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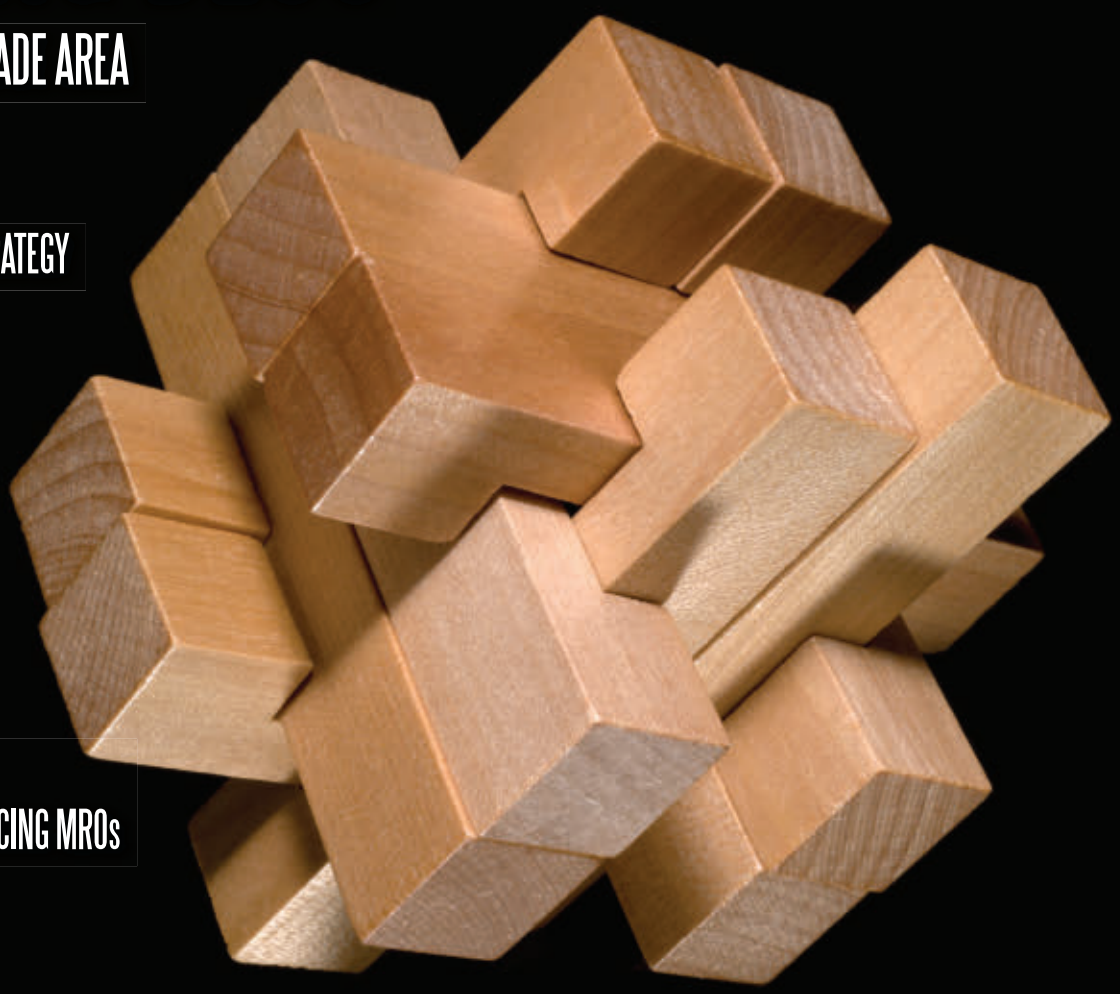
BUILDING BLOC



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Editor's Note

MRO: Maintenance, repair of outsourcing


Randy Woods

As a publications editor, I am usually loath to judge a magazine by its cover story – or even one of its shorter, back-of-the-book features. But after reading the December 2015 *Vanity Fair* story, "A Wing and A Prayer," by James B. Steele, about the purported horrors of outsourced aviation maintenance work, I felt it was time to join the chorus of disapproval that has been ringing out around the industry.

When the chief mission of a magazine is to burnish the image of celebrities and clothe them with a mantle of gravitas, then I suppose the use of innuendo, half-truths and facile leaps of logic are all fair game. But when the issue is the safety of the world's airline passengers and crews, you'd better come armed with some real facts and proven causal links – neither of which were in abundance in Mr. Steele's article. Rather than making an argument, the author was content to criticize the very concept of outsourcing, as if merely sending maintenance work to various "developing world" countries like Mexico, El Salvador or (gasp!) China was condemnation enough.

Since the outsourcing of maintenance, repair and overhaul (MRO) work happened to be one of our subjects this month, I invite readers to turn to page 18 for *Air Cargo World*'s response to *Vanity Fair*'s allegations. As our article points out, outsourcing MRO work in the airfreight industry makes sense not only financially, but also for the sake of safety. If a cargo carrier's core competency is flying airfreight safely and efficiently, wouldn't it make sense to have third-party MROs that specialize in letter-checks, component repairs and engine overhauls take on this painstaking task – even if the work is done "overseas"?

This heavily regulated industry has long-ago developed a professional, technically proficient network of MRO facilities that make sure the world's aircraft are always in peak condition. In this article, we speak with carriers, lessors and conversion firms about what aircraft owners need to know before deciding whether to outsource to a third-party MRO or keep it in-house.

We also look to Africa in this issue (page 22), to analyze one of the more exciting aviation developments in the continent's recent history: the creation of the Tripartite Free Trade Area (TFTA). This Russia-sized trade bloc, running from Cairo to Capetown, may be the boldest step yet toward removing the barriers that have impeded the development of intra-African air cargo trade. Africa has been down this road before, only to hit a dead end, but our cover story discusses how the TFTA may have enough momentum to make a real difference for African freight forwarders.

Finally, I want to take this time to say thank you and farewell to our contributing editor, **Roger Turney**, who has decided to retire from writing after years of service to this magazine. Roger's freelance relationship with *Air Cargo World* far predates my short tenure, but in the year-and-a-half that I have worked with him, I have found his writing to be insightful, concise and laced with dry wit that could liven up even the dullest quarterly report. Roger owned the European News section in ACW, and it was a pleasure honing his work every month. While some legacy carriers he sometimes poked fun at may disagree, he will be missed at this magazine.

Randy Woods,
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Flying VW

In November, Air Charter Service assisted in the "Cape to Cape 2.0" race from the southernmost point in Africa to the northernmost point in Europe. However, Syria was out of the question for road travel, so the team, driving a VW Touareg, was given special dispensation to fly the car from Jordan to Turkey. A rear-loading Antonov An-74 was used so the team could drive the 4x4 right onto the plane. The team completed the Cape-to-Cape in nine days, four hours, nine minutes and 27 seconds: a new world record.

One Beastly production

It takes 1,000 costume pieces, a lavish stage set, props, and dedicated sound, light and video equipment to put on a stage production of Disney's "Beauty and the Beast." In December, Qatar Airways Cargo was the official carrier for the production as it moved from Bucharest to Doha, on board the airline's 747F. The 70-tonne shipment filled the entire capacity of the aircraft. The touring version of the show, unsurprisingly, is said to be one of the most complex touring theater productions on the market.

Worldwide, literally

Volga-Dnepr Airlines made its first landing in Antarctica, setting an IL-76TD-90VD down on an ice airstrip in November. The carrier obtained an addendum to the aircraft's flight manual to enable it to operate on ice and transport up to 90 people onboard. The freighter's first landing was at the Novolazarevskaya Antarctic Research Station airfield. Then, in December, Volga-Dnepr completed an air drop by parachuting 208 barrels of fuel from the aircraft onto a remote airfield in the Antarctic. The 34-tonne payload was placed on 26 special parachute platforms, then dropped from a height of 500 meters through the aircraft's rear cargo door.

Freighter owner found. . . and lost?

In December, three 747-200s were thought to be abandoned at Kuala Lumpur International Airport – after all, they had been sitting there for more than a year. The airport operator put ads in the local newspapers telling the owner to collect them in 14 days, or risk having the airport sell them. Within days, a cargo carrier called Swift Air Cargo (officially "Splunk n' Dash" until the Swift name is approved) claimed ownership, expressing surprise that the airport was threatening to sell the idle jumbos. But the "solution" to this bizarre incident only brought up more questions than answers. Turns out, the mysterious owners claim that they'd been in contact with the airport in October 2015 after purchasing the aircraft in June. Swift, apparently owned by a CEO identified only as Captain Blue Peterson, said the airline had been in the works for the last 10 years and that, as of mid-January, it "will be flying shortly" from the Far East to Africa and South America. The plot thickens.

A fishy first

British freight forwarder Davies Turner, helped bring the first-ever sand tiger sharks bred in captivity from South Africa to the U.K. in November. The two sharks, destined for the National Marine Aquarium, the U.K.'s largest aquarium, were transferred by road from Durban to Johannesburg, using a ventilated closed truck, and then flown to London Heathrow. From there, the Davies Turner air cargo aquatics team was responsible, first for the movement of the fish from the aircraft to the Heathrow Animal Reception Centre, and then for the trip to Plymouth by a temperature-controlled truck, set at a shark-friendly 21°C. No fingers were lost in transit.

Next gen

Freight forwarder DSV recruited 18 young students from all over the world to work at the company as junior freight forwarders for on-the-job training for the next two years. Chosen from the U.K., Ireland, Spain, Belgium, Norway and Romania, the students began meeting in December at DSV global headquarters in Denmark to attend eight theoretical modules, the last being their final project and exam, leading to a European diploma in freight forwarding. Time to hit those books, kids!

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Akira Okada

The Four-Hour Strategy: How ANA Cargo intends to get to its 'next stage'

ANA Cargo is not the company it once was. That's because in October 2013, ANA Cargo became ANA Cargo Inc., a stand-alone company, wholly owned by ANA Holdings Inc., the parent of All Nippon Airways.

This subtle change in corporate governance is important. It has precipitated significant alterations at ANA Cargo, some of which are not readily apparent to the global air cargo industry and all of which are crucial, considering that ANA Cargo was the No. 8 cargo carrier in the world last year and has a stated goal of reaching No. 5 this year.

Among the more noteworthy changes is a refocus of ANA Cargo from a "Japanese air cargo carrier" to one with a regional and global viewpoint. With its revised viewpoint, ANA Cargo has initiated a joint venture with Lufthansa Cargo, inked last year, and is planning several more initiatives as it enters what the company calls its "next stage" with its eleven 767 freighters.

The next stage is the brainchild of Akira Okada, ANA Cargo's thoughtful CEO. In a recent exclusive and wide-reaching interview with JJ Hornblass, *Air Cargo World*'s executive editor and publisher, Okada shared a unique insider's look at ANA Cargo's strategic directive for 2016 and beyond, and offered his worldview on Asian economics and the transformation of China into a consumer-driven economy. Portions of their conversation at ANA's Tokyo headquarters appear below.

