Yesterday's outcast is today's golden child

While the air cargo pundits debate the intensity of the air cargo market in the months to come, one thing remains clear – main-deck capacity is very much in demand, writes *Donald Urquhart.*

And while air cargo demand has moderated somewhat from last year and new obstacles –


Crabtree

most notably rising fuel prices and the threat of a full blown US-instigated trade war – the market still retains a robustness that that keeps last year's severe capacity shortages alive in the industry's collective memory.

"Demand is definitely good and it's a seller's market at this point," one air freight industry analyst told *Air Cargo Week.* Not since the industry recovery of 2010 – after nearly two "heinous" years – as for Boeing Commercial Airplanes regional director – airline market analysis Tom Crabtree, describes it – of the 2008/09 economic downturn has there been such robust cargo demand. And that demand caught much of the industry off guard last year resulting in a mad rush for capacity.

So far this year things are looking good – not as stellar as the latter half of last year, but nonetheless encouraging. With IATA figures suggesting around 5.1 per cent growth for the first four months, the global airline body is forecasting four per cent growth going forward. At

Boeing, they are somewhat more optimistic with their analysis or airline data pointing to a six per cent growth in the first four months.

Going forward Crabtree says they are looking at between four to five per cent for the remainder of the year, "driven by the fact the industry is capacity constrained."

No one sits idle

The year-end build up of 2017, sucked up pretty much every available viable freighter that was sitting idle. That, with latent demand continuing on into the early part of this year – resulted in little or no maindeck capacity being idled. If anything, it is the opposite and indeed, the desert parking lot has never looked more barren.

Available freighter capacity is all fully switched on as 'once bitten, twice shy' shippers and freight forwarders have even now, only halfway through the year, book up space wary of being bitten by lack of capacity for a second peak season.

"Quite simply there are no freighters, wide or narrow body, that are parked looking for a home," observes Strategic Aviation Solutions Int'l president and CEO Stan Wraight. "Even the charter market is struggling to find space available except backhauls etc.," he adds.

Busy all of the time

The industry analyst noted that pretty much every available freighter that's on the market gets picked up pretty quick. He cites the example of Etihad which earlier this year decided to phase out five A330-200 freighters. These have been placed with a "large express" company, for at least two or three months already, he says, adding that half a dozen companies were keen on picking them up.

The problem he notes is that if a carrier orders from a manufacturer, there is a delivery date – some 15-24 months out – and it comes when it is delivered. The conversion market is quicker he notes, but these too have built up a substantial backlog.

"Airlines are really desperate so this is the state of the market today and I would say this will probably continue into next year and even if the freight market starts turning down, the overhang of the demand will still be there so it will take some time to swing back to a balance."

E-commerce is not the only driver of growth

So what is driving all this demand? With so much talk in the industry revolving around e-commerce, one could be forgiven for thinking this was the sole driver of air cargo at the moment.

"It has had a tremendous impact, and consumer demand for instant gratification for delivery coupled with a need for transparency has driven demand where cheap articles compete with computers for space," says Wraight.

He adds that the integrators are feeling the pressure of Amazon and Alibaba who both have taken larger control over their logistics through dedicated air uplift through ATSG and Atlas Air in the former and SF Express and YTO in the latter. "And post offices are exploding their volumes of package airmail and carriers are struggling to find their niche in all this," he adds.

For Boeing's Crabtree, the solid cargo demand over the last 24 months is a three-part combination. "It's a resumption of world trade in normal channels, it is the resumption of industrial production in normal channels and e-commerce that is driving the resurgence in air cargo traffic bold on freighters and in passenger bellies," he said.

While he agrees e-commerce is indeed a key factor, he notes it's difficult to pin down exactly how much is eCommerce because of the fact some it travels simply in postal mail bags and a significant portion is consolidated on pallets by freight forwarders. And of course a significant portion goes on the express carriers.

But one thing eCommerce is unlikely to do, is influence acquisition of maindeck capacity, unless of course you're in the express business. "Here it's a volume issue, not necessarily value," notes Wraight. "Do you really want to buy an expensive asset to fly bulk cargo with low yield just to play in a market? I would say no. But if you have your own products where the volume is coupled with control over revenue, then yes."

Indeed this is one big misconception with e-commerce says the industry analyst. While everybody's benefiting from the growth of the e-commerce, but in the general freight market its generally consolidated e-commerce which is coming from forwarders specialising in e-commerce. "People still think its high-yield stuff, but it's not. E-commerce is generally not high-yield, it's only a small portion that is high-yield and that is generally going with the express carriers," he says.

As for the combination carriers whose cargo futures looked troubled a few years ago and resulted in a number of carriers trimming their fleets of large freighters during the downturn, Wraight says this exercise has pretty much run its course but adds that eventually they will need newer replacements if they are to remain serious about cargo.

"They will need a certain amount of freighters to keep the bellies full and also offer a product that allows them to participate in the higher yield verticals, and stay a carrier of choice for major shippers," says Wraight. "Will that mean new freighters, eventually yes, the question is how many, timing and what type. It may only happen 10 years from now, but it will happen," he says.

Cebu to convert ATR 72s

CEBU Pacific is to enter the cargo market by having two of its ATR 72-500 passenger aircraft converted into freighters by IPR Conversions.

The first aircraft will be modified and returned to Cebu's fleet in the fourth quarter of 2018 and will continue to operate through Cebu's subsidiary, CebGo. A large cargo door will be installed, allowing standard containers and pallets to be loaded.

The aircraft will have space for seven AKE unit load device containers and carry more than seven tonnes of cargo.

Cebu Pacific president and chief executive officer, Lance Gokongwei says: "We will be able to offer cargo capacity that no other carrier in the Philippines can provide. With the freighter aircraft, we will further support the growing needs of the logistics industry, especially as the Philippines' e-commerce businesses expand rapidly and look for faster delivery schedules."

The Filipino airline says the ATR benefits from a long body, increased wingspan and a powerful turboprop engine, making it ideal for transporting high-value and time-sensitive commodities such as marine products, computing equipment and heavy machinery across the country. It also says the aircraft is suited to landing and taking-off in airports with runways less than 1.2 kilometres long, which is too short for jet aircraft, adding that only about one third of the 90 airports in the Philippines can land jets.