Challenges Facing the Air Cargo Industry

Glyn Hughes – Director, Cargo Industry Management
The Value to Economic Prosperity

More than One third of global trade goes by air

Over USD 5 trillion

Source: The Colography Group, Oxford Economics
### Challenges and adversity is “business as usual”

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<th>Outdated business model</th>
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- High touch… = high cost
- Outdated business model
- Security compliance
- Capacity excess
- Reliance on paper
- Natural Disasters / Civil unrest
Challenges and adversity is “business as usual”

- Economic slowdown
- Fuel prices
- Regulatory Pressures
- Infrastructure & investment
- Security compliance
- Geo-political / Business environment
7. World trade in goods and air FTKs

Source: Netherlands CPB and IATA

International FTKs (left scale)

World goods trade volumes (right scale)
1 USD increase = USD 1.6 Bn in cost
Cargo Security – what’s coming...

- ICAO annex 17 amendments
- WCO SAFE framework
- Advance information requirements … many countries in the pipeline
- EU inbound…EC/859/2011…independent validation
  - over 1,000 carrier stations affected (ACC3 certification)
  - Many thousands of Regulated Agents / Known Consignors
- Big impact for Malaysia
Challenges and adversity is “business as usual”

Supply chain Complexity

Commodity innovation

Shifting demand patterns

Customer needs and evolution
Air Cargo – Supply Chain

Complex interfaces…
11. Consumer confidence

Source: Haver Analytics

Balance expecting improvement, index

China

Europe (right scale)

US
Opportunities driven by size of middle class

Global middle class in 2009 and prediction for 2030

North America

Central & South America

Europe

Middle East & North Africa

Sub Saharan Africa

Asia Pacific

Source: Standard Chartered Bank Research
Challenges and adversity is “business as usual”

Outdated business model

Image

Be masters of our own destiny

High touch… = high cost

Capacity excess

Reliance on paper

Resistance to Change

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23. Global Airline Industry Cargo Revenues

Source: ICAO, IATA
The Value to Airline CEOs

- Cargo: 12%
- First Pax.: 4%
- Business Pax.: 14%
- Economy Pax.: 70%
- Economy Pax. share of Total Revenues: 70%
- Cargo share of Total Revenues: 12%
- First Pax. share of Total Revenues: 4%
- Business Pax. share of Total Revenues: 14%
Passenger / Cargo - Comparison
How do these factors impact yield?
13. Cargo fleet composition
Source: IATA, Ascend

- Freighter fleet in service
- Widebody pax fleet in service

**Number of aircraft**

- **End of year totals**
- **End of month totals**
15. Twin Aisle Aircraft Deliveries by Airline Region

Source: Ascend
Addressing the Challenges
Cargo Agenda

- Industry collaboration
- Key issues
  - E-commerce
  - Security
  - Customs and Trade facilitation
  - Sustainability
- The Value of Air Cargo campaign
Industry partnership at work ...
forming a strong, unified voice
Four key areas of focus

- Security
- e-Commerce
- Customs & Trade Facilitation
- Sustainability
Agenda for success

- **Safety**
  Dangerous Goods regulations
- **Security**
  Procedures and Secure Freight project
- **Standards**
  Foundations for harmonized business processes
- **Efficiency**
  e-Freight and e-AWB projects, removing paper and cost
- **Sustainability**
  working for a brighter tomorrow

Working together to strengthen and simplify the business of Air Cargo
e-freight: cargo paperless transportation

- Paperless transportation process for air cargo
- 11% penetration on live trade lanes by end 2011
- Additional growth will require:
  - Technology investment by industry players (airlines, forwarders, handlers)
  - Expansion of e-freight route network, with priority on BRIC countries
  - More regulators engagement for digitization of shipping documents: Cites certificates, Health certificates, DG declarations, etc.
e-AWB: first step in 100% e-freight

- Key document in the e-freight process
- The e-Air Waybill removes the requirement for a paper Air Waybill
- 5% penetration as of March 2012
- Target is 100% e-AWB by end 2014
  - 15% in 2012
- Actions to remove key blockers
  - Technology investment by industry
  - Countries to ratify MC99 or accept laser-printed AWB
  - Multilateral EDI agreement
Cargo Security – Top Priority

- IATA working closely with ICAO, WCO, Regulators and industry to improve Cargo Security

- IATA supports a multi-layered cargo security approach:
  - Layer 1 on advance electronic information
  - Layer 2 on physical security

- IATA developed a standard electronic consignment security declaration providing an audit trail of who secured, what how and when
  - Testing in UK, NL and others

- IATA continues working with Governments to implement Secure Freight
  - 2011: Kenya and Mexico
  - 2012: 2 new pilot countries
The Value of Air Cargo: Four Campaign Strands

- The Value to modern life – Consumers
- The Value to economic prosperity – Governments / Regulators
- The Value to the global community – everyone
- The Value to Airline CEOs
The Value to the Global economy....
Have you got one of these with you?

Air cargo transports over US$ 5 trillion in goods, including the latest phone, game and multimedia gadgets—bringing your world to life.

...air cargo makes it happen.
The Value to leisure and entertainment....
16-18 March: Australia

23-25 March: Malaysia

By flying 60 cars and 300 tonnes of equipment to 20 grand prix, in 19 countries, with 500 million avid viewing fans, air cargo keeps Formula 1 on track.

...air cargo makes it happen.

www.cnsc.net    www.iata.org    www.cargoasso.com
The Value to National economies....
High-tech components
state-of-the-art delivery

Malaysia had a record year for trade in 2011, with exports up 8.7% to RM694.55 billion. Reliable air cargo is the essential link for Malaysia's growing technology industries.

...air cargo makes it happen.

www.cnsclinet
www.iata.org
www.cargo2000.com
From his field to your vase

Air cargo flies over 90,000 tonnes of Kenyan flowers each year, sustaining 60,000 jobs. So when you say it with flowers, remember they’ve come further than you think.

...air cargo makes it happen.

The Value to the Global Community....
A life protected

Immunization prevents 2.5 million deaths every year.
Air cargo is critical in flying vaccines to their
destination in time to be effective.

...air cargo
makes it happen.

KLIA tunnel – Mar / Apr 2012
Thank You