SETTING THE PACE
AIR CARGO GROWTH IN THE MIDDLE EAST

INSIDE

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Security without impeding commerce

The year ahead promises to be a challenging one for air cargo. Recent events across the globe will most certainly have repercussions for our industry, both from a regulatory and operational perspective. Seemingly unrelated situations, such as the refugee crisis in Europe and tightened civil security measures, have caused a ripple effect in Europe which has an impact on all of us. While borders there remain open, delays in the ground movement of global air cargo shipments have occurred, and it is likely that we will see even more of these challenges in the future.

Most recently, we have seen the effects of the downing of a passenger aircraft in Egypt, as reflected in the subsequent additions to the cargo security measures issued by the Transportation Security Administration (TSA) for shipments destined to the US, for both passenger and all-cargo aircraft. Regulators are taking a closer look at all programs.

For shippers, forwarders, and airlines around the globe, we can expect to see some early hiccups as the European Union countries begin the process of implementing the Advance Data program (called PRECISE), starting in May 2016. Under this program, every air cargo shipment will need to be pre-cleared by EU Customs/Civil Aviation authorities before it can be loaded onto an aircraft for transport to or through Europe. While it will take several years to fully implement, we will likely experience some growing pains as shipment data is gathered, transmitted much earlier in the process, and analyzed. For US imports, the joint TSA/CBP Air Cargo Advance Screening (ACAS) program is not yet mandated, but we should see the new regulatory language from CBP during the year.

As these far-reaching programs come into play, much work needs to be done to ensure compatibility of systems and procedures. TIACA is liaising with global regulators such as the International Civil Aviation Organization (ICAO) and World Customs Organization (WCO), as well as with state-level regulators, to help work through as many challenges as possible in advance of full implementation, but it is a major undertaking. To be sure, data quality and availability in a timely manner will have a major impact in this process, and it is incumbent upon all of us to ensure we continue to move into the electronic age as quickly as possible.

Security will play an ever increasing role in our world, and it will take a wide-ranging collaborative effort between regulators and industry to ensure that the highest level of security is attained without impeding the flow of commerce.

Doug Brittin
TIACA Secretary General
The supply chain is commonly defined as the physical movement of semi-finished and finished goods from one part of the world to another, but it is supported by an increasingly complex array of documentation and, more and more, by information and data that is arguably as important as the goods themselves.

While major carriers such as Emirates Airlines and Maersk have used the revenues generated from the tremendous explosion in world trade over the last three decades to invest in and create networks able to transport goods from virtually any corner in the world to any other, the processing of documentation has, in many areas, simply not kept up.

World leading container shipping carrier Maersk Line has become increasingly vocal about the need of the supply chain to become more efficient – and one obvious way is for it to modernize through new technology. In particular, the company is calling for improvements in the flow of information amongst supply chain partners, including regulatory authorities.

Jesper Engelbrecht Thomsen, Maersk Vice President, speaking to the G20 business magazine, said: “The cost of physically moving a container is comparable with the cost of handling the information related to its transport. In essence, every manual process or physical paper slows down the process and at the end of the day the cost has to be borne by the end-consumer.”

Cut flower supply chain

Together with TradeMark East Africa, a not-for-profit organization focused on enhancing prosperity in the region through trade, Maersk Line has analysed the supply chain of cut flowers grown in Kenya and transported to Europe’s major flower auction in the Netherlands. They found that 24 separate organizations and companies were involved in the transport of just one container from its origin in the Kenyan highlands to the distribution centre in the Netherlands. The total lead time is approximately 34 days, with the

Gavin van Marle examines how the advance of digital technology will improve both the flexibility and profitability of the supply chain.
information pipeline is not very difficult to establish. The key challenge is to coordinate and align all actors along the value chain to exchange information in a digital format,” Thomsen said, arguing that inspection authorities would also benefit from the readily available information.

“This pipeline holds much more data about shipments than can ever be asked in any Customs or security declaration, and the quality is much higher as it is data captured at the source.”

**Change management**

But is that sort of top-down approach to transforming supply chains to digital actually effective? The huge problems that some of the largest freight forwarders have had with transforming their IT systems has shown that is a problem of change management, according to Ryan Petersen, Chief Executive and founder of Flexport, one of new breed of freight forwarders that has adopted a digital-first approach.

“We are a freight forwarder built for the modern era,” he said. The company recently concluded a round of fund-raising that saw investors put together USD22 million for Flexport’s further development, which Petersen said would mostly be spent on wages for software engineers, although it also recently opened a new office in Amsterdam.

“What we have done is build a really useful dashboard – the important thing we do is structure all the data that is coming out of your supply chain and make it visible. There is a large amount of information in all the different documents that accompany the supply chain, but they are issued in different formats such as PDFs, Excel, or as Jpeg images. Our app collects all that information and structures it so that shippers have total visibility of their supply chains down to the SKU level.

“Say if you are a trainer manufacturer and Kanye West is seen wearing one of your brands when he arrives in a particular city where he is performing. You are going to sell out of that brand in that city in a matter of hours, so you need to know where there are more in your supply chain – and at the moment there just are not any systems that allow you to search your supply chain like that because they do not reconcile the different types of file. Today, shipments are normally searched by tracking numbers, but with our system you can search by product type – whether it is inventory on the move or in the warehouse, and supply chain managers understand the benefits right away.

“Effectively a lot of what we are doing is to recreate the sort of visibility and understanding of your supply chain that you get from the parcel delivery companies – it just does not exist in the freight world; freight forwarders are stitching together all of these international services provided by different transport companies to offer a seamless service, but they are not supplying any information to the customer about that – visibility has been very hard to provide because of the multitude of systems and formats,” he explained.

