

## AIRFREIGHT SUB-COMMITTEE

**Chairman:** ABLE FORCE FREIGHT LTD – Mr. Raymond Kan / Mr. Sammy Mak

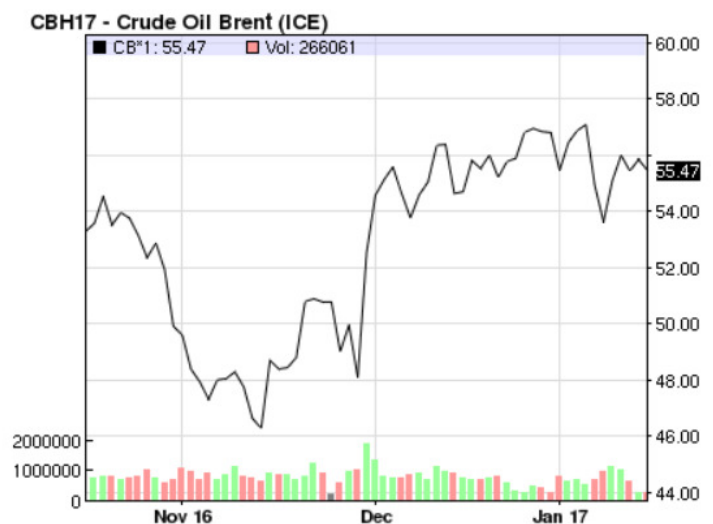
**Vice Chairman:** RHENUS LOGISTICS HONG KONG LTD – Mr. Edmond Wong

**Members:** A-SONIC LOGISTICS (H.K.) LTD  
CARGO FREIGHT SERVICES LTD  
DIMERCO AIR FORWARDERS (HK) LTD  
INFINITY CARGO EXPRESS LTD  
NAF GLOBAL LOGISTICS LTD  
RCS LOGISTICS LTD  
WORLDTRANS AIR-SEA SERVICE LTD  
AE EAGLE LOGISTICS HONG KONG LIMITED  
CTI LOGISTICS (HK) CO., LTD  
DHL GLOBAL FORWARDING (HONG KONG) LTD  
SEA-AIR LOGISTICS (HONG KONG) LTD  
THE JANEL GROUP OF HONG KONG LTD  
YUSEN LOGISTICS (HONG KONG) LTD

### I. Liaise with the Civil Aviation Department (CAD)

#### A. Cessation of Cargo Fuel Surcharge and its Mechanism

It has come to HAFFA's attention that negative impact on the freight forwarding and logistics industry has emerged since the cessation of cargo fuel surcharge (FSC) and its mechanism by the CAD from 01 April 2016. The HAFFA Executive Committee met CAD officials on 19 May 2016 to express our position of the need to maintain a fair, transparent and easy to understand cargo FSC Mechanism for the airfreight market in Hong Kong. The Association also reflected the difficulties and additional burdens encountered by Members that undermined Hong Kong's competitiveness after the cessation of cargo FSC and its mechanism.



Source: <http://www.nasdaq.com>

At the meeting, the CAD undertook to conduct a holistic study on the surcharge issue for both cargo and passenger. Subsequently, CAD commissioned a consultant to carry out the study which HAFFA was invited to participate in. The study was finalized in late-January 2017 and taking into consideration the interests of different stakeholders, CAD decided to establish a modified Cargo FSC mechanism with effect from 01 April 2017, until 31 December 2019. HAFFA believes that the mechanism can provide a transparent price adjustment based on the fuel index and the industry is given sufficient advance notice for necessary preparation.

However, to cope with the potential of high oil prices beyond 2019, when the current CFS mechanism is due to once again cease, HAFFA is concerned that a satisfactory replacement is established to take its place in advance. . Before a decision is made on whether fuel surcharges are to be de-regulated in the long run, HAFFA will continue to work with the Government on future consultations in order to seek satisfactory solutions to this complex issue.

