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When is a 737 not a 737? Our Headline-Of-The-Month award goes to Elbe Flugzeugwerke (EFW, the conversion arm of European aerospace giant EADS), which recently announced the induction for freighter conversion of another A300-600 for DHL under the banner "737 Arrives For Conversion at EADS EFW." This was actually a true statement, because the A300-600 in question was ex-Japan Airlines unit msn 737, but the headline no doubt caused some consternation at Aeronautical Engineers Inc, Bedek Aviation Group, and Pemco World Air Services – all of which offer passenger-to-freighter conversion programs for the Boeing 737, while EFW specializes in P-to-F conversions of Airbus aircraft. This particular A300-600 is the eleventh of thirteen ex-JAL units acquired by DHL to arrive at EFW's Dresden facility, where it is scheduled to undergo conversion in early 2012. EFW currently has sixteen A300-600 conversions in its backlog, including two for MAXIMUS AIR CARGO and one for RUS AVIATION, as well as the thirteen for DHL. While no official announcement has been made on the subject, *Cargo Facts* expects Airbus and EFW to launch an A330 passenger-to-freighter program in the near future, probably including both the -200 and -300 variants.

EADS EFW will convert thirteen A300-600s to freighter configuration for DHL, which will use them to replace the A300B4Fs in its European air operation.

In apparent competition with one of its parents, AIR CHINA CARGO will launch 747 freighter service from Hong Kong to Shanghai next week. Air China Cargo (ACC) is an all-cargo joint venture of CATHAY PACIFIC AIRWAYS and AIR CHINA, originally planned several years ago, but which did not start operating until this year. We say "apparent" competition because while ACC's Hong Kong-Shanghai service will certainly take some freight away from Cathay, the move has obviously been made with the blessing of both partners. ACC's hub is in Shanghai, and while the new service will carry some cargo destined for the Shanghai area, it will also be used to feed cargo from the Pearl River Delta to the Shanghai hub for onward movement to Europe and North America. As part of its investment in the jv, Cathay agreed to transfer four 747-400BCFs to the ACC fleet. Two of these have already been transferred, and the other two will follow in the first quarter of next year. ACC has used the first two to increase service to North America, and the carrier's Chief Operating Officer was recently quoted as saying that once the second two join the fleet, ACC will increase intra-Asia service as well as service to the Middle East. Destinations under consideration reportedly include Bangkok, Dhaka, Dubai, Ho Chi Minh City, Mumbai, and Singapore.

Russia-based VOLGA-DNEPR GROUP (VDG) and Ukraine-based ANTONOV signed an agreement to launch an upgrade program for the An-124-100 aircraft. Volga-Dnepr Airlines, the Moscow-based outsize and heavylift subsidiary of VDG, operates a fleet of ten An-124-100s, and has for some time been working with the Russian and Ukrainian governments to restart serial production of the type. While the An-124 is a unique aircraft, and clearly in demand in the heavylift market, commercial demand for new units would have to be supplemented by an order from the Russian Air Force in order to justify new production. Whether such an order will be forthcoming is debatable, but VDG says the upgrade program will considerably prolong the life of the existing fleet. According to the agreement between VDG and Antonov, the modernized An-124-111VD will have a take-off weight of 402 tonnes, a maximum payload of 150 tonnes, and a range of at least 5,000 km with a 120 tonne payload. Avionics and some other aircraft systems will be replaced with digital equipment, and the -111VD will be powered by new 3M series D-18T engines with a FADEC digital control system. The engines will meet modern noise and emissions standards and will offer 50,000 hour/11,000 cycle lifetime. VDG said that the upgrade of the first aircraft "will act as the main research and development program for the eventual launch of production of a new-build AN-124-300 freighter." We shall see.

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New freighters from Russia? State-owned Russian aircraft manufacturer UNITED AIRCRAFT CORPORATION (UAC) signed a Memorandum of Understanding with Hong Kong-based STRATEGIC AVIATION SOLUTIONS INTERNATIONAL (SASI), under which SASI will aid UAC "to promote Russian-built freighter aircraft around the world." Under the terms of the MoU, SASI will "assist UAC in promoting new cargo aircraft by providing technical advice, development of aircraft specifications, marketing strategy and sophisticated business planning for the western market." SASI tells *Cargo Facts* that the idea behind the agreement is to create a market niche for a ramp-loading aircraft in the 10 to 40 tonne segment of the market, using a freighter that offers stand-alone capability, and meets international standards for maintenance, fuel economy and avionics. Given the massive engineering and financial resources required to launch a new aircraft program, and the limited commercial demand for freighter aircraft, *Cargo Facts* believes the freighter will have to be an offshoot of an existing program rather than an entirely new design, but no announcement has been made on that subject. Given that there are no ramp-loading freighters designed for commercial use in production today, it will be interesting to see how this plays out.