What's ANA Cargo's new core strategy?

We are very focused on intra-Asia. Central to this focus is our Okinawa cargo hub. Our concept is to connect the Asia area that is within a four-hour flight radius. Some areas we serve are not covered in exactly four hours – OK, but generally all our cargo flight coverage is within four hours. There are 2 billion people living within that radius, so there is huge demand... As well, we see quite a lot of potential in e-commerce shipments in China, and we are targeting that. ANA Cargo has a logistics arm: OCS. By utilizing the network of OCS, we can secure e-commerce shipments and put them on ANA Cargo flights. ANA Holdings and Tencent [the Chinese e-commerce company] last year made an agreement to enhance a partnership that will result in more ecommerce shipments for us. Beyond intra-Asia, we are focusing on Asia and China to Europe and to the U.S.

How does the partnership with Lufthansa Cargo come into play here?

The joint venture is not only about jointly increasing the revenue, but about increasing the customer benefit. The customer can have more varied flight choices and have more access to the capacity on TC2 [Asia-to-Europe routes]. That is why we got the ATI [antitrust immunity], something no other airline has received. With the ATI, we can talk about capacity issues with Lufthansa – are we going to increase or decrease capacity? We are legally allowed to discuss that with Lufthansa, and that is what we are doing.

And for Asia to U.S.?

We will launch a similar, new joint venture with United Cargo no later than June 2016.

What about the weakness in Asia-to-Europe traffic? Does that run counter to your Europe strategy?

We acknowledge that demand to TC2 and from Europe is not as strong ... but it is also true that cargo is still moving there. We just need to get the capacity right. We are arranging the capacity, but the cargo is there. We have three options: We can use our freighters or our belly space or rely on Lufthansa Cargo capacity. In that sense, we can respond to the market conditions quite flexibly. We are a combination carrier, and we are taking advantage of our network. It is not a point-to-point business. It is not like Cathay Pacific or NCA; they have big widebody freighters, and they are going point-to-point. We see [point-to-point] as a difficult business. With Lufthansa, we are looking to use the capacity in our belly and in our freighters. The cargo market has a lot of volatility risk. We are trying to respond to the market situation so we can get the business wisely. If we just had widebody freighters, we could not respond to the market promptly or wisely.

Can you describe an example of how this hyper-flexible approach works at ANA Cargo?

We used to have double-daily flights from Narita to Paris. We suspended one flight [and] started Narita to Brussels. By last November, Lufthansa had already done a capacity reduction for its winter schedule. We can supplement the reduction in their winter schedule with our freighters or with belly space. That's the kind of flexibility we are talking about.

This four-hour strategy relies on Chinese traffic volume, but China GDP growth has been spotty. Does this concern you?

I am not that much worried. For the Okinawa hub, China is an important area … but we are focusing on Asia. Of course, China's economy is slowing down, but the production foundation can shift to other parts of Asia. In that sense, we are not so pessimistic about it. It is true that the production is slowing down in China, but the consumption aspect is still growing there.

One of ANA Cargo's eleven 767-300 freighters.
Photo: ©Kentaro Iemoto @ WikiMedia

Photo: ©Cacrazy234 @WikiMedia

Emerging Myanmar will require patience

By Ian Putzger

After more than two decades of isolation, the nation of Myanmar is moving back into the international market. As this Southeast Asian country makes cautious steps towards democracy, the forwarding industry is watching – and waiting – for opportunities to turn Myanmar into the region's next logistics powerhouse. For some logistics firms, the wait may be longer than expected.

In December 2015, Myanmar National Airlines, the country's flag carrier, resumed flights to Hong Kong, ending a 22-year hiatus brought about by the country's isolation under its military dictatorship. The return to Hong Kong marked the airline's second current international route, following service to Singapore. Early this year, the carrier intends to start flights to Taipei, Bangkok and Chiang Mai.

Following suit, multinational forwarders are now moving into Myanmar with alacrity. In December, Nippon Express established a subsidiary there, which will operate in the Thilawa special economic zone (SEZ) outside Yangon, the country's business epicenter and former capital. The SEZ was set up last September as a joint project of the governments of Myanmar and Japan. Of the 47 companies that have been established there, 24 are based in Japan. Nippon Express plans to build a 56,800-square-foot warehouse in the SEZ by 2017. Last August, Panalpina opened an office in Yangon, equipped to handle end-to-end ocean and airfreight traffic, both inbound and outbound, for local and international customers.

Amol Singhal, managing director of Kuehne + Nagel Myanmar, which began its warehouse and office operations in Yangon in 2013, said he has seen foreign investment in pharmaceuticals, consumer goods and automotive business, but most of the interest concerns the nation's natural resources, such as oil, gas and minerals. "We predict continuous growth for airfreight in 2016, which is driven by an increase in manufacturing hubs and domestic demand for imported products," he said.

The influx of international operators is expected to pick up steam once the incumbent administration, which is controlled by the military, hands over power to the newly elected government. "This will be the green light for a lot of investors to move in. They are all waiting [to see] if the military is really going to hand over power," said Patrick Dick, managing director for Myanmar at Switzerland-based forwarder, The Freight Co. Ltd.

However, Dick said much of the current enthusiasm may be a bit premature. He doubts that the early entrants will see quick returns on their investment. Local offices, he added, will be slow to generate money from exports, as Myanmar's export base is minimal. "There is virtually no industrial base," Dick explained. "There are some garment factories, but no electronics. Not much is moving now. The major carriers fly empty back to Singapore and other regional hubs," he said, adding that business will likely be import-driven for some time.

Keree Chaichanavong, managing director of Thai forwarder Trans Air Cargo, notes that most exports are agricultural. Of greatest interest to air cargo operators is seafood, but the volume is relatively small, he adds.

Two SEZs have been created in the south, near the Thai border, but the focus is overwhelmingly on Yangon and the adjacent SEZ. According to Dick, Yangon accounts for some 80 percent of Myanmar's cargo throughput. In the long run, he sees Mandalay as another promising location, which can serve as a springboard to China.

But getting freight to any of these places, including Yangon, is still a challenge. There are no international freighters flying into Myanmar, and the lift to Yangon consists mostly of narrowbody aircraft. "The largest aircraft going in is an A330," says Dick. There isn't even a maindeck loader anywhere in the country, he adds.

"Presently 17 international airlines are operating through a general sales agent in Myanmar, but none of the airlines are operating cargo aircraft," said K+N's Singhal. Moreover, he added, any cargo with dimensions more than 274cm x 152cm x 154cm cannot move in or out of Myanmar.

Cathay Pacific said it has no plans to mount freighter flights to Myanmar at the moment. "Long term, there may be more opportunity, but the manufacturing sector is still relatively small when compared to the growing markets of Vietnam and Cambodia," said Mark Sutch, general manager of cargo sales and marketing.

Infrastructure is another potential hindrance. Yangon International Airport, for instance, would be hard-pressed to accommodate new all-cargo entrants. The facility is congested and already struggling to cope with the influx of passenger flights from other countries in the region. "At present the biggest challenge is a shortage of handling equipment and warehouse capacity," Singhal said.

Relief is supposed to come from an airport to be built about 60 miles north of Yangon, on the site of an old World War II airfield. The project, which was first conceived in the 1990s, was abandoned soon after the groundbreaking ceremony in 1994. It was revived in 2014 with a view to becoming operational in 2018, but the

government announced last summer that lack of funding would delay the opening until 2022.

Myanmar's infrastructure beyond Yangon Airport is also in dire need of repairs and upgrades, from roads and bridges to power stations and other essential installations. Much airfreight destined for Myanmar is flown into Bangkok and trucked, but the overland portion takes a long time, Keree notes.

Customs clearance is also a hassle, often taking between three and seven working days, Singhal said. "If the shipment has to go through the value assessment channel, it can add an additional seven days," he added. Currently, the process is handled manually, although a Japanese firm has reportedly been engaged to develop an electronic system, Dick said.

Red tape is still a massive issue. "Every second piece that goes into this country needs a license," Dick says. "Everything in Myanmar is time-consuming. It's very expensive to do business in Myanmar."

Keree suggested that the country needs another four or five years to develop its infrastructure before it is ready to build up its potential. Until then, operating there is expensive and likely to produce losses, he said, adding that the early foreign entrants have lost money.

He favors Cambodia, saying it has opened faster and further, and offers relatively cheap land, whereas in Myanmar land is expensive. Garment factories from Thailand are moving to Cambodia now to take advantage of cheaper land and labor.

Myanmar is opening up, but it seems a while yet until it will be ready for business. ACW

Forwarders brace for impact of new EU customs code

By Ian Putzger

In May, the new European Union Customs Code will come into effect. According to its authors, the new code will streamline the clearance process and make it more transparent and user-friendly. But there are concerns about some elements, as well as the time frame for its introduction. Forwarders, especially, are looking with some trepidation to the advent of a new customs regime that may do more harm than good.

Arguably, the biggest concern may come from potentially added costs. For instance, the new regime will make financial guarantees for clearance mandatory across the EU. This may not sit well with forwarders in countries like the United Kingdom, where, so far, financial guarantees are not required. Even in places where financial guarantees are already mandatory, forwarders are worried that rates are going to go up. The Austrian Chamber of Commerce advised the industry in December that the "reference amount" for bundled exports processed without a declared amount will increase from €7,000 to €10,000 per clearance.

Uwe Glaser, CEO of Vienna-based forwarder Cargomind, said he favors the American system of export bonds that are borne by the shipper. The European regime places the onus on the forwarder, he noted.

Fortunately, there is an option for relief in the code. Forwarders can obtain a reduction or even an outright waiver of the financial guarantee if they sign up for the Authorized Economic Operator (AEO) scheme, which certifies them as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards."

The authorities have been gunning for maximum adoption of the AEO scheme, which has been elevated in the new customs code through a number of AEO-only benefits. For example, only certified AEOs are eligible for a simplified declaration process and for self-assessment – although it remains unclear how risk assessment will be handled. "They are pushing everybody to become AEOs," said Andreiv Geurtsen, general manager of Dutch forwarder Legero.

> "Are you a better forwarder if you are AEO (Authorized Economic Operator) licensed?" –Uwe Glaser, CEO, Cargomind

Probably the most important AEO perk under the new regime is the ability for companies to perform customs clearance in multiple locations from one central spot. "This is a significant benefit," Glaser said. "If you can perform central clearance from one location, you don't need to duplicate the work and the investment in the requisite skills in all branches in your network."

These incentives, however, come at a cost. Glazer estimated that certification fees are in the range of about €5,000 to €10,000 per company. The price tag may make some forwarders think twice, but smaller agents may have an even larger problem beyond the financial outlay, Geurtsen said. To be AEO-certified, applicants must have at least three years of demonstrable customs clearance experience, and the licensing process can take about six months. This would be well past the implementation deadline in May for new applicants, he said.

