

Airfreight – A Facilitator for Trade in Goods and Services

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Presentation Topics

- **MASkargo - Introduction**
- Airfreight Forecast
- The Malaysian Economy and How Malaysia benefited from Airfreight
- ASEAN Open Skies Policy
- Malaysia as a Logistic Gateway to ASEAN
- Challenges in the Industry

MASkargo

Keeps Business Moving



MASkargo

Our Business

- MASkargo is the cargo arm of Malaysia Airlines (MAS), providing air freight services utilizing the belly space of the passenger aircraft and dedicated freighters.
- Primary activities include sales and marketing of cargo space on both Malaysia Airlines passenger flights and MASkargo freighters.
- MASkargo is also the ground handler for all airports in Malaysia. - Handling of normal cargo, express cargo, perishables, live animals, transshipment of cargo for Malaysia Airlines and other Customer Airlines, Charter services, i-Port services (sea-air link) and Truck Flight services of trucking palletized cargo from various points for connection on board MASkargo aircraft at KLIA.

Our Fleet



2 Boeing 747-400F

4 Boeing 747-200F

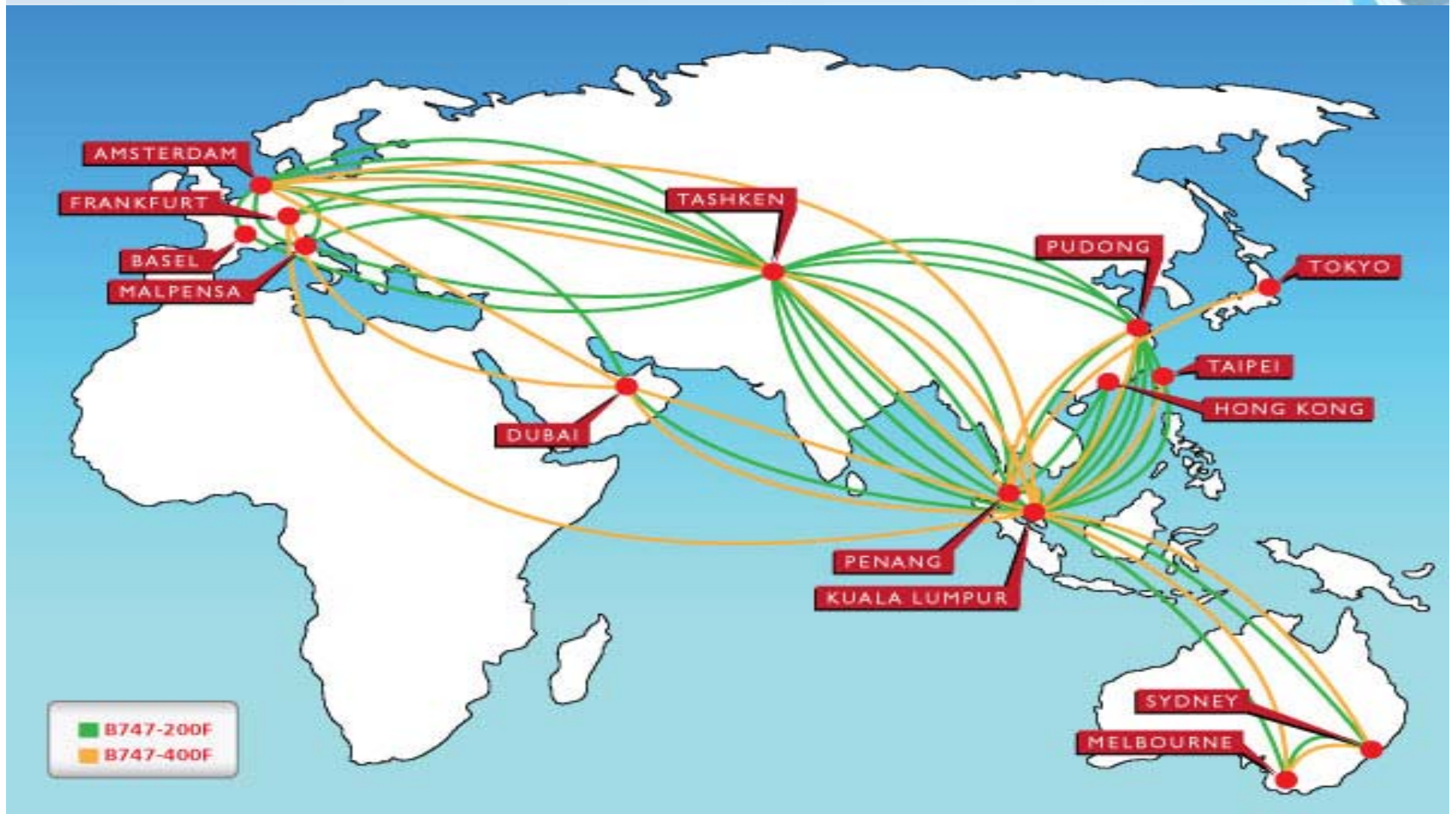
1 Airbus 300-600F

We serve 22
freighter stations



MASkargo Global Network

- Covers 100 destinations and 6 continents



Our Products and Services

A. PRODUCTS

- i. Priority Business Centre Programme
- ii. i-secure Programme
- iii. 6-star Animal Hotel
- iv. Charter Business
- v. i-Port (Transshipment)



B. SERVICES

- i. Express Handling
- ii. Security Handling
- iii. Ground Handling



MASkargo Operations

 **World class facilities and standards**

 **Expansion of KLIA ACC from 650K tons to 750K tons per annum**

 **ISO 14001, 9001 and OSHA certification**

 **Transshipment incentive program**

 **Priority Business Centre Key Agents program**



Presentation Topics

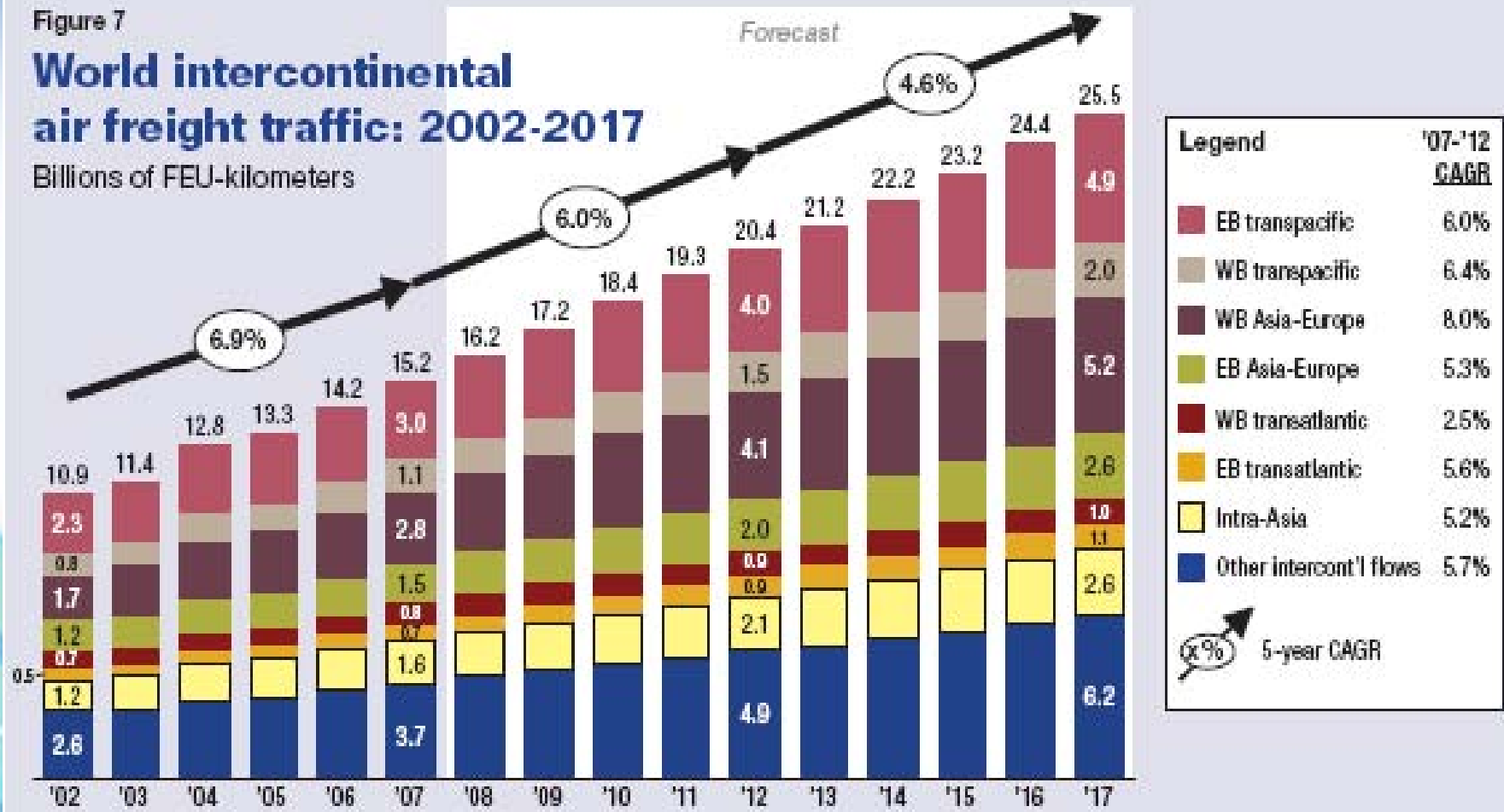
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Airfreight traffic will continue to grow

