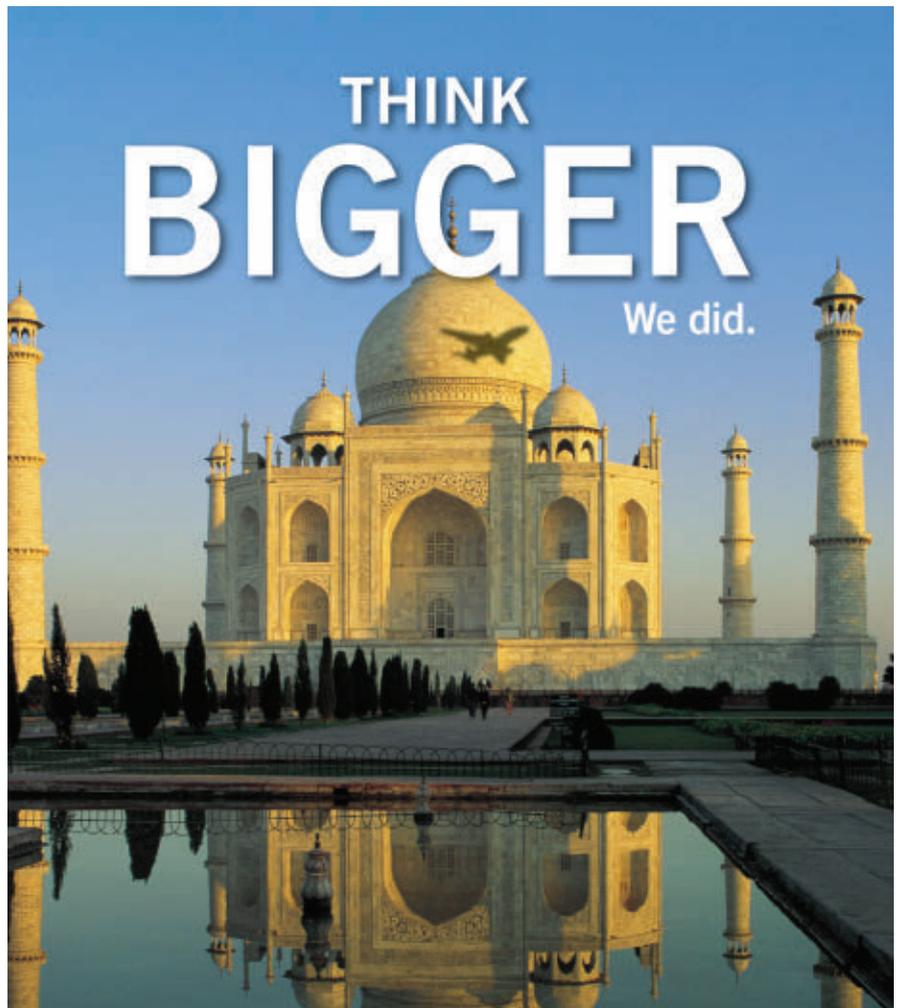
Djibouti is located geographically on one of the world's busiest shipping lanes – at the confluence of the Red Sea and the Gulf of Aden, not far from the Suez Canal – and at the air crossroads for cargo traffic between Asia and Europe. The government of Djibouti wants the country to become a regional hub for forwarding goods arriving at its seaport by air. According to *The Telegraph*, U.K.-based Cardiff Aviation said Air Djibouti had asked for its support in developing key markets, which Djibouti said were based on the needs of land-locked neighbors, government aid programs and the support of military installations. Djibouti is home to several military bases, including those of the United States, France and Japan.

—Linda Ball

Qatar Airways Cargo starts 747F charter service

Qatar Airways Cargo added a 747-400BDSF heavy cargo aircraft to its fleet last month, completing its first chartered-service flight from Doha to Hong Kong. The aircraft will be used for the charter transport of oversized freight, using both belly freight and maindeck cargo capacity, with 39 ULD positions.

The pressurized cargo cabin of the freighter will allow Qatar to carry livestock and horses. The cargo hold can also maintain a temperature range from 4° to 30°C for sensitive perishables. Other likely cargo will include heavy machinery, oversized equipment, oil and gas industry machinery, and humanitarian aid. —Linda Ball



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Third Parties

Poonam Datta is the new chief commercial officer at **Global Express Services**. Previously she was CCO of a regional port and logistics provider. Datta was also the founder and CEO of International Management Consultants, a leading Dubai-based full-service management consultancy. In the past, she has worked with Maersk Group, where she successfully rose through the ranks to become one of the company's youngest managing directors.



Poonam Datta

Milton French has been promoted to the post of vice president, Africa, at **Air Menzies International**, following the retirement of **Mike Todd**. Previously, French was general manager, South Africa, at AMI. French has spent more than 30 years in the freight industry, holding a variety of senior posts for leading forwarders. In his new post, French will be responsible for AMI's operations in Johannesburg, Cape Town and Durban.

Alan Williams, previously director at Dartford, has become national sales and marketing director for U.K. freight forwarder **Davies Turner & Co.**, responsible for developing the group's logistics, overland and ocean freight operations. Replacing Williams as director at Dartford is **Edward Stephenson**. A graduate of DT's apprenticeship program, he was previously one of the company's business systems analysts and has also worked at Davies Turner Air Cargo's Heathrow HQ. Additionally, following the retirement of **Mike Dean** at Davies Turner Birmingham, **Emily Stephenson** becomes director responsible for the Midlands hub. Finally, the board of Davies Turner Air Cargo (DTAC) has promoted **James Wheatley** to sales director.

Michael Evans has been named president of **Alibaba Group**. Formerly of Goldman Sachs, Evans has been an independent director of Alibaba since September 2014, and will now focus on the company's international growth strategies. Evans will continue as a management member of the board and report to Alibaba's CEO Daniel Zhang.

Airlines

Georges Biber has been appointed vice president, EMEA for **AirBridgeCargo Airlines**. Biber has more than 24 years of experience in the air cargo industry. Biber will focus on growing ABC's scheduled cargo operations inside and beyond Europe, with ABC going online in the Middle East and the African continent.



Georges Biber

Jason Holt has been named executive vice president of flight operations at **Cargolux**. Previously, Holt was head of operational strategy, business planning and change at easyJet. Holt will also be on the carrier's executive committee. Chief pilot **Claude Zehren** will become deputy head of flight operations and will report to Holt. Holt replaces **Marcel Funk**, who resigned earlier this year.



Jason Holt

Paul Chase has been named the new CEO of **Southern Air Inc.** In his new role, Chase will oversee all aspects of the cargo airline's business, including safety, flight operations, systems and technical operations, fleet network, finance, maintenance and human resources. Since joining Southern Air in 2007, Chase has held positions of increasing responsibility, including manager of operations planning, director of systems operations, and most recently, as vice president of systems operations. **Fred deLeeuw**, who has served as Southern Air's President, will transition to **Worldwide Air Logistics Group, Inc.**, as chief financial officer.



Paul Chase

Titus Diu has been appointed general manager for China for **Cathay Pacific**. Diu has worked in cargo as chief operating officer of Air China Cargo since 2007, first for Cathay, before moving on to its joint-venture cargo airline. He will also oversee Dragonair's China operations.

Maintenance & MRO

Bill Huntley has been appointed senior manager of regulatory compliance and safety at **PEMCO World Air Services**. Huntley has 30 years of aviation experience. Most recently he was director of corporate safety for AAR Corp., where he oversaw compliance of their MRO businesses.

Manufacturers

Kurt Kraft has been named vice president, freighter conversion and modification services at **Boeing**. He will have responsibility for all modification programs, including avionics, flight decks, interiors and freighter conversions. Kraft previously served as director of 787 engineering at Boeing South Carolina and succeeds **Dan da Silva**, who was recently named vice president of strategic regulatory policy for Boeing Capital Corp. He will report to **Mike Fleming**, vice president of fleet and 787 services for Boeing Commercial Aviation Services.

Yves Le Minor has been appointed European business development manager for the Tyvek Air Cargo Cover at **DuPont Protection Technologies**. Le Minor will work alongside his DuPont counterparts in the Americas and Asia to identify new business partners in the pharma and perishables logistics sectors. Tyvek Air Cargo Covers are used for the protection of temperature-sensitive products.



Yves Le Minor

Organizations

Nina Brooks has been appointed head of security for **Airports Council International (ACI) World**, based in Montreal, Canada. She will oversee all ACI World activities in relation to security, working with the International Civil Aviation Organization (ICAO) and the International Air Transport Association (IATA) on joint security initiatives. Brooks started her aviation career at Virgin Atlantic Airways, followed by eight years at IATA, where she was responsible for many aviation security projects. She also teaches Aviation Security at McGill University.