**Human element**

However, the human element has not disappeared from Flexport, said Petersen. “Freight forwarding is a relationship-based industry and we are not trying to re-invent the wheel.”

“The app has been developed as a communication tool for our customers to gain a better understanding of the supply chain. But the way it actually works is through a mixture of humans and software; similar to a lot of data entry work, we have two people checking each document to make sure it is correct.”

The next development will see the company introduce a purchase order management system that will allow Flexport to go into the systems of its customers to track the supply chain from the point at which the orders are actually placed.

“Customers are crying out for good software,” he added. “A lot of our customers are start-ups so they understand what we are trying to provide; they do not understand why technology has not been developed to provide that visibility. If anything, our challenge has always been on the supply side – showing the carriers how they can make more money by working with us, and achieving the volumes they need to be excited about moving our freight.”

Indeed, for digital technologies to add the efficiencies that they are capable of into supply chains, it will ultimately require all participants to make some form of contribution. It just might be more effective if it is on a piecemeal, step-by-step, basis rather than as a ‘big bang’.
The influx of immigrants into Europe that started earlier this year has caused huge costs for logistics in general and also for air cargo, which is being trucked further between airports within Europe.

The economic costs are caused by higher transport costs but also by longer transit times and therefore higher inventory cost, making Europe potentially less competitive in the global marketplace.

Now the recent atrocities in Paris, Beirut, Mali, Turkey and the Sinai desert will even further endanger our current values and way of living in the Western world.

**New threats**

We are facing a different kind of threat where a car driving from Belgium to France could carry the same potential threat as a plane flying from Syria.

The mood in Europe and also the US is becoming more xenophobic, which in itself could fuel even more hatred. One of the drivers of economic growth and prosperity has been the increasing free trade.

The terror attacks are now potentially affecting the free flow of trade and people.

The Schengen agreement, which basically ensures the free flow of people and goods without border controls in 26 European countries, is under threat.

We also need immigration to sustain the future economic demographics in Europe. Moreover, the free flow of people fosters innovation, because bright people from everywhere can study at the universities in Europe and the US.

**The solution**

The solution is solving the problem in the Middle East, creating peace over there. There is currently no appetite for a large scale coordinated effort with a coalition, but do we need another large attack on US or European soil before we react?

To use a simple analogy, we always put the traffic light up after the accident happened... Hopefully that will not be the case in this situation.

What will be the impact on air travel? It may be too soon to tell. Security checks and transit times may increase. Will people start to fly less, resulting in reduced passenger capacity? It could even benefit freighters since they are less of a target for terrorist, especially when the availability of passenger belly capacity could decrease.

Will the sense of insecurity result in lower consumer confidence? This could have an impact on the already fragile recovery of many economies.
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Despite a recent slowdown in traffic growth, the Middle East continues to be a shining beacon in an otherwise still generally dull global air cargo market.

Figures published by the International Air Transport Association (IATA), for example, showed that over the first nine months of 2015, Middle East carriers achieved a near 13% increase in international traffic measured in freight tonne kilometre (FTK) terms, compared with the same period the previous year, while airlines in other regions saw either very low single-digit growth or a decline.

Although the pace of Middle East air cargo traffic growth slowed towards the end of that period – the region’s September FTK increase was 5.5 percentage points lower than the overall nine-month average at 7.5% – IATA suggested the outlook for that market remains positive.

Slowdowns

“Major economies in the region, including Saudi Arabia and the United Arab Emirates, have seen slowdowns in non-oil sectors, but the rates of growth remain robust and this should help sustain solid growth in air freight demand for local carriers,” it stated.

That view was reinforced by US aircraft manufacturer Boeing which predicted the Middle East would continue to see faster-than-average air freight traffic growth among the major regions of the world over the next 20 years. Specifically, it said that while the average annual increase in the period

Massive ground handling capacity expansion is planned in the Middle East as the region continues to enjoy strong growth in traffic, both for hub services and booming domestic economies. Phil Hastings reports.
2015-34 would be strongest in Africa, at almost 7%, the Middle East would be second with 6.3%, followed by Asia Pacific (5.7%), Latin America (5.5%), Europe (3.1%), and North America (2.9%).

Leading Middle East carriers appear to share that optimism, with several announcing news in the latter part of 2015 about further expansion of both their home hub cargo-handling facilities and aircraft fleets.

Expansion plans

On the ground handling front, for instance, Qatar Airways Cargo, the freight division of Qatar Airways, unveiled plans to create a second, even larger, cargo terminal at its Hamad International Airport base in Doha. That development, scheduled to open in 2018, will boost its annual handling capacity from a current 1.4 million tonnes to 4.4 million tonnes. The carrier also indicated that longer-term plans included increasing that capacity to as much as 7 million tonnes.

A second development in late 2015 saw Emirates SkyCargo, the cargo division of Dubai-based carrier Emirates, officially inaugurate its state-of-the-art Emirates SkyCentral cargo terminal at Dubai World Central Airport in Dubai South. That facility, which started operations in 2014, now handles all Emirates SkyCargo’s freighters, while passenger aircraft bellyhold cargo is routed through neighboring Dubai International Airport – the carrier operates trucking links 24/7 to connect the two airports, which are just under 80 kilometres apart.

Expansion downside

One downside to the continuing fleet expansion by Middle East carriers, though, at least in the short-term, is a depressive impact on their cargo load factors.

That issue was highlighted in recent IATA figures which showed that Middle East carriers substantially expanded their freight capacity during the first nine months of 2015, with an average available freight tonne kilometre (AFTK) increase of almost 18%, compared with a global average of just over 6%. As a result, even though cargo volumes were up substantially, the average load factor for Middle East carriers during that period was just under 43%, below the worldwide figure of 47%.

