

# Indian aviation industry challenges faced by the global air freight industry

[Environment](#), [Air](#)



Indian aviation industry is one of fastest growing in the world and has seen rapid transformation over the years. Private airlines account for around 75 percent share of the domestic aviation market and dominate the industry with their full service airlines and low cost carriers. Indian airports registered a healthy growth in air cargo in 2009-10, with the domestic cargo expected to increase at a rate of 10 per cent per year till 2011-12. According to AAI estimates, the total air cargo traffic is expected to cross the 2.6-million mark by the end of 2012. The two PPP airports at Bangalore and Hyderabad at present handle 3.5 lakh tonnes and one lakh tonnes of cargo, respectively. The size of the world air cargo market is estimated at 27 million tonnes valued at \$200 billion and India`s share is just 3%.

## **Regional % of Global International Cargo Tonnage**

Source: Boeing

### **Features**

Air freight being the most expensive as compared to road and rail

Air transportation is the fastest and the cargos mostly comprise perishable and expensive products.

Less manhandling of the goods and so packaging requirements is much less.

Cargo comprises mainly – garments, machinery, components, pharmaceuticals, dyes, chemicals and perishables [fruit, vegetables, flowers, fish and meat].

Major International cargo airports-Mumbai, Chennai, Bangalore, Trichy, Hyderabad, Delhi, Coimbatore, Cochin.

Major domestic cargo airports -Ahmadabad, Goa, Lucknow, Visakhapatnam, Madurai.

Blue-Dart – DHL, the only dedicated freight carrier in domestic sector.

Other major market players are First Flight, TNT, FedEx, etc.

## **Problems Faced in India**

Poor cargo handling facilities i. e. unavailability of proper equipments and thus manhandling of the goods.

Inadequate infrastructure in terms of the warehouses, aircrafts, etc to facilitate the entire process. India's air traffic is highly concentrated at a few airports with most of the second tier cities being ignored or having negligible facilities.

Few cargo airlines

## **Possible solutions**

The driver for growth in air cargo will be the demand and the enabler will be infrastructure.

Infrastructure development and planning and distribution can prevent many of the bottlenecks faced by domestic air cargo industry. A growth in the volume would attract larger investments.

The government can help by increasing the capacity of the airports in tier-II and tier-III cities and simplifying the processes with electronic data interchange (EDI), which would ease the paper work and speed up the transactions.

Improvement in the cargo handling facilities at all airports.

## **India & World: Growth, present and future**

The air freight industry has a promising future in India, with business continuing to grow faster than the passenger sector's. Shipments to, from and within Asia, especially China and India, will be the main drivers of this growth but African business will develop firmly too.

These predictions appear within the European manufacturer's Global Market Forecast 2006-2025. Amongst many other points they make:

Air traffic (all sectors) grew at seven per cent globally in 2005;

By 2025 3, 580 new freighters will be needed by 2025, of which 22 per cent will be factory built i. e. not conversions;

A total of 2, 777 passenger aircraft will be converted to freight use;

World jet aircraft size will increase by 20 per cent;

By 2025 1228 large freighters will be in use; the total fleet will be 4115 aircraft;

African customers will need 86 new freighters over the period;

There is a trend for air cargo operators to use their hardware more intensively;

Freighters are typically kept in use for 35 years.

Air freight (in freight-tonne kilometres) will grow at an average annual global rate of 6.0 per cent over 20 years, passenger traffic by only 4.8 per cent.

The value of these cargo shipments will increase even more because of the growing proportion of high-value time-sensitive goods. The sectoral components of this affecting the region will be as follows in percentages, all plus):

Significantly most of the main components of Africa's air freight trade today, such as the shipments of fresh produce to Europe and North America and of high-tech goods from India and China, are expected to grow faster than that world average of 6.0 per cent/year through 2025. The growth in business with China will be particularly significant; this is where many of the new tourists will be coming from, too.

## **Future**

Many interesting trends are taking place like the construction of an air cargo hub in tier II city of Nagpur in Maharashtra, rise in budget airlines and cargo carriers with the relaxation in regulations.

