

## Seeking U.S. Domestic Bliss

The accelerating decline in domestic air cargo shipping in 2008 is hardly a revelation to U.S. airports.

While broad industry figures show top-flight air services have been in a slide as jet fuel costs have added to the price premium for expedited shipping, the impact has been especially stark at many of the nation's airports. This has prompted a number of players to look for new ways to adjust to what many believe are fundamental changes in domestic shipping strategies.

Those shifting strategies raise new questions of whether airports can attract new international cargo business or whether facilities aimed almost entirely at air transport can lure the trucking business, which is said to be siphoning expedited traffic away from airlines.

"With costs rising the way they are, supply chain managers are simply doing a better job of coordinating their shipping, going from next-day to two-day, and still looking for the time-definite, premium quality service," said Andrew Clarke, president and CEO of Panther Expedited Services, a Seville, Ohio-based trucker.

The result has been evident at the back corners of the country's airports, well out of sight of the security lines at passenger terminals, where fewer domestic cargo shipments are showing up.

Miami International Airport's domestic freight tonnage fell 17.6% in July and was down 24.8% in the January-July period.

Seattle-Tacoma International Airport saw its domestic freight tonnage fall 8% in the first seven months of this year.

Domestic tonnage at New York's Kennedy International Airport was down 5.8% in the first half 2008, including 13.3% in June.

The declines come as financially troubled U.S. airlines-scrambling to refocus their operations in the face of soaring fuel costs-scale back domestic capacity either by dropping flights or by putting smaller aircraft on many routes.

"Domestic operations are getting cut 14 to 16 percent at hubs," said J. Michael Webber, an air cargo development consultant.

United Airlines is leading the latest round of cutbacks, slicing domestic capacity 16% this fall. American Airlines says its domestic operations would shrink 12% after the summer travel season, Delta Air Lines was slashing 13% of its flights, Continental was looking at a 10% decline and Northwest said domestic flights would fall around 8% in the fourth quarter.

Even Southwest Airlines, an icon of profitability and strong cargo service, will drop 200 flights starting Jan. 11. Adding in six to its seasonal winter schedule means a net 5.7% decline in Southwest flights in the first quarter.

Many of the U.S. carriers say they are expanding their international operations amid the domestic pullbacks. That may bring more cargo through major gateways such as Chicago, New York and Atlanta, but secondary airports without those direct international flights likely won't see that freight because shipments on larger aircraft in international service can't easily interline with the smaller narrowbody planes on most domestic routes.

That means those shipments increasingly are likely to go on trucks. Forward Air suggested as much in July when it said it is seeing strong growth in business from airlines looking to get cargo to and from their main international hubs.

"The domestic piece of international air shipping is eroding," said Webber.

That leaves some airports looking for ways to make their facilities more attractive to trucks. After all, some mid-sized European airports count as much freight tonnage from trucking as they do from aircraft.

But experts say high airport costs and other geographic factors limit what airports can do to lure industrial trucking.

"Theoretically, it is possible (to locate an LTL terminal) at an airport, but the cost of doing business at an airport is so dramatically higher than it is away from an airport, it's unlikely," said Clarke. "Given the economics of LTL or truckload operations, it's hard for them to move into that ring that is even closer to the airport."

Webber says airports may be better served using the domestic downturn as a pause to look for ways to make facilities more efficient.

"In one sense, they have to look at this as an opportunity," said Webber. "Most of these airports haven't had a cargo master plan to speak of. It's a great time to apply some sort of order to one-airport cargo facilities. It's an opportunity to put yourself in a better position to handle cargo business when a recovery comes.

"You can apply some order to cargo facilities that at many airports were largely built ad hoc," he said.

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