So, what is driving the future fleet expansion plans of Middle East carriers and the continuing growth in their air cargo traffic?

In the case of the latter, how is that sector, now ranked by IATA as the third-largest international air freight region worldwide with a global FTK market share of just under 17%, behind Asia Pacific (40%) and Europe (26%) but ahead of North America (13%), managing to achieve its present outperformance?
One very obvious key influence is location, with the Middle East in general and the Gulf in particular, geographically well placed to provide hubs for cargo moving between the Far East, Southeast Asia, Central Asia, the Indian subcontinent, Europe, Africa, and other markets, as well as to and from the Middle East itself.

Middle East airlines also benefit from the fact that many of the markets they are so well positioned to serve happen to be among the world’s fastest-growing economies, a point highlighted by Khalid Al Hinai, Emirates’ Vice President for Commercial Cargo, Middle East, GCC (Gulf Co-operation Council) and Iran.

“Our Dubai hub has the advantage of a strategic location in the centre of trade between east and west. That provides easy access to the growing economies of countries in Africa and the Middle East. In fact, many companies have set up their distribution centers for those regions in Dubai,” he commented.

A similar point was made by David Kerr, Vice President of Etihad Cargo, the freight division of Etihad Airways. “We are witnessing new trade patterns from emerging markets such as China, Vietnam, Bangladesh, and India to Africa via our hub in Abu Dhabi. Our strategic location means we are well-positioned to take advantage of those trends,” he claimed.

Location

The general significance of location as a competitive advantage was further illustrated by Ulrich Ogiermann, Qatar Airways Chief Officer Cargo.

“Middle East carriers in general benefit very strongly from their geographical position. Reflecting those trends – and the need in many cases to try to compensate for relatively low load factors by attracting higher yield cargo – Middle East carriers have over the last couple of years noticeably stepped up their development of services aimed at cargo with specialized needs.

Pharmaceuticals

In line with general international airline industry trends, one of their key target traffics is pharmaceuticals. During 2015, for example, Etihad Cargo introduced a new solution for the shipment of temperature-sensitive pharmaceutical and healthcare products called TempCheck. The same year also saw Qatar Airways Cargo announce enhancements to the QR Pharma service it launched in 2014, and introduce a service called Pharma Express on several key routes for that industry.

New developments targeting pharmaceutical and other healthcare traffics are also taking place on the ground at many Middle East airports.

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– Ulrich Ogiermann,
Qatar Airways

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Expanding on the point, he said that location means Qatar Airways, for example, does not have to operate very long non-stop flights on “risky” routes. Instead, it can optimize a network of flights in and out of its Middle East hub, with resulting economic advantages.

However, while cargo flown to and from markets beyond the Gulf typically accounts for more than 80% of the total carried by leading Middle East airlines, the much smaller percentage destined for countries actually in the region is also continuing to grow on the back of their continuing investment in infrastructure, industrial development, and ever-rising consumer expenditure.

Emirates’ Al Hinai, commented: “In the GCC, infrastructure developments are continuing to drive a need for materials and supporting logistics, notably in the UAE, Saudi Arabia, and Qatar.

“The continued expansion and development of airport facilities across the region is also driving growth, again particularly in those countries, Oman, and Jordan.

“Those trends, coupled with a growing consumer society with spare capital to invest and an expanding tourist industry, is resulting in a range of products, such as perishables, foodstuffs, pharmaceuticals, electronics, and others, being moved into the region and beyond.”

We are witnessing new trade patterns from emerging markets ... via our hub in Abu Dhabi

– David Kerr, Etihad Cargo

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Qatar Airways is continuing to expand its freighter and passenger aircraft fleets.
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SPOTLIGHT ON NEW MEMBERS

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The Port Authority of New Jersey – The Authority operates one of the largest airport systems in the world. www.panynj.gov

New Forwarder Members

RIOgaleão – Rio De Janeiro International Airport. www.riogaleaocargo.com

Ahnaf Logistics Ltd. – Based in Bangladesh. www.ahnaflogistics.com

Arabian International Freight Forwarding & Warehousing (AIFFCO) – Based in Egypt. www.aifcco.com


Boyut Lojistik – Headquartered in Turkey. www.boyutojistik.com.tr

Insynergy – Based in India. www.insynergyindia.com


Multi Express Logistix Ltd – Headquartered in Nigeria with a sister company in Dubai. www.multiexpresslogistics.com

Rohlig Logistics – A family-owned Germany based company. www.rohlig.com


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Find out more about membership by contacting Kenneth Gibson at kgibson@tiaca.org or visit www.tiaca.org

I am Swiss at Heart

Malachi Moyo
Country Manager Cargo South Africa & Mauritius

Our team consists of people from more than 40 nations, representing five continents and many different cultures. But what truly matters is what we all share: a passion for quality, reliability and precision. And our vow: We care for your cargo.
Innovation will top the agenda at TIACA’s Air Cargo Forum in Paris, France, next October with themes including manufacturing trends shaping the industry, sustainable supply chains and the cargo hubs of the future.

A panel of TIACA Board members drawn from across the supply chain will chair debates and workshops on trends from e-business to embracing the Cloud.

The innovation Forum takes place alongside TIACA’s three-day exhibition from 26 to 28 October 2016, in Paris, France.

 Thousands of supply chain decision-makers are expected to visit hundreds of leading air freight companies at the event, the 28th in the show’s history.

Board members chairing the sessions at the ACF will include Essa Al-Saleh, President and CEO, Agility Logistics, as well as Sebastiaan Scholte, CEO, Jan de Rijk Logistics, and Sanjiv Edward, Head of Cargo Business, Delhi International Airport.