Glaser said he views the push for broad AEO adoption as an effort to formalize the industry, rather than a push to improve quality. "Are you a better forwarder if you are AEO licensed?" he asked. He also questioned whether an AEO cert is any better than an ISO 9002 certification.

Then there's the timing issue. The International Air Cargo Association (TIACA) voiced its concerns about the timing of the new customs code in December. In a note to members, TIACA secretary general Doug Brittin warned that "the Union Customs Code is just six months away from coming into force and will have a considerable impact on businesses importing into, or exporting from, the European Union." The pending regulations, he wrote, propose "imposing an obligation on traders to provide financial guarantees for the use of temporary storage. "This

obligation can be waived, Brittin said, but only by a specific authorization that must be granted by EU member states.

"It currently appears that the appropriate systems will not be in place to provide, handle and maintain those authorizations," Brittin went on. "It looks as if it will be virtually impossible to apply for a new guarantee or a waiver in time."

The Austrian Chamber of Commerce noted that the new regime aims to make electronic data exchange the norm, which requires better alignment and augmented data flow between national customs authorities. This will not be achievable by May, it concluded.

Despite these concerns, Glaser said he doesn't think that the EU will push back the implementation deadline, or that day-to-day processing of cargo will be affected. "It doesn't paralyze business," he said.

Many shippers probably would hardly notice, Glaser said. "Forwarders take this quite seriously," he added. "[But] from the rest of the industry, I see only limited interest – only if you perform value-added processes and need close cooperation with customs." ACW

Amazon, DHL invest in European logistics market

Seeking to expand package delivery options in the European e-commerce world at the start of 2016, rising giant Amazon and Deutsche Post DHL have both made investments in France-based online retail logistics specialists, Relais Colis and Colis Privé.

In early January, DHL said it would acquire a 27.5 percent stake in Relais Colis, a service through which customers can purchase small e-commerce parcels and have them sent at low cost to a designated "pickup point" – often a kiosk or retail store – closest to the customers' home. More importantly, customers can also return to any one of the pickup points in the Relais Colis network to make product returns.

The investment in the network is expected to allow DHL's divisions, primarily DHL Parcel, to expand its offerings for e-commerce customers in the French market, including home deliveries for larger packages. Relais Colis, which has 4,800 pickup points and three national hubs across France, will also benefit from the additional volume of DHL Group's networks and DHL's know-how in the German parcel market.

Soon after DHL's announcement, Amazon quietly took another step toward becoming its own delivery company by purchasing Colis Privé, a French package-delivery company in which Amazon has had a 25 percent interest since 2014. The buyout of the remaining 75 percent of the company is expected to close in the first quarter of the year.

Colis Privé is not nearly the size of UPS, DHL and FedEx, which currently deliver packages for Amazon, but this will be Amazon's biggest step yet toward entering the European logistics business. And if Colis Privé carries out its promise to continue delivering packages for all customers, not just Amazon, the acquisition will put Amazon head-to-head with FedEx, DHL and UPS in France, if not the rest of Europe.

–Linda Ball

WCS Preview: The value of air cargo

by Glyn Hughes

As we put a challenging 2015 behind us and look forward to 2016, work here in IATA naturally focuses on preparations for the 10th World Cargo Symposium (WCS). The theme we have chosen for this year's event in Berlin is "the value of air cargo." This is a wide-ranging theme that can be explored in many ways, but I would like to focus on two: 1) a stronger approach to safety, and 2) the value of innovation.

Some of the sobering events of 2015 – the Metrojet incident, the terrorist attack in Mali, the cargo plane crash in South Sudan and other incidents – remind us that we can never relax our focus on our top priority of safety. The value of air cargo is worthless next to the importance of protecting our people.

In that context, we face a particular challenge with lithium batteries. The numbers of these cells being manufactured is staggering – around 400 million a week, many of which are shipped by air. The value of air cargo is that we can deliver swiftly to every corner of the earth, satisfying sudden consumer demand, facilitating global supply chains, and fulfilling urgent medical and aid requirements. Lithium batteries are embedded in everything, from medical equipment and children's toys to fitness aids and household gadgets. They are an indispensable part of modern life, and preventing their shipment by air would create a significant negative impact on the global economy. Although lithium batteries are classified as dangerous goods, properly manufactured and correctly packed batteries can and are airfreighted safely in their millions. The problem lies with a small, but significant, number of poorly manufactured, incorrectly labeled and illegally packed shipments.

The focus should not be on penalizing high-quality manufacturers and fully compliant shippers, or making lithium batteries harder to export or utilize. Our priority in 2016 must be to focus governments on the need to apply the full force of their laws to crack down on sub-standard manufacturing and non-compliance with the dangerous goods regulations. We cannot allow gaps in jurisdiction, or bureaucratic inertia, to put aircraft, ground staff or the public at risk.

Aside from lithium batteries, another huge growth area for air cargo has been cold-chain and pharmaceutical freight. The market for cold-chain logistics has grown exponentially and will exceed US$10 billion in the next couple of years. Despite this growth, air cargo's share has been declining, from 17 percent in 2000 to 11 percent in 2013. What is the value of air cargo to a shipper if his product is ruined by a temperature excursion while the pallet sits on the apron? This is an all-too-common consequence of a lack of harmonized SOPs. The value of air cargo resides in its innovative responses to these challenges.

It is vital that the industry invests in processes, facilities and training, which can guarantee to shippers that their time- and temperature-sensitive goods will be delivered reliably and in perfect condition. Many airlines, forwarders and ground handlers have invested heavily in cold-chain solutions as part of a collective industry commitment to patient safety.

To support and recognize these industry developments, IATA launched the CEIV program. At the end of December, some 17 entities had been certified as CEIV-Pharma, with 40 more in the process. The key is to build complete airport communities and end-to-end shipping lanes so that the transport chain is guaranteed and forwarders have the confidence to use air cargo for these high-value shipments.

Innovation in air cargo is not restricted to the cold chain. An area of particular importance is the adoption of digital processes. This remains a huge challenge, but we have seen progress. In November 2015, the take-up of the e-air waybill (e-AWB) was 35.4 percent, against a 2015 year-end target of 45 percent. In 2016, IATA will launch e-AWB 360, which is a market- and community-driven approach to align to the IATA Board of Governors 2016 e-AWB penetration target of 56 percent. The e-AWB 360 program will target an initial list of nine airports from which to roll out this initiative.

For 2015, total freight volumes edged upwards by only 900,000 tonnes, to 51.3 million. While this is an absolute record, FTK growth was probably around 1.9 percent, which was less than global GDP growth. For 2016, we expect FTK growth to improve slightly – perhaps by 3 percent – but yields are set to decline for the fifth year in a row, due to lower fuel costs and increased widebody belly capacity in the passenger fleet.

> "The value of air cargo for driving social and economic development is not universally recognized by governments or even by all stakeholders in the supply chain."
>
> –Glyn Hughes, Global Head of Cargo, IATA

The value of air cargo for driving social and economic development is not universally recognized by governments or even by all stakeholders in the supply chain. We have a challenge to re-establish the industry as an innovative force, which can adapt to evolving and increasingly sophisticated customer demands. At the WCS, our discussions will be aimed at raising the awareness of the need for industry transformation. I look forward to seeing many of you there.

Glyn Hughes *is global head of cargo for the International Air Transport Association. For more information on the World Cargo Symposium, to be held in Berlin, March 15-17, please visit ems.resrunner.com/worldcargo.* Air Cargo World *will hold its annual Air Cargo Excellence Awards Gala Dinner during the WCS on March 14. Details at aceawards.aircargoworld.com* ACW

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Kalitta to diversify with 767 freighters

By Linda Ball

Kalitta Air relies on a fleet of 747 freighters for the long-haul flights it is known for, carrying large payloads, including heavy machinery, delicate medical equipment, perishable foods and even livestock. So what's with the 767s the cargo carrier is now purchasing? 767s may be the go-to freighters for the integrators, but they're rare in the general freight world.

The answer is a combination of fleet maintenance requirements and a strategy shift at the Michigan-based carrier. The time is right for Kalitta to develop in the domestic market, said Pete Sanderlin, the vice president and general manager, and number-two guy behind CEO and owner Conrad "Connie" Kalitta. Right now, Kalitta Air operates thirteen 747 freighters, three of which are 30-year-old 747-200s. Sanderlin said it's getting difficult to secure parts for the -200s, and since five of the 747-400s are tied up in DHL operations, Kalitta Air does not have many freighters available for other business.

That is changing. The airline recently purchased four 767-300 passenger aircraft, two of which it is having converted to freighter configuration by Bedek Aviation Group, the MRO arm of Israel Aerospace Industries, and two that will be used for parts only. The first of the freighter-converted 767s is scheduled to begin operations in May 2016. The second 767 is scheduled to be ferried to the Bedek facility in Tel Aviv for conversion Feb. 1, and should enter service around mid-year. And more may be on the way. Connie Kalitta recently said the carrier was planning to acquire as many as five or six more 767s "in the near future."

"We got them because we want to diversify," Sanderlin said, adding that most of Kalitta's work is on the international stage. "We do little in the U.S. domestic market," he said, but the plan is to test the waters with the new 767 freighters.

The U.S. domestic freight market is dominated by UPS and FedEx, so where is the business potential that would justify Kalitta's attempt to enter it? Sanderlin said the 767s could appeal to DHL, which uses 767s in the U.S. to support its international operation, and with which Kalitta already has a relationship. Or, perhaps the other integrators, or even Amazon – which is rumored to be planning a major U.S. domestic 767 operation – would be potential customers.

Of course, bringing in a new freighter type does not mean abandoning the old. In addition to acquiring the 767s, Kalitta Air also plans to expand its fleet with more 747s. In fact, Sanderlin said, they are in negotiations right now for the purchase of another 747-400 freighter.

Kalitta Air is not a huge airline, but with 1,500 employees and almost 20 freighters, it's not small by any means. In addition to the airplanes, Kalitta Air has its own engine shop, airframe maintenance facility, and training facility with three simulators, which Sanderlin said is unmatched by carriers of its size.

Perhaps one reason Kalitta Air has continued to thrive is because it does so much in-house. Another reason is leadership. "Connie is very close to the business, very hands on," Sanderlin said. He added that he and Kalitta make most of the decisions together.

Currently, Kalitta and Sanderlin have another challenge on their hands. The carrier's pilots, who are represented by the International Brotherhood of Teamsters, Airline Division, Local 1224, authorized a strike in December 2015, stating that the company has delayed responding to union wage and benefit proposals for more than two and a half years.

