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Asia air cargo in high gear

DHL Airbus A300 freighter at Suvarnabhumi Airport

An exceptional peak season out of Asia is evidenced by DHL planning an extra 100 freighter flights to cope with surging demand, writes *Donald Urquhart*

NOVEMBER and December are Asia's two busiest months.

"We see a peak every year, but this year we are anticipating a growth of over 20% year on year on an already big peak. So we've got 100 extra freighter flights operating over that period, just for Asia," DHL Express chief executive Ken Allen tells *Freighters World*.

Allen made the comments ahead of the integrator's announcement that it is investing €335m to expand its Hong Kong Central Asia Hub (CAH) by 50% to handle 1.06m tonnes a year, when ready by 2022, to coincide with Hong Kong International Airport's completion of the much needed third runway.

Of these additional flights, 74 will be from Hong Kong and the remainder out of DHL Express' North Asia Hub at Shanghai Pudong airport (PVG), says Tony Khan, general manager of DHL Express' Central Asia Hub.

"The growth rates we've seen around the world, but especially out of Asia,

have been phenomenal over the last few years," Allen adds, citing an average volume growth rate of 12% year on year out of Hong Kong.

The current peak season situation confirms what freight forwarder Panalpina warned of back in late July.

"The Far East peak season is expected to start earlier and be even stronger than last year's," it said as it urged shippers to book their capacity early.

Clearly, not everyone heeded their advice as a number of small and medium-sized forwarders that *Freighters World* spoke to in early November said capacity was rapidly becoming scarce out of Asia with the very real possibility of backlogs.

Barely two weeks later, the same forwarders confirmed that the expected backlogs have become a reality.

AirBridgeCargo (ABC), which has a keen focus on Asia, also notes that capacity is tight out of the region.

"We can admit that the capacity situ-

ation out of China is very tight now and of course it has started to impact yields," says Sergey Lazarev, general director, ABC.

"Yields out of Asia throughout the whole year were higher than last year's levels and now with the supply-demand situation, yields continue their growth," he adds.

And it is not just Asia-Europe that is feeling the squeeze, likewise the transpacific is seeing a similar situation according to United Cargo's Mirco Renfer, vice president of Asia Pacific sales.

"The Asia market has performed very well for the entire year and this positive trend has strengthened, now that we've entered peak season.

"Yields both to and from China have been trending up consistently since the beginning of the year, and they are advancing more rapidly as we enter into peak season."

He adds: "All ex-Asia markets are performing very well, but not all origins have the lengthy history that enables comparisons to the past. Among established mar-

kets, I would single out Japan and Hong Kong as reaching demand levels that we haven't seen since 2012.

"In Japan, in particular, capacity gains have usually equalled or surpassed rising demand in recent years – with limited exception periods such as the US port strikes a few years back. But this year the demand from the electronic and automotive sectors of the Japan export market has reversed the long-term trend."

The surging demand is being driven by a number of factors, says Lazarev, including the launch of much-anticipated high-tech devices, a series of festive holidays worldwide, e-commerce purchases and tight capacity as a result of rationalisation in recent times. This has impacted yields, pushing them higher, as well as facilitating charter business, he adds.

The Moscow-based carrier says it approached the peak season "well-prepared" and as a result expects solid 2017 fourth-quarter results, based on 14% growth of ABC cargo tonnage for the first ten months of 2017. "Our enlarged fleet of 18 freighters, and recently deployed brand new B747-8F, offer enough capacity to accommodate additional volumes," Lazarev says.

He adds that a well-balanced network, with newly integrated destinations in Asia (Taipei) and Europe (additional Munich and Liege), provides extensive transportation linkages with connectivity options through its hub at Moscow Sheremetyevo airport.

Asia growth story

While clearly a welcome development, the peak season is only part of the story.

It is a dream end to what has been a banner year for the industry and one that generally confirms a basic truism – when air cargo is doing well, air cargo in Asia is typically doing very well.

