CONTAINER CAST 3- AIR FREIGHT

Mat: Welcome to another container cast coming to you from the Center for International Trade and Transportation, part of the University College and Extension Services at Cal State Long Beach. Our guest as always is Dr. Thomas O’Brien, the Director of Research for CITT, also the Associate Director for METRANS, Cal State Long Beach programs. That’s the METRANS Transportation Center in partnership with the University of Southern California.

Tom: Thanks Mat, it’s good to be here.

Mat: Once again, we’re going to start with a column that you recently had in the Long Beach Business Journal. This one on air cargo, air freight, and I will start by saying I was surprised to see how much of that air freight is right underneath my seat, as I head to Chicago or New York.

Tom: That’s right. Yeah about 50% of air cargo is transported in the bellies of passenger planes; not in dedicated air freighters.

Mat: So, I guess one of the advantages in that is that it’s offsetting my ticket prices a little bit.

Tom: Yeah. Yeah air cargo is subsidizing your flight. It may not seem like it these days with the cost of airline tickets given the increases in fuel prices. But it’s an important symbiotic relationship. The ability to have that space to transport air cargo benefits the air cargo industry, as well.

Mat: The other thing that utterly amazed me that I read in your column is the value of air freight. I mean I always knew it was a tiny percentage compared to what’s carried by ships, trucks, and trains. But that value is way out of proportion.

Tom: Yeah, you’re right. Think about what we ship by air. It’s the high value electronic items, sometimes the hot seasonal goods that have a limited market and a market that is willing to pay a premium for those goods. We usually say that its 1% of the tonnage of worldwide trade, but it’s something closer to 50% of its value. And that’s true for something important like US exports, where we’re not exporting as much as we used to, but the value of what we export is quite high.

Mat: Yeah, I would guess a pound of wheat compared to a pound of a general electric x-ray device or cat scanner, there’s quite a difference there.

Tom: That’s right.

Mat: Where is most of this cargo going to and coming from?

Tom: The trade lanes look an awful lot like what’s happening in global trade in general. Containerized trade is included in that. There is a lot of activity between Asia and North America although at the moment, the largest air cargo market is the domestic US market in North America. But that’s going to change within the next 20 years. We expect that the China/North America air cargo trade lane will be the largest, but there’s
growth everywhere; within Asia and also between Asia and other parts of the world like Europe.

**Mat:** Oh how about within Asia; within some of these Asian countries? Are we seeing a lot of growth within China domestically? And places like India?

**Tom:** Yeah, most definitely. And what it reflects is a growing consumer middle class that is able to purchase goods that are produced both domestically and overseas, so you’re seeing growth in particular in the domestic Chinese market, the domestic Indian market; although the infrastructure is going to need to be developed to keep pace with the demand for air cargo services.

**Mat:** You talked about it growing. How fast are we actually seeing this expansion? And I don’t know if you’ve mentioned if you give that in tonnage or in value?

**Tom:** In terms of value, the numbers are astonishing. Over the past 30 years, growth in air cargo has come about at the rate of about 1400%; which is an astonishing figure. Trade in general has grown somewhere in the range of 350-355% over the same time, which is not insignificant, but it just pales in comparison to the growth in air cargo.

**Mat:** So, why should we here in southern California with our magnificent ports, why should we care that much about remaining a prominent center for air freight/air cargo?

**Tom:** Well, because while it’s smaller in terms of tonnage as you said, it does reflect the health of logistics and supply chain industries in southern California. Currently, LAX is the 4th largest container or I’m sorry, the air cargo facility in the US, 11th in the world. And that means it plays a critical role in global trade. And it also supports a lot of other related industries. There’s 2.1 million square feet of on-site warehousing space at LAX, but another 4 million outside the gates, in the vicinity. That’s jobs in warehousing, distribution centers, trucking, 3rd party logistics, all tied to not only air freight, but containerized trade as well through the port. A lot of these support services work to the betterment of trade through both of those major gateways.

**Mat:** And it’s not entirely dominated in our region by LAX is it?

**Tom:** No, no. A place like Ontario is vitally important; particularly for small package, for integrator services: DHL, FedEx, UPS. 20% of the activity, of the air freight activity, goes through Ontario in this region. And that’s because Ontario is the UPS regional hub. There’s a major FedEx facility in the Inland Empire. And they are able to take advantage of the less congested gate activity, cheaper land cost, that sort of thing. So, the region as a whole is important.

**Mat:** LAX has already slipped a little bit in standing and I wonder as we look at other challenges, for example, you mention in the column, the fact in just recent weeks we’ve had 3 major airlines cease operations and others declaring bankruptcy. Obviously this business faces a lot challenges.
Tom: Yeah, it’s not only the fuel costs, which are one of the key pressures. Its competition and as we’ve already discussed, when the passenger airlines aren’t doing well it means something for air cargo because of the amount of goods that are transported by air freight. And over the past year between 05 and 06, in any event, LAX actually saw a slight decrease in the amount of cargo that came through that facility. Had we been having this discussion a year ago we would be talking about it as one of the top ten facilities in the world and now we’re just outside knocking on the door. But we’ve lost some momentum and the places that have benefited are places that have been benefitting in terms of global trade in general. Singapore surpassed LAX over the past couple of years. Louisville surpassed US, [Mat: That surprised me as well] surpassed LAX in the past couple of years.

Mat: Well if I ask you as we get close to the end here to switch from your reporter hat to your consultant hat, what does the industry and what does the public sector need to do to make sure that we don’t slip any further?

Tom: We need to address the long term development of our air facilities. There is great opposition to the expansion of our airports. There is an interest in moving a lot of passenger activity out of LAX to places like Palmdale and, as a result, shifting some of the air freight as well. But air freight will follow the passenger. So as long as there is demand in places like LAX we are going to need to make sure we have adequate facilities to address that demand. We’re also going to have to address some difficult questions about use of these facilities more in the off peak, around the clock. The supply chain works 24 hours a day. That’s how just-in-time deliveries work. So there will be increase demand to maximize the use of our air facilities at times that conflict with community interest. So we have to address those very difficult, but very important questions, first and foremost.

Mat: Tom as always, it’s been a pleasure.

Tom: Thank you, Mat.

Mat: You just heard Container Cast, where our guest has been Dr. Thomas O’Brien. We’d love to hear from you. Write to CITT@uces.csulb.edu. Container cast is produced by the Center for International Trade and Transportation, a division of University College and Extension Services at California State University, Long Beach, and in partnership with the METRANS Transportation Center. We offer an outstanding selection of events, programs, and courses, including the Global Logistics Specialist program. Visit us online at www.uces.csulb.edu/CITT or call 562-985-2872. That’s 562-985-2872.