"That's usually what they do," Sanderlin said. "We're still negotiating. We have no difficulties with crew members at all." He said the talks are slow, but amicable. The crews are working hard, and the hope is that the labor issues will be brought to a conclusion by the middle of 2016.

Sanderlin added that the union usually starts off by asking for the moon, and then they have to negotiate to a place somewhere in the middle. He feels that a mutual agreement can be found and they will continue operations without interruption.

> "We got them because we want to diversify. We do little in the U.S. domestic market"
>
> –Pete Sanderlin, Vice President, General Manager, Kalitta Air

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Photo: ©Aleksandr Markin @WikiMedia

Volga-Dnepr raises funds for Mali victims

By Randy Woods

The Volga-Dnepr Group has committed itself to taking care of the costs associated with the Nov. 20, 2015, terrorist attack in Mali, and has set up a fund to help the families of the six An-124 crewmembers who were murdered.

Volga-Dnepr footed the bill to bring the bodies of the crewmembers back to Russia on one of its 737 aircraft, and also paid for their entire funeral costs. Each of the victims' families received an insurance settlement of 2 million rubles (about US$30,000), while other crewmembers who survived the attack have been given paid leave and psychological counseling.

Funeral services were held in Ulyanovsk on Nov. 30 for all six of the deceased. The ceremony was attended by thousands of people, with the local civic hall unable to fit everyone in who came to pay their respects. The crew members lost, ranging in age from 27 to 56, are:

- **Stanislav Dumanskiy**, aircraft mechanic
- **Alexander Kononenko**, flight navigator
- **Vladimir Kudryashov**, radio operator
- **Pavel Kudryavtsev**, aircraft mechanic
- **Konstantin Preobrazhenskiy**, flight engineer
- **Sergey Yurasov**, load master

The six victims were among 22 people who were killed when two armed gunmen, believed to be members of the al-Murabitoun terrorist organization, stormed the Radisson Blu hotel in Bamako, Mali. Six other Volga-Dnepr crew members were rescued by Special Forces and survived the assault, later seeking refuge on board the An-124 freighter.

According to a Volga-Dnepr statement, the 12 men on the An-124 crew were guests at the hotel, staying overnight after flying construction machinery into Mali from Oslo, Norway. The Bamako Radisson Blu was commonly used by flight crews during layovers. Staff from Air France and Turkish Airlines were also staying at the hotel during the attack, but all managed to escape unharmed.

Volga-Dnepr has also established special accounts for those in the air cargo community who wish to make financial donations to the families affected by the tragedy. Those interested in making a donation in rubles should visit *yasobe.ru/na/malicrew* or in British pounds *volga-dnepr.com/en/press-center/news/3600*. ACW

Etihad came out swinging in 2015

Etihad Cargo, the airfreight division of parent carrier Etihad Airways, achieved solid growth in 2015, with 592,090 tonnes of freight and mail flown throughout the year, a 4 percent year-over-year increase. The airline said it carried 88 percent of cargo imports, exports and transfers at Abu Dhabi International Airport last year.

While James Hogan, CEO of Etihad, hailed 2016 as a year of confident growth for the carrier and the continued "evolution of Abu Dhabi as a global aviation hub," he couldn't resist firing another shot in the open skies war, adding that, "we continue to face challenges, not least the protectionism of the major American and European legacy carriers."

The carrier now offers belly capacity on six passenger routes that launched in 2015, bringing the total number of passenger routes on which belly-cargo services are provided to 96. Freighter service was also added to new markets, including Dakar, Nouakchott and Doulala, bringing the carrier's total freighter-only destinations to 20.

New global destinations that were introduced last year include Kolkata, Madrid, Edinburgh, Entebbe, Hong Kong and Dar es Salaam, and a new direct service to Brisbane. Additionally, the carrier increased frequencies on 16 existing routes, including Bangkok, Chennai, Dammam, Delhi, Hong Kong, Hyderabad, Istanbul, Jeddah, Kochi, Kozhikode, Melbourne, Mumbai, Muscat, the Seychelles, Tehran and Trivandrum.

Etihad offers a combined passenger and cargo network of almost 600 destinations, including its 197 interline and 49 codeshare partners.

–Linda Ball

DECISION TIME

WHAT TO KNOW ABOUT OUTSOURCING MRO

By Randy Woods

For Tim Komberec, 2004 was a crossroads year. After operating a fleet of Fokker F27s for FedEx Express regional service over several years, the president and CEO of Idaho-based cargo carrier Empire Airlines was poised to re-fleet and expand with ATR-42 aircraft, which were being converted to freighter configuration.

Then there was the question of maintenance for the converted aircraft. "We did not have enough capacity in house in our Spokane facility to handle it, so we ultimately ended up having a facility built up here in the Coeur d'Alene Airport," Komberec said.

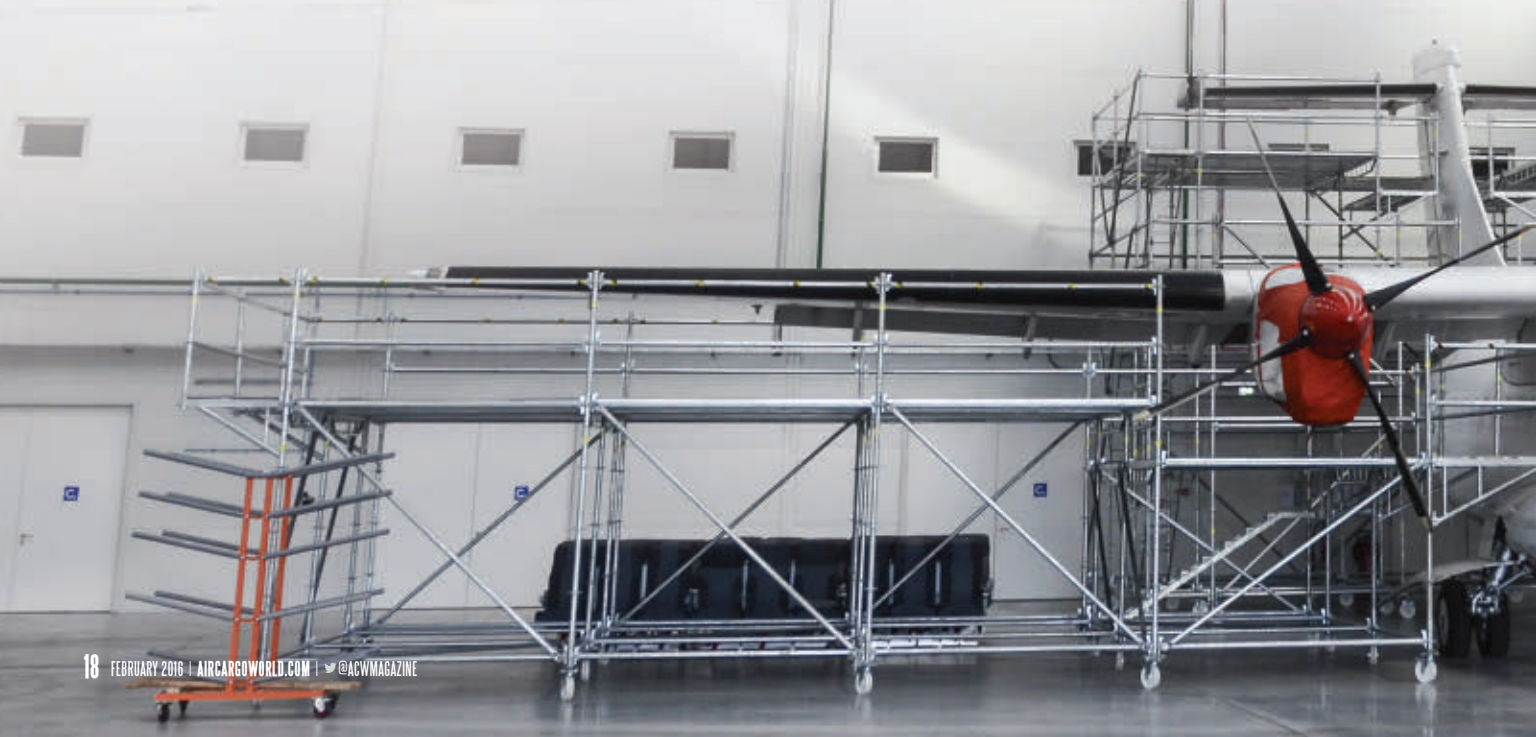
That facility in Idaho, he soon learned, was "quite a bit more than I knew we were going to need" once the converted aircraft arrived. Being a company that had a do-it-yourself attitude since its founding in 1977, Empire decided it would open up its new Idaho facility for outside maintenance, repair and overhaul (MRO) services, naming it Empire Aerospace.

As Empire Airlines continued providing feeder service for FedEx, Empire Aerospace was just as busy developing the expertise and the experience to run its own MRO. "First couple of years, we were pretty much consumed by our own work," Komberec said. "By around 2006, we started to take on other airlines."

Today, Empire's MRO, Komberec said, is growing every year and adding more revenue, but the story of Empire has become an increasingly rare one. The small- to medium-sized carrier that decides to get into the MRO business has become somewhat of an endangered species in the air cargo market, as most carriers decide to outsource their maintenance work to third-party MROs to save on costs, space and time.

"Most airlines today will do some line maintenance and some lesser A- and B-checks, but not larger checks," said Brian McCarthy, vice president, marketing and sales, for Precision Aircraft Solutions. "Conversions are the easy part. They're predictable – you basically count the days until it is done. The hard part is maintenance, when you've got engine checks and landing gear checks and other non-routine maintenance."

For those carriers that already have the space and expertise to handle their own maintenance, a full-fledged MRO could end up providing a significant boost to the bottom line, consider-



ing the projected growth of aircraft demand. For instance, Air Cargo Management Group estimates that nearly 2,500 new freighters will be on the market in the next 20 years – and that's just maindeck lift. According to McCarthy, most commercial aircraft built in the 1990s will need between US.$ 1 million and U.S.$ 1.5 million worth of upgrades in avionics alone to meet future standards.

The issue comes down to a tough decision for a carrier: What kind of aviation business do you want to be?

Finding your core

At Empire Airlines, Komberec made the decision to split the company, with MRO operations at Empire Aerospace providing about 20 percent of his business and the cargo carrier operation at Empire Airlines making up the rest. Regional flight operations, he said, would be the core of the business, with MRO being just a supplement. "I see that trend continuing," he added. "I think the MRO's contribution will grow steadily, but I still don't see a point in time where it exceeds what the flying operation does.We're a quiet company, [but] our reputation is spreading."

Like many airframe MROs, Empire Aerospace division doesn't do component repairs or engine overhauls,"but we do pretty much everything else, including all of the sheet metal," Komberec said. "We have a composite repair shop, where we do 95 percent of the composites of the airplanes right here in house."

