

State of the Industry: The Forwarder's Perspective



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Remembering TSA's Ed Kelly

GISTnet, Inc.

Global Logistics Network

Global Maritime Affairs LLC

Graf Air Freight, Inc.

GUAM JRC Logistics, LLC

Gulf Coast Express

GVA Air Freight

Haas Industries, Inc.

Hankyu International Transport (USA), Inc.

Hassett Air Express

Hawaii Air Cargo, Inc.

Hawaiian Airlines

Heavyweight Air Express LLC

Hellmann Worldwide Logistics

Hill Logistics, Inc.

HJB Air Freight, Inc.

Hoku Express, Inc

Honeybee Intl Forwarding

Houston Airport System

Hybrid Transit Systems

Who Is the Airforwarders Association?

Our Mission

- ▶ Educate & Advocate on Behalf of Our Members
- ▶ Promote Aviation Security
- ▶ Promote Best Practices to Enhance Safety



The State of the Industry

- ▶ Past
- ▶ Present
- ▶ Future



Past is Prologue



- ▶ Legislation and regulations impact business strategy
- ▶ Democratic takeover of House & Senate
- ▶ 9/11 Act and screening
- ▶ Commensurate vs. equivalent with baggage screening
 - ▶ 50% last feb, 75% may and 100% in august

The Screening Solution?

- ▶ CCSP: An important element in the airline/forwarder/shipper partnership
- ▶ CCSP: Avoids bottlenecks; keeps freight moving
- ▶ No technology to screen pallets and ULDs
- ▶ TSA screening is not an effective solution





“We foresee the biggest risk and downside to doing it at the airport, with cargo piling up and no space and no time to screen it. [It would] be a logistical nightmare.”

John Sammon, TSA
Assistant Administrator

Why Industry and not TSA?

- ▶ As primary option, TSA screening deters competitive service & pricing, offers no accountability for missed flights, and have no incentives to perform well



The IACSSSP change

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- ▶ Imposes significant duplication in record keeping for agents and other AR's.
- ▶ Clearinghouse for authorized cartage agents?
- ▶ Why doesn't TSA regulate cartage agents?



Lessons Learned

Learned we are heavily regulated and scrutinized

- ▶ Screening is here to stay
- ▶ One incident away from no freight on passenger flights – TSA
- ▶ Will continue – lack of compliance will cost you the business
- ▶ Requires more investment – screening, training, technology
- ▶ Shippers are depending on the forwarder to “handle it”
- ▶ Forwarders are stepping up to the plate

Immediate Challenges

#1 - Full impact of screening



- ▶ Delays
- ▶ Cost
- ▶ Increased volume concerns

Immediate Challenges

#2-Economy and Demand

- ▶ 25-30% drop last year
- ▶ Overall 2010 improvement 26.5% worldwide (IATA)
- ▶ Market is improving, Japan 46% increase in Feb.
- ▶ Asia-Pacific up 34.5%
- ▶ Latin America 41.9%



Immediate Challenges

#3 - Competition with cheaper modes

- ▶ Ships are anchored, hard to get ocean bookings
- ▶ Opportunity for air cargo?

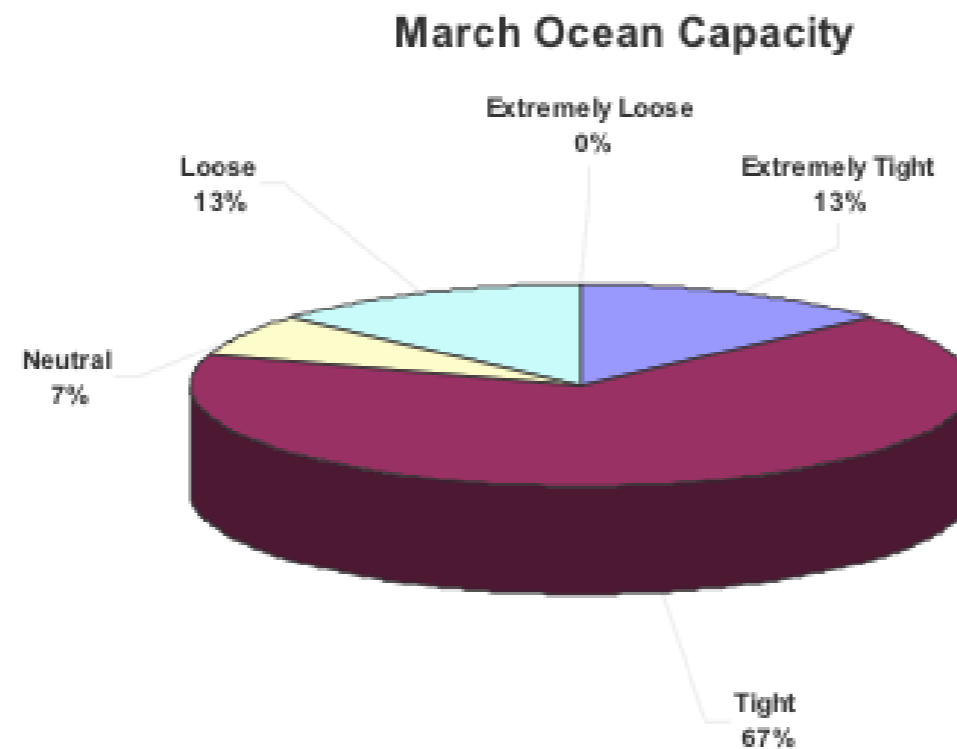
Can all cargo carriers handle passenger cargo that won't be screened especially in light of the number of parked freighters (e.g. JL, NW, etc.)?