Hawaii workshop proves a success

TIACA held a successful Air Cargo Professional Development Workshop in Honolulu, Hawaii, which was well received by 17 students.

The program, designed by Strategic Aviation Solutions International (SASI), grows management skills for air cargo professionals and gives participants an appreciation of the entire air cargo supply chain.

“As a younger leader in the air cargo industry, this was an invaluable experience. It gave me a better understanding of how the world does cargo, gave me insight, and opened my mind to think outside the box,” said Ryan Nauahi, Manager – Cargo Operations, Hawaiian Airlines.

Find out how you could host a workshop or take part in the next program by contacting Doug at dbritin@tiaca.org.

Paris ACF to focus on innovation

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Aviation security talks bring regulators and industry together

Regulators met with industry leaders in Washington at the end of 2015 to discuss ways of collaborating more closely on security issues.

Sue Presti, Senior Director Government Affairs for TIACA, chaired a meeting of the Aviation Security Advisory Committee’s (ASAC) Air Cargo Subcommittee, attended by Transportation Security Administration (TSA) officials and industry members.

Talks covered the TSA’s role in the Air Cargo Advance Screening (ACAS) Pilot. TSA is evaluating the results of the ACAS Pilot program to date and hopes to meet with industry again in January 2016 to discuss next steps.

Discussions also centered on extending the National Cargo Security Program for Australia and the European Union (EU).

“We also suggested new approaches for long-running issues, including the expanded use of canines, and the Known Shipper Program,” said Presti.

“There has been little measurable progress, but both sides agreed to work collaboratively to explore how to reposition these subjects and how to seek real improvements.”

On-line scheduler boosts ACF networking

TIACA has launched a dedicated on-line meeting tool called CargoLinX for its Air Cargo Forum (ACF) and Exhibition, which takes place from 26 to 28 October 2016 in Paris, France.

The speed-networking tool will allow visitors to schedule up to thirty 25-minute meetings with 45 leading global air cargo companies, weeks in advance of the event.

CargoLinX will be free to use for ACF visitors and exhibitors when the show opens for registration in the New Year.

For more information, visit www.tiaca.org, or contact Warren Jones at wjones@tiaca.org

Security program debated

TIACA took part in the December meeting of the Aviation Security Advisory Committee’s (ASAC) Air Cargo Subcommittee at the Transportation Security Administration (TSA), of which it is Industry Chair. Talks covered a range of topics, including TSA’s role in the Air Cargo Advance Screening (ACAS) pilot.

TSA is evaluating the results of the ACAS pilot and hopes to meet with industry in January 2016 to discuss next steps.

Incheon Airport executive joins the TIACA Board

Kwang-Soo Lee (pictured right) has joined TIACA’s Board of Directors, bringing 25 years’ of experience in the aviation industry.

Lee is VP Marketing and Member of the Board of Directors at Seoul-Incheon International Airport, South Korea’s largest airport and the fourth busiest in Asia in terms of cargo traffic.

“TIACA represents all sections of the air cargo industry globally and we are delighted to welcome a representative from the airport community and a new representative from Asia,” said Doug Brittin, Secretary General, TIACA.

Lee started his aviation career at Northwest Airlines in 1990 before joining Seoul-Incheon International Airport in 1998, where he is an expert in airport commercial facility operations, airport cargo and passenger marketing.

“I am looking forward to helping TIACA expand its membership in North East Asia, building on the success of its Air Cargo Forum here in 2014,” said Lee.

“I am also eager to help with the march towards e-freight by working closely together with my industry colleagues and promoting a greater understanding of the issues and benefits of going paperless across the air cargo supply chain.”
The Union Customs Code (UCC), one of a series of legislative changes to international trade processes planned by the European Union over the next 10 years, will have a considerable impact on business importing into, or exporting from, the EU. With the fine detail still under discussion six months ahead of the UCC’s entry into force in May 2016, many shippers and forwarders, especially smaller operators, are still unsure what impact the new regulations will have on the supply chain.

The European Commission (EC) has produced an EU Customs Competency Framework (http://ec.europa.eu/taxation_customs/common/eu_training/competency) to help affected businesses, and Customs authorities in individual member states are working hard to keep the trading community up to date with the evolving regulations. HM Revenue & Customs (HMRC) in the UK had issued 44 Customs Information Papers by the start of November.

Meanwhile, transportation, freight forwarder, and shipper organizations are trying to interpret the UCC on behalf of their members. The British International Freight Association (BIFA), for example, has organized several regional seminars during December and January to address members’ concerns regarding the UCC and the EU’s Authorized Economic Operator (AEO) program.

“It is not known how many UK traders will need to be advised on the new requirements and how to integrate their IT systems with HMRC, but the number is considerable” said Chris Welsh, Director of Global and European Policy at the UK Freight Transport Association and Secretary General of the Global Shippers’ Forum. “It is not going to be a ‘big bang’, but all shippers will have to be re-authorised by Customs as the UCC is rolled out.”

Adapting to the new regulations will be easier for more highly automated traders, but the challenge for many will be the need to become approved Authorised Economic Operators to carry out important customs functions. For example, only around 400-500 UK companies have received their AEO accreditation, perceiving that the business costs outweigh the trading benefits. There are more than 6,000 accredited businesses in Germany.

The real obstacles, however, will be for SMEs, Welsh pointed out.

The UCC makes the business case for AEO “stronger and quantifiable, but small and mid-sized importers may find it difficult to get their banks to provide the necessary guarantees to cover duty suspended under duty relief,” said
freight forwarder Horizon International. “It will be interesting to see if a new industry steps into the gap to offer them a cost-effective solution, such as a bolt-on bureau facility with standard processes that dovetail into the AEO criteria.”