For flight operations, Empire Airlines currently operates 19 ATR-72s and 25 Cessnas, all hauling packages for FedEx, plus three ATR-42s in pax configuration for Hawaiian Airlines. The carrier is also in process of bringing in three more ATR-72 freighters to serve Hawaiian this spring.

The hardest part for Empire was mixing heavy maintenance work with line maintenance. "You get a lot of ups and downs," Komberec said."If you gear up for the heavy maintenance side and you don't have the capacity all the time, then you've got labor that you've got to spill off."

Komberec said he still sees customers that used to perform their own MRO, but who recently decided to farm it out for a variety of different reasons, including cost considerations, a recent merger or the realization that MRO work is not part of their business plan.

Donald Kamenz, vice president of sales for full-airframe MRO Commercial Jet, agreed, saying he has several clients that decided they no longer wanted to do their own MRO work. "Among the cargo carriers which have, let's say, one to six aircraft, to set up maintenance for that kind of an operation is time-consuming," Kamenz said. "So, we definitely see that a lot of airlines have set up – I'll call it a virtual maintenance approach – where they're in control of their maintenance, no question, because they have to be, but they sub it out to us."

Much of Commercial Jet's repeat business comes from its connection with freighter conversion firm Aeronautical Engineers, Inc. (AEI), Kamenz added. He said that several customers, such as DHL, Airworks and Swift Air, have returned after their AEI conversions were completed to request anything from a small conformity check to a full D-check.

Sometimes, the core business involves more than one operation, like at Israel Aerospace Industries Ltd. (IAI), an OEM of aircraft and many other aerospace products. Bedek Aviation Group, which is IAI's MRO and conversion arm, devotes about 75 percent of its time to full-service MRO work, with the remaining 25 percent spent on cargo-configuration conversions.

"The cargo conversions is our core aircraft business, in addition to the MRO," said Moshe Haimovich, director of marketing and business development for IAI/Bedek."We have the flexibility to accommodate the operation to the picks/fluctuation in the conversion market, as well as in the MRO market. This flexibility is the key to a profitable business."

Don't fence me in

In many cases, the simple arithmetic of physical space is a deciding factor on whether to outsource MRO work. McCarthy, at Precision, said that lack of hangar space is a non-starter in the MRO world. Some conversions will later provide work opportunities for MROs, he said. "We have two lines at

Continued on page 20

An ATR-72 freighter undergoes a maintenance check.

Continued from page 19

HAECO, two at Flightstar, two in China and one in Greensboro."

One of the larger examples of the importance of size is IAI/Bedek. The company has 15 hangars for both wide- and narrowbody aircraft. The company is capable of handling comprehensive maintenance, including airframes, engines and 13,000 types of components for fixed-wing aircraft and helicopters, as well as landing gears and APUs.

While not all successful MROs need to match that size, McCarthy says that there needs to be an adequate number of man-hours secured to match the space allotted. "For [smaller] narrowbodies, you will need to get at least 500 man-hours per day. For a widebody, it's more like 1,000 man-hours. The same goes for 757s – they also need about 1,000 man-hours per day," he said. "Winning the conversions game is all about having abundant hangar space, and that can involve more expensive real estate."

Even many of these larger outfits – such as Delta, United, DHL, UPS or FedEx – which all do a substantial amount of their own maintenance work, still farm some of their work out to MROs. "These airlines, which have their own maintenance set up, have a lot of bill work that they cast off because they can't handle it," Kamenz explained. "In other words, all of a sudden there's a mod requirement due, or an aircraft they've acquired is in their flow – that all gets outsourced, and that's typically what we pick up."

A question of quality

One way to ensure the most efficiency at an MRO is to specialize, said Commercial Jet's Kamenz. Through repetition and attention to detail, a good MRO will develop strong processes. "The MRO industry, as a beast, is a pretty cutthroat, lower-margined animal," he said. "But when you establish a line of aircraft with an operator that has a certain operating profile, you get to know how to be efficient around the parts flow. Once you get efficient with a customer in their needs, then it becomes, through volume, more profitable."

In one of the more unusual maintenance arrangements, U.S.-based Air Transport Services Group (ATSG) – parent of cargo carriers ABX Air and Air Transport International, and aircraft lessor/manager Cargo Aircraft Management – has its own MRO subsidiary, Airborne Maintenance and Engineering Systems (AMES).

Rich Corrado, chief commercial officer of ATSG, said he must contract some maintenance work to the likes of MRO giants AAR or HAECO, but has AMES do most heavy maintenance and C-checks. "I haven't seen another entity that combines leasing with these ancillary services," he said.

Under this arrangement, ATSG can offer potential lessees the services of a full-time MRO via AMES to provide certain perks, such as cockpit and other interior upgrades. "What we're trying to do here is to lease airplanes – that's the core of our strategy," Corrado said. "Having AMES gives us a competitive advantage by providing services to add to the value of the aircraft."

Brady Templeton, president of AMES, said that 737s, 757s and 767s are its "sweet spot" for maintenance, but one of its more unique clients is Delta, which, despite its large Delta TechOps MRO business, has contracted AMES to provide maintenance checks on the carrier's relatively young 717 passenger fleet."Years ago, for major carriers like this, the level of outsourcing was something like 50 percent," he said. "Now it's south of 10 percent that are doing: MRO work in house."

All of this outsourcing of MRO work today has had a positive impact on overall quality, Precision's McCarthy said. "Independent MROs are good for business and safety," he added."For MROs that can generate a sufficient number of man-hours, one can see the margins come up a bit more."

Sophistication in the MRO business, he said, has reached a level where fly-by-night operations can no longer compete. "They've gotten a lot smarter about getting paid for what they're doing," he said."MROs are adopting more capable accounting practices and can better justify their expenses. Maintenance finance attorneys got much more cutthroat."

"Every MRO has to keep in mind that they're only as good as their last check," Kamenz said. "You start screwing up on an aircraft check, or your quality drops off because certain personnel have changed, you will suffer – it's black and white."

Stormclouds & silver linings

Demand for MRO outsourcing is expected to remain strong and continue growing for the foreseeable future as more aircraft continue to enter service. Troy Jonas, vice president – repair and engineering, for AAR, the world's third-largest MRO, said he sees "a great deal of demand for interior modifications" and "fairly robust growth" in MRO work, particularly for widebodies, over the next several years.

Top 10 Airframe MROs in 2014

Company	Third-Party Airframe Maintenance Hours	Total Airframe Maintenance Hours*	Total Third-Party MRO Revenue**
1. ST Aerospace	12.0 million	12.0 million	$1.5 billion
2. Haeco	9.4 million	11.7 million	$1.5 billion
3. AAR	4.9 million	4.9 million	$460.0 million
4. AFI KLM E&M	702,000	3.6 million	$3.8 billion
5. Lufthansa Technic	not disclosed	3 million	$4.8 billion
6. Gameco	1.1 million	2.9 million	not disclosed
7. Turkish Technic	not disclosed	2.9 million	$745.0 million
8. Evergreen Aviation Technologies (EGAT)	1.6 million	2.2 million	$465.0 million
9. Aviation Technical Services	2.0 million	2.0 million	not disclosed
10. Sabena Technics	2.0 million	2.0 million	$397.6 million

** Includes parent airline figures when applicable.*
*** Includes airframe, component and engine MRO*
Source: Aviation Week & Space Technology - MRO Edition

However, some maintenance experts have expressed concern about the industry's ability to handle what is expected to be a US$90 billion market by 2025. For instance, Templeton, with AMES, said some MROs are worried about attracting the proper talent for this line of work.

"It's amazing how small this business is," he said. "Skilled labor such as machinists and welders – people are not standing in line to learn these skills. Everyone is experiencing the challenge of finding the right number of people at the right time." At AMES, he said, the company started with less than 300 employees and has since ramped up manpower to more than 800 over the last six years or so.

Rather than just wring its hands in worry, AMES is trying to do something about the potential labor shortage. "We're looking at the local school system for opportunities to develop people here in-house – not everyone's doing that," he said."We're getting very close to developing a structures program in the vocational school system, which potentially will pay workers to go to school. We're building a core of folks and providing a lot of reasons to stay."

But it's not just machinists and welders that are in short supply. Conversions take a considerable amount of time – around 25,000 hours to complete, McCarthy said, and much of this involves an "epic amount" of technically challenging avionics work. "A lot more is being done on the conversion level, including installing a significant quantity of flight deck modifications. We are on the eve of needing a lot stronger electronic and technical capabilities for new avionics."

Kamenz, of Commercial Jet, also noted that more MRO work is being concentrated among fewer, richer companies. According to the latest available figures compiled by *Aviation Week*, half of the 10 largest MROs, in terms of maintenance hours and 2014 third-party revenue, have changed from the previous year (see chart). While the top five have remained unchanged – ST Aero, HAECO, AAR, AFI-KLM and Lufthansa Technic – the rest have all moved up, mostly due to consolidation and mergers within the industry. And HAECO's total airframe man-hours increased by 2 million over the previous year, due to its purchase last year of Timco Aviation Services.

While some may be concerned about manpower, Empire Aerospace is looking forward to this year and will be expanding into its first regional jets – EMB 145s that will be added "sometime this spring," Komberec said. "Turboprops have been very good for us, but it's a limited market – no one's sold a new turboprop in North America of any substance for several years," he added. His company is also moving into the passenger-to-freighter conversion business for ATR aircraft, and he expects to perform the first contracted conversion in the first half of this year.