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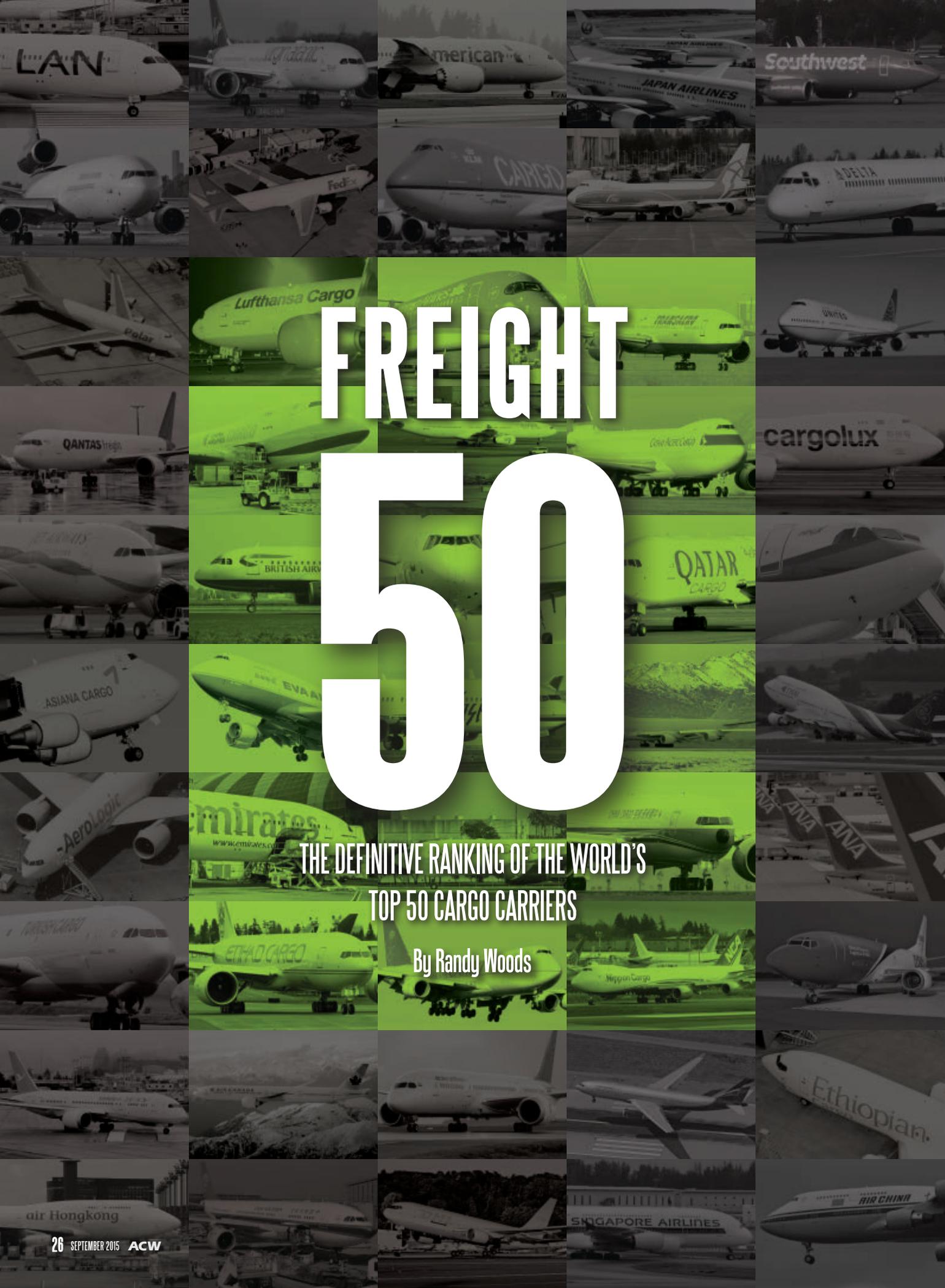
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FREIGHT 50

THE DEFINITIVE RANKING OF THE WORLD'S
TOP 50 CARGO CARRIERS

By Randy Woods

The data are in. The cargo divisions have spoken.

As expected, there was little drama over which carriers would top this year's Freight 50 list of top global air cargo carriers. For the second straight year, Dubai-based Emirates reigned as the champions of scheduled international airfreight tonnage, with 2.29 million tonnes carried on the main decks of its freighters and in the belly holds of its vast passenger fleet (see chart, page 28). For domestic and combined tonnage, the one-two punch of integrators Federal Express and United Parcel Service took the top spots again. Fedex, which recently ordered 50 new freighters from Boeing, carried 7.13 million tonnes of total freight in 2014, including 5.15 million tonnes of domestic freight, while UPS delivered a total of 4.24 million tonnes last year and 2.81 million tonnes for the domestic market.

While there is no single source for accurate cargo traffic data in the world, the World Air Transport Statistics (WATS) report, published by the International Air Transport Association (IATA), is likely the closest the industry has. The main sources for the 59th annual publication of the WATS guide were reports compiled by IATA and the U.S. Department of Transportation, as well as statistics provided by more than 200 airlines, including low-cost carriers.

Despite all the above caveats, and given that the top 50 airlines carry well over 90 percent of total cargo traffic, the charts provide a reasonably accurate picture of the air cargo scene at the end of 2014. Using this report as a springboard, we at *Air Cargo World* took a deeper dive into the data to spot trends – such as how the more successful carriers were using innovative strategies to develop interline partnerships, share freighter space and maximize the utilization of their lift capacity.

At the top of the heap

UPS grew operating profits and expanded margins across all three segments: U.S. Domestic Package, International Package, and Supply Chain and Freight. “The International segment set a new high in second quarter

operating profit, rising more than 17 percent,” the company said. “In the International segment, we expect to see positive momentum continue in the second half of the year, with operating profits at the high end of our six to 12 percent range.”

Other top performers included Hong Kong-based Cathay Pacific, which rose to the No. 3 position in the international category, with 1.50 million tonnes carried; Japan's All Nippon Airways, which saw its traffic rise by 13.7 percent in 2014 to 1.21 million tonnes, earning it a spot at No. 8 on the combined total list; and Qatar Airways, which increased its total handle by 15.6 percent to 1.16 million tonnes in the No. 10 overall spot.

Fast risers

There wasn't much movement among the dozen or so carriers that carry more than a million tonnes of cargo per year, but things got a lot more interesting in the mid-size operations, where some companies have been quietly sneaking up the ranks.

“In essence, we strive for a balance in the entire network as opposed to focusing purely on the trunk lanes served by our freighters...”

– Halit Anlatan, vice president, sales and marketing, Turkish Cargo

One of these companies, Russia-based AirBridgeCargo (ABC), has been so successful at gaining market share it can hardly be called sneaking anymore. ABC, the scheduled-service arm of the Volga-Dnepr Group, boosted its cargo traffic to 517,000 tonnes last year, an increase over the previous year of 21.4 percent. Since then, the pace has not slowed, as ABC reported cargo volume up 17 percent to 218,000 tonnes for the first half of 2015. While its 20-freighter order of 747-8Fs at the Paris Air Show raised eyebrows in July, it's not hard to see why the car-

rier continues to add capacity. ABC's Executive President Denis Ilin said its main strategy in the face of tough competition from the European and Middle East carriers is to focus on the niche markets that others rarely seek, such as oversize cargo that needs his fleet of nose-loading 747-8Fs.

“I always try to avoid complaining about competition,” he said. “Yes, the Mideast carriers are big. You can be jealous, you can be sorry, but it's part of today's world.”

Another rising airline with feet in both the Europe and Asian markets is Turkish Airlines Cargo. At No. 20 on the overall list, with 630,000 tonnes carried in 2014, Turkish posted a 17.1 percent rise over the previous year. “The success of Turkish Cargo is an evolutionary phenomenon as opposed to a revolutionary event,” states Halit Anlatan, vice president, sales and marketing, for Turkish Cargo. He described the carrier's policy as one of “managed growth.” Turkish Airlines, he said, “has methodically added new freighters to its network as supplementary capacity to ensure our continued ability to feed our expanding belly network. In essence, we strive for a balance in the entire network as opposed to focusing purely on the trunk lanes served by our freighters.”

In recent months, Turkish has added freighter routes to Chicago, Lahore in Pakistan, Bahrain, and Dakar, Senegal. By the end of 2016, Anlatan added, the carrier plans to increase its total cargo volume to 1 million tonnes per year.

Growing at an even faster clip was Hong Kong Airlines, which breached the 300,000-tonnes-per-year mark for the first time in 2014, and now holds the second-largest market share in Hong Kong International Airport (HKIA). Although it grew from a smaller base than Turkish or ABC, traffic for HK Airlines, No. 39 on the Freight 50 list, rose by an impressive 38.1 percent, compared to the previous year, and shows no signs of stopping.

The airline received its fifth A330 freighter earlier this year, and uses additional space on other airlines' flights to high-demand destinations, as needed, said the carrier's cargo director, Zhang Jianjun. Annual cargo revenues, he added, have increased by 29 percent, while total capacity rose by 25 percent.

Continued on page 28

TOP 50 CARGO CARRIERS BY TONNAGE *

RANK	AIRLINE	LAST YEAR'S RANK	TONNAGE (000s)	+/- PREVIOUS YEAR (000s)	% CHANGE FROM PREVIOUS YEAR
1	FEDERAL EXPRESS	1	7,127	47	0.7
2	UNITED PARCEL SERVICE**	2	4,240	154	3.8
3	EMIRATES	3	2,288	142	6.6
4	KOREAN AIR	4	1,519	70	4.8
5	CATHAY PACIFIC AIRWAYS	5	1,498	160	12.0
6	CHINA SOUTHERN AIRLINES	8	1,333	155	13.1
7	CHINA AIRLINES	6	1,296	99	8.3
8	ALL NIPPON AIRWAYS	11	1,205	145	13.7
9	AIR CHINA	9	1,171	76	6.9
10	QATAR AIRWAYS	13	1,158	156	15.6
11	CHINA EASTERN AIRLINES	7	1,157	-36	-3.0
12	SINGAPORE AIRLINES	10	1,078	-14	-1.3
13	LUFTHANSA	12	974	-29	-2.9
14	ASIANA AIRLINES	14	868	-10	-1.1
15	ETIHAD AIRWAYS**	16	854	128	17.6
16	LAN AIRLINES	15	770	-15	-1.9
17	CARGOLUX	20	728	98	15.6
18	EVA AIR	17	684	-30	-4.2
19	BRITISH AIRWAYS	18	643	-27	-4.0
20	TURKISH AIRLINES	23	630	92	17.1
21	JAPAN AIRLINES	21	625	25	4.2
22	THAI AIRWAYS INTERNATIONAL	19	603	-48	-7.4
23	AIR FRANCE	22	539	-29	-5.1
24	AIRBRIDGECARGO AIRLINES	27	517	91	21.4
25	DELTA AIR LINES	24	513	-13	-2.5
26	POLAR AIR CARGO	37	513	205	66.6
27	KLM	26	458	9	2.0
28	UNITED AIRLINES	30	431	36	9.1
29	SAUDI ARABIAN AIRLINES	25	427	-27	-5.9
30	NIPPON CARGO AIRLINES	33	413	51	14.1
31	AMERICAN AIRLINES	28	412	11	2.7
32	GARUDA INDONESIA	34	404	58	16.8
33	MALAYSIA AIRLINES	29	403	5	1.3
34	ABX AIR ¹	31	375	3	0.8
35	QANTAS AIRWAYS**	32	359	-10	-2.7
36	DHL AIR	(NL)	350	(NL)	(NL)
37	HAINAN AIRLINES**	36	328	17	5.5
38	TNT AIRWAYS	35	301	-11	-3.5
39	HONG KONG AIRLINES	45	301	83	38.1
40	TAM AIRLINES	38	292	-15	-4.9
41	MARTINAIR	39	285	-5	-1.7
42	AIR CANADA	41	278	22	8.6
43	SWISS	42	257	10	4.0
44	SHENZHEN AIRLINES	40	256	-9	-3.4
45	AIR HONG KONG	43	253	9	3.7
46	SICHUAN AIRLINES**	44	221	1	0.5
47	JET AIRWAYS	47	209	3	1.5
48	AEROLÓGIC**	48	208	4	2.0
49	VIRGIN ATLANTIC AIRWAYS	46	206	-4	-1.9
50	AIR INDIA	(NL)	202	(NL)	(NL)

*As of year end 2014; **IATA estimate; ¹U.S. Department of Transportation Source: IATA

Continued from page 27

Facing turbulence

At the other end of the scale are the names of the carriers that struggled last year, many of which continue to face hardship this year. For instance, Thai Airways, awash in US\$5.9 billion in debt, was forced to sell some of its non-core assets to cover some of the seven straight quarters of operating losses. As part of its restructuring efforts, the Bangkok-based carrier ended operations of its two 747-400BCFs in March.

