

PAYLOAD

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ASIA

Changi steadfast on cargo

Air Freight Asia coverage

IATA outlines cargo agenda

National expands Asia focus

A wide-angle photograph of an airport terminal and control tower under a blue sky with light clouds. The title 'AIR FREIGHT ASIA 2011' is overlaid in large, bold, white and yellow letters.

AIR FREIGHT ASIA 2011

China to develop 2nd tier airports for air freight

China's air cargo is presently concentrated at airports in Beijing, Pudong in Shanghai, the Pearl River Delta airports of Shenzhen and Guangzhou and Hong Kong, but the General Administration of Civil Aviation of China (CAAC) is planning to develop its top 20 second-tier airports to handle the anticipated increase in air cargo demand over the next five years. Wong Joon San reports.

Speaking at the Air Freight Asia 2011 Conference in Hong Kong in March, co-organised and moderated by *Payload Asia*, Liu Shaocheng, Director of Policy Research at the General Administration of Civil Aviation of China (CAAC), said the government body expects Chinese airports to handle 6.2 million tonnes of air cargo this year, increasing to 9 million tonnes by 2015.

"The CAAC also expects to see a huge growth of about 90 more additional freighter aircraft to meet this huge forecasted air cargo growth," he said, adding that the government would focus on three main areas to provide the necessary support to meet the country's anticipated air cargo growth demand.

Three pronged strategy

To meet this demand, Liu said the country would invest 1.5 trillion yuan (US\$229 billion) to further develop cargo capabilities at 20 second-tier airports, as well as building 45 new airports – including a second Beijing airport – over the next five years taking the total to 220. "We need to increase air freight capacity and revitalise handling capacity for large hub airports," he said.

"The CAAC will increase the competitiveness of all the stake holders involved in the air cargo business as well

as to increase the handling capacity," Liu said, adding that the government would also provide incentives and preferential treatment such as open skies and encourage cargo handlers to join international airport airfreight associations.

In addition, greater incentives will be offered to develop the country's infrastructure in a bid to increase the capacity, and this move is expected to cut the time of transporting goods from the airport to downtown.

Infrastructure development will also be on a multi-level such as development of railways and roads. Also, there are plans to set up bonded areas in the airport and the use of e-freight to boost airfreight as well as express services.

Liu said freight hubs would also be established in various parts of the country, including Beijing-Bohai Bay area, as well as interior areas such as Shenyang and Xiamen.

"That's the model, going forward," he added. "To do this we'll need incentives for the private investor."

The cusp of major growth

As China's air cargo business has been growing by an average of 12.3 per cent per annum since 1990, the capacity to handle the air cargo trade and freight

handlers has also grown. Last year, China's air cargo business increased by 25 per cent year on year, and things are moving fast.

Solomon Cai Chen Yu, founder and CEO of Globelink China Logistics, said the 'spring season' for China's air cargo industry was here.

He explained that over the last 30 years, many industries had developed in China producing low value goods which were mostly transported as sea freight benefitting shipping whose container figures have increased tremendously.

"However, in the next 30 years, the shift in China's economic policy and the upgrade of export products' quality to the rest of the world at greater speed will give rise to rapid demand for air cargo business," he added.

China, as the manufacturing powerhouse of the world, will soon become the market for the rest of the world, and the country with its huge population will boost import market demand, Cai said.

Cai said although China had almost the same land mass as the US, the latter only had east coast ports but lacked the US western seaboard and as a result was increasing its airports to transport goods.

He pointed out that airports were working in conjunction with each other and were not competing with each other. However, there were other issues that needed to be looked at such as the ongoing merger and acquisitions of air cargo companies in China that were expected to bring about faster changes in the industry.



“Each airport must be supported by an integrated network,” Cai said. “Some airports have lots of room for improvement of network and facilities. They need the support services to go up another level, and then to enhance the software and workforce to satisfy rising demand.”

“There will be a rapid increase in demand for air freight business, and there will also be a rise in imports as the middle class grows. Air cargo’s future in China is very promising – it’s about seizing the opportunities,” Cai said. Against this

scenario, Yvonne Ho, country manager of International Air Transport Association (IATA), said IATA was promoting e-freight, covering 20 documents from shippers to consignees, to replace paper document with electronic messages from stake holders like freight forwarders.