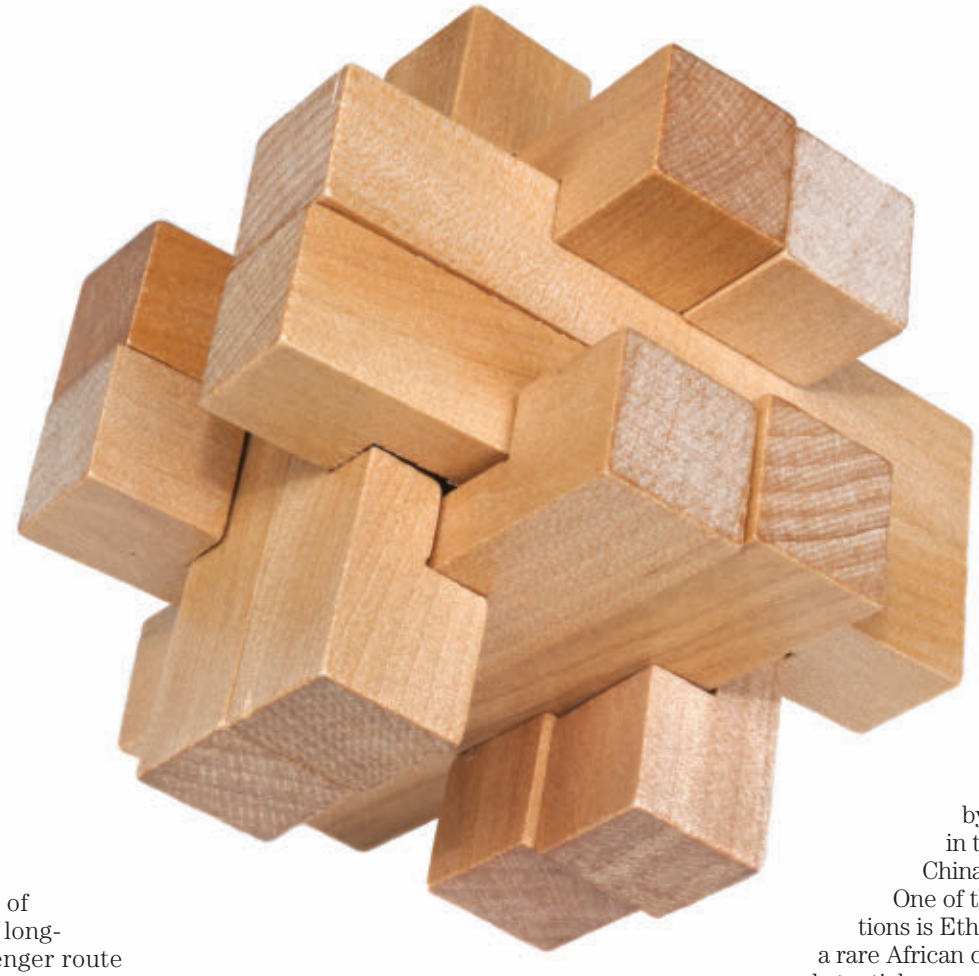
"We can make money on [MRO work]," he said. "We're not going to get rich on it, but it's an additional product that we can offer. I think 2016 can be quite a good year for us."

ACW

BUILDING BLOC

CAN A NEW TRADE ZONE SPUR INTRA-AFRICAN CARGO?

By Randy Woods



Last December, amid two days of fanfare, a new long-haul 787 passenger route was launched from Durban, South Africa. The four-times-per-week service was hailed by local provincial officials as a triumph for the region and would begin "opening up new markets for our goods around the world," as well as delivering tourist money to the continent.

And which carrier is now facilitating this foreign trade boom? Qatar Airways, based not in Africa, but in the Middle Eastern city of Doha. It says much about the state of the African airfreight industry that a new Doha-Durban route, with ample belly-freight capacity, is owned by a foreign carrier – especially one from the Middle East. Qatar now has 21 flights a week to South Africa from its Doha hub. Now *that's* an open market.

For most of the last decade, the surge in cargo traffic that has made Africa one of the world's fastest-growing airfreight markets has been dominated by carriers based in the Gulf Region, China and Europe. One of the few exceptions is Ethiopian Airlines, a rare African carrier that has a substantial cargo division modeled on the global airfreight networks of its foreign rivals.

"Foreign carriers account for 85 percent of the traffic moved to and from the continent and have far significant advantages compared to African carriers," said Sanjeev Gadhia, CEO of Kenyan all-cargo carrier Astral Aviation. The reason, Gadhia said, is a lack of liberalization in the aviation policies of most African nations. While foreign-operated international routes have been a boon for forwarders and inter-

national shippers near the major hubs of Cairo, Addis Ababa, Johannesburg and Nairobi, most of the profits end up in the accounts of the foreign carriers, and very little is invested in improving air cargo infrastructure elsewhere. Currently, intra-African cross-border trade only makes up about 10 to 12 percent of the continent's economy.

Last year, however, after years of hard-fought negotiations among African nations, a new free-trade bloc has been formed that is aimed at addressing Africa's lack of interconnectivity. Called the Tripartite Free Trade Area (TFTA), the new zone was formally established in June 2015, comprising 26 nations, with a combined population of 632 million people, or 57 percent of Africa's population. Altogether, the TFTA bloc has a combined GDP of US$ 1.3 trillion, representing 58 percent of Africa's total GDP. The vast size of the area represented – about 17 million square kilometers – is roughly equal to that of Russia, making it one of the largest free-trade zones in the world, forming an unbroken corridor from Cairo to Capetown.

The TFTA gives Gadhia hope that the continent will finally begin opening up its borders for trade with neighboring countries. "Africa remains the most unconnected continent in the world, with several constraints between East and West Africa, East and South Africa, South and West Africa," he said. "[TFTA] poses an excellent opportunity for freighter operators to open new markets which have been disconnected not only in Africa, but the rest of the world."

How will it affect forwarders?

The exploitation of Africa by foreign companies can be traced back to its hundreds of years as a stomping ground for imperial powers. But even though the 54 countries that make up Africa today won their independence decades ago, the echoes remain in the form of closed borders and protectionist attitudes, which continue to hamper forwarders.

"African nations have been overprotective of their airspace in an effort to support their national airline, hence many countries remain closed," Gadhia explained. "Currently, forwarder in Kenya has an urgent airfreight shipment to Lagos, they will have to consider routing it via Dubai. Likewise, if a forwarder in Cairo has an urgent airfreight shipment for Johannesburg, they will have to consider options via Frankfurt."

According to a recent IATA study, the absence of liberalization policies has pushed shippers toward reliance on larger foreign-owned carriers that have negotiated fourth and fifth freedom air rights between African countries. These non-African carriers rely on connectivity through a few specific, well-established hubs in places like Ethiopia, Egypt, South Africa and Kenya. Also, no major hubs have yet emerged in West or Central Africa.

As a dedicated cargo carrier, Astral Aviation has been able to operate scheduled freighter services from its hub in Nairobi to the U.K., Belgium, Tanzania, Uganda, Mozambique, Comoros, Somalia, South Sudan and South Africa. However, there were no free-trade agreements to facilitate these arrangements, so Gadhia had to painstakingly negotiate all of the above traffic rights on his own, which he said was a lengthy and exhausting process.

"Every country on the continent has its own aviation policy based on their Bilateral Aviation Safety Agreements," he added. "It's obvious that better interconnectivity will reduce cost and improve transit times for the freight forwarders and logistics community."

How TFTA should work

The name of the Tripartite bloc comes from the merging together of three smaller, overlapping trade blocs in Africa – the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern Africa Development Community (SADC) (see map, below).

Once TFTA is ratified by the 26 member countries, the members will be able to establish trade routes across a wide market, increase investment flows, enhance competitiveness and encourage regional infrastructure development. Astral Aviation expects long-term benefits from the TFTA, with greater intra-regional trade improving airfreight volumes. Gadhia said the agreement should help free up funding for badly needed infrastructure development, including airport expansion.

Based at Jomo Kenyatta International Airport in Nairobi, Astral operates a fleet of seven freighters, including 727 and DC-9 freighters, plus a 747-400F wet-leased from Atlas Air. The 15-year-old carrier lifts more than 15,000 tons of cargo every year on scheduled flights to 10 destinations, and also runs a charter network with 50 destinations.

Gadhia described Astral as one of the most successful privately owned

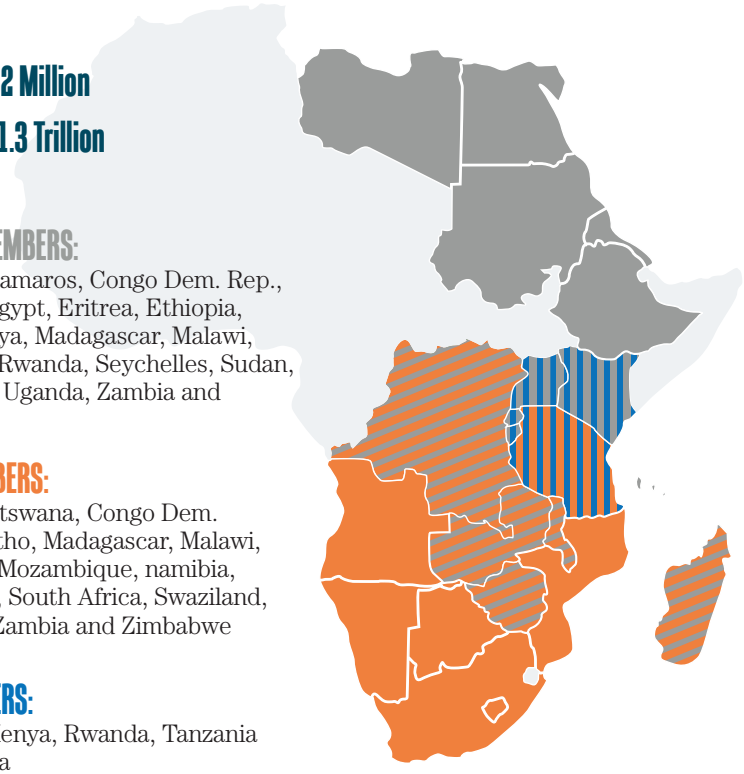
Continued on page 24

THE TRIPARTITE FREE TRADE AREA

Countries: 26

Population: 632 Million

Total GDP: US$1.3 Trillion



COMESA MEMBERS:
Burundi, Camaros, Congo Dem. Rep., Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe

SACD MEMBERS:
Angola, Botswana, Congo Dem. Rep., Lesotho, Madagascar, Malawi, Mauritius, Mozambique, namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe

EAC MEMBERS:
Burundi, Kenya, Rwanda, Tanzania and Uganda

all-cargo operations in Africa, but its fortunes could truly take off if more barriers come down under TFTA. He cited a study by InterVISTAS Consulting, which analyzed the liberalization of intra-African air markets between 12 African countries. The results of the study found that the open borders would improve connectivity, with 75 percent of country pairs having direct service.

For TFTA to take effect, two-thirds of the affected countries must ratify the agreement. So far, about 16 countries have pledged to sign the agreement, which is just short of the threshold. If the agreement is ratified, there are also plans to expand the agreement to cover all 54 African countries, which would represent the continent's entire population of 1.1 billion.

Will it be enough?

Even if the best-case scenario happens and all 26 countries sign the TFTA, there is still no guarantee the accord will make much of a difference in the African air cargo market. "TFTA will increase regional trade and should benefit African carriers," said Astral's Gadhia. "But the sad reality is that there are only a handful of African carriers who operate dedicated freighter services."

Alessandro Saponaro, chairman of the Europe-based Africa Logistics Network, created his organization on the principle that a common market will eventually form across Africa, but he remains pessimistic. "The African continent is suffering from a lot of problems that prevent a regular development of its economies," he said. "Certainly, the TFTA signed last June will help partially and could become very important, but, in my opinion, it will not be sufficient."

It also doesn't help that the world's financial markets are being uncooperative right before the rest of the TFTA nations are considering ratification. By mid-January, with the Dow and China's stock market fluctuating wildly, South Africa's rand had fallen by 30 percent over the previous six months to a record low and Nigeria, the largest economy on the continent, saw its currency stabilize, but only because of the government's effort to prop up its value.