There are plans by many airlines to create full-fledged cargo operations and it is expected that these cargo carriers will also move to tier-II and tier-III cities.

The cost of airfreight is expected to drop in the coming years which will open up new economic opportunities in India's second tier cities which are now being added to the air network.

## **EXIM Procedures**

Air Waybill (AWB) or air consignment note refers to a receipt issued by an international airline for goods and an evidence of the contract of carriage, but it is not a document of title to the goods.

AWB is non-negotiable

It covers transport of cargo from airport to airport

AWBs have eleven digit numbers which can be used to make bookings, check the status of delivery, and current position of the shipment

A Certificate of Origin (often abbreviated to CO or COO) is a document used in international trade. It traditionally states from what country the shipped goods originate, but "originate" in a CO does not mean the country the goods are shipped from, but the country where the goods are actually made.

## Major Players

### Rank

### Airline

twenty09

(millions)

twenty08

(millions)

twenty07

(millions)

twenty06

(millions)

1

South Korea Korean Air Cargo

8, 225

8, 822

9, 498

8, 680

2

Hong Kong Cathay Pacific

7, 722

8, 245

8, 225

6, 914

3

Germany Lufthansa Cargo

6, 660

8, 194

8, 336

8, 077

4

Singapore Singapore Airlines Cargo

6, 455

7, 486

7, 945

7, 991

5



United Arab Emirates Emirates SkyCargo

6, 369

6, 013

5, 497

5, 027

6

United States FedEx Express

5, 808

6, 582

6, 470

6, 136

7

Republic of China China Airlines

4, 903

5, 261

6, 301

6, 099

8

France Air France

4, 672

6, 013

6, 123

5, 864

9

Luxembourg Cargolux

4, 652

5, 334

5, 482

5, 237

## **DHL Case – Gamut of DHL services for Air Logistics**

### **DHL's Air Freight Services**

DHL is the global leader in air freight, carrying 12% of the total worldwide market, more than twice as much as the second biggest organization.

DHL can organize scheduled flights and chartered planes from a wide range of major carriers, as well as competitive services on our own carrier, making

us flexible enough to help everyone from first-time shippers to regular importers and exporters of freight.

## **DHL Air Freight Services**

Urgent Air Freight

Economical Air Freight

Day-Definite Air Freight

Multimodal Freight Transport

Heavy Goods Air Freight

Life Sciences Air Freight

Perishable Goods Logistics

Aircraft Charter

Fast and Flexible Door-To-Door Freight Solution

### **Urgent Air Freight**

When you need your goods moved in the quickest possible transit time, DHL AIR FIRST is your best choice. As the name suggests, DHL AIR FIRST freight is placed on the first flight out and receives a priority service, through to the destination airport and beyond.

## **Economical Air Freight**

When your priority is to keep the cost of moving your goods to a minimum, but your freight must travel by air, then DHL AIR VALUE is the ideal match. It is designed for less time-sensitive cargo, where a slight increase in transit time is acceptable, and provides an economical alternative to DHL AIR PREMIUM. To achieve the most competitive price, DHL AIR VALUE ensures cargo is creatively routed via the major gateways.

## **Flexible, Day-definite Air Freight**

When you demand a fast service within a fixed budget, then DHL AIR PREMIUM is the choice for you. DHL AIR PREMIUM consolidates your freight to improve economy, and ensures that it arrives when it's needed, at airports in all major trading centers, across the globe.

## **Fast and Flexible Door-To-Door Freight Solution**

Combining the very best of DHL's competencies in its international freight forwarding and domestic distribution network, DHL DOOR-TO-MORE eliminates the need for costly warehousing. This straightforward door-to-door service picks up your goods, transfers them to an export facility, and transports them via air and/or ocean freight before distributing them to multiple end-users at destination. Its unique features can help you effectively streamline your operations which all translate into large cost savings depending on your activity profile.