Air France-KLM, which had been the perennial top international cargo carrier until 2013, had a rough 2014, with volumes falling 5.1 percent over the 12-month period to 539,000 tonnes. This year, the cargo problems intensified through the first half of 2015, as freight capacity fell 5.7 percent y-o-y and cumulative operating losses reached €141 million – an increase of €44 million, compared to 2014.

The effects of Brazil's sagging economy were seen in a 4.9 percent drop in tonnage for TAM Airlines to 292,000 tonnes carried last year, as well as a 36.6 percent plunge in domestic freight carried by Azul Brazilian Airlines.

Other names of carriers falling on hard times included Saudi Arabian Airlines, which saw its combined 2014 cargo traffic fall 5.9 percent to 427,000 tonnes per year, including a loss of nearly a quarter of its domestic traffic. Also, Virgin Atlantic saw a 1.9 percent, y-o-y, drop in traffic, to 206,000 tonnes, placing it near the bottom of the list, at No. 49.

Revenge of the freighter

As seen in the examples earlier, freighters have been enjoying a bit of a comeback this year. For the last few years, much trade press ink has been spilled about finding ways to free carriers from the shackles of having to fill main-deck freighters. But perhaps this attitude of freighter-shunning is changing. Take Cargolux, for instance. Now that the revolving doors in the executive offices in Luxembourg have stopped spinning and the pervasive labor union problems have eased, the all-freighter carrier is beginning to see some solid results.

Last year, thanks in part to the U.S. West Coast port slowdowns, freight traffic for Cargolux rose by 15.6 percent to reach 728,000 tonnes, moving it up three spots to No. 17 on the Freight 50 list. The secret, said Niek van der Weide, Cargolux's executive vice president, sales and marketing, is to always keep 'em flying. "We try to maximize the number of hours we are in the sky. There's a strict curfew for flights leaving Luxembourg, so we always make sure we have no flights just sitting around overnight. Plus, we also tend to fly long-haul routes."

After adopting its unusual Luxembourg-Zhengzhou "dual-hub" strategy, Cargolux is rolling the dice again by adding service to Turkmenbashi, in Turkmenistan, as a stop on its flight to China. The newly developed Central Asian hub, Van der Wiede said, will help Cargolux increase flights to Kuwait and other parts of the Middle East.

Cargolux also opened a flight to Chennai, India, as part of a recently signed agreement with Oman Air. Eventually, Cargolux plans to expand



Three of these freighters haul cargo for DHL - but DHL's volume can be difficult to calculate as a result of its lease and interline agreements.

the service to Mumbai to seek lucrative pharmaceutical business.

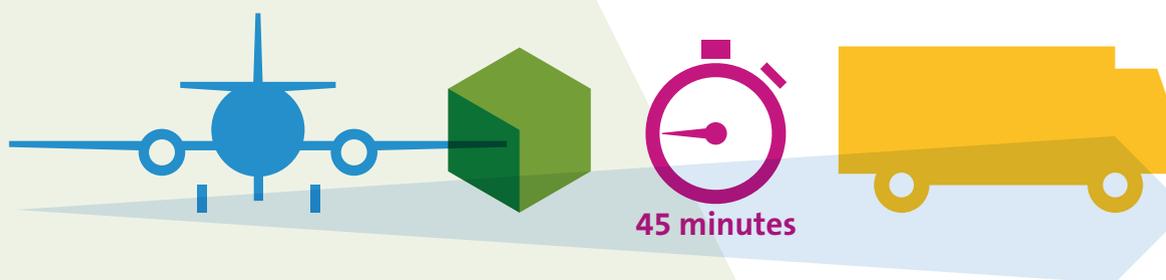
Even IAG Cargo, the airline group perhaps most famous for eschewing the ownership of freighters, has been employing main-deck space, albeit in a more collaborative way. A year and a half ago, IAG Cargo shed its freighter fleet and focused instead on sharing limited freighter capacity with other carriers, such as Qatar Airways, with which it signed a deal to purchase space on Qatar's Hong Kong-to-London-Stansted 777F route. IAG also recently entered into a block space agreement with Finnair Cargo, operat-

ing a shared, twice-weekly A300-600F service between London-Luton and Helsinki.

So how has this freighter-sharing strategy been working so far? Last month, IAG Cargo extended its deal with Qatar "indefinitely," and expanded the original agreement to nine routes that now include Mainland China, Pakistan and Kuwait, among other destinations. IAG Cargo also reported an 8.8 percent increase in commercial revenue for the second quarter to €259 million, versus the same period last year.

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Maastricht Aachen Airport

TOP 50 CARGO AIRLINES OR AIRLINE GROUPS, FREIGHT TONNE KILOMETERS

RANK	AIRLINE (OR AIRLINE GROUP)	CARGO TRAFFIC (FTKS 000)
1	FEDERAL EXPRESS	16,072
2	EMIRATES	11,326
3	UPS AIRLINES	10,923
4	LUFTHANSA	10,897
5	CATHAY PACIFIC GROUP	10,044
6	AIR FRANCE-KLM	9,817
7	KOREAN AIR	8,254
8	DHL EXPRESS	7,850
9	CARGOLUX	6,364
10	SINGAPORE AIRLINES	6,151
11	QATAR AIRWAYS	6,036
12	ATLAS AIR	5,916
13	CHINA AIRLINES	5,416
14	IAG GROUP	5,410
15	AIR CHINA	5,194
16	CHINA SOUTHERN AIRLINES	5,055
17	CHINA EASTERN AIRLINES	4,601
18	ETIHAD AIRWAYS	4,304
19	LATAM GROUP	4,169
20	EVA AIR	4,065
21	ALL NIPPON AIRWAYS	4,031
22	ASIANA AIRLINES	4,000
23	UNITED AIRLINES	3,630
24	DELTA AIR LINES	3,441
25	AMERICAN AIRLINES	3,395
26	AIRBRIDGE CARGO	3,248
27	NIPPON CARGO AIRLINES	2,757
28	TURKISH AIRLINES	2,727
29	THAI AIRWAYS	2,555
30	JAPAN AIRLINES	2,228
31	QANTAS AIRWAYS	2,103
32	MALAYSIA AIRLINES	2,016
33	KALITTA AIR	1,933
34	AIR CANADA	1,684
35	SAUDI ARABIAN AIRLINES	1,629
36	VIRGIN ATLANTIC	1,502
37	TNT AIRWAYS	1,423
38	SOUTH AFRICAN AIRWAYS	1,069
39	ETHIOPIAN AIRLINES	999
40	AIR NEW ZEALAND	997
41	HAINAN AIRLINES	772
42	JET AIRWAYS	748
43	FINNAIR	699
44	GARUDA INDONESIA	697
45	AIR INDIA	694
46	AEROFLOT RUSSIAN AIRLINES	682
47	SAS SCANDINAVIAN AIRLINES	605
48	HONG KONG AIRLINES	567
49	EL AL ISRAEL AIRLINES	499
50	ALITALIA	480

*Source: IATA, US DOT, Cargo Facts

Continued from page 29

“It’s a matter of matching the right aircraft with the right sales force,” IAG Cargo CEO, Steve Gunning, told *Air Cargo World*. “With our asset-light strategy, our aim is to have a more flexible arrangement that allows us to grow or shrink our space, depending on the market.”

Slicing and dicing the numbers

The alert reader may note that there was no mention made of IAG Cargo in the Freight 50 list on page 28. That was no oversight, for as far as IATA is concerned, IAG does not exist. IATA reports its data based on individual Air Operator Certificates, regardless of whether the airlines holdings those certificates are part of a single parent company, or part of an affiliated group. So, in the case of IAG, for example, there are only individual listings for British Airways and Iberia (which didn’t crack the top 50).

Another problem with creating these rankings is that with so many carriers interlining with each other and leasing space to express companies and charter brokers, confusion grows as to which companies wield the most power in the industry. The most glaring of these inconsistencies concerns DHL Express. A look at the chart on page 28 will show Polar Air Cargo carrying a respectable 513,000 tonnes of airfreight in 2014, placing Polar right in the middle of the Freight 50 list, at No. 26. But Polar is 49 percent owned by DHL Express, and almost all of its cargo is DHL traffic. Meanwhile, the word “DHL” appears on the chart only in the form of DHL Air, far below at No. 36.

To help address these problems, we have included the chart at left. Through the assistance of *Air Cargo World’s* sister publication, *Cargo Facts*, we looked at the IATA data list through a different lens, measuring performance in freight tonne kilometers (FTKs), grouping some airlines by the parent companies to which they belong, and doing our best to show DHL in a more realistic way.

