

Security - August 2010

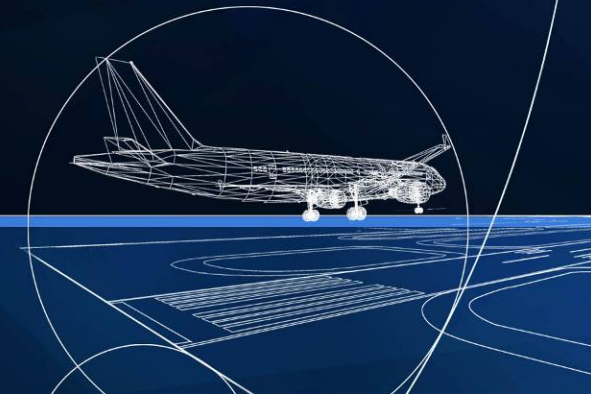
Some Things to Think About

The JFK Air Cargo Expo
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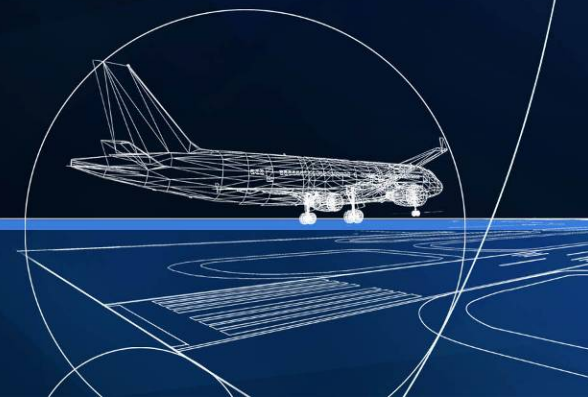
The Shippers Perspective

- Any shipper that relies on belly cargo for distribution of its products will be forced to reevaluate its distribution system to ensure that:
 - the additional cost of security screening does not put them at a pricing disadvantage compared to their competitors, and
 - the airlines serving the airport from which shipping takes place will maintain the frequency of flights necessary to sustain the shipping business.



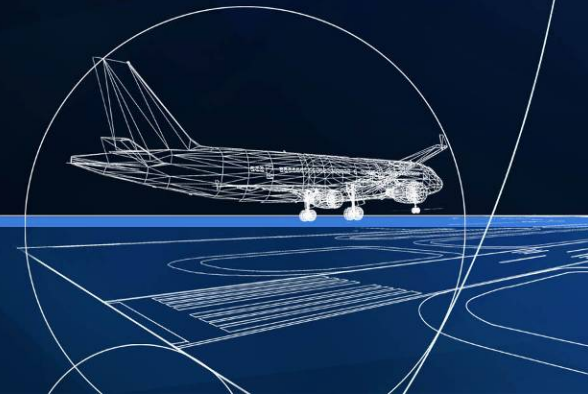
The Foreign Shipper

- A foreign company without a U.S. location can not be certified as a “known shipper”. This means that none of their freight can be booked as belly cargo
- An example - a supplier in Atlanta ships large numbers of baby chicks. If the containers are screened by proposed technology there are indications that the birds will not survive.
- At the same time there are questions as to whether or not the shipper, because of foreign ownership can be certified as known and handle the inspection internally.



The Forwarder Perspective

- If the shipper is not certified then the onus of pre-airport inspection will fall on the forwarder – as well as the cost. For larger forwarders with large facilities, this is challenging but not prohibitive.
- However many forwarders run very small operations in physically constrained facilities and may not have the room or the dollars for inspections.



Thoughts on Trucking

- If the shipper or forwarder fill the truck with freight to be carried to a single facility, there are no issues. If they are certified, freight is unloaded and moves into the warehouse for transfer to the aircraft.
- If they are not certified then the truck even if bound for only one cargo facility must deliver the freight for inspection there.
- If they have cargo for multiple airport facilities, then the truck must make multiple stops, and chain of custody becomes more an issue.
- Unloading a 53 foot trailer can take from 1.5 to 3.5 hours to off load and transfer to the carrier.
- We can hope there are no driver recalls.



The Common Inspection Facility

- If the facility is off airport the truck will be need to wait for inspection and repacking, and reload the truck at the exit to transport the freight to the carrier.
- The time, need to stage vehicles and the double handling cost of each piece of cargo could push many shippers to integrated carriers.
- Land requirements for the CIF will limit site selection. This argues for an on airport location with direct airside access.
- Truck scheduling could cause prioritization and scheduling conflicts.
- Since chain of custody applies per shipment, not truck, there may be control issues if shipments are inspected in a common use facility.
- At airports where the most viable option is a common facility, and there are no on-airport sites, the airport may lose the cargo traffic.
- There are no funding provisions for common inspection facilities.



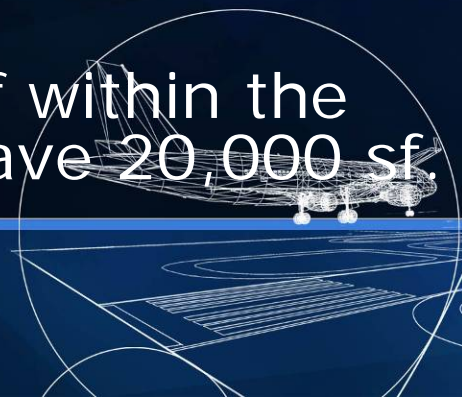
Other Things to Consider

- There are issues with the handling of extraordinary cargo such as frozen foods, particularly fish, as well as live animals and birds. Frozen fish are often shipped on passenger aircraft in unusually dense packaging and if it requires breakdown screening and re-packing, could present substantial problems to shippers and handlers.
- Foreign flag carriers may elect to forego inspection and not carry belly cargo to the U.S. This would reduce overall capacity and increase shipping rates in general.
 - Shipping to Canada and Mexico could become an option.
 - Another likely result is increased utilization of freighters.



The Warehouse

- Offloading a 53 foot tractor-trailer requires about 1,200 square feet to be laid out for inspection and inventory.
- An adjacent breakdown area could be 800 sf.
- Individual pieces will be moved to screening where redundant systems will require about 400 sf.
- After screening the cargo must be repackaged. Allowing for three separate repackaging teams and room for forklifts to operate, 1,200 square feet may be required.
- Potential screening alarms – 18% in Europe – will require a nearby hold area for “problem” cargo estimated at 400 sf.
- The operation may require 4,000 sf within the warehouse a problem if you only have 20,000 sf.



Costs

- TSA studies and cost models focused on large operations at large airports.
- Costs are calculated on a per piece and per pound basis.
- Equipment, staff, and facility are essentially fixed costs.
- The costs of inspection therefore are directly related to cargo volumes.
- **The impact on smaller operations is that the cost of inspection can exceed the cost of shipping.**