Figure 7

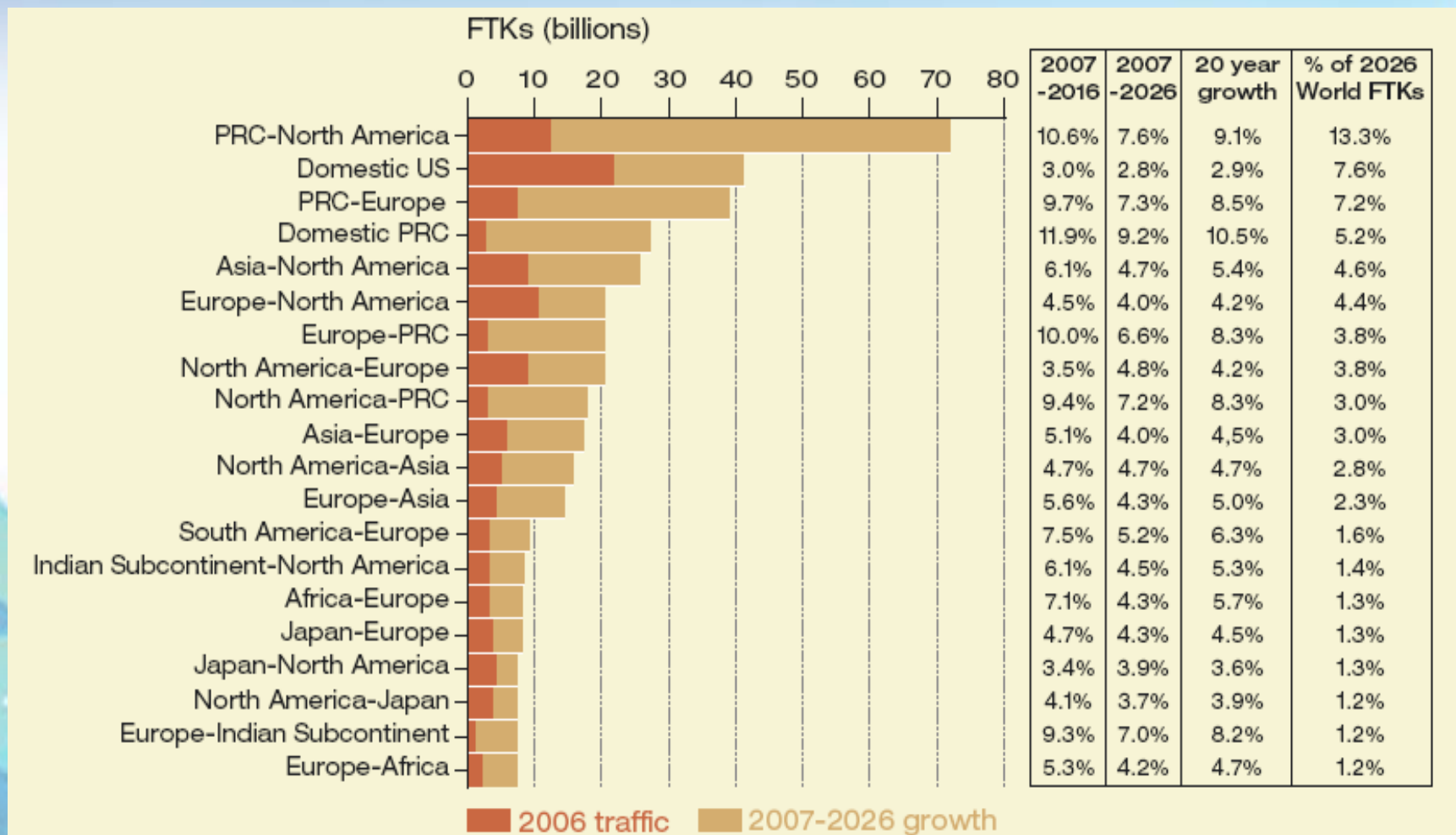
World intercontinental air freight traffic: 2002-2017