### **B. Airline's Implementation of Airfreight Adjustment (AFA)**

On 18 July 2016, an airline announced to introduce a new charge called "Airfreight Adjustment" (AFA) with effect from 01 September 2016. The charge was a variable component to their airfreight for all contract and ad-hoc shipments out of Hong Kong. While HAFFA understood the need of the airline to address the volatility in the fuel price by introducing AFA, its nature was obviously a fuel surcharge and the Association received many concerns from Members. Thus HAFFA issued a letter on 28 July 2016 urging CAD to clarify whether or not the AFA was a fuel surcharge.



Besides, it was afraid that other airlines might follow suit and establish their own FSC mechanism that would create a more complicated environment causing serious market chaos and complicating the business operations such as communications with customers, preparation of shipping documents etc. HAFFA has therefore reiterated in the letter that there was an imperative need for the CAD to expedite the review and establish a cargo FSC mechanism for the cargo industry in Hong Kong so as to avoid confusion or chaos in the market.

As a Member's privilege, the HAFFA letter was uploaded onto the website under "Member Only" area [After login] <http://www.haffa.com.hk/portal/MemberOnly/PositionPapers.aspx>

Following our letter sent to CAD on 28 July 2016, in view of the seriousness and urgency of the issues, HAFFA conversed with senior officials of the Transport and Housing Bureau (THB) and CAD several times. The issue was also brought to the attention of Hon. Frankie Yick, Legislative Councilor. He discussed with the Chairman Mr. Cliff Sullivan and later sent a letter to Professor Anthony Cheung, Secretary for Transport & Housing on 11 August 2016 to reflect HAFFA's concern and urge the Bureau to resolve the issues.

Thanks to both THB and CAD for their efforts made to help the industry to resolve the burning issue behind, the concerned airline confirmed on 12 August 2016 to suspend the implementation of AFA until further notice.

### **C. Passenger Flight Cancellation due to the introduction of the new ATMS**

Airlines in Hong Kong were asked by the CAD to reduce their passenger flight schedules by 10% during the period of 30 October 2016 to 26 November 2016 due to the introduction of the new Air Traffic Management System (ATS). Although freighter schedule was not affected, given traditionally November is a peak season for cargo transport by air and belly load accounts for over 50% of total airfreight volume, the impact of passenger flight cancellation on air cargo industry could be very significant.

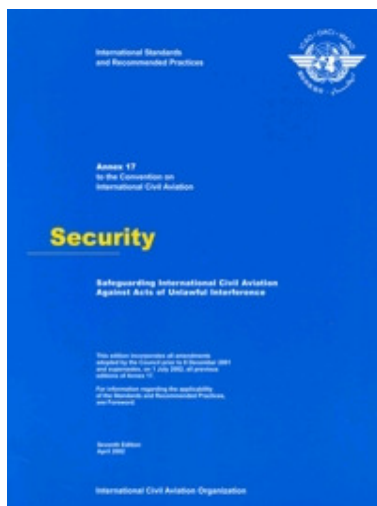


Source: Oriental Daily

HAFFA therefore requested for a high-level meeting with the Director-General of Civil Aviation, in which we brought out the concern that despite freight forwarding sector was one of the most affected groups under the system migration, the industry had never been consulted by the CAD. The Department admitted that there were rooms for improvement and the freight forwarding sector should be consulted from the outset. CAD also presented some information on capacity analysis after flight reduction. In short, a total of 84 ports and about 1/5 of the scheduled airlines serving Hong Kong were affected. By comparing with the same period in 2015, the total cargo capacity was reduced by 4.5% (representing 42,200 tonnes) with which the impact should be limited.

In order for Members to timely communicate with their clients and do necessary planning in advance, HAFFA requested CAD to provide detailed information of affected flights with dates, flight number and destinations. However, CAD responded that they were unable to disclose cancelled flight details which were proprietary information owned by the respective airlines to third parties without the owners' consent. As such, the Association based on the aggregated lists provided by CAD and approached 13 affected airlines individually to obtain the needful information. The first-hand information was circulated promptly to all Members via News on 27 September 2016.