Regarding carrier groups, we show:

- Air France, KLM and Martinair under “Air France-KLM.”
- Cathay and Dragonair under “Cathay Pacific Group.”
- British Airways and Iberia under “IAG Group.”
- Lufthansa, Swiss, Austrian and Germanwings under “Lufthansa.”
- LAN and TAM, as “LATAM Group.”

But even on this adjusted list, there are many airlines still missing, as not all carriers report their year-end data to IATA. Most of these are probably too small to make the Freight 50, but others, such as China’s Yangtze River Express, would certainly make the list, either on their own, or, as in YRE’s case, by moving its parent company, Hainan Group, much higher in the rankings. Other cargo carriers missing from the list include Turkey-based MNG Airlines, China’s SF Express, Azerbaijan’s Silk Way, Sweden-based West Atlantic, and Ireland-based ASL group.

Regarding DHL, we have combined the traffic flown by DHL Air, DHL International, ABX Air, AeroLogic, Air Hong Kong, Polar Air Cargo and Southern Air, and show it in the chart as “DHL Express.” While this puts DHL Express in the upper echelon of the Freight 50, where it belongs, it is

still far short of its actual airfreight total, said David Harris, editor of *Cargo Facts*.

Sunnier skies ahead?

Even for the top performers on the Freight 50 list, this has been a relatively flat summer. IAG's Gunning said he is preparing for this situation of overcapacity and weakening yields to be the "new normal" for the industry. "We have to accept that these are the market conditions that will prevail."

But others said there is reason to believe a decent peak season is around the corner – probably not as big as 2014's, but still noticeable.

"We are cautiously optimistic for the rest of 2015," said Anlatan with Turkish Cargo. "We're planning to keep going with our stable growth this year," but added that some global and regional issues have the potential to disrupt economic stability in the region.

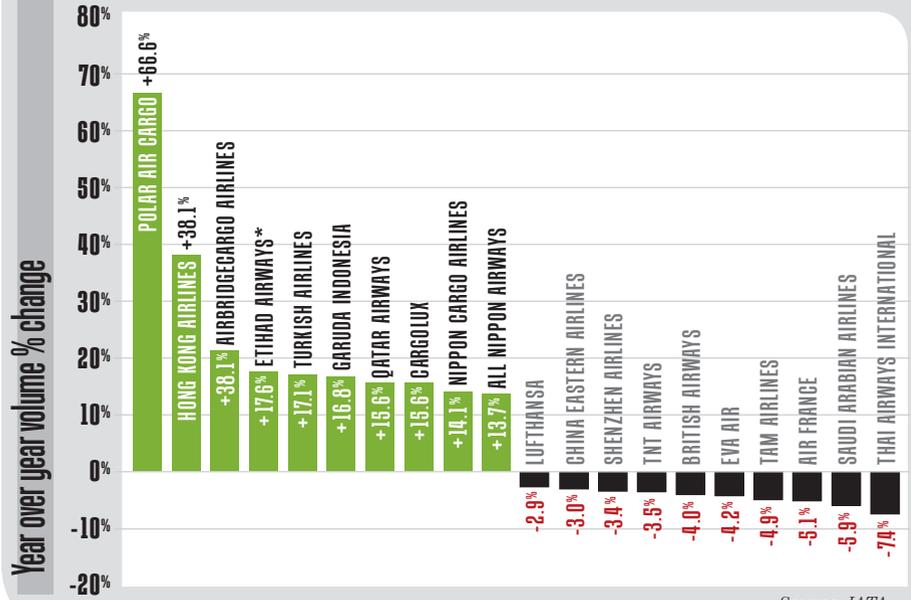
At UPS, Stuart Lund, vice president, global forwarding, air capacity and procurement, said capacity is expected to tighten in the period from mid-September through late November, as summertime passenger travel ebbs and belly capacity comes off the market. Also, he said, "increase in demand for freighter capacity will occur as

FREIGHT 50

PERCENTAGE CHANGE IN ANNUAL VOLUME

(TOP 10 FASTEST GROWING AND CONTRACTING CARRIERS, COMBINED INT'L & DOMESTIC)

Here are the cargo carriers with the top 10 largest percentage changes – positive or negative – for airfreight tonnage carried in 2014, compared to 2013.



Source: IATA

Chinese manufacturing ramps up for the end-of-year retail season in both Europe and North America."

At Cargolux, Van der Wiede said he was "optimistic for the rest of the year," with an expected rise in demand to the Middle East. "We've had more charters than we've ever done before, with extra flights to the U.S. – that's the cherry on top."

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RISE OF THE MACHINES



CAN DRONES CHANGE THE FACE OF AIR LOGISTICS?

By Linda Ball

As it flew through the air, the buzzing drone looked more like a gigantic insect, hanging in the summer breeze, than the future of airfreight. It made a beeline for its appointed destination, and then suddenly halted, hovering over a designated spot. A tether slowly extended, lowering the craft's vital cargo – 24 medical packages – gently to the ground.

This seemingly mundane display of already proven drone technology was actually historic. The flight was the first U.S. government-approved use of an unmanned aerial vehicle (UAV) delivering cargo. It took place in July in a remote area of Virginia's Appalachian Mountains. The drone, manufactured by Australian startup Flirtey, traveled about two miles, making three trips back and forth from Lonesome Pine Airport near the town of Wise, to a temporary medical clinic, which was set up at the Wise County Fairgrounds. The event was an annual free clinic for folks who live in the isolated area.

Drones are already common sights in many parts of the world, performing valuable tasks, such as monitoring crops, inspecting bridges and surveying damage resulting from natural disasters. Today's drone technology allows a high level of autonomy. Using GPS signals for navigation and wi-fi for communication, some models require human operators to guide the vehicle manually by remote radio control, using on-board cameras that can act as digital eyes over several miles, depending on battery life. Other, more sophisticated vehicles can follow entirely pre-programmed takeoff, flight, delivery and landing routines without human intervention.

However, due to current U.S. Federal Aviation Administration (FAA) regulations, drones in the United States must be operated by a human operator, who cannot let the vehicle leave the "line of sight," meaning drones cannot yet be allowed to travel beyond the operator's field of vision. The Flirtey test in Virginia was a one-time exception to this rule, which allowed the company to test the UAV's capabilities to operate beyond this line of sight.

Flirtey's drone, a small hexacopter weighing about 10 pounds, is one example of how drones may someday be put to use as delivery vehicles in hard-to-reach places — provided that regu-

lations change to allow their use. Drone delivery advocates, such as Amazon and DHL, have said it is necessary to be able to operate drones beyond line-of-sight for them to reach their full potential as delivery vehicles. The FAA is working on guidelines for operation of drones, so they can be flown remotely, many miles away from the operator, but the agency said it could take another year to finalize the regulations.

Will the industry ever reach the point where forwarders can add UAVs to their arsenal of airfreight options for their customers?

“There are certainly many different interesting developments with drones and we are keeping a close eye on this. We have a team that deals with future topics and innovation,” said Sandro Hofer, head of corporate media relations for logistics firm Panalpina. “For the delivery of some cargo, the use of self-driving cars may be the better option. The transport with drones can make sense, however. We see opportunities, particularly when you have to deliver an urgent spare part to a remote place – for example, to an oil rig. Here, a production shut-down quickly gets very expensive.”

CEVA’s vice president of global communications, Kay Hart, acknowledged that drones are an interesting and evolving topic, but that regulatory issues need to be resolved. “The reality is that this issue is one of economics,” she said. “Drones will replace ground vehicles where both economies of scale and time compression offer cost-benefits – which improve the overall supply chain for transportation service providers and their customers.”

Hart said that because there are so many unknown factors that will determine the flight of drones, it’s still too early to speculate on what CEVA’s specific interests or intentions will be, but that the company would embrace any opportunity that would benefit its customers.

Aerial entrepreneurs

Matt Sweeny, who founded Flirtey, first had the idea for a delivery drone when he was studying abroad on a scholarship in China. He envisioned a technology that could allow more environmentally friendly, fast and efficient delivery for everyday consum-

ers, especially in a city as congested as Shanghai. He began by building delivery drones in his dorm room. Then, as he grew the company, he moved his headquarters to the U.S.

Sweeny said Flirtey’s experiments to date are a step in the direction of making drone delivery of retail goods routine and inevitable. “We are already conducting drone delivery trials in New Zealand, and it’s only a matter of time until your readers see Flirteys making deliveries near them,” he said.

Flirtey, of course, is not alone in this quest. In April, at the CNS Conference in Orlando, Andreas Raptopoulos, the CEO of UAV manufacturer Matternet, announced that his company would be working with Swiss WorldCargo and postal logistics firm Swiss Post on a project to test its latest drone aircraft, the “Matternet One,” as an automated cargo delivery system for small express packages.

Tests have now been conducted using the Matternet One in California and Switzerland. Alain Guerin, head of marketing with Swiss WorldCargo, said the tests in Switzerland involved the drone navigating around mountains and over lakes. The Matternet One is programmed to land only on pre-registered landing pads that Matternet will supply to customers. By using this “home-base” concept, the UAV won’t get lost and land somewhere else because it is programmed to go only from base-to-base.

During these tests, the UAV carried a real payload, but it was small and not commercial. “It carried a box about the size of a dictionary,” Guerin said. The tests have gone well, but he said the manufacturer needs to work on battery life before the drone can enter commercial use. He envisions the drone carrying pharmaceuticals and other valuable items for first- and last-mile delivery, and said the use of these small drones should be integrated into

the supply chain delivery system as soon as possible. “That’s why we partnered with Matternet and Swiss Post.”

The Federal Office of Civil Aviation in Switzerland has been extremely supportive of the Matternet system, Guerin said, but he acknowledged that the project still has many more legal hurdles to clear. And, of course, the group working on this project needs approvals from civil aviation authorities all over Europe, not just Switzerland. There will be another series of test flights with the Matternet One drone this year.

