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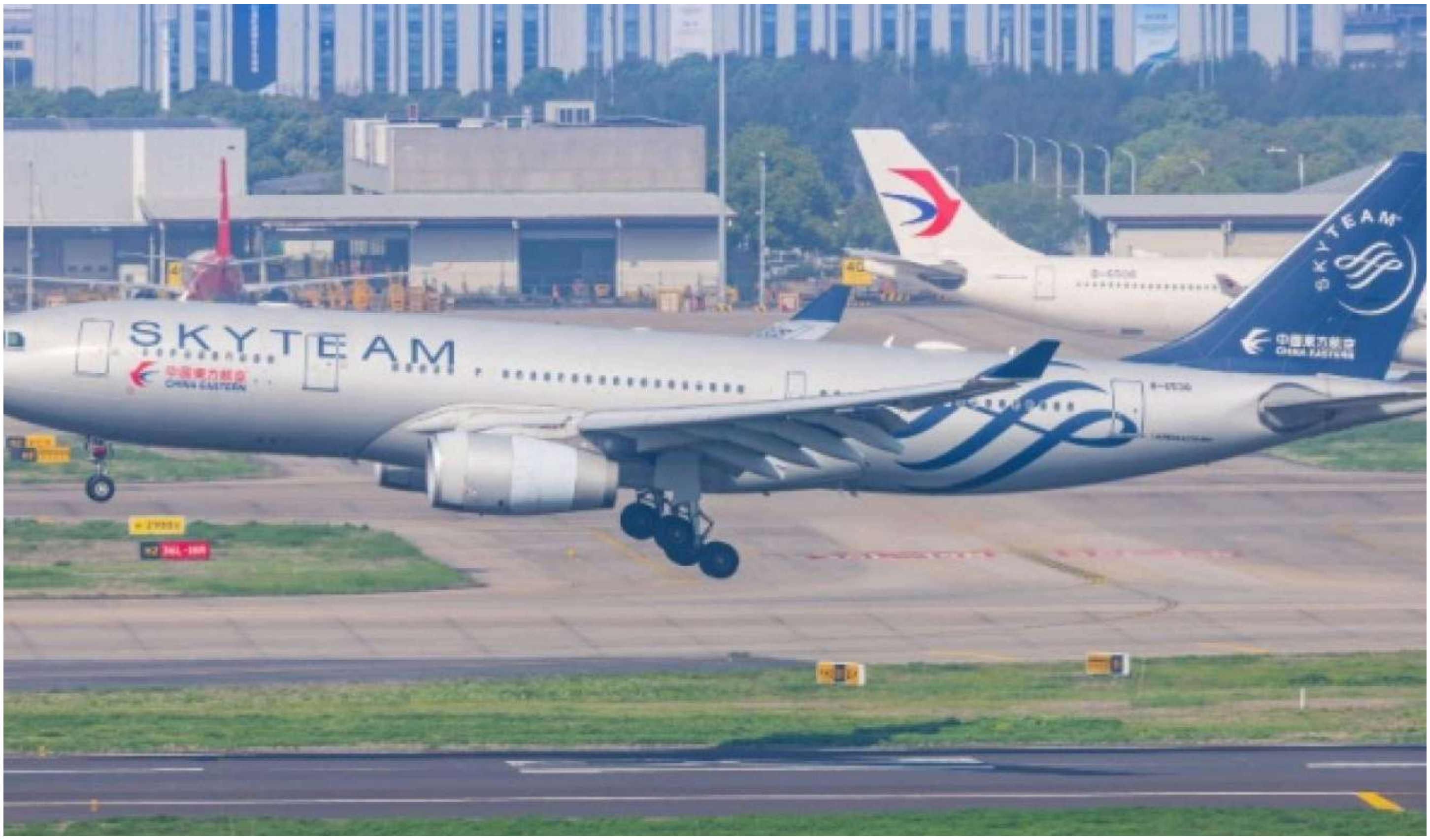
Crackdown on e-commerce may dampen booming global air freight: IATA



Most e-commerce packages are transported by air and are a major contributing factor to tight capacity on aircraft out of China. Photo credit: Mike Fuchslocher / Shutterstock.com.

Greg Knowler, Senior Editor Europe | Jul 2, 2024, 10:10 AM EDT

Tighter regulations around US e-commerce imports from China, the world's largest trade lane by volume, could impact the entire global air freight sector that has seen robust growth since the end of last year, according to the International Air Transport Association (IATA).

China-based online platforms, including companies such as Temu and Shein, are under growing scrutiny by regulators in the US and Europe concerned that online retailers are exploiting so-called de minimis rules under which importers of goods valued at under $800 in the US and under €150 in the EU are exempt from some duties and taxes.

Willie Walsh, the IATA's director-general, said if regulators imposed stricter conditions on the import of e-commerce products it could dampen demand that would be felt across the air freight industry.

"Increased costs and transit times for shipments under $800 may deter US consumers and pose significant challenges for growth on the Asia-North America trade lane, the world's biggest," Walsh noted in IATA's latest monthly market update, released Tuesday.

Those challenges could potentially stall an air cargo bull run on the major trade lanes out of Asia that began in the last quarter of 2023, driven by unexpectedly strong trade growth, booming e-commerce and capacity constraints on container shipping that forced US and European shippers into the air.

