

THE EFFECTS OF GLOBAL CRISIS ON TURKISH AIR CARGO INDUSTRY

Asst. Prof. Ali Özgür Karagülle¹

Istanbul University, School of Transportation and Logistics

Res. Asst. Meltem Yıldırım

Istanbul University, School of Transportation and Logistics

ABSTRACT

Aviation industry is developing day by day with enlarging economies and technologies. Innovations on aviation market effect air cargo sectors operations. Air cargo industry is interlinked with foreign trade policies. Turkish air cargo industry is developing rapidly regarding too its importance in civil aviation industry and its economic expansion. This study aims to demonstrate the effects of global crisis on Turkish air cargo industry. At the time of financial crisis, economies of countries become very fragile to the outsider effects. Not only finance sector but also the whole business world is affected by crisis.

In this paper, the effect of last global crisis on aviation market and air cargo industry will be presented. The importance of air cargo operations in logistic sector will be studied.

The goal of the study is to find relations between exchanges on foreign trade management policies with air cargo operations at the period of global crisis. Current deficits will be analysed on air cargo sector. It will be analysed how foreign trade management policies of Turkish economy affect the air cargo sector. Air cargo operations will be studied and will provide a base about try to find what precautions and management strategies should be applied under uncertainty.

Keywords:Global crisis, aviation, Turkish air cargo, foreign trade, management, policy

JEL Codes: L93, L98, M10, L10

¹ İÜ Avcılar Kampüsü Ulaştırma ve Lojistik Yüksekokulu, 34850, Avcılar, İstanbul, Turkey. ozgurk@istanbul.edu.tr
+90 (212) 473 72 48

Introduction

Excess liquidity in the USA was bankrolled with low interest credits. Liquidity speeded up mortgage industry as property market grew up rapidly and new markets occurred in the economy. Ascending demand to housing industry upwarded the prices. Improper direction of people, uncertainty, unknown risk of derivatives inflated the turbulence pattern. And as a result of this, financial markets cashed in this circle.

Derivatives markets was supplied with mortgage credits as financial crops were circuited all around the world in the stock exchanges. It was thought that everything had a well proportioned form, American Central Bank (FED) started to increase interest rates as a new policy. Housing prices decreased and house prices became lower then residuary credits. Stopped credits brought an end to deposits and exotic derivativess financing. As a result, fiscal market broke out and property market harmed. Globalisation of this pattern brought up its name global crisis.

It is well known that global crisis affected both financial and real economies. High globalisation around the world and increased foreign trade relations between countries speeded up catching effect of financial crisis. Lack of confidence to international markets started to impose negatively other sectors. Countries tried to avoid themselves by cutting relations with trade markets. This policy spread wisely and international trade demands declined. In addition to these factors, pessimistic economic expectations caused foreign trade downturns.

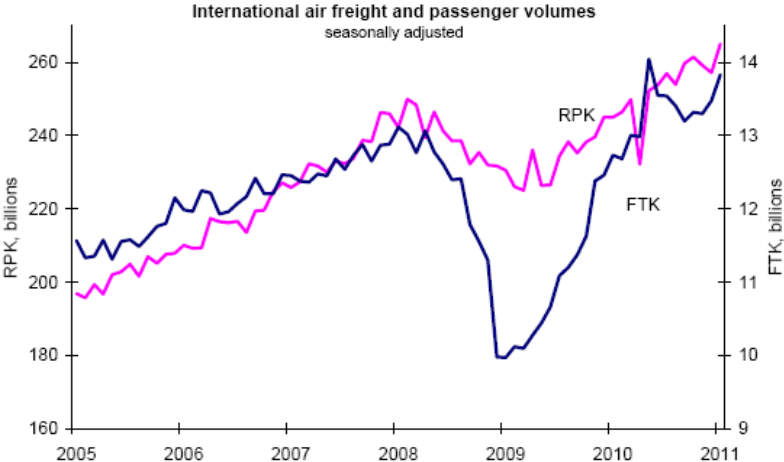
Crisis in the Airline Industry

Transportation sector has a significant position at the global trade operations. Goods transportation and logistics between countries has an important role. Commercial airlines paid too much attention to passenger transport in the past, but have since broadened their perspective to see air cargo as another source of revenue, while airport authorities worldwide are upgrading their airports to face the upswing in both passengers and cargo handling. (Mun, 2006:24) Volatility on demands can be acceptable at turbulent times because logistics industry generally goes collated with economic foreign trade operations. Downturns of international trade commodities quicken the transportation sector operations wane.

As a component of the transportation industry, aviation industry has been enlarging day by day. Financial crisis affected the airline transportation. Passenger and freight demands and frequencies declined at crisis period.

Global crisis effects were perceived at aviation sector components. Declines at freight and passenger volumes slowed aviation operations and incomes. Airlines and air cargo operators expounded deficits and felt the crisis impacts harder than 2001 terror crisis.