Billions of FEU-kilometers



Source: MergeGlobal Supply and Demand Flow

Global Freight Forecast by Routes



Source : AIRBUS

AIRFREIGHT SHARE IN 2011 : A Forecast



Source: IATA Economic Briefing October 2007

INDUSTRY OUTLOOK

- Air Cargo Traffic is expected to grow @ 5.3 % per year, through 2012
- Express or Time definite Cargo continues product leadership @ 8%, followed by airfreight @5.1 % and mail @ 2.3%
- Intra-Asia region leads regional growth followed by China to North America and Europe.

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Malaysian Key Economic Indicators

Malaysia Key Economic Indicators		
	2006	2007 ^f
Population	26.64 million	27.17 million
GDP	RM277.26 billion (US\$79.8 billion)	RM293.99 billion (US\$84.6 billion)
GDP Growth	5.80%	6.00%
Per capita income	RM19,739 (US\$5681)	RM21,168 (US\$6092)
Inflation rate	3.90%	-
Labour force	11.5 million	11.7 million
Unemployment	3.50%	3.50%
Total export	RM599.96 billion (US\$172.67 billion)	RM653.85 billion (US\$188.17 billion)
Total import	RM488.23 billion (US\$140.51 billion)	RM536.84 billion (US\$154.49 billion)
Major exports	Manufactured goods (electrical and electronic products, chemical and chemical products, machinery, appliances and parts, wood products, manufactures of metal as well as optical and scientific equipment)	
Major imports	Intermediate goods (thermionic valves and tubes, primary and processed industrial supplies, parts and accessories of capital goods, primary and processed fuel lubricants, and parts and accessories for transport equipment).	

f - forecast

Sources:

1. "Economic Report 2006/2007" published by the Ministry of Finance, Malaysia
2. Malaysia: Performance of the Manufacturing and Services Sectors 2006

How has Malaysia benefited from the growth in Airfreight

- Airfreight has played an integral role in developing the Malaysian economy
- Malaysia has today become an export-driven economy spurred on by high technology, knowledge-based and capital-intensive industries.

- Malaysia GDP 2008
 - 5.5% in First Quarter

Malaysia GDP 2007

- 7.3% in Fourth Quarter
- 6.6% in Third Quarter

Malaysia - Airports



Legend:

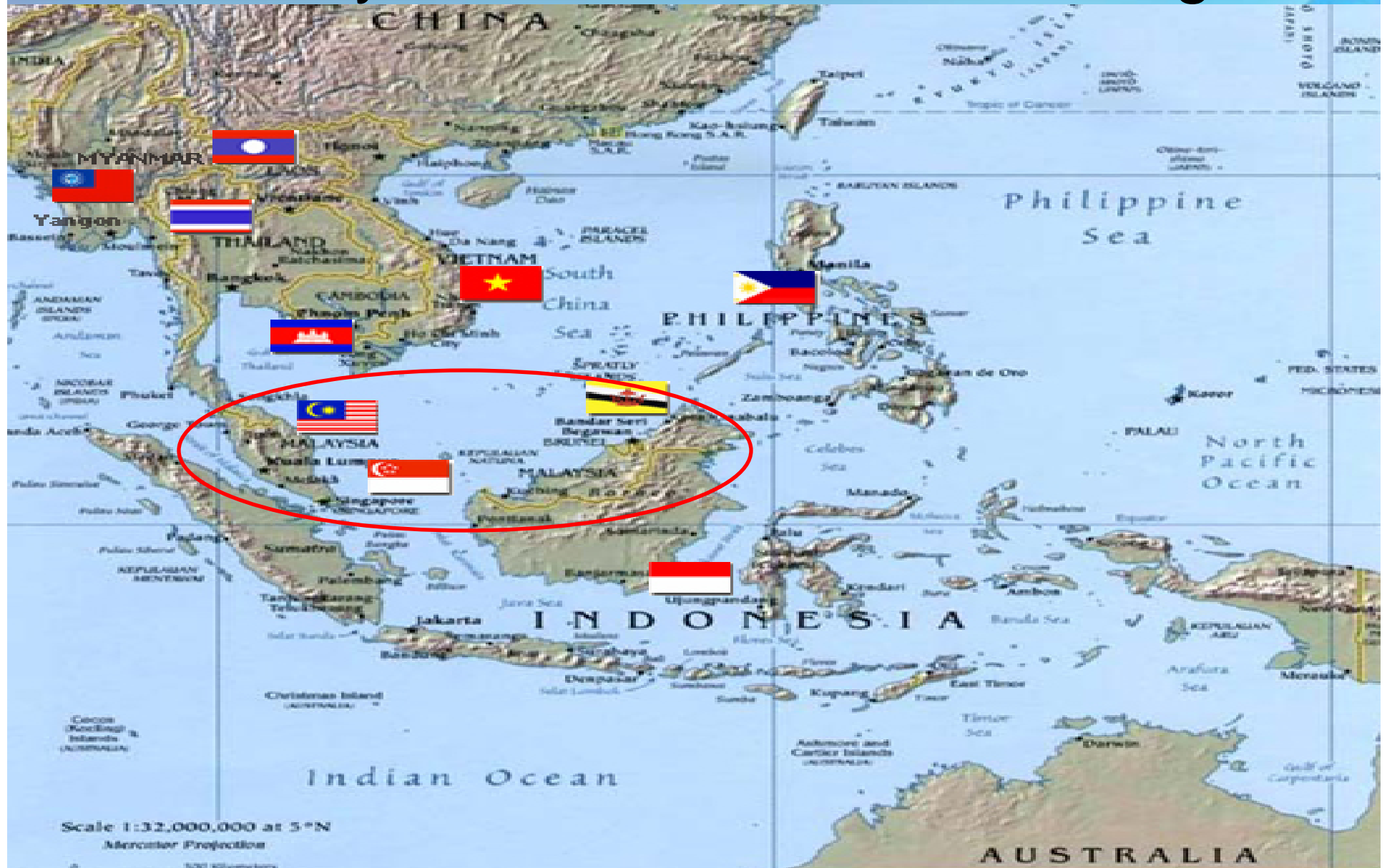
- International Airport
- Domestic Airport

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MALAYSIA

Centrally located in the ASEAN Region



ASEAN Open Skies Policy 2008 will further enhance air traffic

What is it?

- ASEAN Open Skies policy, unlimited air access between ASEAN capital cities will be allowed by end-2008.
- The liberalisation measures will cover the movement/carriage of both passengers and cargo by air transport

Benefits

- Lower rates
- Market penetration
- Boost travel and hospitality
- create new businesses
 - increased travel and trade, productivity, high-quality job opportunities and economic growth

ASEAN Single Window Initiatives

- Definition
- Customs initiative to ensure faster clearance of goods and services
- A single submission
- A single coordinated consultation and decision making
- A single processing of data and information