#### **D. Update on Air Cargo Security – ICAO New Policy Direction**



The International Civil Aviation Organization (ICAO) decided on a new policy direction to phase-out consignors not approved by the appropriate authority for aviation security. In September 2016, the ICAO Secretary General issued a State Letter announcing the ICAO Council's decision that consignors not subject to approval by the appropriate authority should be phased out within a five-year period, and at the latest by 30 June 2021.

At present, a consignor recognised by its partnering RA or aircraft operator in Hong Kong may have its consignments treated as known cargoes. Under the new policy direction, consignors will either have to be approved by an appropriate authority, or have their air cargoes subject to 100% security screening. Thus, it will necessitate adjustments to the existing RAR in Hong Kong.

CAD is maintaining close communications with the ICAO as the latter is developing the detailed implementation guidelines. The Government is studying the full implications of the new ICAO policy direction, taking into account the implementation arrangements, and will propose a way forward.

HAFFA has been and will continue to work closely with the Government (Security Bureau, Transport and Housing Bureau and CAD) and industrial stakeholders to formulate the proposals with a view to minimizing the possible disruptions to the trade. Members will be kept informed via HAFFA News should there be any essential update on the matter.

## **II. Liaise with IATA**

### **A. IATA Annual Financial Review (AFR)**

Subsequent to the update on AFR in the last Airfreight Sub-committee Annual Report published on 19 April 2016, HAFFA organized a Member Consultation Meeting on 26 April 2016 for IATA Cargo Agents to express views and cast votes on the ICAP (IATA Cargo Advisory Panel) HK proposed wordings for AFR exemption in

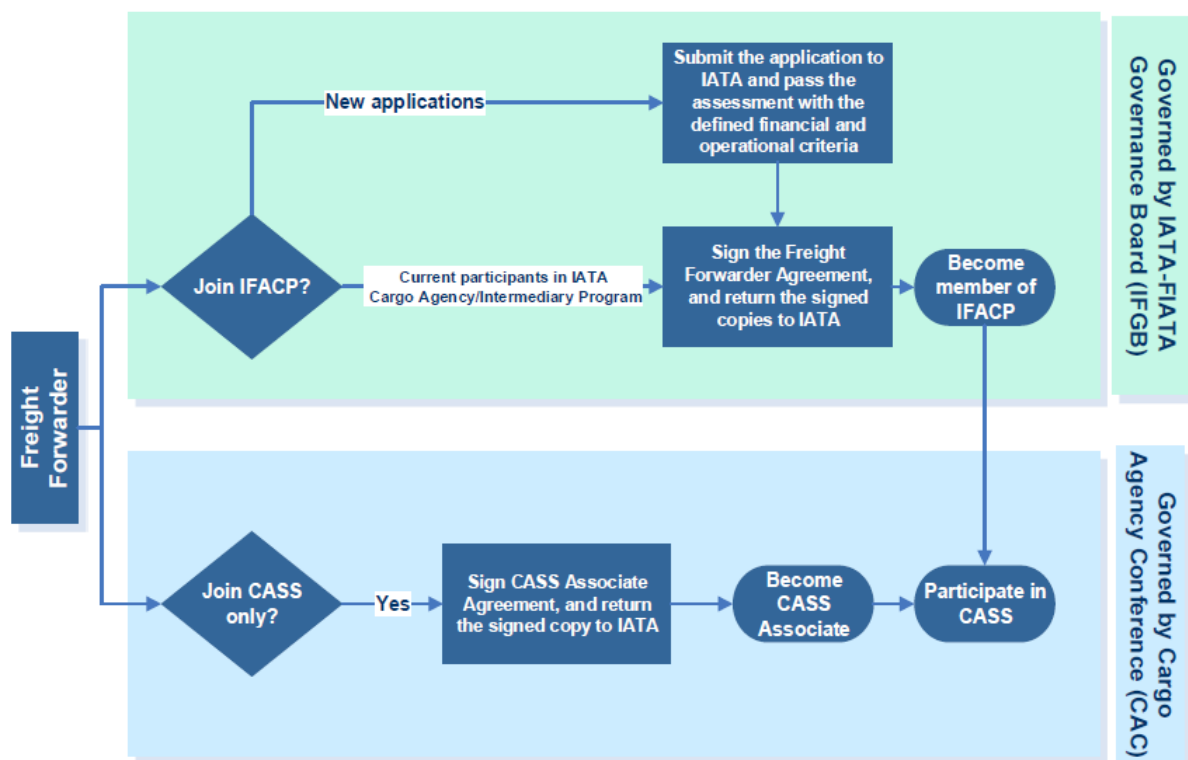
Hong Kong. As the majority of votes agreed to the proposed wordings, HAFFA based on the voting result and indicated our support of the ICAP proposal to IATA Hong Kong.