Two more reports from Hong Kong confirm the continuing decline in demand for air freight there as first indicated when Hong Kong Air Cargo Terminals (Hactl) two weeks ago reported its July handle down 7.7%:

- **CATHAY PACIFIC AIRWAYS reported July cargo traffic down 8.6%** y-o-y to 837 million RTKs. The carrier said it expected its airfreight business to be slow through the third quarter due to the uncertain economic climate, but it remains confident in long-term demand growth (as evidenced by its recent firm order for eight 777Fs). For the year to date through July, Cathay's cargo traffic was down 0.9% to 5.65 billion RTKs.
- **Hong Kong International Airport reported its July cargo handle down 6.1%** y-o-y to 341,000 tonnes. Import volume was down 5.9% to 125,000 tonnes and export volume fell 6.3% to 216,000 tonnes. Interestingly, passenger traffic in July was up 5.7% to a new single-month record. For the first four months of its fiscal year to date, HKG's handle was down 7.6% to 1.3 million tonnes.

There is plenty of recent news from BOEING:

- **Boeing Commercial Airplanes CEO Jim Albaugh confirmed that delivery of the first 747-8 Freighter to launch customer CARGOLUX would take place in September**. The manufacturer has firm orders for 78 units from six carriers and two lessors.
- **Boeing completed flight testing of the 787**. The final flight was on 13 August, completing a program that began in December 2009. Boeing said it expected certification shortly, and plans first delivery to launch customer ALL NIPPON AIRWAYS in September. As is the case with the 747-8F, above, no firm date for delivery has been set.
- **A reports in *Flight International* indicates that Boeing is close to a decision to re-engine the 737 family with a CFM Leap-X engine with a fan diameter of 167 cm.** This will allow re-engining to be accomplished with existing ground clearance and no need for a landing-gear extension. While there are advantages to engines with larger fan diameters, Boeing is reported to believe the Leap-X-powered 737 will offer a fuel-burn advantage of 10%-to-12% while requiring minimal investment in financial and engineering resources.
- **And finally, with the decision made to re-engine the 737 family rather than design an entirely new narrowbody, Mr. Albaugh said Boeing would be free to focus on revamping its 777 program in the next few years**. He did not provide a specific time frame, nor any details about the extent of the revamp, but given the success of the current 777 program it is hard to imagine that the manufacturer would opt for a completely new aircraft.

(More on page 3)

Note: The chart accompanying the analysis of Air Transport Services Group's second-quarter results in the August issue of Cargo Facts did not print as it should have. The numbers were correct, but wrong columns were shown. We reprint the entire article here, with the chart as it should be.

ATSG GETS SOME GOOD NEWS – AND REPORTS A STRONG QUARTER

Air Transport Services Group (ATSG) reported second-quarter net income up 27.0% y-o-y to $12.3 million, as total revenues rose 19.7% to $222.9 million. Operating earnings in the quarter were up 23.9% to $12.3 million. This is a strong turnaround from the first quarter, for which ATSG reported steep declines in net income, revenue, and operating income. The company said the increased revenue in the second quarter was partly due to the deployment of six company-owned 767 freighters under long term leases to third parties, and also due to the addition of five leased 767s operated by ATSG's airline subsidiaries on behalf of other parties. Of the company's total revenue, three major customers accounted for 77%: DHL (34%), DB Schenker (31%), and US Military (12%).

During the quarter, ATSG also completed agreements for a five-year, $325 million credit facility led by SunTrust Bank (replacing a facility due to expire at the end of 2012). ATSG is the parent of three carriers (ABX Air, Air Transport International, and Capital Cargo International), leasing company Cargo Aircraft Management (CAM), and several other businesses focused on maintenance, logistics, and bundled airline solutions.