## **DHL Multi Modal Service – Faster Than Ocean, Cheaper Than Air**

[http://www.dhl.com/content/dam/Campaigns/Global\\_Forwarding\\_Campaigns/seair\\_campaign\\_july\\_2010/Asia%20to%20EU%20%26%20EMA\\_v2.JPG](http://www.dhl.com/content/dam/Campaigns/Global_Forwarding_Campaigns/seair_campaign_july_2010/Asia%20to%20EU%20%26%20EMA_v2.JPG)

Our DHL SEAIR multimodal service moves your goods by ocean from Asia to a connecting transit hub in Dubai / Vancouver / Los Angeles, then transferring to flights into Europe, Middle East, Africa and Latin America.

This saves both cost – up to 50% versus standard air freight, and time, up to 50% versus standard ocean freight\*.

## **Door-to-door Delivery for Bulky Goods**

DHL AIRFREIGHT PLUS combines the simplicity of express carrier shipping, with the price competitiveness of a freight forwarder. It's the perfect solution for shipping heavy or bulky goods in a defined transit time, across the world.

## **Life Sciences Air Freight**

DHL's AIRFREIGHT PLUS PHARMA service is a door-to-door overnight service across Europe, especially designed for the end-to-end transport needs of the Life Science Industry. Late cut-off times (and our integrated supply chain network) guarantee minimal time wasting on the tarmac at origin, during transit and at destination. IT tracking systems ensure your shipments are visible and transparent at all times.

## **Perishable Goods Logistics**

DHL is the market leader in shipping perishable products from Latin America to the rest of the world. We use specialist tracking technology to help ensure that time-critical items, such as flowers and fruits, are delivered quickly to their destinations, wherever they may be.

## **DHL Charter Service – Need to Charter an Aircraft?**

Every day, DHL charters at least one plane somewhere in the world, for oversized cargo and items for new product launches. Procuring global air freight capacity on dedicated aircraft is also ideal when your product launch coincides with seasonal peaks in air freight. When your freight requirements don't allow for consolidation, because of the size or volume of the goods being shipped, then chartering may be the best idea.

## **Entry Strategies for foreign companies**

### **Challenges faced by the global air freight industry**

In this highly competitive globalised world every industry is facing tremendous challenges to sustain and grow. These are the challenges faced by the Global Air Freight Industry.

### **Complying with customs**

Complying with the customs department and various customs regulations of the countries is of high significance due to the mounting challenges posed by security requirements. Terrorist strikes and smuggling are on the increase and the Air Freight industry is a gullible target. Air cargo spends a considerable amount of time in customs and warehouses and there is an

increasing demand to eliminate or minimize such bottlenecks through efficient use of information. Regulatory requirements have been beefed up in many countries due to security reasons and hence there is a need to be able to send information electronically to many customs authorities in order to reduce time. In the Air Freight Industry TIME IS MONEY!!!

### **Just in time delivery**

The growth in international business transactions has enabled the tremendous growth of the Global Air Freight Industry. At the same time, the increasing

Emphasis on Just-In-Time delivery has added to the challenge of managing this growth and improving delivery precision. The Global Air Freight Industry is seeking ways to reduce costs and optimize its processes along with continuing to keep the customers satisfied. The Japanese quality standards like JIT are being acknowledged in the Global Air Freight Industry as it helps to improve the profitability of the business.

### **Status reporting**

The Air Freight service provider needs to have appropriate systems in place for the consignee to be able to track his/her consignment at any point of time. Automatic consignment status reporting should be taken care by suitable IT systems.

### **Escalating fuel prices**

The fuel prices are highly fluctuating during the recent times. The price of air fuel used for the Global Air Freight industry is sky rocketing and the players

in the industry are finding it very difficult to maintain or increase the profitability of their business without passing on the fuel price increase to the customers. On 02-Aug-twenty10, crude oil for Sep-twenty10 delivery rose 3% to close at USD81. 34/barrel on the New York Mercantile Exchange, reaching a 12-week high. Meanwhile, IATA commented that the USD 80-100 range is the average price for the year to date which is 24% higher than for the full year twenty09". Increase in the aviation fuel prices act as a huge impediment to the Global Air Freight Industry.