Unfortunately, the IATA Cargo Agency Conference (CAC) defeated the ICAP proposal to exempt AFR in Hong Kong. Therefore AFR has to be implemented in Hong Kong later as per laid down resolution. Given the implementation of AFR would have significant impact in HK, with HAFFA's support, ICAP airlines submitted a proposal to CAC to ask for 1 year's lead time to prepare for the implementation of AFR. The proposal was adopted at the CAC on 13 March 2017, which means AFR will be implemented one year later. For the sake of protecting Members' best interests, HAFFA pledges to closely work with ICAP HK to endeavor withholding AFR and mitigating the impact of its implementation by organizing a new round of HAFFA/ICAP HK meeting review the criteria of AFR.

## B. IATA-FIATA Air Cargo Program (IFACP)

On 18 July 2016, IATA and FIATA announced that an agreement has been signed by Tony Tyler, IATA's Director General and CEO and Huxiang Zhao, President of FIATA, to implement IFACP to replace the existing IATA Cargo Agency Program later.

The IATA Cargo Agency program has operated for many decades without significant alterations, despite compelling changes in the business relationship between cargo agents and airlines. Today, the traditional IATA Cargo Agent has transitioned from being a selling-agent of the airline to being a purchasing-customer. In an effort to modernize the current Agency program, FIATA (representing international freight forwarders and logistic providers) and IATA (representing airlines) joined forces to review, refine, and re-engineer the airline conference based program to one which would be jointly managed by airlines and forwarders. Major steps have been made and this collaboration has resulted in the development of a new joint IATA-FIATA Air Cargo Program, and significant strides in redefining airline and forwarder responsibilities.





IFACP will require for a single Bank Guarantee (BG) from a forwarder. Airlines can opt out the IATA BG in respect of a country or specific forwarder with 3 months advance notice in writing to IATA if they wish to impose bilateral criteria (e.g. bilateral BG) in addition to the IATA Local Financial Criteria.

The phased rollout of IFACP will begin in Q2, 2017 with Canada as the pilot country. **It is scheduled for Hong Kong to follow in Q4, 2017 tentatively.** Full global rollout is expected to be completed by end 2018.

There should be no immediate impact on the current IATA Cargo Agents as the current participants of the IATA Cargo Agency/Intermediary Program will be provided with a new IATA-FIATA Air Cargo Program Agreement when the program implementation process begins in Hong Kong. Upon execution and receipt of the completed Agreement, the Endorsed Freight Forwarder will join the new program. No further assessment will be required. New entrants shall be granted access to the IFACP in accordance with the program's rules, which are designed to be more reflective of how the air cargo business functions in today's market.

HAFFA will proactively participate in the regional Joint Council (JC) which will be established to provide local feedback, discuss and submit proposals to the IATA-FIATA Governance Board (IFGB). The new JC may propose to IFGB the minimum criteria of financial standing and operational criteria required for endorsement and retention of freight forwarders in Hong Kong, while CASS will remain 'as is' and under the jurisdiction of the CAC.

