APPENDIX I-11: TREND ANALYSIS – AIR CARGO

Trend Statement

Due to many factors, air cargo movements will continue to rebound slowly from setbacks of the recent global financial crisis.

Background

Declines in air cargo movements were experienced throughout the world after the recent global financial crisis. Air cargo forecasts completed between 2008 and 2012 painted a negative picture of air cargo growth and prosperity[1]. Currently, air cargo is making a rebound, but unrest in the Middle East, financial issues hampering Europe, complex security requirements, environmental regulations, and a need for greater collaboration within the industry are still holding air cargo back. American Shipper predicts that in December 2017, "the five largest international markets will be the United States, China, Germany, Hong Kong and United Arab Emirates." However, fuel prices will continue to fluctuate and lack predictability thereby impacting the demand for air cargo services.

Freight System Implications

As the most expensive mode of goods movement, air cargo is particularly sensitive to supply and demand alterations and global financial/political trends. It is likely that air cargo will show the effects of a diminished economy or other negative impacts on goods movement ahead of other modes because of the high price of air cargo service. Therefore, its trends should be closely followed and used as an indicator for the freight industry as a whole. It is unlikely that a decline in air cargo will place undue freight burden on other modes (because the air cargo share is so small); however, it will likely signal an increase in freight costs in every mode.

One of the greatest air cargo growth opportunities in California is for agricultural producers to transport their goods for export via air. Agricultural air cargo represents a substantial portion of goods movement. "California's airborne agricultural exports in 2004 totaled $659 million, an increase of nearly 60 percent since 2000."[2] Maritime shipping is becoming increasingly unreliable for value-added goods movement (such as fragile produce products), worldwide demand for such goods is increasing rapidly, and more liberal import/export laws are opening new markets for California producers. As international passenger and cargo rates increase, a currently strained California transportation infrastructure will be increasingly burdened. Los Angeles International Airport (LAX) and San Francisco International Airport (SFO) together handle close to 100 percent of all airborne imports into California and more than 90 percent of all airborne exports from the state. Both airports face severe constraints on their ability to handle significantly greater levels of additional cargo. LAX has little room for expansion and faces very

[1] International Air Freight 2008-2013, Turbulence Ahead
[2] The Role of Air Cargo in California's Agricultural Export Trade

stiff political opposition from neighboring communities to any increase in flight operations. SFO suffers from high rates of weather-induced flight delays and diversions and has been slow to upgrade its air cargo handling capabilities. Highway access to both facilities is increasingly congested, posing a particular problem for shipments of perishable commodities.[3]

Planning Considerations

Independent of the need for financial sector improvements on a global scale, there are a number of smaller initiatives that can be undertaken to streamline air cargo activities and improve profit margins for carriers (encouraging growth in the sector and continued services).

- Facilitate risk-focused Transportation Security Administration (TSA) air cargo screening
  - More efficient/effective for supply chain security.
- Facilitate greater opportunity for inter-industry collaboration.
  - "Relationships are critical in air cargo because robust networks and partnerships help keep the supply chain moving despite economic fluctuations. In 2012, we need to continue building the relationships between shippers, forwarders and carriers that can enhance efforts in efficiency, security and business growth."[4]
- Technological innovation should be embraced and, where prudent, incentivized to facilitate air cargo providers as well as draw their business to California.
- Encourage a focus on air-cargo based trade with Latin America – "The Latin America-to-U.S. lane, dominated by climate-controlled perishables, is holding up well."[5]
- Currently, airport development and planning is disjointed and lacks communication between airports and regions.
  - "The continuing shift toward making transportation investment decisions from an intermodal perspective will require increased attention to the broader context of airport development."[6]
  - Increased coordination between airports and regions will achieve greater efficiency within the system while correcting large scale issues.
- As planes grow larger airport facilities must maintain pace, therefore both financing strategies and land acquisition will play a pivotal role in future air cargo success.
  - "Airport capacity and funding will continue to constrain the expansion of air travel. New aircraft types, while stimulating the demand for air travel, also will require expensive improvements, especially for the major airports. Creative funding approaches, such as private venture capital, will be needed to supplement established financial sources. Airports will continue to raise as much of their revenues as possible from non-aeronautical sources, such as parking and retail operations or passenger facility charges."[6]

[3] Ibid
[4] Air Cargo in 2012 – Opportunities and Challenges
[5] International Air Freight 2008-2013, Turbulence Ahead
[6] Aviation System Planning – Addressing Airport Infrastructure Needs

Resources

Air Cargo Challenges and Trends PowerPoint: http://www.faa.gov/news/conferences_events/aviation_forecast_2010/agenda/media/CF%20Richard%20Norris.pdf

Air Cargo in 2012 – Opportunities and Challenges: http://aircargoinsights.com/expert-insights/air-cargo-in-2012-opportunities-and-challenges/ Aviation System Planning – Addressing Airport Infrastructure Needs: http://onlinepubs.trb.org/onlinepubs/millennium/00009.pdf

Brighter Days Ahead – 2012 Cargo Forecast: http://www.aircargoworld.com/Air-Cargo-News/2011/10/brighter-days-ahead-2012-cargo-forecast/312859

Glossary of Freight Terms: http://fmpglossary.wikispaces.com/

International Air Freight 2008-2013, Turbulence Ahead: http://www.americanshipper.com/newweb/TF/Seabury_Advisory_FNL3.pdf

Passenger and All Cargo Statistics: https://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/

The Role of Air Cargo in California's Agricultural Export Trade: http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELDEV3020127

Transportation Best Practices/Trends: Building Air Cargo Relationships: http://www.logisticsmgmt.com/view/transportation_best_practices_trends_building_air_cargo_relationships/airfreight

World Cargo Air Forecast 2012-2011: http://www.boeing.com/commercial/cargo/index.html