Long run-up

In the early days of the then European Economic Community, when it was a simple trading bloc, a Customs union was established to allow free internal movement of goods without border formalities. The UCC began life some 10 years ago as the Modernised Customs Code (MCC) but had to be re-drafted in the wake of the Lisbon Treaty about three years ago, according to Robert Windsor, BIFA’s policy & compliance manager.

Despite its long gestation, EU member states will not be ready to implement the UCC in its entirety from next May. Transitional regulations will apply, recognizing that most operators will need time to adapt and allowing Customs authorities to upgrade their IT systems. Under the UCC, all communication must be electronic. According to Christophe Eggers, Manager of Supply Chain Compliance and Facilitation at La Poste, Douane Française (French Customs) is operating with outdated technology and would be unable to cope if all French importers and exporters immediately started submitting electronic declarations.

“Some areas have been agreed only recently, and only high-level principles are yet defined,”

The UCC changes in detail

The UCC framework regulation (EC Regulation 952/2013) will take effect from 1 May 2016, with a transitional period for current Authorized Economic Operators (AEOs) until 1 May 2019.

AEOs can request a reduction in duty deferment guarantee for Customs duties and are also entitled to request a waiver of the potential debt guarantees, covering Customs duty and if applicable import VAT, if they hold Customs authorizations/approvals, for example Customs warehouse, inward processing and temporary storage.

In guidance to customers, UK-headquartered forwarder Horizon International Cargo said the businesses most impacted by the UCC will be those:

- Operating Customs duty relief schemes or Customs warehousing;
- Paying royalties on the use of trademarks or intellectual property;
- Using a First Sale arrangement to utilize an earlier invoice in the supply chain for Customs valuation purposes;
- Operating Temporary Storage facilities and making use of transit arrangements;
- Making significant numbers of Customs import declarations;
- Operating in more than one EU member state;
- Holding Binding Tariff Information (BTI) classification rulings;
- AEOs or businesses currently authorized for Customs Freight Simplified Procedures (CFSP).

Customs Duty Relief Schemes will be replaced by four special procedures: Processing (incorporating current Inward Processing Relief Suspension, Processing under Customs Control, and Outward Processing reliefs but with changes); Use (Temporary Import Relief, End-Use); Storage (Customs Warehousing & Free Zones); and Transit.

Companies wishing to operate these reliefs will either have to obtain AEO Customs authorization or demonstrate AEO-level standards of process documentation, checks and controls, and clear processes to determine Customs elements such as classification, origin, and valuation.

Businesses will have to provide guarantees for the Customs duties on goods held within these relief procedures.

Sales in warehouse will be permitted for those businesses making internet or catalogue sales, but Horizon warned that the removal of Type D Warehousing (which allowed the Customs value to be fixed on entry to the warehouse) and First Sale Provisions could incur additional Customs costs.

First Sale Customs planning allows businesses to use an earlier sale in the supply chain for the basis of the Customs value and so exclude subsequent mark-ups from a charge for Customs duty, providing certain conditions are met.

“This option has been omitted from the UCC, so Customs values will now be based on the last sale taking place before entry of goods to the EU. “It may be possible to mitigate some of First Sales impact through timing of sales and the supply chain,” Horizon said.

“We understand that transitional measures will extend the benefit of First Sale until the end of 2018 if contracts are in place with those suppliers before the implementing regulations are published.”

AEOs do not automatically qualify for the necessary authorizations but in most cases AEO status will make authorization easier. And two key UCC measures could see AEOs cut their costs.

Under new self-assessment rules, they can submit a monthly schedule of imports rather than making Customs declarations for each import, while centralized Customs clearance will permit declarations to be submitted for all EU member states from a single location.

“Centralizing Customs clearance allows businesses to concentrate and build up skills and standardized procedures, and master data such as commodity codes, origin data, and valuation adjustments,” Horizon commented.
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Air Cargo Professional Development Workshops

The air cargo logistics supply chain market is changing rapidly, and the next five years will see fundamental changes in the way business is done. E-commerce and the effects it will have on the supply chain must be understood to prepare for this new landscape.

TIACA Professional Development courses are the only workshops that bring together all latest developments with participants from the whole air logistics chain.

Learn from industry experts and have the chance to discuss issues and things that matter to you in your workplace with our special sessions with leading professionals who will answer all of your questions.

2016 Planned Schedule of Workshops

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“I can go on and on about the value of the things I learned throughout the few days, but will keep it short. It made me understand that cargo is much larger than just Hawaiian. It gave me a better understanding of how the world does cargo as a whole. It opened my mind to think outside the box and look on many different levels. It gave me insight, passion, and drive to be a better operations leader and treat cargo as a core business. It helped my thought processes and drove intellectual and critical thinking to another level. As a younger leader in the cargo industry, this was an invaluable experience for me as I continue to pursue higher leadership positions. It tried my knowledge and understanding and most of all it humbled me.

I may never have the opportunity to participate in an event like that again and I’m grateful to you and Hawaiian for giving me that opportunity.”

Mahalo,
Ryan Nauahi | Manager,
Cargo Operations
Eggers said. “The implementing regulations will tell the trading community what it has to do, and how. This will feed back into the level of the upgrade that Customs needs. Until all elements of the code are finalized, coders and system developers cannot know precisely what they have to build in.”

Against this backdrop, HMRC is preparing to update its Customs Handling of Import & Export Freight (CHIEF) declarations system. Technical specifications for a replacement system, Customs Declaration Services (CDS), are now being written and will be communicated to the trade in February 2016.