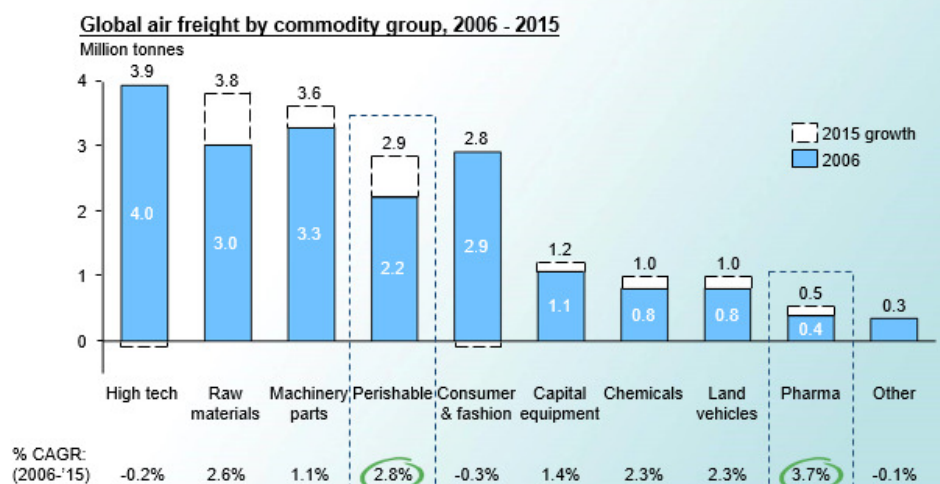
### III. Liaise with Airport Authority Hong Kong (AAHK)

#### **A. AAHK Task Force for Temperature Controlled Airfreight Handling**

AAHK engaged a consultant to carry out a study to assess the prevailing market forces affecting the competitiveness of Hong Kong International Airport (HKIA). The study was completed and it has identified some key cargo flows which will be of value to HKIA in its future development. One of which is the development of temperature controlled products such as the temperature-sensitive high-value perishables and pharmaceutical products.

Temperature controlled products require a specialized and sophisticated handling process from the time of aircraft landing to the final delivery point to consumers. To solicit the views and expert advice from the industry, AAHK established a cross-industry task force with the key players in the temperature controlled products market. HAFFA was invited to join the task force and it is our position that the Association supports for AAHK to

#### **Perishables and Pharma Outperform Global Average**



work on the “End-to-End” solution for processing of the temperature controlled products. When the solutions are finalized, it is essential to widely promote to the industry both locally and worldwide to enhance the competitiveness of Hong Kong.

Task Force agreed action items include:

- To incorporate Task Force Members’ inputs in the future airport planning and establish action plans (*short-term, medium-term and long-term*) for enhancement of airport facilities and services;
- To work out a roadmap and timetable for AA / cargo terminal operators / ramp handling operators on achieving the IATA CEIV Pharma accreditation on “HKIA community” basis;
- To liaise with relevant Government departments on the support and operation facilitation required by the industry; and
- To benchmark against other key international airports (*e.g. Dubai*) on the handling of temperature controlled cargo.

## **B. Meeting with CEDB and AAHK on the facilitation for Air Cargo Transshipment through HKIA**

Initiated by the AAHK, a meeting with the Commerce and Economic Development Bureau (CEDB) on the facilitation of air cargo transshipment through HKIA was convened on 24 AUG 2016. Participants included representatives of CEDB, Customs and Excise Department, Census and Statistics Department, AAHK, HKSC (Hong Kong Shippers’ Council), HAFFA, CLG (Carrier Liaison Group) and FHKI (Federation of Hong Kong Industries). HAFFA proposed the following transshipment facilitation measures:

- Need to update the list of strategic items to remove licensing requirement on items which are no longer strategic in nature nowadays (*e.g. routers*);
- For transshipment of telecommunication products via Hong Kong, waive the telecommunication license requirement for Hong Kong shippers/forwarders;
- Transshipment not to limit to air-air only but also extend to inter-modal transshipment (*e.g. air-sea or air-land*);
- Customs to set up a scheme for certified Regional Distribution Centre to perform high value-added services;
- For through and non-through airside transshipment commodities, benchmark against the arrangement in Singapore Changi Airport Free Trade Zone to allow value-added services, such as reassembling, repackaging, post services, sorting and packing, to be performed on transshipment goods at HKIA before the goods are further shipped to various final destinations (*e.g. cosmetic products sold online via Singapore*);
- It is very important to also allow value-added services and consolidation to be performed at carton level, as seen in the Singapore’s Zero-GST Warehouse Scheme, this is the key to increase cargo