ASEAN Single Window Initiatives

Objectives

- To expedite and simplify information flow between government and trade and bring meaningful gain to all parties involved in international trade
- To established the viable, simplified, standardized and integrated environment for cargo clearance in line with international best practice
- To reduce cargo clearance time and resources

ASEAN Single Window Initiatives

Benefits

- More effective and efficient deployment of resources
- Improved trade compliance
- Enhanced security
- Increased integrity and transparency
- Reduced costs decreased delays

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Malaysia as a Logistics Gateway

- Strategic location and presence of base cargo
- High level of connectivity and frequency to major destinations
- Supportive air services agreements and liberal aviation policies
- High level of hub and spoke connectivity for express cargo
- Good facilities for intermodal transfers, sea-land/sea-air
- Lower operating cost
- No restriction on operation of airport at night
- Efficiency in clearance of shipments by Customs Department



“AN AIRPORT WITHIN A SEAPORT CONCEPT”

- World's First
- Paper-less (ZB1, ZB2, Bank Guarantee Removed)
- Multi Modal
- Cheaper (about 30% less compared to pure air shipments)
- Single Price Program including trucking
- Fully endorsed by The Royal Customs of Malaysia
- New opportunity for growth
- Covering East Malaysia, Indonesia, Myanmar, Southern Thailand and the Indian Sub Continent regions
- Door to Door Services in collaboration with the Forwarders (Including remote places)

Singapore-Kunming Rail Link



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- **Challenges in the Industry**

2008 is the most challenging time for the airline industry

1 Fuel prices

- Many airlines losing money/see lower profits
- 25 airlines have gone bankrupt
- Fuel prices continue to be volatile due to geopolitical risks

2 Overcapacity

- A lot of aircraft coming into Asia Pacific

3 Global economic uncertainties

- Inflation eating into disposable income → Weaker demand for discretionary travel
- Lower global air traffic
- Globally, airlines have recorded dips in passenger loads and freight