The slowdown in the growth of the economy in China, one of the largest importers of minerals and oil from Africa, has deflated markets is several countries, such as Angola, Nigeria and Zambia, that rely on this trade. As a result, some investors have been fleeing from assets in many developing African nations, due to China's strong influence in the region.

Of all the stumbling points that the TFTA must avoid, the most nagging one remains the fact that the African airfreight community has almost reached this goal before, but came away disappointed. About 17 years ago, a group of 44 African countries banded together and agreed on a plan to gradually liberalize all intra-Africa air transport services under a strict timetable. Despite this pledge to untangle the web of air restrictions, known as the Yamoussoukro Decision of 1999, the document languished amid arguments over implementations, and was never ratified.

> "African nations have been over-protective of their airspace in an effort to support their national airline, hence many countries remain closed."
>
> –Sanjeev Gadhia, CEO, Astral Aviation.

To jump-start those moribund talks again, another meeting between delegates from 11 African countries met in January 2015 to commit to the establishment of a single African Air Transport Market by 2017. The pledge calls for the "immediate implementation of the Yamoussoukro Decision," and a regulatory framework to implement the single market via the African Union.

Another significant barrier to intra-African trade has been the stiff tariffs many countries impose on their neighbors. The problem has become especially acute in Nigeria, where Segun Musa, the chairman of Nigeria's National Association of Government Freight Forwarders (NAGAFF), has warned that the high tariffs charges by the Nigerian Customs Service may cause the airfreight business to collapse in that country by the end of this year.

The high tariffs, Musa said in the local press, are driving away imports and causing air cargo traffic to become unprofitable. Customs officers, he said, "have not brought to table any meaningful policy that will actually drive the industry. Because they are saddled with the responsibility of checking revenue being collected by the freight forwarders, they actually mismanaged the ports."

The loss of revenue due to the high tariffs will turn Nigeria's freight terminals "into football fields, where there will be no activities going on in the shed," Musa added. "So, you can imagine how the labor market will look like when about 3 million people will be thrown out of the market."

Still, Gadhia remains hopeful that the TFTA will not find the same dead ends. He currently has an "ambitious, yet cautious," five-year strategy that will include the purchase of six 737 freighters, which will enable the carrier to fly to more than 25 scheduled destinations within Africa. This process, he said, began in 2015, so the first 737-300F may arrive later this year, "along with the opening of several key routes in Africa," he added

By 2021,Gadhia also plans on operating out of three hubs, adding Lagos and Johannesburg to his current base in Nairobi. If all goes well on the regulatory front, he said he may even experiment with unmanned aerial vehicles by operating a support service for drone manufacturers and service providers.

But to make these exciting plans work, Africa must make TFTA work. "This will require the political goodwill and co-operation between all 26 member states," Gadhia said. Other smaller African FTA's, such as COMESA, EAC and SADC, he added, have "had their fair share of implementation challenges, but they have been successful in promoting regional trade." ACW

LOGISTICS OPPORTUNITIES

Third Parties


Stuart Stobie

Stuart Stobie has been appointed group sales and marketing director at **Priority Freight**. He joins the company from TNT, where he worked for 28 years, most recently as managing director of TNT International U.K. and Ireland.

Dave Gaughan has been appointed managing director in the U.K. (Manchester) for **Kerry Logistics**. **Ian Dodsworth** has been named executive director, also in Manchester, and **Brian Dempsey** is now commercial director, based in London. All three began working together prior to 2002 and, over the last 13 years, have helped build Kerry Logistics, U.K.

Hans-Georg Emmert has been appointed managing director of **Frankfurt Cargo Services**, 51 percent of which was purchased by Worldwide Flight Services last month. Emmert was responsible for sales and marketing at the Frankfurt headquarters before this appointment.

Mike Parra will succeed the retiring Stephen Fenwick as CEO for **DHL Express Americas**. With Parra's promotion, **Greg Hewitt** will take over as CEO of Express U.S. operations.

Daniel Walaszek has been appointed general manager of **Chapman Freeborn**'s new office in Katowice, Poland. Coming from TNT Express Poland, he is responsible for growing the company's charter and on-board courier services locally.

Oriol Bartol has been appointed to the position of director of contract logistics for Iberia, with **CEVA Logistics**. He joined CEVA in 2002 and spent his career in a number of logistics engineering roles, most recently as logistics engineering manager for Iberia.


Mike Andaloro

Mike Andaloro has been named president of global logistics firm **BDP International**. He succeeds **John Bolte**, who will lead new subsidiary 360 Degrees Predictive Logistics and Supply Chain Management. **Lance Malesh**, global chief, sales and marketing officer, has been promoted to the newly created position of chief commercial officer.

Airlines


Jonathan Clark

Jonathan Clark has joined **Cargolux** as its new regional director, Africa. Prior to this appointment, Clark was director of airfreight, Sub Saharan Africa, for DB Schenker. **Gerard TerBruggen** has been named the new regional director, west and north Europe, for Cargolux. He came to Cargolux from Qatar Airways, where he was cargo manager, north and western Europe.

Andrew Crawley has been appointed CEO of **IAG Cargo**. Crawley replaces Steve Gunning, who left cargo to take the position of CFO of British Airways. **Adam Daniels**, currently the head of British Airways' global revenue,will become BA's acting chief commercial officer. **Lynne Embleton**, BA's director of strategy and managing director, Gatwick, will replace Crawley on the BA board.

Airports


Mike Stewart

Mike Stewart has been named the new business development director for cargo at **Glasgow Prestwick Airport**. Stewart has more than 25 years of experience with air cargo and aviation.

Michael Garvens has had his contract extended to 2022 as the CEO of **Cologne-Bonn Airport**. Garvens succeeded in locating FedEx at the airport after the relocation of DHL to Leipzig.

John Kohlsaat will lead both the cargo and passenger sectors at **Frankfurt-Hahn Airport** as senior vice president, sales, taking over the position from **Thomas Kurzweg**, who has taken a new position at Leipzig/Halle Airport.

Manufacturers

Thorsten Riekert has been appointed head of sales department at **Jettainer**. Riekert has held various senior positions in sales operations within the Lufthansa Group.

MRO & Conversions

Douglas Ragsdale has been named director of quality for **PEMCO Aviation Maintenance**, and will be based at Tampa International Airport. He brings more than 30 years of aviation experience to the new position, most recently as director of quality with the Total Air Group.

Constanze Hufenbecher is the new chief executive of finance at **Lufthansa Technik**, succeeding **Dr. Peter Jansen**, who is retiring after 15 years as head of finance. Hufenbecher began her new role Feb. 1. Most recently, she served as CFO of BE Printers and Prinovis Ltd. & Co., based in Hamburg.

Organizations

Lionel Van der Walt has been appointed as the president of **Cargo Network Services (CNS)**, the U.S. subsidiary of IATA. He replaces **Warren Jones**,who is now at TIACA. Van der Walt, who has been with IATA for 10 years, previously worked at **South African Airways**. Also, **Tom Windmuller**, IATA's senior vice president for airport, passenger, cargo and security, recently retired.

Dan March has been appointed CEO of **WCA**, with founder **David Yokeum** becoming chairman, and **Ram Menen** joining a new global supervisory board. March, who has been communications director of the WCA network for more than five years, will oversee the day-to-day operations and work closely with Yokeum.

Perry Cantarutti has been named CEO and **Michael Wisbrun** chairman of the governing board of the global airline alliance, **SkyTeam**. **Leo van Wijk** has retired after more than eight years as the chairman of the alliance. Cantarutti joins SkyTeam from Delta Air Lines.

In Memoriam

Eddie McMullen, 66, managing director of charter specialist **Intradco**, died in November 2015, after a months-long battle with brain cancer. Chapman Freeborn, which acquired Intradco last year, said in a statement about McMullen: "As messages of condolence poured in from all over the world, the words honest, old school, maverick and, of course, fun-loving all appear hundreds of times."

AAPA: Asia-Pacific Carrier Traffic November 2015 & YTD

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

		FTK (mil.)	FATK (mil.)	Freight Load Factor
Monthly	Nov. 2014	5,930	8,649	68.6%
	Nov. 2015	5,786	8,808	65.7%
	YoY % Change	-2.4%	1.8%	-2.9 points
YTD	Jan.-Nov. 2014	58,304	89,814	64.9%
	Jan.-Nov. 2015	59,332	93,132	63.7%
	YoY % Change	1.8%	3.7%	-1.2 points

Source: Association of Asia Pacific Airlines

For November 2015, air cargo demand among the Asia-Pacific carriers fell by 2.4 percent, year-over-year, while YTD growth shrank to just 1.8 percent over the first 11 months of the year. Andrew Herdman, AAPA's director general, concluded that the region's air cargo business "is suffering from the effects of market weakness in major trading economies, signs of inventory overhang and excess capacity."

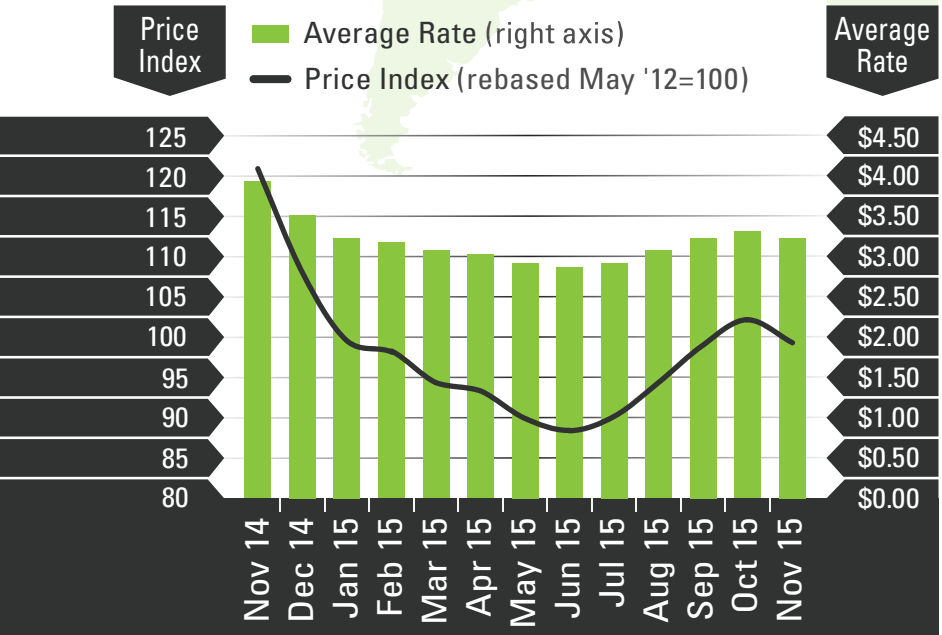
IATA: Total Freight Growth by Region

% GROWTH YoY in FTK

REGION	Nov. 2015	YTD
Africa	-6.0%	2.5%
Asia / Pacific	-1.5%	2.6%
Europe	2.0%	-0.2%
Latin America	-6.4%	-5.9%
Middle East	5.4%	11.9%
North America	-3.2%	-0.4%
Industry	**-1.2%**	**2.3%**

Source: IATA

November airfreight volumes, measured in freight tonne kilometers (FTK), were 1.2 percent lower, year-over-year, which IATA attributed to a "particularly strong November 2014." The European region saw FTKs rise 2 percent, y-o-y, but was still essentially flat for the year to date. Only the Middle East showed improvement for both the month and YTD. IATA's outlook for airfreight "remains fragile, but there are now some more signs that earlier declines have bottomed out."



