



MAKE CREATE INNOVATE

From geopolitical concerns to trade protectionism; from declining yields to over capacity; from modal shift to on-shoring, air cargo industry is under stress and it needs path breaking strategies to catch up with its industry peers. What's the air cargo of the future?

Reji John



Air cargo is so integral to many facets of human life. Getting perishable goods from developing economies to markets in industrialised nations would be impossible without air transport. The healthcare industry relies on air transport for its speed and efficiency in transporting high-value, time and temperature sensitive shipments, particularly vaccines. Live animals, particularly thoroughbred horses, carried by air are considered the most humane and expedient method of transportation over long distances. All of us use multiple personal electronic devices that were built using a global supply chain linked by air. Ecommerce ventures like online retailers like Amazon, Alibaba, and eBay rely on the express delivery services made possible by aviation to get those devices, and so much more, to their customers around the world. It is estimated that about 340 billion letters and 6.7 billion postal parcels are sent every year, and air transport plays an essential role in their delivery.

While there is so much happening in the air cargo industry, there is much more required for this mode of transport to be effective and relevant in the modern days world of fast evolving technology that is enveloping every aspect of human life. Air cargo's inclination to adopt the latest technology innovation like other industry verticals is far from what is expected.

Reflecting on the current global scenario of falling oil prices industry experts suggest that while economic factors which are normally conducive to heighten consumption there isn't the expected rise in consumption. They attribute "social factors" more than economic factors as reasons for such a phenomenon.

"Yes my financial circumstances maybe better. But there is terrorism now. Something that Europeans are sadly made aware of. That is impacting the state and frame of mind. So for consumers to be active spenders they need to have money in the pocket and also have the right frame of mind to go out and purchase," says Glyn Hughes, the global head of cargo for International Air Transport Association (IATA). "The economic indicators would point to a far more positive situation than we are actually seeing in reality. This I think is the



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Glyn Hughes, IATA

new norm going forward which is a very volatile and challenging," adds Hughes.

Both the industry and IATA expect solid, but not spectacular, growth in air cargo volumes over the next five years. The IATA's forecast is for an average growth rate of 4.1 per annum.

However, it is the long term future of air cargo that is under scrutiny. It is the value proposition of air cargo industry which needs immediate attention from every stake holder. Under the circumstances of constantly evolving geopolitical concerns and volatile global markets, there is an urgent need for the global air cargo industry stakeholders to introspect and innovate. Introspection and innovation have to happen across the air cargo value chain and among all stakeholders.

"The industry cannot use these figures as an excuse to stand still. A comprehensive structural transformation is necessary if air cargo is to have a profitable, sustainable future," warns Hughes.

Challenges include stubbornly low yields, exacerbated by extra capacity coming into the market through pas-

senger aircraft bellyhold. A mode shift to ocean-borne trade is also playing its part. As laptops have come down in price, for example, it makes financial sense for some manufacturers to move the product over the oceans or to use new rail connections springing up throughout Asia and the near East. And some products that were once the mainstays of air cargo like desktop computers or boxed software packages have all but disappeared. Despite all recent hoo-ha about cross border trade and commerce, protectionism remains an issue and restricts the free flow of goods.

According to the World Trade Organization (WTO), between November 2013 and May 2014, 112 new trade-restrictive measures were enacted by G20 governments. This is not always about traditional tariff barriers, which continue to fall because of WTO work, but the general regulatory environment. Governments' procurement policies are pushing contracts to be awarded at home to boost jobs and domestic prosperity.

However, some of the recent global events should be of immense importance to the global business community. The Obama administration's historic decision to loosen its trade embargo on Cuba with a new round of regulations allowing American companies to sell to Cuba on credit and export a potentially wide range of products to the Cuban government for the first time.