An HMRC spokesman told TIACA Times that CHIEF is already equipped for all-electronic communication, and insisted the gap of more than two years between the UCC’s entry into force and CDS going live – currently set for October 2017 – will not be an issue.

Windsor said HMRC has already been consulting for around 20 months on the replacement for CHIEF, which suggests its approach is thorough if not as fast as traders may wish, given the little remaining time before the UCC enters into force.

“At EU level, new regimes such as centralized clearance and dual filing will require new IT systems to be developed,” he commented. But BIFA is more focused about the changes operators will have to make to their own ways of working.

“For SMEs, the most challenging aspect will probably be the financial need to provide guarantees for regimes that are currently operated. In addition, they will probably find their applications to operate a regime taking longer than for an AEO. They will be excluded from certain activities such as the ability to move goods in temporary storage on an intra-EU basis,” Windsor said.

“The UCC is front-end loaded. Much of the pain is in the earlier implementation stages while the benefits from more facilitative regimes will not be delivered until 2020,” he added.

Eggers said that even larger organizations will need some breathing space. “In La Poste we are not very far advanced and need time to adapt our own product specifications,” he admitted. “The fact that it will take Customs until 2018-2020 to make its own changes gives us extra time for our own implementation. If everything happened in 2016, business would stop.”

The UCC includes provisions for the submission of advance data on all shipments into the EU.

“The impact will be as big, if not bigger, in third countries,” Eggers said. “In traditional cargo it is an important change but not a revolution, because shipments already pass through a Customs process. In the postal system it is often just an offi cer looking at the slip accompanying the package. Now the data will have to be captured electronically.”

The Air Cargo Advance Screening (ACAS) program that the US is trialling, and the parallel PACT and PRECISE developments in Canada and the EU respectively, are relevant to all this, but are only one aspect of what the UCC aims to achieve, Eggers said.

“The UCC is also concerned with rates, duties, temporary imports and so on. Because of the work going on around this, the EC felt it could not wait for international agreement on advance data issues.”

Late changes
As with any new EC regulation, the UCC needs so-called Implementing and Delegating Acts (IAs and DAs) to formalize its entry into force. These Acts and their respective annexes are drafted following consultation between the directorate responsible for introducing the regulation – in this case DG TAXUD, the Taxation & Customs Union Directorate-General – and other interested parties.

BIFA has repeatedly expressed concern at the slow pace of progress in the EC’s Inter-Services Consultation on the IAs and DAs for the UCC, as DG TAXUD responded to changes demanded by the Commission’s budgetary controllers and its anti-fraud unit.

A spokesman for TIACA said: “The EC only recently drew up the DAs and IAs, so there has been limited time for Customs authorities in member states to define the technical specifications for upgrading their IT systems and test and implement the changes.”

He accepted that providing additional data, in most cases at an earlier stage in the shipping process, will be challenging for smaller forwarders especially as they look for the most ef cient ways of connecting their systems with customers and the authorities.

Much of the pain is in the earlier stages, while the benefits will not be delivered until 2020.

– Robert Windsor

Shippers may experience delays if the information they submit to their supply-chain partners is not complete and accurate.

– TIACA
IMPLEMENTING THE UCC
on 1 May 2016 and having IT systems at end 2020

Dr Susanne Aigner, currently Head of Unit Customs Legislation at DG TAXUD A2, outlines for TIACA members the objectives and progress of the Union Customs Code.

The Customs Union is one of the most successful examples of European integration and policy. It has served as a stable foundation for economic integration and growth in Europe for over four decades. Customs policy is an EU competence while the implementation of Customs legislation falls primarily on the member states, therefore it is paramount that the EU Customs administrations work consistently and coherently, without discrimination, regardless of the place where goods enter or leave the EU.

All 28 customs administrations must collect Customs duties correctly and apply consistently the Customs and trade policy rules. If not, the level playing field for importers and exporters in different member states will be at stake. Similarly any security/safety gaps are likely to be exploited by wrongdoers, thereby putting in question the integrity of the single market as well as security in the EU.

EU Customs handle 16% of world trade – over 2 billion tonnes of goods a year with a value of EUR3 400 billion. The Customs Union is the operational arm of much of the EU’s commercial policy measures. A growing range of government agencies expect Customs to enforce their policies at the border.

For many years, work has been ongoing on modernizing Customs legislation with effectiveness, simplification and trade facilitation as important principles. A clear message coming out of the public debate, including most recently in the aftermath of the Paris attacks, is the perceived lack of protection from some of the effects of globalization. The Union Customs Code (UCC) is crucial in this regard as it enables Customs to focus on continuing trade facilitation and the effective and efficient collection of duties as well as compliance with relevant rules for security, safety and intellectual property rights, and to pursue Customs modernization, improve Customs risk management and further improve cooperation between Customs authorities and other services.

The overall objective of the UCC package is to modernize and digitalize Customs operations to simplify the life of economic operators. The European Commission has consistently sought to decrease the administrative burden, while at the same time making sure that concerns related to security and the EU’s own resources are also taken into account, thereby creating an optimal and balanced solution.

One of the building blocks of the UCC is the full automation of Customs procedures. Therefore, some aspects of the UCC implementation require use of electronic data processing techniques and electronic systems throughout the EU. All stakeholders in this process – the Commission at the EU level, member states’ Customs administrations and economic operators – have to develop and deploy relevant electronic systems.

This might bring risks in terms of costs and ensuring necessary budgets, and it might generate duplication of efforts at national level as well as cause delays in the whole process.

The Commission therefore adopted in 2014 the UCC IT Work Programme, which will be regularly updated and is being used as a planning tool to govern all necessary steps at the EU and member states level in order to ensure full computerised implementation by 31 December 2020.