Soaring F*** Price

Impact on airlines profitability so far in 1H2008

Source : Bloomberg # : Jan08 – Mar 08

* : Oct07 – Mar 08



Fuel prices have recently retreated, but still higher than 1Q08



*SinJet prices, source: Bloomberg

2Q08 Fuel Analysis – Surge in price partially offset by hedging and FX gains

RM mil

1,109

2Q07

+808

**Fuel price
increased from
USD85/bbl to
USD150/bbl

Price

Savings of
RM185 mil

Hedging & Forex

1,732

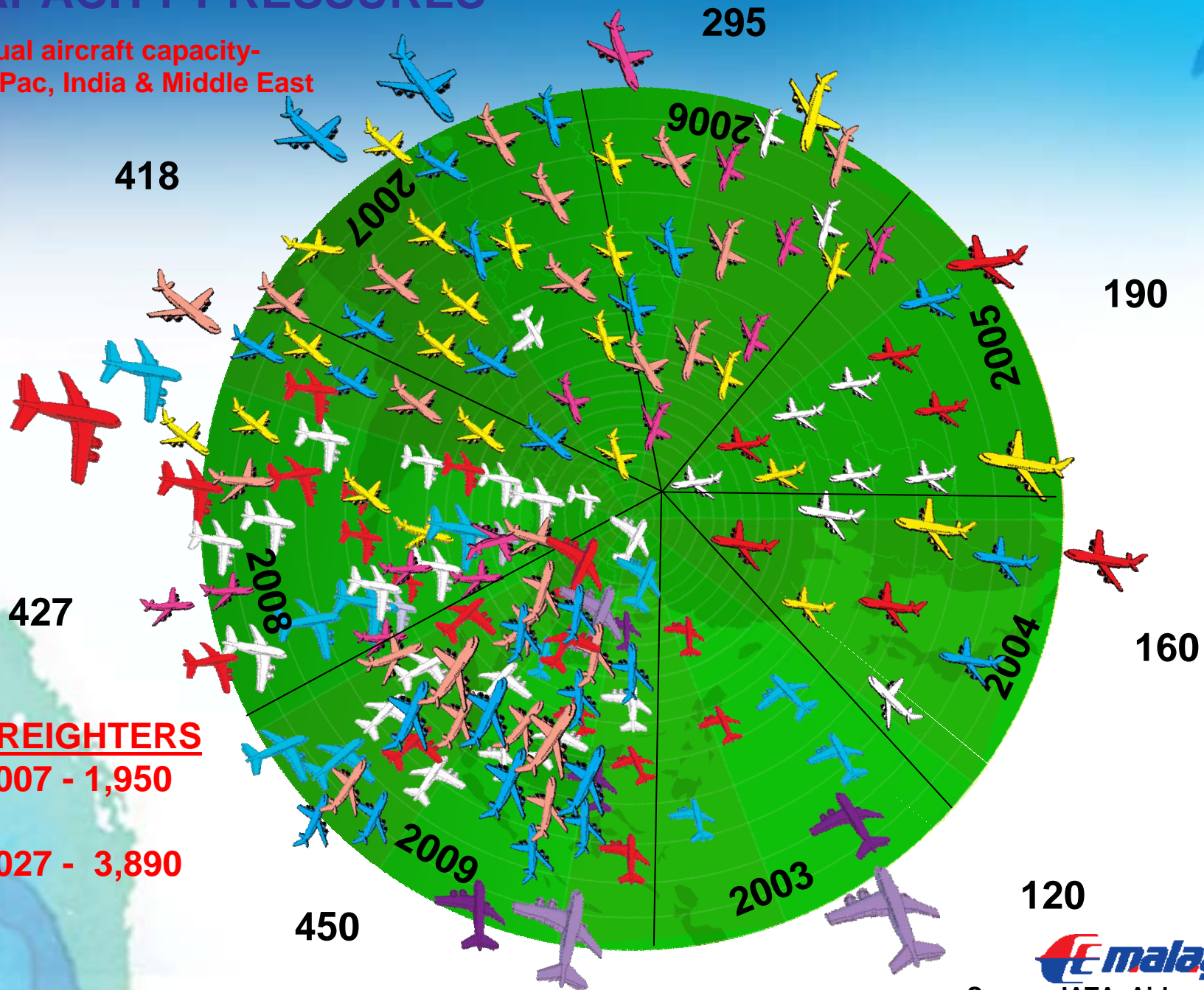
2Q08

Knowledge Sharing - Improving Fuel Economy

- **Aircraft and engine type**
- **Schedule flexibility**
- **Effective network**
- **Fuel policy, flight planning and operations.**
- **Serving the same Markets with a reduce cost**
- **Relationship with local government agencies**

CAPACITY PRESSURES

Annual aircraft capacity-
AsiaPac, India & Middle East



FREIGHTERS

2007 - 1,950

2027 - 3,890



Source: IATA, Airbus & Boeing

IATA - Economic slowdown

- IATA international traffic data shows year-on-year international passenger and cargo demand growth softening due to the weaker global economies and credit crunch.
- Airfreight demand has reduced from 4.8% to 4.3%. However negative growth since July. Asia Pacific carriers – 6.5% drop in demand
- IATA forecast loss of US\$5.2billion for the industry in 2008 (at consensus oil price of US\$113/bbl crude). This is \$40 per barrel more than the \$73 per barrel average for 2007.

Source : Orient Aviation Oct08

Nature of Airfreight Business

- Directional and seasonal traffic
- Highly competitive market resulting in thin margins due to falling yield
- Market protection at certain countries
- Escalating variable cost especially fuel

To stay in business cost reduction and cost control is a MUST

Effect of high fuel prices and declining yields

- Airlines have reduced the short sectors to narrow-body airplanes limiting the market reach.
- Cargo carriers will have to look at their freighter fleet composition
 - Right capacity to the right markets
- Effective network based on seasonal trends.
- Fuel policy, flight planning and operations.
- Encourage open skies policy
- Collaborate with other airlines in terms of capacity sharing and SPA's
- Invest in IT to manage the business complexity