"Over the last two to three decades Asia has become the epicentre of economic gravity and a major manufacturing region, with more and more carriers opening up new destinations to serve growing appetites of European and American consumers," says Lazarev. For this very reason, this region has been the backbone of ABC's strategy from the beginning of its operations as the company continues to expand its footprint and introduce more destinations to meet the needs of its customers.

The strong performance of the region was also recognized by the Association of Asia Pacific Airlines (AAPA), which noted that the solid expansion in international air cargo markets continues unabated, outpacing the growth in offered freight capacity.



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Mirco Renfer,
United Cargo

"Improvements in global trade sentiment have delivered a robust 10% growth in air cargo volumes, a welcome development for Asian carriers which account for nearly 40% of global air cargo traffic," observed Andrew Herdman, the AAPA director general, speaking at the group's annual presidents gathering in Taipei in October.

The figures speak for themselves, with WorldACD Market Data noting that Asia-Pacific is the only region of the world maintaining year-on-year double-digit volume growth in September, at 12.3% for outbound and 11.3% for inbound cargo.

The data analytics company notes that, through the first three quarters of the year, Asia Pacific saw growth of 14.2%, placing it as the best performing region in the world in terms of volume growth, consolidating top position in the world's air cargo business.

Asia Pacific can add the distinction, it says, of being the only area with double-digit yield growth year on year for each month in the period January-September.

Hong Kong Air Cargo Terminals (Hactl) chief executive Mark Whitehead confirms that, at the busiest cargo airport in the world, Hactl continues to experience strong throughput volumes, in line with the trends throughout 2017.

"Traffic to and from China at Hong Kong International Airport is up 12.4% on 2016, while our total volumes are up 14%. We expect a strong fourth quarter, too," he says.

Whitehead adds that the growth figures will likely moderate by the end of fourth quarter, simply because 2016's like period was influenced heavily by the Hanjin container line collapse, which created a larger peak than normal.

The cargo terminal's SuperLink China Direct RFS road feeder services are also performing well he says, in reference to the bonded trucking network throughout southern China, which is operated by the terminal's Hong Kong Air Cargo Industry Services Ltd (Hacis) subsidiary.

ABC's take on the Asia cargo market is similarly upbeat, with Lazarev saying that the economy of the East and South Asia (ESA) region continues its momentum with GDP growth estimated at 6.1% in the third quarter.

For ABC this had translated to a 15% uptick over the first 10 months of 2017 to/from Asia.

"During 2017 we have witnessed stable demand for exports from Asia (up 12%), but what is even more important is that the growth rates for imports to Asia to the majority of stations have reached double-digit growth and reached 20% from Europe, including high growth of automotive goods and medical equipment, as well as healthcare products," he says.

The demand to/from Asia has been even more robust during the last quarter of the year, he adds, saying the star-performing import destinations for ABC in Asia this year include Shanghai, Beijing, Singapore, Tokyo and Seoul, where import traffic has doubled year on year. From an export perspective there is high demand from all ABC stations out of Asia.

Changing fundamentals

As AAPA's Herdman notes, the nature of the air cargo beast in Asia is changing: "Asia is not just the factory of the world, but is also a rapidly rising consumer of goods as well."

Certainly this is a welcome change as no



ABC B747 freighter at Sheremetyevo



Hong Kong's Hactl has experienced strong growth in 2017

longer do carriers struggle with the problem of imbalances that used to plague the Asia-Europe and Asia-US trade lanes where full cargo holds out of Asia saw only minimal loads on the return.

Similar sentiments are expressed by Atlas Air Worldwide Holdings' chief executive William Flynn who says: "Growth in Asia and an expansion of the global middle class are transforming the global economy.

"Increased disposable income will support a strong future for global trade and the consumption of goods.

"Our strategic focus on express and e-commerce service and the faster-growing Asian markets positions us for further business growth as we carry through the balance of 2017, into 2018 and beyond."

ABC cites the example of Singapore in terms of the changing structure of Asian trade lanes.