“But E-freight does not mean that paper work will not exist, but rather paper documents can be printed on demand,” she said, adding that the industry was being encouraged to move towards this trend which was merely changing the way of doing things. IATA

has already developed standards for all 20 documents and in future these will be based on HTML. Some airlines like Cathay Pacific Airways and Dragonair had already implemented e-freight, proving that it was a “do-able” concept.

Ho said IATA was targeting for 10 per cent of the global air cargo industry to use e-freight by this year.

“By 2014, all airlines will only accept 100 per cent e-freight documentation (and therefore) industry stakeholders have to take steps to ensure they comply by the deadline,” Ho said. ✦

Will freighters become a intra-Asia mainstay?

Intra-Asia air cargo flows will see substantial growth in the years ahead, but Boeing and Airbus have strikingly different views on the likely penetration of freighters, writes Michael King.

Like all trades, the intra-Asia air freight business slowed during the global economic downturn in 2008 and 2009. However, its contraction was less severe and recovery more dramatic than in long-haul markets.

A recent Boeing study found that

volumes on the lane rebounded over 20 per cent in 2010 compared to 2009 and now constitute almost 16 per cent of world air cargo traffic and about 8.4 per cent of total tonne-kilometres.

There seems little doubt that tonnages will continue to increase –

numerous Free Trade Agreements and bilateral arrangements are removing barriers to trade, Asia’s middle class is rapidly expanding, and the continent’s consumers are eager buyers of the type of high value products usually moved by air. Manufacturers are also diversifying production around Asia both to spread risk and in search of lower labour costs than now available on China’s coast.

Moreover, Kelvin Leung, North Asia Pacific CEO for DHL Global Forwarding, points out that as supply

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chains mature, semi-manufactured components are increasingly moved by air between factories within Asia. He describes a 'triangulation' process within companies that often sees decision-makers based in one location, production at different stages conducted in different Asian countries and the final product then flown to multiple markets, both within Asia and abroad, often after transshipping via regional hubs. This supply chain trend, he suggests, will intensify giving intra-Asia volumes an additional boost as the decade progresses.

All these factors explain why Boeing expects intra-Asia annual air cargo growth of 7.9 per cent per year through 2029, a growth rate not disputed by Airbus. However, the aircraft suppliers differ significantly in their analysis of the potential for freighters to be deployed within Asia.

Impact of the LCCs

The rise of AirAsia, Jetstar – whose bellyhold space is now being sold by Qantas as reported in the previous issue of *Payload Asia* – and their Low Cost Carrier (LCC) peers is seeing more routes springing up where narrow-bodied aircraft predominate. The key distinction between the respective forecasts of Boeing and Airbus lies in whether the emergence of LCCs is having the net effect of reducing total available bellyhold capacity on key Asian lanes?

A study by Boeing claims not. Jim Edgar, Regional Marketing director, says the company's analysis of intra-Asia markets over a five-year period between 2004 and 2008 found that cargo volumes had mushroomed. But although LCC penetration was considerable, overall cargo capacity on the largest Intra-Asia air cargo routes both from passenger wide-body lower

holds and 'stub-end' large freighters had remained substantial.

"We estimate that the cost of carrying cargo in a wide-body lower hold is a third of using a freighter," he says.

"So if you're using a regional freighter for general cargo it is very difficult to compete with all the wide-body lower-hold capacity, especially with LCCs who are focused on capturing what remaining air cargo traffic might be available.

"We don't see that trend diminishing, and that's discounting the number of wide-bodied 747s operating within Asia which is increasing and already provide a lot of capacity.

"The intra-Asia market is well served by wide-body lower hold capacity and we don't see that changing."

He concludes that moving cargo by bellyhold in an "over-capacitised" market will remain cheaper than deploying freighters on most intra-Asia trade lanes.

"Asia-domiciled carriers have about 170 freighters in service, but less than 15 per cent are used as regional freighters and half of those serve express markets. If there's a need for intra-Asia freighters then why are there so few in operation?

"The reason is that they can't compete with lower hold space and 747s connecting freight hubs," Edgar says.

