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Fuel pressures begin to weigh down airline freight business

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The airline industry isn't just trying to stay aloft with its passengers. It is also battling to preserve the near $5 billion in revenues generated each year through the transport of goods such as electronics, fresh produce and pharmaceuticals.

Last year, the airline cargo business expanded by its smallest margin in three years, less than one percent, according to data from the Bureau of Transportation Statistics. In the first quarter of this year, revenue from cargo was down 1.4 percent over the year earlier period.

A dip in cargo traffic means a hit to "a huge source of additional revenue," said Robert P. Mark, chief executive officer of CommAvia Corp., an Evanston-based aviation-consulting firm. On average, cargo traffic represents 15 percent of total traffic revenue at passenger airlines.

Consumers, as a result, may face "sharply higher prices down the road, or fewer goods" if a serious downturn in airfreight occurs, according to Paul Page, editor-in-chief of Air Cargo World magazine.

Even before the cost of fuel set off on its historic climb this year, airlines found themselves struggling to maintain growth in the cargo sector. Following a 13 percent gain in revenue earned from cargo in 2004, the industry has seen growth in the sector steadily decline.

The slowdown comes as passenger traffic has begun to taper off at several U.S. airlines. In June, for instance, passenger traffic fell at several major carriers, including American Airlines, Continental Airlines, United Airlines, and U.S. Airways. It also comes as passenger airlines prepare to implement a federally mandated system for screening all cargo on passenger airlines by 2010, a system aviation experts predict could cost close to $4 billion over 10 years.

"It's kind of a double-whammy that's hitting the airlines right now," said **Brandon L. Fried, executive director of the Airforwarders Association**, a Washington, D.C.-based industry group.

For the most part, Fried said, carriers have been able to keep up with the rising cost of jet fuel, which has shot up approximately 70 percent over the past 12 months, by passing it along to the shipper.

Fuel surcharges are not the only obstacle facing businesses with freight needs. As airlines such as American, Continental, and United press ahead with capacity reductions, shippers will have fewer options for moving their goods through the air.

United Airlines recently announced plans to remove 100 planes from its fleet of 460 aircraft; planes that can carry a combined weight of approximately 1.8 million pounds of cargo. Northwest Airlines has reduced its cargo fleet and dropped cargo service to several important hubs in Asia, including Bangkok and Singapore.

John Antus, president of Antus Transportation Inc., an Elk Grove Village-based freight transporter, said he already sees rising fuel costs having an impact on his business.

“I’m down from last year by about 25 percent,” Antus said.

Antus, who primarily moves computer equipment and machine parts, said just two years ago half of the freight he transported went via airplane while the other half went by truck.

“Right now,” he said, “I move about 75 percent ground and 25 percent air.”

Mike Ellis, president of Bensenville-based EA Logistics Co., has also noticed similar shifts.

“We are seeing a movement away from air freight and toward trucking, and ocean freight for international transport,” Ellis said.

According to a 2006 report by the Boeing Company, from 1985 to 2005 air cargo grew at an annual rate of 6.4 percent compared to a rate of 4.8 percent for maritime traffic. From 1995 to 2005, however, maritime traffic expanded at an annual pace of 5.4 percent, versus a rate of 5.1 percent for air cargo.

During the past year, Ellis added, such movement has “really accelerated massively.”

Not all carriers are feeling the pain, however. Southwest Airlines Co., for instance, is expanding its services in an effort to capitalize on capacity reductions being implemented by its competitors. Delta Airlines Inc. is aiming to boost its cargo business to $600 million in revenue this year, up from $482 million in 2007.