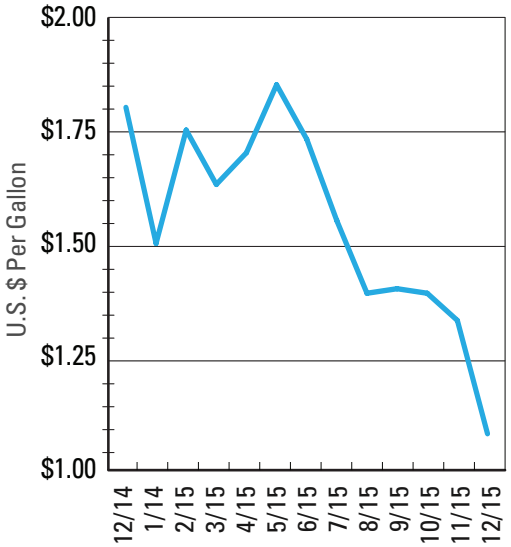
Drewry East-West Airfreight Price Index

Source: Drewry Sea & Air Shipper Insight

Drewry's East-West Air Freight Price Index fell 2.8 points in November 2015 to a reading of 99.2, ending four consecutive months of rising prices. Rates had been expected to strengthen durin this peak-season month, but weak demand took its toll on a depressed market, said Simon Heaney, Drewry's senior manager of supply chain research. Compared to the November 2014 data, the index is now a "startling 22 points adrift, indicating the extent of underlying market weakness," he said. "We are forecasting another year of flat-lining growth in 2016 as international airfreight volumes are weighed down by lacklustre development in global trade."

USEIA: Jet Fuel - Spot Price, YTD

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



Source: U.S. Energy Information Administration

After hovering around the US$1.40 mark between August and October, wholesale prices for U.S. Gulf Coast, kerosene-type jet fuel fell to $1.33 in November and then saw the decline accelerate to $1.08 by the end of the year. Year-over-year, the price fell 72 cents, or 40 percent, between December 2014 and December 2015.

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IATA

Events

FEBRUARY 16-21

Singapore Air Show – Singapore: Asia's largest airshow is the place to be for leading aerospace companies and budding players, eager to make their mark in the international aerospace and defense market. For more information and to register, visit *singaporeairshow.com/about-sgairshow*

FEBRUARY 17-19

IATA Legal Symposium – Barcelona, Spain: This is the world's principal aviation law conference, and this year it will be held at The Hotel Arts in Barcelona. Exchange ideas and experiences, explore solutions and network with the airline industry's foremost legal experts. For more information, visit *iata.org/events/Pages/legal-symposium*

FEBRUARY 23-25

Air Cargo India 2016 – Mumbai, India: This biennial event is the largest of its kind for the Indian air cargo industry and global leaders looking to explore trade opportunities in this emerging market. For more information, visit *stattimes.com/aci2016*

FEBRUARY 28-MARCH 1

ISTAT Americas – Phoenix, U.S.: The International Society of Transport Aircraft Trading welcomes delegates to learn about developments in aircraft buying, selling and leasing. To register, visit *istat.org*

MARCH 12-16

World Cargo Alliance Worldwide Conference – Abu Dhabi, UAE: This eighth annual event, to be held at the Abu Dhabi National Exhibition Center, is expected to attract 1,800 members of the air cargo community. For more information, visit *wcaworld.com/eng/con_event.asp*

MARCH 14

Air Cargo Excellence Awards – Berlin, Germany: Held in conjunction with IATA's World Cargo Symposium, the ACE Awards, based on *Air Cargo World*'s Air Cargo Excellence Survey, offers an unparalleled opportunity to network with industry leaders from the world's top airports and airlines. For more information, visit *aceawards.aircargoworld.com*

MARCH 15-17

World Cargo Symposium – Berlin, Germany: Held at the InterContinental Berlin Hotel, WCS is IATA's largest and most prestigious event of the year. *Air Cargo World* will also publish on-site Daily Reports throughout the three-day conference. For more information, visit *iata.org/events/wcs/Pages/index.aspx*

MARCH 30-31

International Civil Aviation Organization Air Transport Symposium – Montreal, Canada: The theme this year is "Addressing Competition Issues: Toward a Better Operating Environment." This symposium will focus on competition issues amongst policy makers, air transport regulators, industry representatives, aviation professionals and others. For more information, visit *events.icao.int*

APRIL 5-7

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

APRIL 10-12

26th CNS Partnership Conference – Nashville, U.S.: Each year IATA subsidiary Cargo Network Services Corp. brings together close to 600 air cargo professionals from the U.S. and around the world. Air Cargo World will also publish on-site Daily Reports during the conference. For more information, visit *cnsc.net/events/Pages/cns-partnership-conference.aspx*

APRIL 19-20

Cargo Facts Asia – Hong Kong: Produced by *Air Cargo World*'s sister publication, *Cargo Facts*, and the Air Cargo Management Group, this conference has become the center of Asian airfreight opportunity, bringing together the world's aviation community for meaningful networking and strategy sessions. For more information, visit *cargofactsasia.com*

MAY 15-18

29th IGHC Ground Handling Conference – Toronto, Canada: Calin Rovinescu, Air Canada CEO, invites the ground operations industry to converge on Toronto for this conference, to be held at the Westin Harbor Castle. For questions, e-mail *ighc@iata.org*

JUNE 8-10

AirCargo 2016 – Phoenix, U.S.: This will be the twelfth annual conference and exhibition presented by Airports Council International and the Airforwarders Association, to be held at the JW Marriott Phoenix Desert Ridge Resort and Spa. For more information, visit *aircargoconference.com/aircargo2016*

JUNE 14-16

Air Cargo China – Shanghai, China: Build closer contacts, pave the way for new business and find out about all the latest trends in the air cargo sector at this Transport Logistic China event in one of Asia's largest cargo hubs. For more information, visit *aircargochina.com*

OCTOBER 3-8

FIATA 2016 World Congress – Dublin, Ireland: The event will be held at the Convention Centre Dublin, with the theme of Ireland: "Where networking comes naturally." The conference program is still in development. To register, visit *fiata2016.org*

OCT. 10-12

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 thought-provoking interactive discussions. For more information, visit *cargofactssymposium.com*

Advertiser's Index

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

Spoiler alert: Coming air cargo attractions for 2016

by Brandon Fried

Aside from a few decent actors and directors, the most deserving recipients of film industry awards should be the people making those alluring movie trailers. These brilliant-but-brief glimpses of movies coming to theaters near us use the funniest and most exciting parts of films to bait audiences for what is sure to be the next Academy Award winner. In many cases, the movie fails to meet the trailer's expectations, and we leave the theater disappointed.

When reviewing last year's industry performance, U.S.-based forwarders will probably say that, except for bright highlights, 2015 just did not meet our initially optimistic expectations. IATA's latest cargo industry assessment reveals that air cargo performance in 2015 shrank from levels seen at the end of 2014. While a modest gain is expected, year-over-year, these small increases are mostly attributable to the surge in activity last spring, caused by the U.S. West Coast port backlog and recalls for Japanese air bags in automobiles.

Looking ahead to the sequel, 2016 may be exciting. However, it has all the earmarks of being a challenging year. Stop me if you've seen this plot before, but adverse economic headwinds and a slowdown in China will most likely continue to hamper 2016. These factors, however, will accompany a cast of other factors that are liable to affect the performance:

Security: General unease created by terrorist-related global events has forwarders concerned about what to expect when TSA unveils its long-awaited security program change. Industry and the TSA worked diligently to identify requirements that no longer provide significant security value, but a last-minute review before release threatens to hamper progress.

Preloading advanced data initiatives: As U.S. Customs and Border Protection continues its Air Cargo Advanced Screening (ACAS) voluntary pilot program, and begins another focused on the export manifest, forwarders are bracing for possible new import and export requirements that could cost them time and money.

IATA: The organization representing world airlines is joining forwarders in an initiative that will fundamentally change the carrier/forwarder relationship from an agency to customer basis. An official agreement is expected to be signed in Berlin in March, with two negotiating sessions planned to address unresolved issues. Further, the group's ongoing push to encourage electronic submission of air waybills forces forwarders to develop a roadmap in embracing technology, which will also affect their IT planning or purchasing decisions.

Lithium batteries: This category of batteries is an ever-growing necessity in our daily lives. They power our personal communications devices, our automobiles and, now, even our home power storage. These cells are more useful than ever, and despite their ubiquitous presence in our lives, solutions for safe transport must be found. Banning them from air travel entirely, though, is not the answer.

Trucking: Now that the Highway Bill has passed, compliance, safety and accountability (CSA) scores from the Federal Motor Carrier Safety Administration (FMCSA) are out of public view. Also, there are now stiff penalties for coercing a truck driver to break safety regulations, as well as the start of electronic driver logging. What more can we expect from the FMCSA this year?

U.S. elections: As the Obama administration draws to a close, any candidate promising an optimistic vision for better days ahead will likely fly into the White House. That said, forwarders are looking for a candidate who understands the value of free trade and its impact on commerce, freight flows and economic growth. The new president must also focus on reducing the tangled web of regulations our industry currently faces.

Amazon: The Seattle-based e-commerce juggernaut has gone to great lengths to ensure all of its packages get delivered on time. Regardless of whose fault it is, when its shipments experience delays, Amazon looks bad. Sound familiar? Delivery performance could be why Amazon may be creating its leased air network of 767s to control costs and increase reliability. While the company faces definite hurdles to overcome before the plan gets off the ground, this move could be a warning to integrated carriers and even freight forwarders that, to defray costs, Amazon could start delivering for other companies. Its success in the data-storage industry, now responsible for most of its profits, shows that Amazon can leverage assets to disrupt seemingly unrelated markets. Perhaps forwarders should open discussions with Amazon to secure space on future Amazon flights. A deal could address the loss of domestic heavyweight cargo lift available to U.S. forwarders.

The sneak previews for this year have much in store for everyone, including several unanswered questions as to how forwarders and their transportation partners will falter or prosper. We've now seen the trailers and the feature has begun. Pass the popcorn.

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