Safety concerns and regulations

Some of the issues that will be raised during Matternet’s shakedown period will be about safety — always a number-one priority with aviation projects that must share the skies with airliners. For instance, earlier this year a Lufthansa aircraft with 108 passengers on board had a near-miss with a drone as it approached Warsaw’s Chopin Airport. After the incident, which was first reported by the *Aviation Herald*, the pilots wondered aloud if the air traffic controllers were taking care of their airspace. Then, in July, a drone flew mere meters from an A320 near London Heathrow. All told, there were seven incidents between May 2014 and March 2015 in the U.K. alone involving drones.

The European Union is working on its own set of rules for drones to prevent these events, but the first step needs to be a single European sky for manned or unmanned aviation, according to Joost van Doesburg, airfreight policy manager for the European Shipper’s Council. Currently each European country has its own aviation authority, and the skies above Europe are a jigsaw puzzle of nationally managed jurisdictions. Van Doesburg said there are many international issues to be resolved

Continued on page 34

“Drones will replace ground vehicles where both economies of scale and time compression offer cost-benefits...”

– Kay Hart, vice president of global communications, CEVA Logistics

Continued from page 33

en route to a single European sky, including the concerns from various national labor unions, but the Council is working toward drafting uniform rules.

Van Doesburg said the European Commission wants to facilitate this new unmanned delivery industry and encourage innovation, but it will have to come up with basic rules. For example, should a UAV be allowed to fly near an airport, sporting event or anywhere crowds of people congregate?

A spokesperson for DHL, which tested its own “Parcelcopter” last fall for pharmaceutical delivery, said the company would appreciate an open dialogue about joint standards to regulate testing and operation of civil drones. Such a discussion would include talks of safety, privacy and data protection, ahead of new applications of drones, including the delivery of urgently needed goods, such as medicine, to remote areas.

DHL tested its Parcelcopter in an experiment that ran between mainland

Germany and the island of Juist in the North Sea, a distance of about 12 kilometers, from September to December 2014. The drone, weighing about 11 pounds, can reach a speed of up to 65 kilometers per hour at an altitude of 50 meters above the sea. The drone made 40 flights to and from the island, carrying urgently needed pharmaceuticals in its waterproof payload compartment. DHL said it doesn't have any current, specific plans for using the Parcelcopters in normal delivery options for now, but that the test demonstrated the potential value of using drones.

Amazon and the FAA

As the various European governments continue to discuss the regulations around UAV use, Van Doesburg at the European Shipper's Council said the use of drone aircraft is divided into four distinct phases. Currently, he said, aviation has moved well beyond Phase I – using small drones for inspections, agriculture and photography, for example – and entered Phase II, which is the military use of drones. The next, and much trickier parts are Phase III, the delivery of goods; and Phase IV, the transportation of passengers in unmanned aircraft.

It's no surprise that e-commerce giant, Amazon, is eager to move into Phase III as soon as possible. The Seattle-based retailer has been vocal about its desire to use drones for package delivery to its estimated 270 million tech-savvy customers, and has lobbied the FAA to drop the line-of-sight requirement, among other rules. In December 2013, Amazon CEO Jeff Bezos announced on the U.S. television news program “60 Minutes” that his company was working on a drone delivery program it would call Amazon Prime Air.

One of the drones Amazon has developed weighs less than 55 pounds and can carry up to a 5-pound payload – and as much as 90 percent of the items Amazon sells weigh less than 5 pounds. (See sidebar at left.)

The FAA has loosened up somewhat. Les Dorr, a spokesman for the agency, said that, beginning in September 2014, the FAA started granting exemptions for drones under 55 pounds, and has issued more than 1,000 exemptions since then for uses



THE SHAPE OF AIRSPACE TO COME?

In July, at the NASA-AUVSI (Association for Unmanned Vehicle Systems International) Unmanned Traffic Convention 2015, at NASA's Ames Research Center, several drone systems operators presented their vision of what the skies would look like in a world full of approved cargo drones, and how these vehicles would be designed to avoid collisions and other mishaps.

Amazon, for instance, has proposed dividing airspace into finer layers so drones can fly without human interface in their own slice of the air. Gur Kimchi, vice president of Amazon Prime Air, laid out the company's vision to create an airspace between 200 and 400 feet above the ground for high-speed drones to operate out of line-of-sight, while smaller, slower drones would be restricted to flying below 200 feet. A 100-foot airspace between 400 and 500 feet would be a “no-fly-zone,” which would serve as a buffer between drones and conventional aircraft.

A database – to be shared with all drone users – would be created, Kimchi continued, which would steer UAV's away from buildings, towers and high ground. Long-range drones would be required to file a flight plan, and be connected to the internet, so they could be tracked and receive warnings if they are in danger.

To avoid midair collisions, the drones must be able to communicate with each other. Also, drones that can fly long distances must be equipped with sensors that can detect birds and other hazards. Kimchi said as long as there are data showing

where the drones are, it should be sent to a central computer system, to which any company, including Amazon, would have access. In addition to Amazon, Google, Verizon and nine other companies signed agreements to work with NASA to participate in this program.

Dave Vos, head of Google(x)'s “Project Wing” drone delivery concept, told attendees at a recent conference that the unmanned aircraft industry should take advantage of using cell phones to allow users of drones to file flight plans online and have them approved or altered almost immediately. The flight plan would be sent by cell phone to an airspace service provider, which would analyze whether or not there was a conflict with other vehicles, and then either approve the flight or suggest an alternative.

He said all small UAVs would carry an inexpensive Automatic Dependent Surveillance-Broadcast (ADS-B) transceiver – which Google plans to bring to the market – to show its location. Of course, manned aircraft would always have the right-of-way; with the ADS-B devices, the drones would know where aircraft are, too, and get out of the way.

Knowing the identity of each aircraft in airspace is vital to making the system work, Vos said, so when a flight plan is filed, the airspace service provider would be able to identify who owns the aircraft. Air traffic controllers wouldn't need to be notified of the small UAV's flight plan except in the case of emergency.

—Linda Ball

Continued on page 40

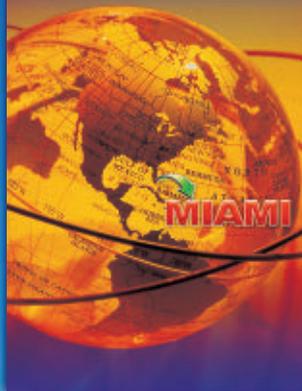


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SOUTH BY SOUTHEAST

ASIAN E-COMMERCE IS NOT JUST
ABOUT CHINA ANYMORE

By Randy Woods

The cavernous factory might be the size of several football pitches and hold more than 90,000 workers, but it's hardly unique. Each year, the plant produces high-end running shoes for Adidas, Asics and Nike for export around to the world. It is just one of dozens of plants that make more than a million pairs of shoes every month.

Just another day inside the awe-inspiring economic engine that is China, right? Wrong.

The factory is located not in China but just outside Ho Chi Minh City in Vietnam, China's upstart neighbor to the south. The company that owns the plant is actually a Taiwanese firm called Pou Chen Group, which is the largest shoe manufacturer in the world. This factory, and many others that produce garments for Western consumers, have recently moved to countries like Vietnam because China has become too rich to find the kind of cheap labor it takes to make affordable clothing.

This case of mistaken manufacturing identity can be found in several other nations across Southeast Asia, including Indonesia, Malaysia, Thailand, the Philippines and others. The e-commerce boom kicked off by China has spilled over its borders and ignited a new online logistics land rush. The movement is starting to have consequences. According to a report from the Footwear Distributors and Retailers of America (FDRA), although China increased footwear production volume to 470 million pairs of shoes from 300 million in 2014, its market share fell by 3 percent. Meanwhile, Vietnam has seen a double-digit rise in market share for two consecutive years, partially due to labor shortages in China.

"E-commerce is undoubtedly adding to demand for airfreight, as it has opened up markets across the globe and is one of the fastest growing segments. We expect e-commerce to continue growing strongly in the years to come," said Morten Damgaard, CEO for the South East Asia region at forwarder Agility Global Integrated Logistics. Although freight forwarders are traditionally not set up to provide e-commerce solutions, they are playing a part in this online revolution, he said, by providing services such as warehousing and

contract logistics services in certain areas.

While China led the e-commerce charge in Asia – both as a manufacturing center to support Western demand and also in the growth of domestic demand – the torch is being carried by Vietnam and other Southeast Asian countries, often at China's expense. Perhaps it's time for China, and the rest of the logistics industry, to sit up and take notice.

Leading the charge

While there are many Southeast Asian countries emerging as serious logistics markets, Vietnam is at the tip of the spear. Forty years after American troops left the war-torn country to its Communist government, Vietnam has been reborn as one of the fastest-rising economic powers in the region, ironically attracting another foreign "invasion" in the form of manufacturers and logistics firms. Companies such as Converse, Gap, H&M, Lacoste, Reebok, and Zara all have factories there, producing \$20.8 billion in garments and \$10.2 billion in footwear, boosting the country's annual export growth by 15.8 percent in 2014.

And that's just the apparel industry. Vietnam is not only one of Apple's fastest-growing consumer markets in the world, it is also becoming one of the leading manufacturing centers. Other high-tech companies like LG, Microsoft and Samsung Electronics have invested billions of dollars in Vietnamese factories to build smartphones, tablets and various appliances.

U.S.-based forwarder and trucking firm C.H. Robinson recently opened an office in Ho Chi Minh City – the city through which more than 70 percent of the country's cargo volume is shipped – to be near the center of the action in the region. "Several companies are beginning to explore manufacturing options throughout Southeast Asian countries as a result of the region's increasingly affordable and high-quality labor options," said Matt Castle, director of global airfreight services at C.H. Robinson. "Vietnam, in particular, has experienced steady economic growth due to its strategic location and growing population. Vietnam's total volumes, along the U.S. trans-Pacific eastbound trade lane, are second only to China."

Agility's Damgaard says interest in Vietnam is only going to increase for the next few years, at least. "Vietnam has also seen strong growth in its airfreight market as high-tech manufacturers and retailers have expanded into the country to take advantage of its relatively low-cost production base."

Next in line

While Vietnam is getting attention for its manufacturing potential, many other countries in the area are showing just as much promise, not just as sources of inexpensive labor, but as a consumer block.

"Vietnam, in particular, has experienced steady economic growth due to its strategic location and growing population."