Didier Lenormand, Head of Marketing for Freighter Aircraft at Airbus, offers a markedly different analysis. Moving forward he sees the deployment of LCC narrow-bodied planes deepening in Asia.

"We'll see more downsizing in future than in the past and for me this means bellyhold capacity will be insufficient," he says. "Also there's a difference between where wide-bodies fly – mainly mature markets – and where new trades are developing which might require freighters.

"At some stage in the future more mid-sized freighters will be needed to develop the intra-Asia trade which will continue to grow."

He suggests the new A330-200F mid-sized freighter with its payload capacity of 70 tonnes and potential to combine intra-Asia and long-haul trades could fill the gap, along with A300-600 conversions and A320 conversions.

"The A330 is a good fit for these flows," he adds. "We certainly anticipate potential for the A320 in more emerging markets where loads are thinner.

"With the A330 it's easier to add capacity without flooding the market than with the 747 and it also allows more frequency."

Skid penetration

Who is right in this debate might depend on whether the use of high-security, high-value pallets moved on skids becomes a standard method of shipment in intra-Asia markets.

Leung says that while bellyhold shipments are, as a rule, cheaper per tonne than using freighters, he points out that this is not the case if the space above the skid is left empty.

A typical bellyhold area is around 1.7 metres high while a typical skid might be one metre in height, leaving roughly 70cm of space in a typical belly which can usually only be filled by lower value loose cargo. This changes the equation in the belly versus freighter debate.

"If you have two skids they can't fit into the belly normally, and for China's export business the skid is now the standard," argues Lenormand.

Leung says there are many factors which will decide how intra-Asia trade will be conducted in future, but in terms of freighter deployment "it might just come down to how far the use of skids proliferates, with forward security requirements a key factor". ✈



Executives bullish about Asian air cargo growth

Asia Pacific's air cargo growth will be driven by Mainland China's air cargo and there is plenty of business to go around, delegates to the Air Freight Asia 2011 Conference heard recently. By Wong Joon San.

Speaking at a session titled, 'Air cargo growth for China's neighbours', Kelvin Leung, CEO DHL Global Forwarding, North Asia Pacific said as mainland China had been growing rapidly for the last two decades, the next two decades will see substantial policy change that will help drive growth in China's neighbour's economies.

"China wants to see the 'geo-economic' growth increase and to grow peacefully with its neighbours," he said. On the issue of manufacturers in China relocating their facilities out of the country, it was not because of the cost factor alone, but also because of the shortage in the supply of skilled labour, impacted by China's one-child policy.

"Another factor to look at was that the younger generation people do not want to do routine jobs – repetitive jobs and many were turning to China's retail and service industry which was serving a bigger portion of the Gross Domestic Product (GDP) – about 43 per cent are serving the tertiary sector," he pointed out. "The pull factor was important because many people were not willing to do manufacturing jobs."

During the panel discussion, Leung

said in the last five years, manufacturers' policy had changed and they wanted more manufacturing outlets. "For instance, Intel wants to diversify and does not only want to have its facilities in China alone, but wants to have multiple production bases in different countries."

Leung said: "If you look at the past 20 years and what (development) happened in Canton-Guangdong Province, the same was going to happen in Vietnam, which has the same population as the Chinese province."

Vietnam benefiting

Do Xuan Quang, CEO of Vector Aviation Co Ltd in Vietnam, said over the last 3-5 years, the country's air cargo growth per annum was on average 15 per cent. "Last year, Hanoi's air cargo growth was 20 per cent," he added.

The air cargo growth at Ho Chi Minh and Hanoi was 25 per cent and 40 per cent last year respectively, Do said.

Vietnam was fast becoming a significant air cargo market because of investments from Samsung Electronics, Intel, Fujitsu (among others) which were involved in producing mobile phones and spare-parts, Do said.

Due to China's rapidly rising labour, rental and land costs, more companies were relocating from the mainland to Vietnam which offered them huge potential. Other economies like Thailand and Cambodia were also attracting companies which were re-locating their factories.

The increase in cross border and cross straits (between Taiwan and Mainland China) business were boosting the air cargo business in the region, he added.

Didier Lenormand, head of marketing – Freighter Aircraft at Airbus, said in China's previous five year plan, the development was focused on the Pearl River Delta in the western part of China and the Yangtze River Delta in the central part of China impacting the supply chain development.