On 1 May 2016, the date from which the UCC will apply, not all electronic systems will be developed and operational. Therefore, transitional measures lay down how the UCC provisions that depend on IT systems will apply, as from 1 May 2016, and in the absence of the final IT system, for example by using existing systems.

The Delegated Regulation was adopted by the Commission on 17 December 2015 before being submitted to European Parliament and Council for scrutiny. Also, this Delegated Regulation needs to apply as from 1 May 2016, with a view to ensure uniform implementation, predictability, and legal certainty during the IT transition.

**Added value and objectives**

The UCC aims at greater legal certainty for businesses as well as increased clarity for Customs officials throughout the Union. The UCC also seeks to streamline and simplify Customs rules and procedures, further

*The overall objective of the UCC package is to modernize and digitalize Customs operations to simplify the life of economic operators.*
harmonize decision-making procedures and lead to more efficient Customs transactions.

The UCC package introduces and aims to ensure:

a) Full automation of all procedures and processes; paperless environment and reduction of administrative burden through the reduction of reporting formalities due to the automated exchange and storage of electronic data;

b) Taking into account the evolution of policies, and legislation in other fields that impact Customs such as safety and security in the transport field;

c) Streamlined Customs business processes based upon more clarity and coherence in the Customs legislation; procedures are streamlined to make it easy for the economic operator to choose the right procedure, to avoid errors, and to reduce the number of post release recoveries and repayments. The rules governing authorizations are harmonized and concise, instead of being different for each application;

d) The upgrading of the concept of ‘authorized economic operators’ (AEOs) which becomes a key concept that provides the significant advantage of widespread use of simplifications and, taking account of security and safety aspects, allows AEOs to benefit from reduced levels of Customs controls and advantages above and beyond the simplified procedures already in place, such as the concept of centralized clearance, deferment of the date of the submission of a complete declaration and required documents, periodic declaration, and deferred payment. The use of existing simplifications is also linked to the fulfilment of the AEO related criteria;

e) Further simplifications of Customs clearance processes through entry into the declarant’s accounting records; Centralized Clearance which builds upon the current concept of ‘Single Authorizations (SASP)’ to allow clearance of goods at the place where the economic operator is established if the goods are at another place within the Union territory; ‘Self-Assessment' in order to enable reliable economic operators to carry out certain controls and reporting requirements on behalf of Customs;

f) The necessary follow-up on horizontal EU policies like the Digital Agenda and also initiatives to promote small and medium-sized enterprises (SMEs), which are among other initiatives seen as major tools to generate employment and economic development and competitiveness;

g) The full alignment of EU Customs rules to global standards as well as other international and global developments, including in the EU major trading partners, which will facilitate and streamline trade, thus increasing export opportunities for EU economic operators.

Outlook

The Commission and member states will need to continue to work together intensively to ensure a proper implementation of the rules. The impact of the new legislation will be monitored and frequently discussed with the member states and the business community.

Moreover the work on amending existing and on producing new sectorial guidelines will continue, in cooperation with member states and economic operators for a better understanding and for a uniform application of rules across the EU.

The Commission is also continuing its dialogue with trade representatives in order to ensure that the UCC Package is facilitating trade and ensuring a level playing field. The Commission will also continue its outreach activities in order to promote the Customs Union and its Customs legislation, among others through the sharing of UCC-related Information & Training tools (eg e-learning), and communication activities to support the application of the Union Customs legislation.

This article reflects only the opinion of the author and does not represent the official Commission views.
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TIACA’s diverse constituency presents a unique opportunity for success both in critical issue advocacy and networking, while showcasing Boeing’s air cargo industry leadership and complete freighter product offering.” - James Edgar, Boeing

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Visit www.tiaca.org for details
How the Internet of Things will benefit the supply chain

The Internet of Things (IoT) presents unprecedented opportunities to digitally enable the supply chain, and to create solutions that combine digital and physical products and services, writes Noha Tohamy.

How many times have you been late for a meeting only to find that the elevator is “out of service”, meaning you had to take the stairs? The good news is that companies can leverage the Internet of Things (IoT) to make this a problem of the past.

Embedded sensor technologies can be used to allow for bi-directional, remote communication with over 1 million elevators worldwide. Based on captured data, technicians can run diagnostics and remotely initiate repair options or guide on-site technicians to make the appropriate decisions, resulting in increased machine uptime and improved customer service.

Unlike previous generations of passive sensors, the IoT will allow a supply chain to control the external environment and execute decisions. With the IoT, sensor-embedded factory equipment not only can communicate data about parameters such as the temperature and utilization of the machine, but also can change equipment settings and process workflow to optimize performance.

We have outlined five rules CSCOs must follow for success:

**Pursue the IoT at any demand-driven value network (DDVN) maturity level.**
An organization’s ability to benefit from the IoT is not predicated on higher maturity levels. However, the magnitude of those benefits will be impacted by those levels.

Take, for example, a consumer products manufacturer who plans to implement telematics to allow the organization to capture information on the location and conditions of its transportation equipment. While a functionally siloed company (stage 2) would be able to apply the IoT use case to capture efficiency and cost reduction improvement, a company with an integrated supply chain (stage 3) would benefit from the same technology to further improve overall supply chain performance, and to become demand-driven.

**Leverage the IoT to improve existing supply chain processes.**
As well as being a driver for business and supply chain transformation, IoT can also drive incremental benefits to existing supply chain processes spanning asset utilization, warehouse space optimization, and production planning.

**Consider the potential for IoT to fully redesign the existing supply chain process.**
The proliferation of the adoption of IoT will drive the need for the redesign of many existing supply chain processes.