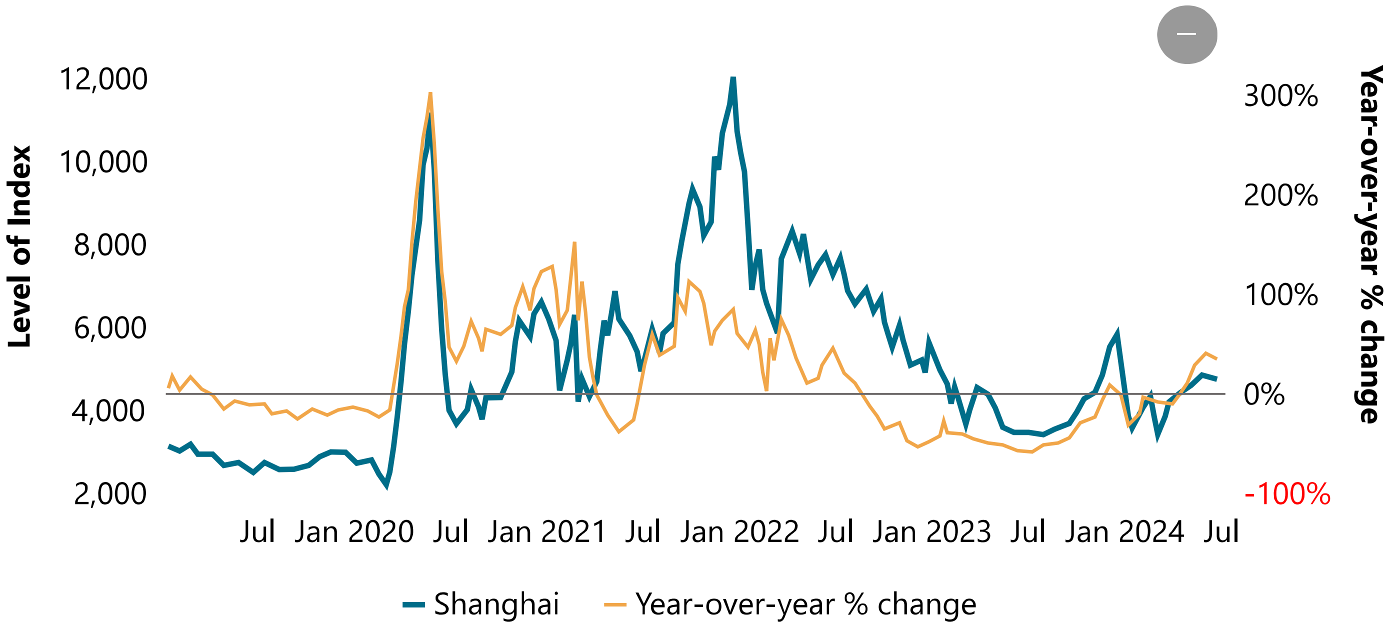
Data from IATA shows global e-retail sales this year are projected to hit $6.3 trillion, up 10% year over year, with sales expected to reach $8 trillion by 2027. The volume of parcels moving across borders has also increased dramatically. In 2022, 170 billion parcels were transported; that is expected to grow 50% by 2027.

More than 80% of those e-commerce packages are transported by air and are a major contributing factor to the tight capacity on aircraft out of China that is keeping rates elevated, despite the belly cargo space coming online as airlines increase long-haul summer flight frequencies.

IATA wants a special handling code assigned to e-commerce freight to identify the sector, highlighting fears that with such a high volume of goods ordered online traveling by air, there was a growing risk of undeclared lithium batteries, drugs and other contraband being carried as below-deck cargo on passenger aircraft.

Sustained demand keeps air cargo rates elevated out of Shanghai

Shanghai outbound air freight index with year over year change



Source: Baltic Air Freight Indices powered by TAC

1M 6M 1Y YTD MAX

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Weekly air cargo spot rates from Shanghai to North America have averaged $5.57 per kilogram (kg) for the past two months, up 21% year over year, and were at $5.48/kg in the first week of July, according to the Baltic Air Index (BAI). Shanghai-North Europe spot rate levels averaged $4.12/kg a week over the same period, up almost 40% year over year, and are currently at $4.39/kg.

Modal shift continues to fill aircraft

On top of the sustained demand from e-commerce, air cargo is also being impacted by a modal shift from ocean shipping. The ongoing longer voyages around southern Africa to avoid militant attacks in the Red Sea and Gulf of Aden are keeping space on vessels out of Asia in tight supply, and at the same time pushing rates closer to pandemic-like levels last seen in 2022.

Asia outbound volume was up 20% from January through May compared with the same period a year ago, with outbound volume from the Middle East and South Asia rising 22% during that time, the latest data from Netherlands-based air cargo analyst WorldACD showed.

There has been no slow season since March, and rates remain high compared with the same period last year, Kathy Liu, vice president of Taiwanese forwarder Dimerco Express Group, noted in a market update.

"The continuously rising ocean freight rates on the Trans-Pacific eastbound route, driven by strong demand, are … impacting the air freight market," Liu said.

A key indicator for the air freight market out of China is the Caixin General Manufacturing PMI, a monthly survey of purchasing managers compiled by *Journal of Commerce* parent S&P Global. The latest June reading of the Caixin China General Manufacturing PMI came in at 51.8, the index's eighth straight month in expansionary territory and its highest level since May 2021.

"Overall, the manufacturing sector kept improving in June, with supply, domestic demand and exports continuing to grow … manufacturers increased purchases with rising inventory and price levels," Wang Zhe, senior economist at Caixin Insight Group, said in his analysis of the PMI results.

Airlines in Asia-Pacific saw 17.8% year-over-year growth in demand for air cargo in May while capacity increased 8.4%, according to IATA. Cathay Pacific is expecting that demand to fill its available air freight capacity through the coming months.

"Market sentiment, particularly out of Hong Kong and the Chinese mainland, remains positive and we will continue to adjust our freighter capacity to suit the needs of our customers," Lavinia Lau, Cathay Pacific's chief customer and commercial officer, said in a statement.

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