He said China was now focusing on high end products and this was good for the development of the air cargo market.

Do pointed out that the Hanoi international Airport was currently upgrading its facilities with the construction of a second new terminal and a new cargo terminal whose work started a few months ago. A total of nine freight companies are located at the airport.

Haiphong airport in the north was also undergoing construction and many foreign investors were investing in the area such as the Maersk Sealand, supported by the Asian Development Bank, that was investing US\$300 million in railway express train to run north to south in the country.

With the infrastructure upgrades, the country's air cargo growth demand was expected to be met, Do said.

James R. Edgar, regional marketing director Commercial Airplanes, Boeing, said the industry's air cargo growth average was expected to be at 8.2 per cent over the next 20 years, and China's seven per cent growth was still one of the highest in the world compared with the rest of Asia.

Edgar pointed out that Vietnam had an average air cargo growth of 8.4 per cent. He said that while China's high speed rail network was growing rapidly, its road network had still a long way to go and would not be comparable with Europe's road network at least for awhile. ✈



(l-r) Kelvin Leung, Didier Lenormand, Do Xuan Quang, James R. Edgar and Payload Asia editor, Donald Urquhart.



Pace of factory re-locations speeds up

Hong Kong will likely retain its preeminent role as the key cargo hub for Southern China, despite the changing face of the Pearl River Delta's manufacturing base and relocation further west in the country, as long as it maintains its competitiveness say Hong Kong-based air cargo industry executives. By Wong Joon San.

Although factories and manufacturers producing cargo are relocating from the Pearl River Delta in Southern China to other locations, the pace of such relocation is "exaggerated", according to Julia Yan, Airport Authority of Hong Kong's (AAHK) general manager of Strategic Planning & Development.

Speaking at the Air Freight Asia 2011's session on 'Southern China Air Cargo Hubs – Developments & Trends', she said looking closely at the relocation of Foxconn International Holdings Ltd's facility in south China, the company was merely further expanding its operations to other parts of the country, such as the Yangtze River Delta in central China.

"Previously, the Airport Authority of Hong Kong was seeing double digit



Julia Yan



Sunny Ho

growth, way ahead of other parts of China. We noted that this growth will, in the medium and long term, slow down, but the air cargo growth will still be good for the next 5 to 10 years," she said.

Despite the relocation of manufacturers to other parts of China and the decline from the double digit air cargo growth in the next five to 10 years, the base figure was still growing and there was no reason

to be worried about the decline in cargo throughput, Yan said.

But Hong Kong Shippers' Council director Sunny Ho pointed out that although AAHK's Yan had painted a bright future for HKIA, it all depended on the territory's comparative advantages.

"Hong Kong is a leading air cargo hub at the moment, and it could lose this status if it did not take certain steps to maintain it," he said. "As long as the two major costs factors – freight rates and consolidation and co-loading rates continued to be competitive, the territory will be able to compete with its south China rival airports."

Yammie Sin, senior manager of Business Development at Asia Airfreight Terminals Co., Ltd (AAT) said it also depended on how Hong Kong cooperated with mainland airports and continued to focus on maintaining lower operating costs, while providing efficiency and reliability of services and taking advantage of its strong flight connectivity, security and Customs clearance.

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AAT, the second largest air cargo terminal operator at Hong Kong International Airport (HKIA) by cargo handling volume, after HACTL's SuperTerminal 1, has also been busy working at staying competitive and has been focusing on regional growth and working with its customers' supply chains stretching into the Pearl River Delta (PRD) in southern China, Macau, as well as into Sichuan, a province in Southwest China. Looking further afield, Sin, who also spoke at the conference, said the company was seeing "interesting links between the PRD" and other countries in the region.

Cooperation over competition

Senior management of the five major airports in the Greater Pearl River Delta (GPRD) region, including Guangzhou, Hong Kong, Macau, Shenzhen and Zhuhai, recently agreed to strengthen co-operation and promote sustainable development of the airports in the region, and had signed a Memorandum of Understanding to expand this concept. The move is to assist Hong Kong's integration with the PRD as more economic development takes place across the border in south China.