Ocean Capacity is Tight!

Ocean Container Capacity Trends

Within the ocean sector, carriers are taking every step in order to reduce capacity to drive rates higher. Carriers have begun scrapping vessels, delaying new ship orders, anchoring vessels from their fleets as well as implementing slow steaming in order to tighten capacity.



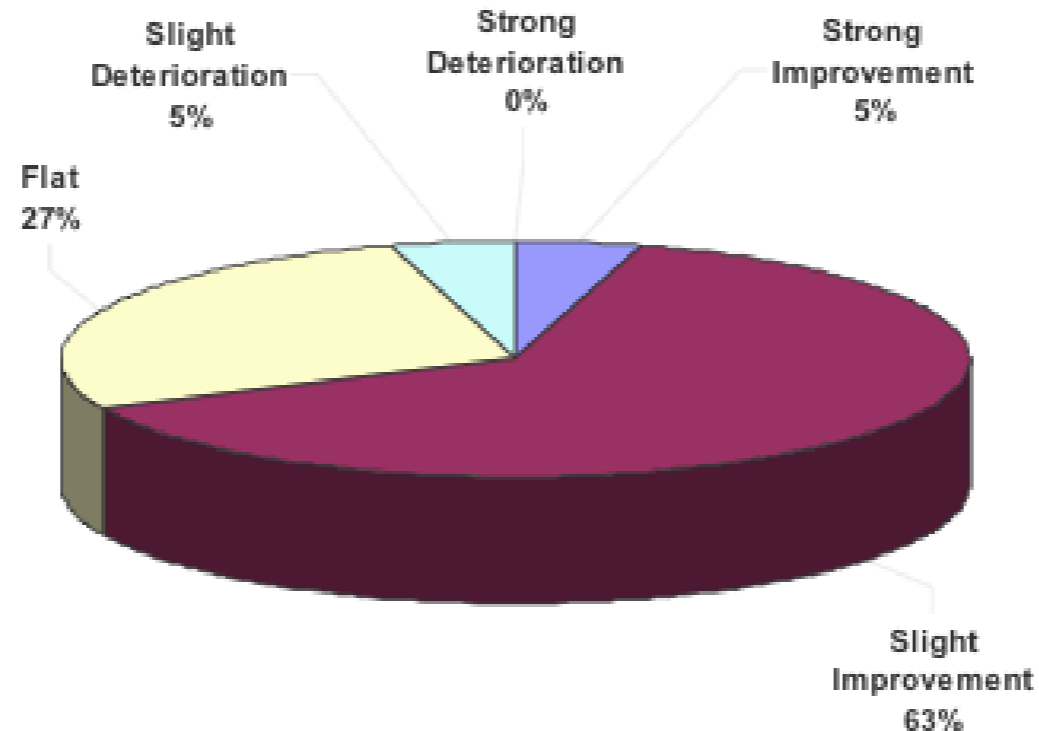
Source: AFA Monthly Survey

Recovering During the Economic Recovery?