Air Transport Services Group 2011
Second-Quarter and First-Half Financial Results (in thousands)

	2Q11	% chg	1H 2011	% chg
ACMI Services				
Revenue				
Airline Services	$115,050	12.2%	$217,500	-1.1%
Reimbursable expenses	$49,659	36.8%	$93,914	52.4%
Severance & Retention Activities	$0	NM	$0	-100.0%
Total Revenue from ACMI	$164,709	18.7%	$311,414	9.1%
Earnings from Airline Services	$4,560	11.6%	$2,050	-74.1%
Earnings from S&R Activities	$0	NM	$0	-100.0%
Total Earnings from ACMI	$4,560	NM	$2,050	-82.1%
CAM				
Revenue from CAM	$32,762	32.0%	$64,890	52.3%
Earnings from CAM	$13,634	39.8%	$27,100	66.3%
Other Activities				
Revenue	$25,469	12.2%	$50,907	26.8%
Earnings	$1,675	-56.1%	$3,329	34.5%
Gross Revenue	$222,940	19.7%	$427,211	16.0%
Net Revenue from Customers	$193,061	20.6%	$368,188	14.7%
Earnings from continuing operations	$12,280	23.9%	$15,161	-9.0%
Earnings from discontinued ops, net of tax	$19	NM	($98)	NM
Net Income	*$12,299*	*27.0%*	*$15,063*	*-10.5%*

Source: ATSG *CARGO FACTS -- August 2011*

Before looking at the company's performance by division, we should first mention that one recent piece of bad news has turned out to be much less bad than it might have. ATSG's second-largest customer, Germany-based DB Schenker, announced in late July that it would terminate the BAX Global Network, which was operated by ATSG subsidiaries Capital Cargo and ATI (with eight 727-200Fs and eight DC-8Fs, respectively) from a hub in Toledo, OH. However, ATSG now says that while the Toledo operation will be discontinued effective 1 September, Schenker will continue a reduced operation from the Cincinnati/Northern Kentucky Airport – where ATSG already has a large presence (it is the US air hub of the company's biggest customer, DHL). Through the end of this year, the BAX flying will be done with four DC-8Fs and three 727-200Fs, "after which DB Schenker expects to outsource its air cargo operations to DHL." The good news for ATSG is that DHL has notified ATSG "that it anticipates negotiating terms during the fourth quarter of 2011 for the use of all or some of those seven aircraft beginning in 2012."

As can be seen in the chart at the top of the page, revenues in CAM, the company's leasing segment, were up 32.0% in the second quarter, to $32.8 million. Of this total, revenue from external customers (including DHL, which dry leases thirteen 767-200Fs from CAM and has them operated by ABX under a CMI contract) was $15.9 million. This is up from $10.7 million in 2Q10, with the increase largely the result of the fact that in the last year CAM has leased six 767-200Fs to external customers – four to DHL and two to Miami-based Amerijet. CAM's revenue from internal leases to ATSG's airlines (ABX, ATI, and CCIA) was $16.9 million in the second quarter. CAM's second-quarter operating earnings rose almost 40% to $13.6 million.

Revenues in the company's ACMI segment were up 18.7% to $164.7 million, with $115.1 million coming from airline services, and $49.7 million from reimbursable expenses. (Note, though, that since April of this year, lease revenues for the DHL network aircraft have been reflected in CAM's revenues.) ATSG said block hours flown for customers increased 6% in the second quarter compared to 2Q10. However, the company said operating results during 2011 were negatively impacted by unscheduled aircraft downtime for maintenance reasons. As a result, revenue flights were missed and higher operating expenses were incurred during the aircraft downtime.

ATSG Operating Fleet as of 30 June 2011

	ACMI Services	CAM Leasing	Total
Operating Fleet			
767-300F	2		2
767-200F	17	19	36
767-200	1		1
757-200F	2		2
727-200F	12		12
DC-8F	14		14
Total	48	19	67

Source: ATSG *CARGO FACTS -- August 2011*

Note: In addition to the aircraft in its operating fleet, ATSG had:

- *Three 767-300s in or awaiting conversion to freighter configuration*
- *Four 767-200Fs in conversion to large-door freighter configuration.*
- *Two 757-200s awaiting conversion. One will be converted to freighter configuration, the other to combi configuration.*