Source: <http://aircargosecurity.ie>

volume at house AWB level, streamlined documentation and administration, and cater for customers' demand with efficient operations;

- Make reference to the existing model of Free Trade Agreement (FTA) Transshipment Facilitation Scheme and dutiable goods; and
- The industry to prove to the Customs by IT (e.g. RFID) that the shipments in original form are transferred to another aircraft for exportation. In the bonded areas of other countries like Singapore and Korea, CCTV linked with the Customs is acceptable to the authorities.

#### **IV. Liaise with Carrier Liaison Group (CLG), HACTL, AAT and CPCT**

##### **A. Seminar on “DG Awareness with a Focus on Lithium Batteries”, 15 December 2016**

In view of latest changes in the requirement of shipping dangerous good (DG) and lithium battery by air (effective from 01 January 2017), plus the increasing number of DG incidents involving shipments of undeclared or mis-declared lithium batteries, with the support of CAD and the Transport Logistics Training Board – Vocational Training Council (VTC), HAFFA initiated and organized with CLG and the Hong Kong Shippers' Council (HKSC) a big seminar on 15 December 2016. Representatives from the CAD, CLG and 3 Cargo Terminal Operators (CTOs) were the speakers providing attendees with an overview of the 2017 requirements of shipping DG and lithium battery by air, as well as the common CTO issues when tendering DG and lithium battery consignments to the CTOs.





Thanks for industry's enthusiastic support, there were nearly 350 participants attended the seminar and it was concluded after a fruitful "Question and Answer" session. Trust that the seminar has raised the awareness of the industry, thereby enhancing safety in air cargo transport and maintain a good reputation of the Hong Kong air cargo industry.

## **B. Best Practice 014 - Best Practice for Consigning Lithium Cells / Batteries in Hong Kong**

In response to the latest changes in lithium batteries under the 58th Edition IATA DGR (2017), CLG–Dangerous Goods Working Group (DGWG) and HAFFA worked together to provide an update of the Best Practice (BP) with operational guidance for Members and the industry. The number of the BP is changed from "BP013" to "BP014" to avoid confusion in the market. That means, "BP014" has replaced "BP013" with effect from 01 January 2017. Summay of the significant changes in BP014 as set out below:

- there will not be any separate lithium battery document (i.e. NO need for the Declaration forms for consigning Section IB and Section II).
- All PIs' Section I & IA: Class 9 Label will be changed (transition period = 2 yrs).
- All PIs' Section II & IB: Lithium Battery Handling Label will be changed (transition period = 2 yrs).
- A section "What is a consignment?" is added for easy reference.
- the information about the new provisions of adequate instruction of Training Requirement for Section II is added.

The relevant documents, together with the presentation slides used in the above-mentioned seminar, were disseminated to all Members on 15 December 2016 via News and uploaded on the HAFFA website. <http://www.haffa.com.hk/portal/Page/Default.aspx?id=157>

Please note the best practice is jointly issued by the CLG-DGWG and HAFFA for industry reference only. Shippers and freight forwarders shall always follow the IATA Dangerous Goods Regulations and the requirement of individual carriers for the air carriage of shipments containing lithium batteries at all times.

## **C. HAFFA Surveys**

Given there were no alignments from the airlines on various new measures in handling lithium batteries and recalled smartphone, HAFFA conducted the following surveys with individual carriers to better understand their requirements so as to facilitate Members in compliance.

- Survey for UN3480 (Lithium ion batteries) – Does airline accept UN3480 for carriage and require declaration of SoC for UN3480?
- Survey for Recall of Samsung Galaxy Note 7 – Does airline accept recall Samsung Galaxy Note 7 device and relevant follow up?

*Date: 18 April 2017*

**(END OF REPORT)**