

Imbalance a costly business

By Charles Anderson

It's the downside of a success story and one which troubles all the major air freight carriers who fly out of the Asia-Pacific. As the region cements its role as the world's manufacturing base, the imbalance between goods carried to and from the Asia-Pacific continues to grow.

Cargo aircraft which go out full come back from the U.S. and Europe half empty. No amount of ingenuity in route planning or loads carried can put a stop to that. And, it seems, the likely result will be higher prices paid by the shippers, but with no extra profit going to the carriers.

"What's happening is a reflection of trade flows," Cathay Pacific Airways cargo director, Ron Mathison, told *Orient Aviation* earlier this year.

"While there is a need to grow capacity to match the demand for exports from Asia, there is already over-capacity for exports from Europe and America.

"The imbalance can only get worse. Load factors and yields have to go down. If you have costs going up as well because of high fuel prices, then there is a serious impact on the margins."

In their recently-released 2006 world cargo forecast, U.S.-based transport and logistics consultants, MergeGlobal, predicted this factor, coupled with the increased use of dedicated freighters, whose unit costs are higher than belly-hold, will push prices up on routes to North America and Europe.

"Sadly for carriers, rising rates won't automatically translate into improved profitability," it said.

David Hoppin, MergeGlobal managing director, sees the maturing of the region's manufacturing sector as a factor that must also be considered. "[Asia] is likely to push into more sophisticated industrial products over the next five years and beyond, which suggests the directional imbalances will get worse, not better," he said.

At present, carriers use a variety of methods to ease the pain. EVA Air, which garners 62% of its cargo revenue from some 45 trans-Pacific flights a week, only gains 8% of its money from flights returning from

North America. It carries conventional goods, such as IT material, but also picks up cherries and other fruit from the West Coast to bring back to Asia. In October and November, Beaujolais Nouveau wine is loaded on return flights from Europe.

Air New Zealand brings machinery and manufacturing products back from Europe and the U.S., but adds perishables and horse shipments when leaving Auckland for its round-the-world flights.

Others look hard at where to fly. Singapore Airlines finds coming home from Europe



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Managing director
MergeGlobal

via South Africa and India can help. Cathay Pacific believes adding more online cities, such as Munich to its established Frankfurt service, or Dallas and Atlanta, to go along with Chicago or Los Angeles, means it can pick up cargo that might have gone to a competitor. It is, however, an uphill battle for all of them.

"It's going to be hard pain for people who cannot make money on a round-trip basis without raising their front-haul rates. Revenue is one way; cost is round trip," said Hoppin.

Even express operator DHL has carried

race horses and zoo animals on trans-Tasman flights. Scott Price, the company's managing director for the Asia-Pacific, sees imbalances on the route between Australia and New Zealand as a microcosm of the global picture, although the trade gap between the Asia-Pacific and the U.S. is obviously of greater concern.

"No one is bringing back as much as they take out, unless they are losing market share," he said. "Clearly, it is in everyone's interest – including the economy's – to have these imbalances better managed, because all it does is add cost for everybody."

MergeGlobal sees intra-Asia and Asia export services generating the majority of the world's new traffic in the period to 2010, when annual growth in the global air cargo sector should hit 6.4%, more than twice that achieved from 2000 to 2005. By 2010, China will account for 46% of air export tonnes to Europe from Asia, 53% to North America and 50% of intra-Asian trade.

This concentration, via a few key Chinese gateways, may help new entrants take on the big boys by reducing the need for a broad network.

"If you have more geographically concentrated flows, then a low-cost competitor can come in and attack [them]," said Hoppin.

"The rise and rise of China will make it easier, not more difficult, for new entrants to come in. They actually have a better chance of succeeding."

This also means the big, established carriers, who are seeing the benefits of network size diminish, must get closer in pricing to the new entrants than they would if competing for passengers.

Hoppin, however, believes many of the region's very large carriers, some of whom are spending lavishly on fleet renewals and expansion, are not looking at the immediate benefits of Asia's export boom.

"My perception is that some of the big players in this space are assuming a truly long-term plan, with the objective being to achieve a certain market position," he said. "If you are making an investment in 30-year assets, which is what new B747 freighters are, you had better think beyond the next five years." ■