Lazarev says the carrier has seen "very high demand for our services to/from Singapore, with import volumes exceeding export volumes".

Part of this is due to high demand for the carrier's aerospace product.

"ABC is looking at the Asian market from another angle now," he adds.

This means providing special logistics solutions for imports and exports and monitoring its cargo volumes closely in order to guarantee that not a single business opportunity is squandered.

"The growing prosperity of a middle-class population and the rising of western-oriented consumer societies in Asia, rapid pace of urbanisation in particular countries and high level of population digitalisation (with internet access 24/7) are the main drivers for business growth in Asia, which will continue to push economic surge in the nearest future," he adds.

But the changing nature of air cargo in Asia has other interesting facets as well.

United's Renfer notes that while the iPhone, for instance, has had some impact on the market "unlike previous years when a product of this type would have

had an obvious and recognisable effect, this year the iPhone is one more factor contributing to the robust market".

Stronger underlying fundamentals have helped build a more solid cargo market, says Renfer.

He adds that the current expansion of the ex-Asia market began back in the third quarter of 2016.

This was driven by growth in a variety of commodities including electronics, automotive parts, garments/textiles and e-commerce, along with an increasing demand for pharmaceutical products.

Lazarev agrees, saying that Asia's development has occurred at a fast clip with its role as manufacturer for the world evolving over time.

"High-tech production facilities are growing at a very high speed in the region, including aerospace, automotive, medical, etc and this pushes airfreight volumes to/from Asia, while raising the bar of quality performance for airfreight transportation by implementing latest industry technologies and adapting best practices and more highly skilled personnel."

At the same time, adds Lazarev: "The growing population of middle-class consumers with western-oriented appetites for luxury goods, exotic food and other consumer goods pushes volumes of respective commodities and facilitates development of specialised logistics solutions to Asia."

And of course, the explosion of e-commerce activity in Asia, China in particular,



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Andrew Herdman,
Association of Asia Pacific Airlines

with 'netizens' becoming more tech-savvy, creates bi-directional volumes requiring fast and reliable services, he adds.

E-commerce is indisputably a key game changer and Whitehead similarly points to its rapid growth in China, fueling strong growth in airfreight exports and imports.

Hactl's value-added logistics arm, Hactis, is increasingly involved in this sector and through its collaboration with postal authorities has developed a fast and cost-effective route for export mail.

This mail containing e-commerce electronics items is now generating over 1,000 mail bags per day, which then travel on Hactl client carriers, says Whitehead, adding: "This is good news for them and for us."

Pointing to the huge growth potential of China's Singles' Day e-commerce festival, he says that Alibaba's plans to make this Chinese event into a global shopping phenomenon "will have some exciting impacts for air cargo, and Hong Kong and Hactl are ideally located to benefit".

The importance of e-commerce cannot be underestimated as it has become a key driver of peak season volumes, says Lazarev.

"Over the last couple of years the peak season is e-commerce-linked, with a row of holidays following one-by-one — Thanksgiving and Cyber Monday in US, Chinese Singles' Day, pre-Christmas rush in Europe and North America."

A major part of e-commerce traffic consists of newly launched high-tech devices, among them being Apple products, which amount to 7% of ABC's total cargo carried ex-Asia says Lazarev.

With the volatility of the air cargo landscape over the last four to five years and with a dependence on one-off events, it has become quite hard to forecast where the market is headed, says Lazarev.

"However, we expect solid and stable growth until the end of this year and most likely it will embrace the first months of 2018, as there will be backlogs needed to be cleared, while the Europe-Asia trade lane will continue its momentum and generate needed volumes."

Overall, he says that the 2018 market will grow at a slower pace compared to the robust 2017.

For United's Renfer, the substantial level of new capacity entering the market will be a key determining factor.

"This is particularly true in China — the number of both passenger and freighter non-stop frequencies is increasing notably.

"It will be interesting to see how this impacts business and the market once we pass the peak period and the demand slackens somewhat." ■