Secondly, there is so much that the logistics industry stands to benefit from the removal of Iranian sanctions. The removal of certain aspects of the Iranian sanction regime has opened a flood of business, much of it requiring logistics infrastructure. It is reported that Iran is poised to begin the long process of rebuilding its civil aviation fleet. The Iranian government is expected to sign a deal for about 114 Airbus aircraft, which would allow state carrier Iran Air and other operators to begin the process of replacing aircraft that in some cases date to before the Islamic Revolution in 1979. The end of sanction regime also means an opportunity for Iran to unlock the value of about \$100 billion stuck in overseas financial institutions.

During a recent air cargo conference Hughes called for cooperation across

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Ingo Zimmer, ATC Aviation Services



3-D Printing

From a supply chain perspective the big question is whether 3-D printing has the potential to become a disruptive technology, or will it be just another incremental step in the supply chain evolution?

the supply chain. He emphasized on the importance of and level of sophistication required in shipping high-value goods that must go by air, including include high-tech goods, perishables and pharmaceuticals. According to him, logistics business is not keeping up with technology

He points to the fact that a leading pharmaceutical company once claimed that “80 percent of their failed shipments were due to air cargo and a lack of knowledge by those who are handling it”. That is a serious warning to anyone in the air cargo business. “Air cargo must transform itself into a lean, adaptive and innovative industry centered around increasingly sophisticated customer demands,” Hughes recommends.

It is a common fact that businesses, particularly manufacturing, move to locations where they are best suited both in terms of operational and cost efficiencies. It is here that the new trend of on-shoring or near-shoring assumes significance. It is the fact that manufacturing hubs, such as China, are now more expensive to use, negating their attractiveness as production centres. Mexico is becoming an attractive manufacturing destination for many of the US companies. This naturally makes the

consuming markets closer to manufacturing hubs, making cost of logistics cheaper.

Talking about creating and enhancing the air cargo value proposition amidst challenging global trade and commerce, Ingo Zimmer, the chief executive officer of ATC Aviation Services, a leading global cargo sales and service agent, says the biggest challenges for us, as a cargo GSSA, are the falling rates and commissions.

“We only can stay competitive with an efficient organization and an efficient IT. You can match this challenge with growing tonnages and more cargo GSSA contracts. The advantage of being a global GSA with a strong presence helps. If you represent 10 airlines on a market the basic costs for the infrastructure are the same than if you represent just two airlines customers,” explains Zimmer.

He says being a member of a big group like ATC Aviation gives him an advantage on the costs if it comes to investments like IT, licenses, back-up services. “This helps to keep our costs lean and us competitive. A threat is also the concentration on the market. There are less small and medium size airlines around than 10 years ago,” he adds.

Talking about how cargo sales agents

evolved over a period of time and how the transition for ‘general sales agent’ to ‘general sales and service agent’ Zimmer said when yields dropped capacity management, yield management, and profitability of routes came into the focus. Dropping yields and revenues coming from cargo forced some airlines to give up their 3 to 5 staff cargo teams and outsource that role to GSSA and airlines decided to concentrate on their core business.”

Among the opportunities for the air cargo sector is the accelerating urbanization which will increase the number of mega-cities and the emergence of mega-regions These mega-regions, mainly in Asia, create agglomeration of GDP and population and are expected to drive world trade. Aviation will be critical to support the movement of people and goods between mega-cities and regions. However, the industry should strengthen its value proposition and competitiveness to ensure alternative modes do not capture the growth.

According to an IATA evaluation, mode mix optimisation and modal shift from air to less-expensive or perceived more-environmental friendly maritime and rail transport has been occurring for some years. Freight forwarders offer more air/sea, air/road or air/rail products that combine to create price and total shipment time flexibility. The new railway and road-based ‘Silk Road’ network that connects China with Europe is capturing business from sea and air cargo.

What remains to be answered is how different will the air cargo industry be in a decade from now? Change is the only constant here. Make, create and innovate is the way forward for air cargo industry to be of value and relevance. ■