Basically AAT has been focusing on

how to cooperate with mainland Chinese airports so as to lower operational costs while improving efficiency and capabilities for its customers, Sin said, adding that as there had been increasing charges and fees at southern China airports, Hong Kong would be able to maintain its position as the international air cargo hub, she added.

"All airports have their own strength and HKIA has strong flight connections, security and easier customs clearance advantages over its counterparts in the mainland," she said.

Yan said she was optimistic that the demand growth in southern China would outpace capacity. "Through competition and collaboration, we do have to individually expand and collectively serve customers using services in Hong Kong."

She pointed out that every stakeholder in Hong Kong had to expand as the demand was out there, and expansion was necessary to serve that demand.

"HKIA serves international cargo, while 80 per cent of the business handled by Guangzhou's Baiyun International Airport and Shenzhen International Airport was domestic cargo which was growing at double digit," according to Yan.

She pointed out that Hong Kong was under tremendous pressure from airlines

to grow, and gave the example of Cathay Pacific Airways which agreed to invest 1.7 billion yuan (US\$260 million) in affiliate Air China's cargo arm to add freight hubs in Shanghai and Beijing in addition to its Hong Kong base.

Using Air China Cargo as the platform for the joint venture, Cathay Pacific plans to contribute some aircraft with members of its senior management on board for the project. "We believe the JV will tap into the existing strength – and enormous potential – of the Yangtze River Delta region," the airline's outgoing chief Tony Tyler said recently.

Yan pointed out that if the traffic was growing and Cathay Pacific did not grow, some other companies would do so and absorb the extra new demand.

She said that the most recent trend in the air cargo market was the integration and expansion of multiple hubs. "FedEx had expanded with another hub in Guangzhou while UPS also established an additional hub in Shenzhen although these integrators cargo tonnage in Hong Kong was still growing." So companies are looking at serving the cargo demand simultaneously at all three airports in Hong Kong, Guangzhou and Shenzhen as the market continues to expand, she added. ✈

A new paradigm for the China market

Full of challenges, but also immense opportunity, the China air cargo market has been both a boon and a bane for foreign carriers looking to tap the surging export demand that has been the hallmark of this market, but the environment has changed and the industry must now adapt, say air cargo executives. By Donald Urquhart.

Panelists at the final session of the Air Freight Asia 2011 conference in Hong Kong were virtually unanimous in their view that the China market has changed – and changed for good. Gone are the days that carriers could place capacity in the market and be nearly guaranteed of decent load factors out to Europe and North America.

Overcapacity has been the more typical occurrence in the recent years and last year's restocking boom sent carriers into a near frenzy as everyone scrambled to throw available capacity at the surging export demand as they clawed their way out of the recession-induced market collapse. But a flat peak season at the end of 2010 and very little build-up to the Chinese New Year period which took place on the heels of the Christmas/New Year's holi-



Roberto Gilardoni

days left the China market once again in a serious over-capacity situation.

The figures speak for themselves with the China cargo bellwether, Hong Kong Air Cargo Terminals

Ltd. (Hactl) which handles nearly 80 per cent of air cargo passing through Hong Kong International Airport (itself the largest air cargo hub in the world), saw its tonnage throughput tumble nine per cent in February from a year earlier.

Exports were down a whopping 18.2 per cent in the month from a year earlier while imports were down 3.4 per cent.

There was a significant growth in capacity last year in the China market, says Cargoitalia commercial director, Roberto Gilardoni and that is just looking at scheduled capacity. "The number of charters that were bolting to the market was huge, it was bad planning from the airlines," he says.

But he adds, it's a difficult situation as there are virtually no markets like the China market that still offer so much demand. "You have the aircraft, where are you going to put them," he says.

Adding to the problem is the simple fact that carriers cannot, and should not have any communication regarding issues like capacity, noted BA World Cargo regional commercial manager, Asia Pacific, John Cheetham. "So if a market is looking like its growing and all indications are that China is and will continue to grow, then it's not surprising to see all airlines trying to put capacity in



John Cheetham

there. It's not surprising to see everyone make the same move at the same time and that's why you see such fluctuations," he adds.

A changing market

But clearly the biggest change in the China market is the growth of imports into the country. While Tianjin AirCargo Terminal MD, Ulrich Huesson agrees on the marked slowdown in export volumes, "what is of growing interest is the import side."