Figure-1: International Air Freight and Passenger Volumes



Source: IATA, Financial Forecast, March 2011

As it shown at the graphic above freight demands and passenger volumes declined sharply at the period of financial crisis and took “V” letter trend. Lack of confidence, uncertainty, cuts of demands, butterfly effect are some reasons of this volatility. After 2-3 recovery years and increased at foreign trade again, it can be seen a rise at air freight demands by third quarter of 2009. With 2010 air freight sector was nearly back above pre-recession period and caught it’s high trend. (IATA, 2011:3)

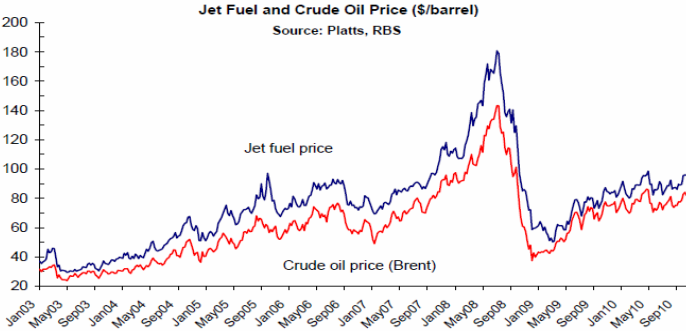
Air cargo market is growing and becoming more popular in transportation industry. High value goods are carried by aircrafts for years, but air cargo carriers expand their customer portfolio and today they are serving many customers from different industries with different types of products at different values. Air cargo sector has an important role in international trade between Asian and American countries. Medicines, microelectronic components, chemicals and persihable goods are main products which are generally transported with air. Speed,time, reliability are significant points of air cargo market’s affinity. These are reasons for preferable by traders. (Achard, 2009:7)

Air cargo sector was influenced global crisis with downturns on economic slowdown. The products which are generally elements of this sector has high income elasticity and consumers tended to reduce their consumption on these goods at the financial economic crisis times. Declines of these goods, directly results in reduction in airline transport demand.(Grosso&Shepherd, 2010:12)

Air cargo industry can be considered as a tool of economic development strategy. With the substantial role air cargo plays in fostering trade and supply chain competitiveness, the cargo statistics can be viewed as indicator of economic situation.(Kasarda&Green, 2005:460)

Not only financial crisis but also fuel-oil crisis effected aviation sector at 2008 and progressive periods. The fuel prices increased suddenly and airline transporters’ costs higher upswing. Increasing fuel prices speeded up operational costs. Transportation costs rised and traders declined capacities which were unprofitable. By 2008 September, wanes on barrel of fuel brought up a relax to airline transporters and with this support they tried to decline prices to enlarge operations of passenger and freight demands.

Figure-2: Jet Fuel and Crude Oil Price

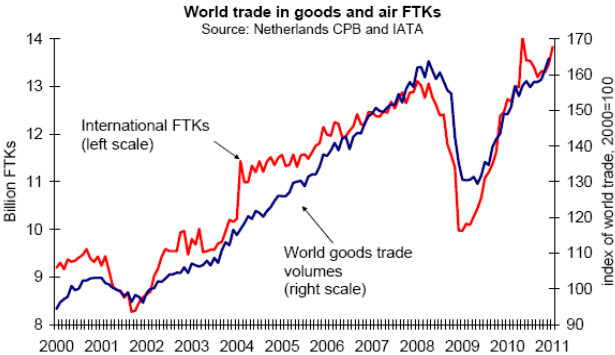


Source: IATA, Cargo E-Charterbook, Q1-2011

The problems that international airlines faced cannot be explained only with global financial crisis. The ineffective use of sources, wrong managerial decisions and not operating at an optimum level of scale are also the reasons for some companies to declare bankruptcy. (Assaf, 2009:920) A typical cycle downturn in the airline industry shows the following dynamics: when demand declines, capacity cannot be adjusted due to the insufficient flexibility. Load factors decrease and airline carriers start market share battles with significant cut in yields.(Hatty&Hollmeier,2003:51)

Air cargo is an important industry that is critical to global business. It is a pattern of US\$60 billion business that transports 35% of the value of goods traded internationally and a critical part of the airline business which, as a whole, is the heart of a value chain that supports 32 million jobs and US\$3.5 trillion of economic activity. (IATA, 2011) Air cargo capacity after 2008 fall nearly %10 globally the world. Air cargo market revenues reached US\$64 billion at 2008 but after recession demand slowed and came back to US\$49 billion around the world. Last statistics for air cargo transport brought up nearly US\$60 billion at all around the world.

Figure-3: World Trade in Goods and Air FTK's



Source: IATA, Cargo E-Charterbook, Q1-2011

The most important indicator of demand for air cargo market is generally world trade. As it showed in the Figure-3 world goods trade slowed deeply at the global crisis period and air freight capacities and revenues declined wisely. Starting from the first quarter of 2010 air freight capacities at international markets rised up .