—Matt Castle, director of global airfreight services, C.H. Robinson

"We are seeing growth across the region, with specifically the Philippines and Indonesia looking stronger," Damgaard said. "Based on its demographics, Indonesia has a lot of potential for airfreight growth due to its fast-growing middle class consumers and large domestic market."

Agility has a well-established presence in Southeast Asia that has been built up over the years, starting with a Singapore operation in 1975. In recent years, the forwarder has opened its doors to much more restrictive regimes, such as Myanmar, in response in demand from customers. "In the last few years, we have expanded contract logistics and domestic distribution capabilities in Indonesia and Malaysia and are constantly assessing the need for additional facilities," he said.

Indonesia, he added, "stands out as a 'next-tier' emerging country," in terms of its technology, pharma/life sciences, retail, and perishables sectors, as well as its "huge consumer base" of 250 million people. "While some [Indonesian] companies have moved parts of their supply chain to ocean freight,

there will still be demand from these sectors."

There is also growing domestic demand in Malaysia, a strong manufacturing base in Thailand, and robust economic growth in Philippines, Damgaard added, all of which "position the region well for continued growth."

Samsung may help make the case that Indonesia could be the next most promising market. The world's largest cell-phone maker opened a plant there earlier this year capable of producing 1.5 million phones per month, using labor that is less than half as expensive as it is currently in China, and a large consumer base that is more interested in Samsung's lower-cost phone – a shrinking demographic in China, with its growing middle class.

If Samsung builds more factories in Indonesia, there will be a greater demand to ship the most sought-after new releases via air. "As the world clamors for new technology, electronic products, such as televisions, laptops, tablets and smartphones, continue to drive demand in the global air freight market," said Castle, of C.H. Robinson. "Although more expensive than other methods of shipment, airfreight is by far the fastest, and potentially the most reliable, method of transportation."

The infrastructure barrier

But regardless of how much demand there is within any particular emerging market, the lack of infrastructure tends to get in the way. The draw of manufacturing in this region is strong, but many logistics firms also must face the reality that much of Southeast Asia, with inadequate roads, rail lines, ports and airstrips, is still woefully unprepared for the interest it is now receiving from the global forwarding and shipping community.

In some ways, Indonesia, with its vast population and relatively high wealth, is leading the infrastructure race. However, there are still hardships to overcome because the country is spread out among so many outlying islands, making it hard to maintain flexibility during demand spikes.

"From world-class facilities in Singapore to the challenges faced in Cambodia or Indonesia, there is a great difference," Damgaard said. "The infrastructure is in good shape

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with Singapore and Malaysia offering best-in-class capabilities, followed, in no particular order, by Thailand, Indonesia, Philippines, and Vietnam, while countries such as Cambodia and Myanmar present challenges.”

Another challenge, he said, is the complex regulatory environment in Southeast Asia. Countries have vastly different customs regulations, making it especially challenging for cross-border transportation. “Countries in the region have made progress in developing the infrastructure required, such as ports, airports and roads, but progress still needs to be made in the ‘softer’ side of logistics, with bureaucracy still causing delays and problems.”

Castle calls the infrastructure problem “one of the biggest challenges for freight forwarding in the region today. With the exception of Singapore, most of the countries within this region are only considered secondary ports and feed into a larger hub port, such as Hong Kong and Taipei. As a result, countries such as Vietnam and Indonesia are competing for carrier capacity

in both their local markets and large regional markets.”

Global connections

The proximity to hubs such as Hong Kong, Taipei, Seoul and Tokyo, however, give the region another selling point: access to global markets.

Speaking in defense of Hong Kong’s third runway plan, DHL Express Asia Pacific CEO Jerry Hsu described how the express carrier felt the need to expand its air network across Southeast Asia to boost their connectivity and shorten transit times in response to the surge in e-commerce traffic. “We have launched a new intra-Asia flight that connects Bangkok, Hanoi and Hong Kong five times per week and increased the frequency of a service connecting Penang, Ho Chi Minh City and Hong Kong from five to six days per week, thereby increasing capacity on the route by 20 percent,” he said.

Vietnamese exports to the United States are some of the key issues being discussed in the proposed Trans-Pacific Partnership (TPP), which would remove trade barriers for more than

a dozen Pacific Rim countries and, at press time, was still being hotly debated. “There is potential growth opportunity in exporting frozen seafood, as well as fresh fruits and vegetables, from Vietnam,” Castle said.

According to Castle, the TPP, if ratified, would have a huge positive effect on the Vietnamese economy, since it would slash major trade protections against its exports to the U.S., one of Vietnam’s largest trading partners. Annual seafood shipments to the U.S. are worth US\$1.5 billion, or 22 percent of Vietnam’s total seafood exports.

“In Southeast Asia, declining air freight yields and growing competition are some of the challenges that freight forwarders face,” Damgaard said. “Despite the growth opportunities in Asia, the air cargo industry continues to face a tough operating environment due to the global economic uncertainty and reduced demand for airfreight.”

Changing trade patterns are also causing challenges in Southeast Asia, he added. “Where before, most production was for export to the developed markets, an increasing proportion is now staying within Asia. This means that forwarders also have to provide solutions at a [national] and regional level. Increasing levels of income and the rise of a consuming middle-class are driving domestic consumption, and forwarders need to overcome the challenges that come with domestic distribution in countries such as Indonesia and the Philippines.”

Who’ll be next?

Just as trading patterns can change, so can labor patterns. Right now, Vietnam may seem like the world’s cheap labor capital, but forwarders would be wise to pay attention to what the workers say. At that very same Pou Chen Group factory in Ho Chi Minh City, a massive strike was held last spring – an action practically unheard of in the tightly controlled country – to protest a possible change in plans.

The strike was resolved peacefully after six days and the workers were reassured that a new law would not affect their retirement payments. But if labor unrest spreads to the other megafactories, another “It Country” may be needed to fuel the massive global logistics engine. And there are only so many emerging countries left untapped. **ACW**



ASEAN TAKES ON THE BRICS

For many decades, the countries in the Association of Southeast Asian Nations (ASEAN) have taken a back seat to the five emerging economies known as the BRICS (Brazil, Russia, India, China and South Africa), as the economies in the latter group have skyrocketed to super-power status. In logistics, however, the ASEANs are striking back, according to the latest “Emerging Markets Logistics Index,” a survey of the opinions of 1,000 supply chain execs, plus a data-driven ranking of 45 economies, released each year by Agility Logistics.

Now in its sixth year, the rankings are based on each economy’s size, business conditions, infrastructure and other factors relevant to the freight forwarding industry. This year, seven of the top 20 economies are located in Asia, and five of them are ASEAN member states. Here are some highlights about how they stacked up:

- While China is a perennial No. 1, Malaysia came in at No. 2 in “market connectivity,” meaning it has one of the best infrastructures and transport links among the emerging markets.
- The Philippines rose by three spots over last year to reach No. 4, among countries with GDP below US\$300 billion, thanks to an improved standing among supply chain executives surveyed.
- Vietnam jumped two spots to No. 7 among countries with GDP under \$300 billion, as strong growth in its apparel and high-tech goods spurred higher exports and foreign direct investment.
- For logistics and supply chain executives in the survey, Indonesia was the highest ranked Southeast Asian country as a major logistics market, at No. 4.
- The fastest-growing trade lanes linking emerging Southeast Asia and developed markets in 2014 were U.S.-Vietnam (up 42.7 percent by volume); and Cambodia-EU (up 41.9 percent) for air cargo.
- Out of the top 10 potential investment markets cited by logistics executives, three are in Southeast Asia: Vietnam (No. 4), Indonesia (7) and Thailand (10).

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Continued from page 34

such as surveying and commercial photography in a “tightly controlled, low-risk environment.” He said the FAA Reform and Reauthorization Act of 2012 eliminated the requirement that an operator of a UAV had to be a licensed pilot, if the intended use was commercial. He also said a summary exemption can be issued if someone is proposing an operation similar to, and using the same kind of drone as, an operation that had received exemption in the past.

The FAA is now working on final rules for commercial drones, which, Dorr said, would be in place by the end of this year. About 4,500 public comments have been submitted, he said. But once the FAA has completed the rules, there are other agencies, such as the Department of Transportation, that have to review them. He expects the process to be completed within a year.

Dorr said the agency will carefully evaluate Amazon’s suggestions. “We’ve accommodated Amazon’s requests, and given them an experimental airworthiness certificate to test a particular type of vehicle.” But he added that Amazon (which did not respond to *Air Cargo World* for this article), the AUVSI, and the AOPA “might have a different view.” When asked if the day is going to come when that hot new bestseller Amazon is selling might be dropped onto someone’s deck, Dorr said “it’s changing every week.” He said the agency’s number one concern is – you got it – safety.

Big cargo drones

Let’s put aside the little guys dropping pharmaceuticals and books, for the moment, and look toward a brawnier future for the cargo drone. Van Doesburg, of the European Shippers Council, said there are prototypes being developed of drones capable of carrying 10 to 30 tonnes of cargo. The goal of these programs is to develop a drone that could fly from China to Europe in 12 hours with optimal fuel consumption, and which could serve airports that freighters or cargo-friendly widebody passenger aircraft don’t serve now.

Van Doesburg pointed out that an aircraft built to be capable of pressurization is up to 30 percent heavier than a similar-sized, unpressurized aircraft, simply because they require more metal to make them stronger. With the weight savings of an unpressurized UAV comes a big drop in fuel consumption, and since only about 10 percent of cargo needs to fly in pressurized aircraft, building unpressurized drones makes considerable sense. There are other advantages that come with lighter, unmanned freighters.

Van Doesberg said from the beginning, unmanned freighters will be built with a focus on multi-modality. He emphasized that a new, special air cargo container would have to be designed to conform not only with the aircraft but also with road, ocean and/or rail modes. But first, regulators have to begin updating current legislation. “It should fit in the European framework,” he added, “but each country will have some autonomy.”

One example of a big drone is the ATLAS, a blended wing/body design, made from a composite material. The ATLAS, intended specifically for carrying cargo, was designed as part of the aerospace engineering bachelor’s curriculum at Delft University of Technology. It is designed to fly at very high altitudes, where the lift-generating body helps to make it more efficient in terms of fuel consumption and aerodynamics.