Ulrich Huesson

With a rapidly growing economy there is more and more emphasis on consumption in China, something that has been evident for almost a year already, he says. Cargo carriers have

been seeing a lot more demand into China and the number of one-way charters into, rather than out of, the country has been growing substantially.

"I think this is quite new for the airline industry and this is something they have to deal with," Huesson says adding that one key issue remains – yields. "The yields into China are not yet satisfying but in order to have a profitable operation you have to have suitable yields and if you don't get them out of China into Europe or North America you have to increase the yields into China and I'm not sure the market is really ready for that."

As AirBridgeCargo (ABC) VP Asia Pacific, Robert Song notes, an industry is at its most efficient when resources are put fully to use. "In the past," Song notes, "the industry formula has always been charge as much as you can of your customer



Robert Song

for outbound out of Asia because you know it's coming back to Asia at a ratio of one to three and paying almost next to nothing coming back.

"So you have this pricing model where you put a lot of stress and expectation of the performance outbound. But now thanks to central planning, China he notes, has not just pulled off one economic miracle but another in which the Chinese yuan is actually depreciating in value because of inflation at home, but overseas is actually appreciating against the US dollar. This only serves to increase the purchasing power of the currency overseas and create more demand for imports."

"As an industry player I think we are in much better shape because we are not seeing the empty space coming into China and we're seeing the resources being better utilised because we're not seeing a single airplane empty and that's got to be good for the environment and good for the business overall. I think for the airlines it's not so much of a capacity adjustment issue as it is a mentality adjustment where we've got to look at our pricing model whereby it's more of a balance between the two markets – and I think that's a healthy development," Song says.

But the case of ABC, as a solely main deck player, is somewhat unique and the carrier took the bold step in September last year of being the first foreign carrier to operate into Zhengzhou in Hunan province with a twice weekly service, its fourth destination in China, after Beijing, Shanghai and Hong Kong. And this decision, which Song says has proven to be correct with full B747 loads incoming, was based purely on the import demand of this city of over seven million.

Emerging cargo markets

The environment is also changing in another way, as the Chinese central government moves to encourage manufacturing to move inland coupled with labour shortages and associated rising labour costs in the coastal areas are creating new air cargo markets in the central and western regions.

HP has recently set up a major manufacturing plant in Chongqing in western China – Chongqing is one of four municipalities in China that are not part of a province but report directly to the national government (the other three being Beijing, Shanghai and Tianjin). Neighbouring Chengdu in Schezuan province is another city many

pinpoint as another emerging air cargo market.

But as Gilardoni points out, from a logistics point of view, having the infrastructure to support that development, "I think it's going to take longer than planned, or hoped for."

"Probably we are going to see this development, but it's going to take a little longer and I think we will see development linked to some specific industry," he says. "Maybe first the integrators that look into these areas for some specific business and then we are going to see development on more a project or charter basis, then I assume the big carriers like Air China will start the process, but I think it's going to take some time."

Echoing this sentiment, Cheetham notes that, "while we see production shift inland, until a critical mass of production is built up in those areas you're going to require the domestic network to feed the hub."

"I expect the demand for domestic carriers, be it small freighters like the A300 or B767, will come once demand increases to such point that the inland airports reach a critical mass in terms of cargo." But Cheetham feels the economic fundamentals of China are still very strong which will one day enable this to become a reality. "People would panic if China's growth fell to five per cent which is what a European government would dream of at the moment, so I think the long term future of China is very good – there's always going to be a few rolls and crests as the market develops and matures, but the ultimate goal is that you've got a mature and stable market which is good for the entire industry."

A word of caution from Gilardoni as he notes there is clearly some restructuring going on in the market that has "to push airlines and operators in general in the industry to be more careful in the way we tackle China. I think the industry has to adapt a little bit in terms of how we do business here, but it's going to remain the place to be."

For Song the key to approaching this changing China market, "is a change of paradigm for the airlines, certainly from our perspective we are now focusing on imports as the opportunity, rather than just looking at exports. This is a huge market opportunity to tap and there is a huge amount of work that we can do to add value to this process and grow the cake bigger." ✦