For example, an industrial equipment manufacturer that has redefined its customers’ value proposition from selling pure physical products to offering a complete solution that spans physical products, embedded software and combined services. In this business model, a supply chain process like sales and operations planning must now account for the customers’ demand for the complete solution.

**Assess the potential for offering IoT-enabled information products to internal and external clients.**
With the IoT, the supply chain will have unprecedented access to data valued by internal and external stakeholders. This presents an opportunity for supply chain groups to co-develop new information-based solutions for individual customers or markets.

For example, an agricultural equipment manufacturer can capture data from sensors on agricultural equipment to understand how farmers are using different product features. This information can be shared with the R&D groups to develop products that best meet customers’ needs.

**Build strong supply chain technology leadership to support the convergence of the digital and physical supply chains.**
Infusion of IoT in the supply chain will create new challenges and demands on the supply chain organization who will likely be tasked with delivering, sourcing and maintaining technology-enabled products and solutions.

This presents a great opportunity for the supply chain to play a critical leadership role in defining the overall digital business strategy. To do that, the supply chain organization must acquire senior technology skill-sets and leadership with company-wide credibility to define strategic technology direction. These skill-sets must go far beyond those with the traditional focus on providing tactical support to supply chain functions.

Gartner clients can read more about this in the report ‘Five Things CSCOs Need to Know About the Internet of Things’. This is part of the Gartner Special Report ‘The Internet of Things Enables Digital Business’, a research collection focused on how the Internet of Things will create new opportunities and challenges for enterprises.

Disruptive technologies and innovation are themes at the Air Cargo Forum in Paris next October. Visit our website to see the full agenda.

Noha Tohamy, VP Distinguished Analyst at Gartner, advises companies on adopting supply chain analytics to improve supply chain processes. This includes working with companies to create a supply chain analytics strategy and build a complete portfolio of supply chain analytics capabilities and approaches. She analyzes the organizational structure and the required competency for successful deployment of supply chain analytics. Additionally, she researches companies’ technology needs and the available supply chain analytics solutions. In her 22-year career in the supply chain, she has guided hundreds of companies through building the business case for continuous improvement initiatives. More at [www.gartner.com](http://www.gartner.com)
PROVIDING A PLATFORM

to bring the industry together

Ariaen Zimmerman is the new Executive Director of Cargo 2000, an industry membership group supported by IATA leading the drive towards enhanced quality for air cargo.

Tell us about your first six months at the helm of Cargo 2000.

There are so many positives. The eagerness of the Board to get things done, the level of expertise of my IATA colleagues and the team I work with. The flipside is we are sometimes too focused on the past and we still face cynicism from some. There are challenges to getting a consensus with an organization as big as ours – I am enjoying the challenge.

What first got you interested in the air cargo business?

A former study mate of mine working at Polar Air Cargo approached me and I thought it was interesting straight away. The industry as a whole makes sense. There is a clear cost benefit to the world, we make the world smaller, we facilitate international welfare and economic development. I like the pace and the international interaction. At IATA, there are around 17 different nationalities in the cargo department in Geneva. You learn a lot about yourself when interacting with different cultures. I left the industry for a bit after Polar and I missed the international engagement.

You have worked as a consultant and lecturer focusing on change management – how does that help in your new role?

In any change process, people appear to be reluctant, but I am not sure that they really are. People have vested interests, if you talk about change, they are not always convinced, they resist. But quite often that resistance stems from a lack of clarity. In the heart of every cynic there is a disappointed idealist. You have to ask people to change and try again even if they have tried and failed before. One of the most important lessons I have learned is you cannot do anything without other people. Most people fail because they do not have the right team. We do have the right team and we will make it work.

What are the industry’s biggest challenges?

I think the biggest challenges are lack of margin; a fragmented market and the dawning of big changes with the rise of new technologies such as e-commerce and advanced routing models based on thorough piece level tracking and control.

The next challenge is being best at what we do, as well as being ready to change. We have to get people on board to improve processes and embrace change. We are fighting over the same pie and are not always good at working together and turning that into something good.

There are huge opportunities on the horizon – if we have a more dynamic, flexible chain, new models can be introduced. Additionally, new technology is on the brink of making a big impact on our lives, and it will be easier to integrate that technology into every package that we have. These are opportunities that will open up a lot for us and we need to be on top of processes so that we can deal with the technological shifts.

What role can IATA and Cargo 2000 play in making the industry better?

IATA is one of the most successful trade organizations, without it we would not have so many standards adopted by the industry.

Cargo 2000 is 20 years old and the industry has changed in that time. Every airline has some sort of process control and shipment track and trace now. We did not have e-Air Waybills, or the Cargo 2000 Data Management Platform, and we did not have the Master Operating Plan (MOP). What a lot of people perceive as normal now is because of Cargo 2000’s work. We are planning on playing an even bigger role. We provide the platform for people to get together and talk the same language. We can improve the industry by providing the standards and the platform on which change itself can be organized.

What have you got planned for Cargo 2000 for 2016?

What we want to do is to be faster about implementing our new procedures and be more vocal about what we achieve.

We have changed the way we measure our members’ performance to look at how the shipment was processed from origin to destination, looking at every single step, not just to know whether it passed or failed. The end game is to improve shipment process quality.

We need to have more data on what process elements go right and wrong. If we measure every step and we are confronted with holes in the shipment’s path, we can still fill that hole.

What will the industry look like in 20 years’ time?

We are on the brink of new technology that will change the way we do business. There are so many things changing, we will see people that will want to buy things produced in China last week, ordering it today to be delivered tomorrow. I think this change is very exciting.
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