There is much red tape to jump through before delivery of cargo by large drone is a reality. Van Doesburg said not to expect a pilotless plane flying with cargo in the next 10 years. He said he expects good things for small drones, but added that technology companies will have to push harder to make the larger, cargo-carrying UAVs a reality that can compete with today’s piloted planes.

That first tether-drop of medical cargo in Virginia was only the beginning. The possibilities for drones in cargo delivery are wide open and largely untested. But for customers with limited road access, UAVs are already proving that there is plenty of room for this niche to fly.

ACW

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SEPTEMBER 8-13, 2015

FIATA World Congress – Taipei, Taiwan: The congress attracts a wide range of freight forwarders and logistics providers, with participants coming from more than 40 countries. Expect to see shippers, customs brokers, warehousing service providers, logistics experts and more. For more information and registration, visit fiata2015.org/Registration

SEPTEMBER 9-10, 2015

Fly Pharma – London, U.K.: Industry experts will address the pharma supply chain's hot and cold topics in a lively and motivational manner. For more information, visit flypharmaconference.com

SEPTEMBER 23-24, 2015

World Maintenance Symposium – Turnberry Isle, Miami, U.S.: This event brings together IATA's Maintenance Cost Conference with the World Maintenance Symposium for the first time. Innovative cost reduction and productivity improvement solutions will be discussed. For more information, visit iata.org/events/Pages/maintenance-symposium.aspx

SEPTEMBER 27-30, 2015

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

SEPT. 29-OCT. 1, 2015

11th Annual Cargo Claims and Loss Prevention Conference – Montreal, Canada: This event also includes a ULD regulatory forum, a cargo security and facilitation forum, a cargo XML workshop and a lithium battery workshop. For more information and to register, visit ems.resrunner.com/iatacargo

OCTOBER 6-9, 2015

inter airport Europe 2015 – Munich, Germany: This event will be held at the Munich Trade Fair Center. A third hall has been added for an expected 610 exhibitors from 42 countries. For more information, visit interairport.com/europe

OCTOBER 13-15, 2015

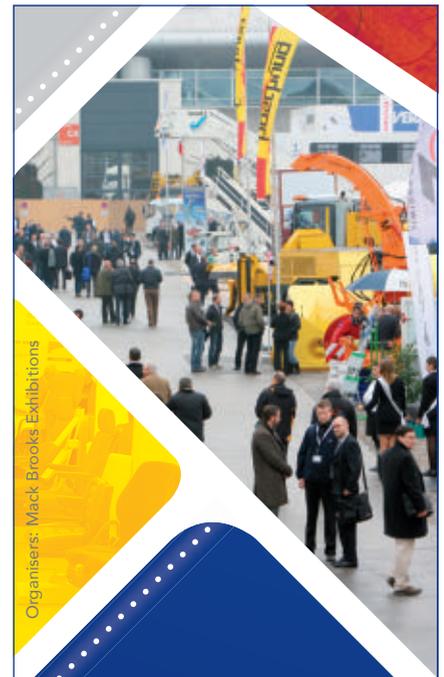
MRO Europe Conference and Exhibition – London, U.K.: Discover the crucial issues impacting the MRO industry today and network with airlines, maintenance providers, OEMs, suppliers, and key regional players. For more information, visit <http://bit.ly/1LQQt6Y>

OCTOBER 13-16, 2015

12th Annual Sino-International Freight Forwarders Conference – Qingdao, China: Open to all independent freight forwarders from around the globe and industry-related companies. Co-organized by the China International Freight Forwarders and WCA. For more information and registration, visit <http://bit.ly/1dQBT1g>

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* 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>



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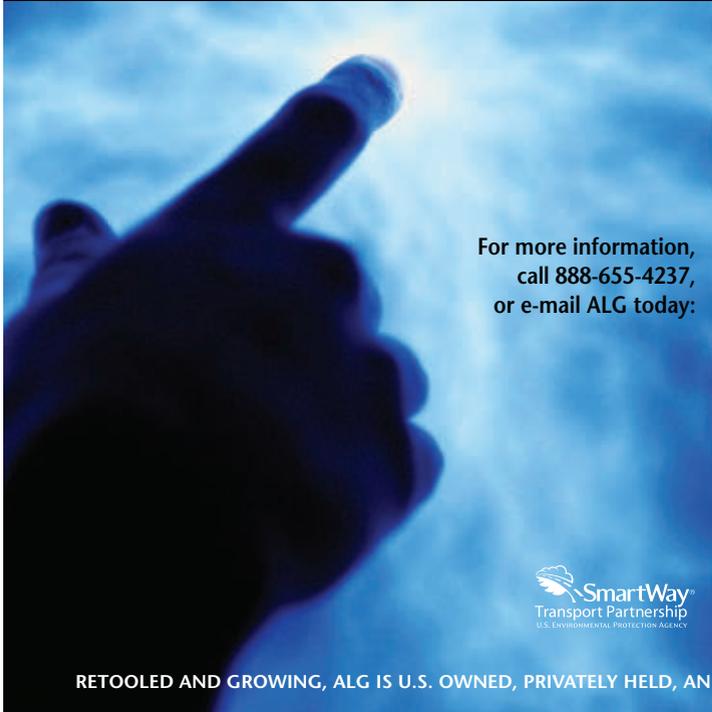
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Asia-Pacific Carrier Traffic June 2015 & YTD

International scheduled services, monthly and YTD, for Asia-Pacific Airlines.

	FTK (mil.)	FATK (mil.)	Freight Load Factor	
Monthly	June 2014	5,374	8,141	66.0%
	June 2015	5,348	8,342	64.1%
	YoY % Change	-0.5%	2.5%	-1.9 points
YTD	Jan.-June 2014	30,636	47,598	64.4%
	Jan.-June 2015	32,121	49,939	64.3%
	YoY % Change	4.8%	4.9%	-0.1 points

Source: Association of Asia Pacific Airlines

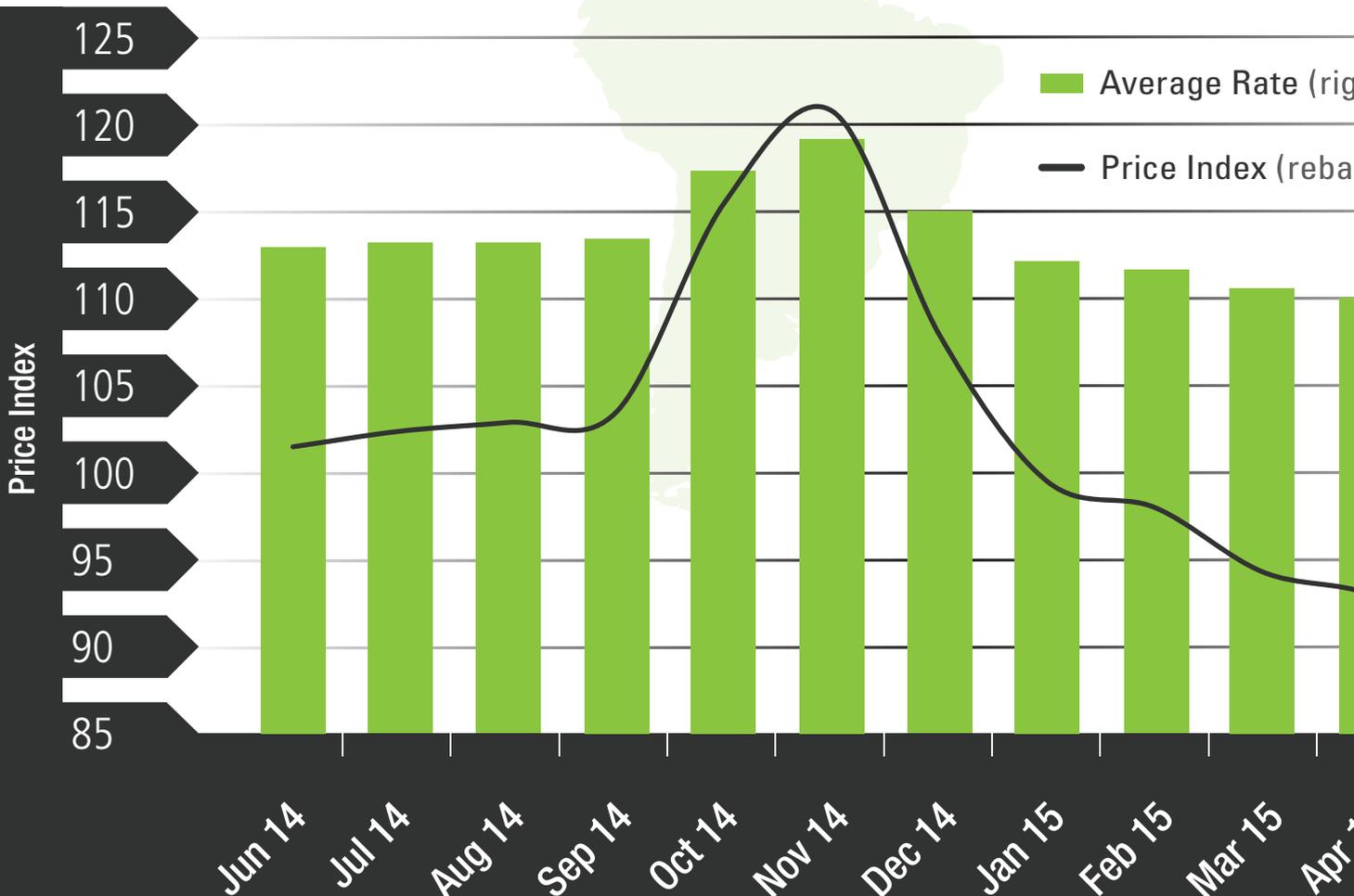
The softening in air cargo markets extended into the month of June, AAPA said, with demand in FTKs declining slightly by 0.5 percent, compared to the same month last year. Andrew Herdman, AAPA's director general said, "Air cargo demand grew by 4.8 percent during the first half of 2015, but the pace of growth has moderated during recent months," since the U.S. West Coast ports slowdown backlogs cleared. He added that the outlook for air cargo markets is "uncertain, with signs of a slowdown in global trade."

