

Europe-APEC relation becomes stronger in 2010

With soft recovery in the last quarter of 2009 and in the beginning of 2010 in the air cargo sector, how will the Europe - Asia-Pacific air cargo business relationship harmonise and grow? **Dirk Steiger** provides a clue.

The entire world's supply chain has been grievously damaged by the effects of the economic crisis. Air cargo is a small part

by volume, but makes up about 40 per cent by value. Even if business continues to normalise we do not expect a full recovery to previously already achieved figures. Despite the fact that January 2010 figures have seen very aggressive growth compared to 2009, we do not believe that such an extreme will continue throughout the year. However, with a decent growth rate (CAGR — Compound Annual Growth Rate) of less than four per cent over 2009, European airfreight providers will likely see a better business climate throughout 2010 because of the 2009 slowdown of sales seems to end. Especially, those involved in traffic between Europe and Asia-Pacific will see a highly robust business demand development with a lot of opportunities to grow above average.

In 2010, the Asia-Pacific region (APAC) with a total of 2.7 million MTO will be the largest market for the European air freight industry. Exports are expected to grow by 7.4 per cent as compared to 2009, thus reaching approximately 1.5 million MTO in volume. Similar to previous years, the relation of exports and imports to and from APAC is relatively even. However, in 2010, the scale will tip in favour of exports, as the economic recovery and outstanding economic growth of the region will generate further demand for inbound air freight. At only

about 1.2 million MTO, air freight imports from APAC will be about 20 per cent below air freight exports from Europe to the region, thus reversing the relation as compared to 2008.

After the tremendous 20 per cent decline in air freight volume shipped between APAC and Europe in 2009, the trade lane is expected to be the driving force to recovery for the European market. More than 70 per cent of European exports to the APAC region are contributed by engineering (31 per cent), chemicals and pharmaceuticals (17 per cent), hi-tech (13 per cent) and fashion (11 per cent) industries. The strongest growth rate is expected for engineering at around 11 per cent, mainly driven by the growth needs of the Chinese market and related to technology-transfer (especially construction-related electrical

NEW ERA OF RELATIONSHIP: Cargo sectors in Europe and Asia-Pacific region are coming closer with their recovering figures in 2010.



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apparatuses and machinery). Chemicals and pharmaceutical products at over a quarter-million MTO (about 17 per cent) of export volume, add a relatively strong growth potential around six per cent for 2010. The import volume in this area is significantly lower at only 42 per cent of exports at estimated 1, 07,000 MTO in air freight. However, this equates to a relative growth around seven per cent as compared to 2009 volume. The air freight demand for European hi-tech products (mainly optical instruments and telecommunications equipment) is expected to grow by approx. nine per cent to reach a volume of 186,000 MTO. Imports from APAC region are expected to show less growth of only three per cent, a volume of 3, 24,000 MTO. Two-thirds of hi-tech imports from APAC region comprises of computers, optical equipment and semi-conductors.

The automotive industry is expected to show a significant reduction in air freight export volume from Europe to the APAC region. This is mainly due to the previous sharp drop in unit sales in the region and relating to the reduced likelihood of demand for spare parts, etc. Nonetheless, its share of air freight volume is expected to remain around four per cent. Imports are expected to remain stable at around two per cent of air freight demand (19,000 MTO), equating to four per cent growth. Air freight demand for

fashion is expected to grow by 4.7 per cent to reach total volume of over 5,00,000 MTO in 2010, two-thirds of which account for fashion imports from the APAC region. With an estimated 3,42,000 MTO, fashion will be the most important and largest contributor to European air freight imports, with a growth rate around six per cent. The news flow of the past months emphasised a trend towards temperature controlled air cargo. Many airports worldwide announced plans to build temperature-controlled facilities with appropriate customs handling to enable cool-chain without temperature breaks to accommodate for sensitive goods, e.g. some medical products and other perishable goods.

While perishables, with an estimated 28,000 MTO in 2010, only represent two per cent of European air freight exports to the APAC region, they make up eight per cent of imports, i.e. three-times the export volume. This imbalance will complicate air freight capacity planning enormously. Perishable goods will show in both, export as well as import, solid growth rates of five per cent and six per cent, respectively.

For labour legislation we unfortunately cannot prove yet that climate will change significantly in 2010. Instead the trend of turning fixed into variable costs will continue. This will likely be for asset heavy aircraft/airport operators the only chance for strict cost control. Despite that we will also expect some very interesting mergers and acquisitions throughout the year, increasing the level of global competition.

All labour divided parties in the air cargo chain must however change a couple of things to benefit from rising demand: reliability of service, keep commitments and promises (no more excuses) and implement a concept to reduce emissions. Even the most conservative political parties see this with highest priority. This cannot be done or even implemented by a single party, so think what you can do to improve partnership.

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