Things are Better

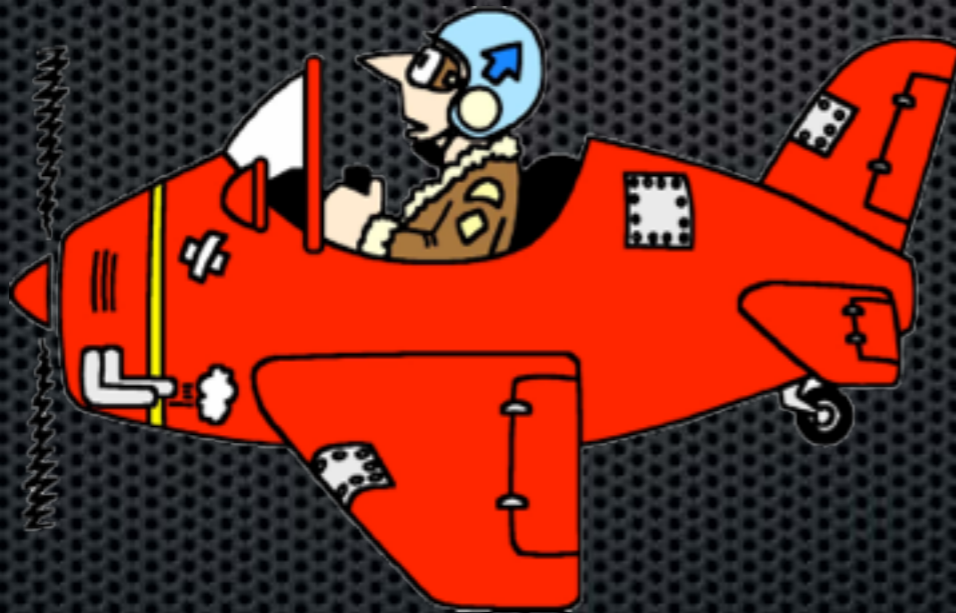
Volume Expectations First Half 2010

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But....

Promising signs of recovery but it will likely be slow and erratic



Economic Lessons

“It’s the economy, stupid!”

- ▶ Economic downturns require nimble business strategies - fast thinking and responsiveness
- ▶ Historically airfreight has been an “early indicator” – first to fall, first to recover
- ▶ Look how fast airlines park planes in the desert and how slow they are to bring them back
- ▶ Competition requires a better value proposition, alternate offerings

What Airlines Have Learned

- ▶ Fewer empty seats-adjusting to demand
- ▶ Will smaller planes have room for cargo?
- ▶ Adjusting to screening
- ▶ How to better forecast and prepare for tough changes
- ▶ The necessity of communication-working together with forwarders
- ▶ TSA communication silos



Always Have a Plan
B!



Transitions & Transformations

- ▶ **Air Cargo in an era of screening**
 1. More secure
 2. More professional
 3. Technology and innovation

- ▶ **Air Cargo in a volatile economy**
 1. Nimble business plans
 2. Multi-modality built into business
 3. Diversified customers, offerings



Future Indicators For Industry

Air thrives with low inventory levels, spurs manufacturing, feeds supply chains, airfreight is the first to fall and the first to come back

- ▶ Screening deadlines nearing
- ▶ Stabilizing demand shaping pricing, strategies
- ▶ Rates are increasing
- ▶ Space is getting tight

2010 Challenges - Lithium Batteries



- ▶ House Bill
- ▶ D.O.T. Ruling
- ▶ Could be Limited on Passenger Planes



2010 Challenges - The Economy

- Uncertainty Influences Airline Decisions
- Can We Handle the Upturn?
- Planes Parked in the Desert



2010 Challenges - Climate Change Legislation

- ▶ The Wild Card for 2010 & Beyond
- ▶ Will It Make It Through Both Houses?
- ▶ Impact Aviation Emissions
- ▶ More Cost, Increasing Customer Demand
- ▶ EPA's Smartway



Industry Expectations & Objectives for Future

- ▶ Security
- ▶ Competition
- ▶ Resourcefulness, resilience & innovation
- ▶ Forwarders are problem solvers!



Industry Objectives - STAY ENGAGED



- ▶ Airfreight Industry remains under scrutiny
- ▶ We must educate new TSA, staff
- ▶ We must advocate for sound legislation and effective rule-makings
- ▶ Our actions make a difference

Clear Skies Ahead?

- ▶ Challenges remain but opportunities too
- ▶ Tough times trim the fat
- ▶ Industry shows strength and versatility



***The Future Looks
Bright!***

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Why Not Join AfA Today?



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