Total Freight Growth by Region, June 2015 & YTD

REGION	% GROWTH YoY in FTK	
	June 2015	YTD
Africa	6.7%	4.8%
Asia / Pacific	-0.3%	5.4%
Europe	0.0%	-0.6%
Latin America	-1.6%	-6.9%
Middle East	15.3%	14.0%
North America	-3.3%	-0.4%
Industry	1.2%	3.5%

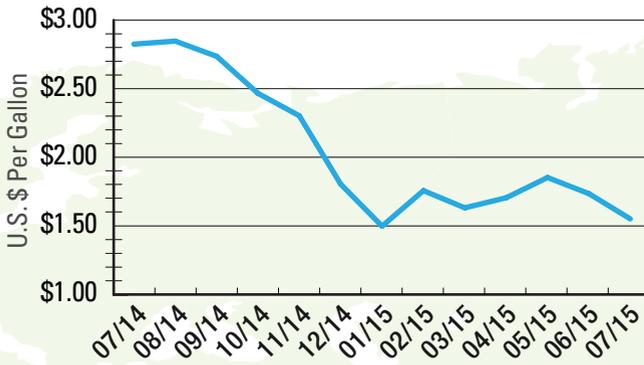
Source: IATA

Airfreight volumes were up just 1.2 percent in June compared to June 2014, with three regions – Asia/Pacific, Latin America and North America – all showing y-o-y declines. Growth for the first six months of 2015 has slowed to 3.5 percent. The lone bright spots were the Middle East, with a rise of 15.3 percent, y-o-y, and Africa, with a 6.7 percent rise. "Airfreight volumes have slowed, which is consistent with declines in trade activity, mostly in emerging markets," IATA said.



Jet Fuel - Spot Price, YTD

U.S. Gulf Coast, Kerosene-Type (wholesale price)

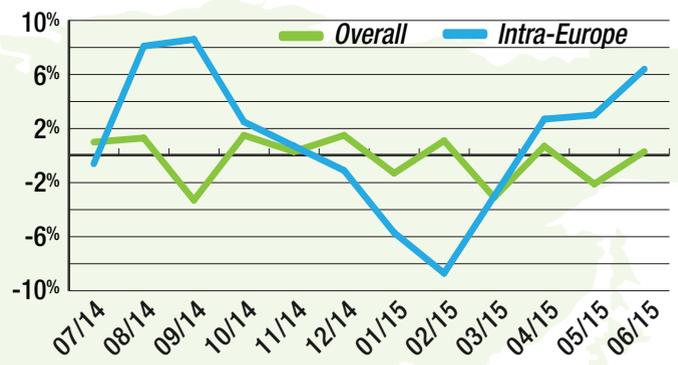


Source: U.S. Energy Information Administration

The wholesale per-gallon price for U.S. Gulf Coast, kerosene-type jet fuel dropped another 18 cents from June to July, reaching US\$1.55. For the last two months, the price has declined by 30 cents per gallon. The July figure is the lowest price since January 2015, when the price plunged to \$1.55 per gallon.

AEA: European Carrier Traffic

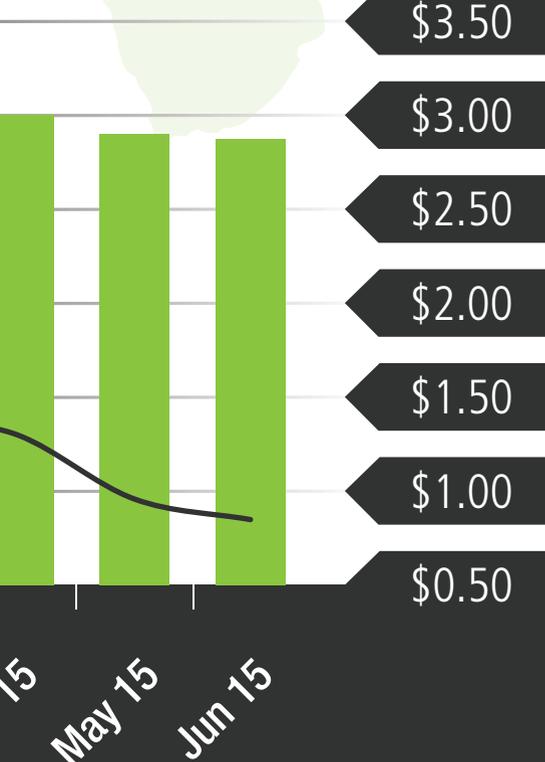
Monthly year-over-year percent change



Source: Association of European Airlines

For the month of June 2015, the FTK figures didn't change much for long-haul and overall freight categories, with overall FTKs rising slightly, by 0.3 percent over the previous June, and long-haul dipping just -0.1 percent, y-o-y. However, intra-Europe seems to be recovering, with the fourth straight month of y-o-y gains, reaching 6.4 percent.

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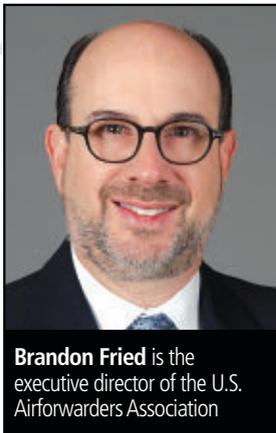
Average Rate

East-West Air Freight Price Index (June)

Source: Drewry Sea & Air Shipper Insight

Drewry's East-West Air Freight Price Index fell by another 1.1 points in June to reach 88.7, the lowest level ever recorded since the index launched in May 2012. For much of the current period of decline, the eastbound trans-Pacific trade lane has "taken the brunt of pricing falls," said Simon Heaney, Drewry's senior manager, supply chain research. In June, however, all the main east-west lanes have been hit. Airfreight pricing, he added, will only weaken further over the next few months, as carriers release more passenger capacity, which will add more unwanted belly cargo capacity.





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

Tough lessons from the regulatory trenches

by Brandon Fried

Forwarders are some of the toughest business people you will ever meet. They compete in a global marketplace of more than 100,000 competitors, in which the delivery of just one shipment can mean the difference between success and failure. Customers demand relentlessly reliable service, often

at a low price, rendering mistakes costly and the need for accurate industry knowledge essential.

If that's not enough, the brewing "alphabet soup" of regulations shows no sign of ending anytime soon and promises to make the road ahead even more challenging for even the toughest competitors. Here are some examples of this.

TSA: Where's our security program revision?

For more than a year, industry stakeholders have been working with the Transportation Security Administration (TSA) to reduce complex regulatory requirements that no longer provide a clear security benefit in the age of 100 percent cargo screening.

Forwarders had hoped to see some relief from these outdated measures, but recent leadership changes and apparent discord on air cargo strategy within TSA has stalled the long-awaited program change. As we enter the traditionally busy fall shipping season, forwarders want to see these anticipated changes now to avoid further market share erosion brought about by unbalanced security policy that has not kept pace with changing times.

CBP: The ACAS rulemaking proposal

Millions of shipments have been scrutinized since the Air Cargo Advanced Screening (ACAS) voluntary pilot program began through a Customs and Border Protection (CBP) and TSA joint initiative that has yet to produce a notice of proposed rulemaking. Since the United States promised that its program would set the global standard for preloading advanced data targeting, shouldn't ACAS be moving along faster, so other countries don't take matters into their own hands and initiate programs that may not correspond with ours?

As CBP rolls out its Export Manifest Voluntary Pilot Program, we look ahead to forwarders not only taking an active role in the pilot, but also in providing insight about the challenges and feasibility of providing house air waybill shipment data to CBP well in advance of aircraft loading. However, we need to remember that this participation poses a paradigm shift for both forwarders and their airline partners. Previously, the responsibility for submitting this data belonged to the carrier, which had up to four days after departure to perform the task.

Trucker hiring standards

Forwarders are watching instances in which personal-injury attorneys have brought a number of successful cases in

state courts against brokers on grounds that they were negligent in reviewing a carrier's safety history before hiring them to move a shipper's load of cargo.

Forwarders hire truckers on a transactional basis, and the drivers are not on our payrolls. So after vetting a carrier's safety fitness beforehand through a government-sponsored database fixed to a national hiring safety standard, forwarders and brokers should not be held responsible for negligence in that choice of carrier. We hope to see successful passage of legislation in the upcoming Highway Bill that results in a nationwide hiring standard for carriers setting specific criteria for choosing a safe motor carrier.

As of this writing, lawmakers are facing a tight deadline to pass a bill to fund highways and related road projects. The government spends about US\$50 billion per year on transportation projects, but the gas tax — not increased since 1993 — only brings in about \$34 billion. Short-term fixes have been approved more than 30 times since 2009, but such extensions are useless in multi-year projects, especially if officials know the money will run out in five or six months. A long-term extension is essential to ensure our country's competitiveness in providing adequate road infrastructure to get freight to and from the ports.

Lithium Batteries: Where do we go from here?

Boeing has issued warnings to all passenger airlines that bulk shipments of lithium-ion batteries in their cargo holds could cause destructive fires. These are the rechargeable batteries used in cell phones, laptops and other electronic devices, and they are becoming increasingly important in automobile manufacturing and residential solar energy support applications. Supply chains frequently rely on international airlines to support these important markets. Boeing's guidance urges airlines to refrain from carrying shipments of the batteries until safer methods of packaging and transport are established and implemented.



Since forwarders often arrange shipments containing lithium batteries, pursuing an effective solution to this challenge is more important than ever. Industry and government should be working hand-in-hand to encourage the packaging industry to develop an effective solution that protects shipments against in-flight catastrophes.

Government oversight is equally as important as protective packaging is for these ubiquitous power sources. Governments are clearly responsible for establishing regulations to prevent unsafe shipment of materials on flights, and they should — and must — enforce them vigorously. Forwarders already toughened by competitive market conditions now must get even tougher by refusing shipments from customers who are intent on breaking the rules, thereby placing the flying public at risk.

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