Choosing the right Aircraft and Engine Type

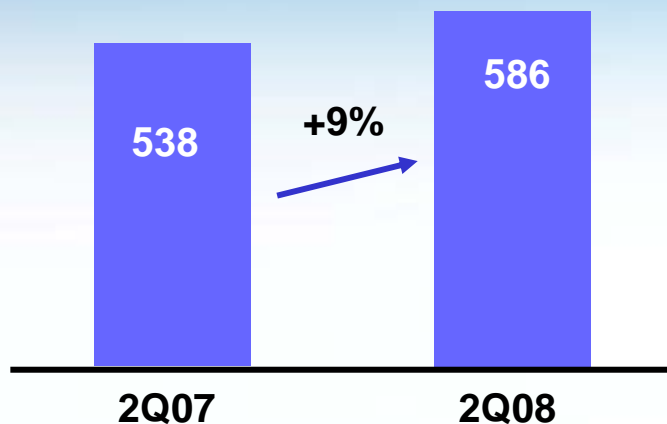
- In early 2007, when fuel price was hovering around USD1.80 per USG, the ratio of aircraft and fuel cost is around 50:50.
As the fuel price escalated to USD4.00 per USG, this ratio changed to 25:75 for older generation aircraft, and 40:60 for newer generation aircraft.

Getting the right equipment for a mission has a strong bearing on the total variable cost especially with the volatile fuel price. Review of the cost need to be continuously looked.

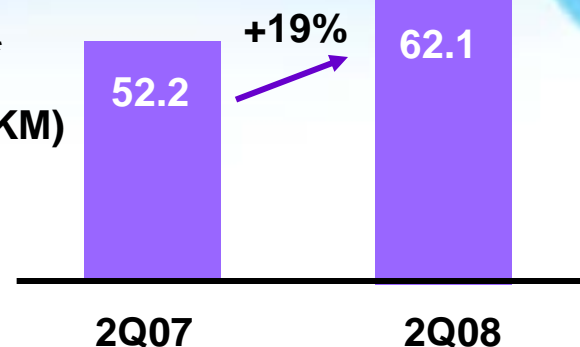
- Especially for the older aircraft, choosing the right engine for same aircraft type will have large cost differential due to large variation in performance level after years of usage, upgrading or modification status of the engines. The difference can be up to more than USD 1000 per hour of operation. Example, the B747 freighters come with 3 different engine types and normally the performance deterioration of the engines varies considerably.

2Q08 Cargo: Stronger performance from MASkargo

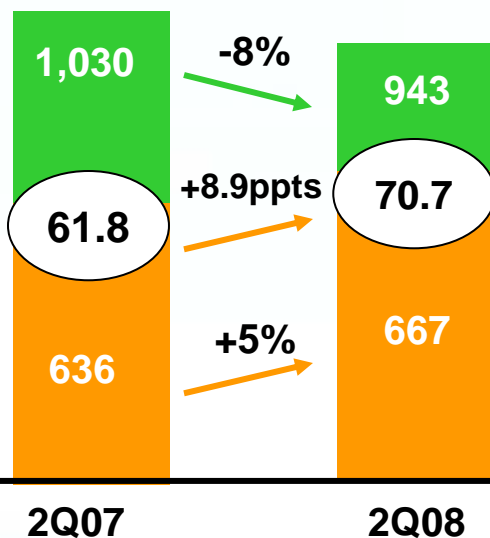
Cargo
Revenue*
(RM mil)



RCTKM*
(sen/CTKM)



Capacity CTKM
(Mil km)



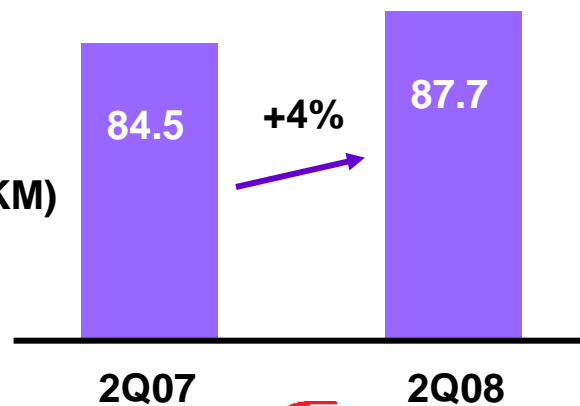
Cargo Load
Factor (%)



Filled LTKM
(Mil km)



Yield*
(sen/LTKM)



* Include (cargo) fuel surcharge



Q & A

Terima Kasih