### **Use of technology**

The industry is becoming increasingly competitive and air freight firms that adapt themselves to the latest technologies are the ones that are most likely to succeed. Added to this, firms are increasingly relying on collaboration, hence synchronizing technologies are imperative, so that the firms are able to work together.

### **Alternative modes-modal switching**

The Air Freight is one of the most expensive forms of transport, especially for intercontinental freight. Due to the increasing freight charges, alternative modes of cargo transportation are being preferred by businesses across the globe. This trend is called the 'modal switching', that is, the transfer of traffic to slower, cheaper means of transport, such as sea and land-based freight.



## **Impact of recession 08-09**

The Air Freight industry is yet to recover fully from the after effects of the global economic downturn of twenty09-twenty09. There has been a slowdown in the demand for air freight. The major economies of Europe are tentatively emerging from recession, but with the UK only posting 0. 1% growth in the fourth quarter of twenty09, the tough times are definitely not still over. A report from the firm Datamonitor also predicts a slow recovery in the years to come, forecasting a compound annual growth rate of only 1. 9% for twenty10-13, highlighting the fact that it will take many years to recover to pre-recession levels.

## **Future of the Air Freight Industry**

The global air freight industry is making a robust economic recovery and will need around \$3. 5 trillion in new aircrafts over the next twenty years.

The world will need 725 large aircrafts such as Boeing 747 and Airbus A380.

The global GDP is projected to grow at an average of 3. 2 % per year for the next twenty years. To meet the demand for air freight services, the number of airplanes in the worldwide fleet will increase at an annual rate of around 3%.

75 % of the demand for new airplanes will come from outside North America over the next twenty years with around 34 % of deliveries going to the Asia Pacific region.

The Boeing forecast that the greatest demand for new aircraft by market value will come from the US followed by China.

## **Advantages of Air Freight**

### **Speed of Delivery**

The first advantage is of course the speed by which goods are delivered since road transport and shipping mode take longer travel time of about a week or even more than that. The airfreight carrier on the other hand takes about few hours or days from the date of its departure which is favourable for fast transactions. Certain goods are perishable in nature. Hence they cannot afford to be transported by those modes that take time. Air Freight is a suitable option for perishable goods.

### **Faster response to competition**

Certain businesses have a very less product life cycle. These businesses face cut throat competition and hence they need to respond to customers orders on a very short span of time for which Air Freight is advantageous. Business transactions should be done quickly and traders often have to deal with competitors who provide the same products with better speed.

### **Relatively safe and reliable**

Modes of cargo movement like sea vessels are prone to risks due to pirates. Security of the shipping vessels may not be assured as the presence of sea pirates cannot be easily monitored. On the other hand the Air Freight is a relatively safer way for the movement of goods, that can observed

continuously after departure, till it safely reaches the destination. Air Freight is also highly reliable.

## **Disadvantages**

### **High Cost**

Air freight is nowadays beyond the reach of many traders and businesses due to the skyrocketing costs. There are many modes of cargo movement that are relatively cheaper and affordable. Air freight can be used only by those businesses that can afford high cost of transportation.

### **Procedural hassles**

There are a lot of procedural formalities associated with Air freight due to the increasing security concerns in various countries. Air freight may seem to be a quicker option considering the fact that the travel time is very less. But the procedural formalities involved are time consuming, particularly in this era of increasing terrorist strikes and security challenges. There are various approvals that need to be obtained and obtaining security clearances is becoming increasingly tedious and difficult.

### **Inability to carry bulky consignments**

Air freight cannot carry bulky and large volumes of consignments unlike the shipping vessels which can carry a huge load. When the consignment volume is high the cost of transportation per unit of goods moved becomes very less and hence it is an indirect contribution towards the profitability of the business. There are certain consignments like Oil that can be easily transported in shipping vessels unlike Air Freight.