The Effects of Crisis on Turkish Air Cargo Industry

Turkey is one of the popular emerging markets. Turkish finance sector faced with some problems at 2001 with banking crisis. After recovery of 2001 crisis, Turkish goverment took precautions about fiscal sectors and strengthen the financial market. Strong preventions at Turkish economy speeded up to be given preferance for foreign traders and investors. Global crisis around the world triggered with financial market turbulances. Butterfly effect at international trade caused recession between economies of countries at financial markets. Stock markets damaged wisely and meddled in economic tailspin. Because of foreseeing crisis and precautions about stock markets Turkey did not feel the global crisis effects on financial market as much as others. But decline of international trade demand, effected the

Turkish real economy and slowed trade between Turkey and foreign traders. This resulted in decline in transportation of goods and affected air cargo operations. Foreign trade operations oriented to African and Middle East markets during the period of financial crisis. Governmental precautions directed trade capacities to these regions. Turkish air cargo operators diverted their activities to emerging markets to enlarge their capacities.

Liberalisation rised up air transport activities in Turkish aviation industry. With the effects of government policies new companies were established and airline transporters started to operate at new routes. Companies enlarged their fleet as the domestic flights boosted and number of aircrafts doubled. Turkish air cargo operators were started to grow, the companies started to pay much more attention to air cargo operations. The usage of air transportation in domestic trade was also increased. Because of the trend that forced with the government policy the growth of Turkish airline industry (and air cargo industry) continued. The growth rate slowed but the consciousness about the importance of air cargo transportation lead Turkish cargo industry to continue its ascending trend during the crisis. Revitalization of inactive airports at commercially developing cities speeded up logistic operations and enlarged air cargo movements.

Air cargo volumes	2002 (tons)	2010 (tons)
Domestic	181000	555000
International	715000	1467000

Table-1: The Change in Air Cargo Volumes During Crisis

Table-1 shows the significant increase at volume of air cargo industry. As it seen above, Turkey's air cargo market developed during the global crisis time. (In this table passenger load and e mail load is added) Increase of air cargo agencies expedited air cargo market development in Turkey. Air transport agreements between countries opened new routes for air freight relations and foreign trade destinations. Unlimited air cargo frequencies will bring up a larger air cargo market in the close future.

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Million US \$	6.366	8.446	12.295	13.072	13.711	16.914	16.898	11.563	17.406
%	12,34	12,18	12,6	11,19	9,82	9,94	8,36	8,2	9,38

Table-2: Imports Carried by Air Cargo (Values & Percentages)

Table-2 shows the slight decline in air cargo values and percentages(imports) during crisis. Signs of recovery can be observed by 2010.

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Million US \$	2.339	3.228	3.907	3.979	4.863	7.018	10.435	9.764	7.688
%	6,48	6,83	6,18	5,41	5,68	6,54	7,9	9,55	6,75

Table-3: Exports Carried by Air Cargo (Values & Percentages)

Table-3 shows the decline in cargo values and percentages(exports) during crisis. The industry is affected from the crisis later in exports when compared to imports.

Growing at aviation sector triggered the development at air cargo sector. Strategic location of Turkey and reliable air traffic management at Turkish airspace is also a preference for airlines and has a significant positive effect on Turkish air cargo industry.

It is well known that trade with European countries was affected negatively because of the global crisis. Their demands from emerging markets as Turkey declined. Turkey's transport policy tended to countries which were less effected by the crisis. With the contributions of African, Asian, Middle East, Balkans and BlackSea region countries Turkey enlarged the network of air cargo. The rise in commercial relations with these countries means increased flight operations especially focused on air cargo.

Conclusion

As the global crises effects all economies of the world, transportation industry can not be kept separate considering its importance in commercial movements. The decrease in the volume of transported goods effected tarnsportation industry negatively. But focusing on Turkish aviation industry we can say that the growing trend of air transportation (esp. air cargo transportation) helps cargo carriers to feel the effects of crisis less than the other modes of transportation. The crisis slowed the growth but recovery started before putting the operators in trouble. The support of governmental policy is one of the main reasons of this survival.

Air cargo industry must be supported by governmental policy. Growth of air cargo industry can be regarded as an engine of economic growth for nations. (Chang&Chang,2009:264) It must be considered as a key intermediary to keep foreign trade

at a certain level by its time advantage as a competitive advantage. Transportation ministry should supervise and support air cargo movements and also should make forecasts and take precautions for uncertain times. Governmental policies should provide a back-up plan for possible crisis. Air cargo carriers must review and revise their organisational structures and commercial processes in order to raise their reliability and competency. Strengthening the financial structure is critical and monitoring the signals of possible global recessions and the changes in external factors is vital. The bigger and restructured air cargo industry will be a key tool of survival during crisis periods.

REFERENCES

- ACHARD, P.(2009) “The Regulation of International Air Cargo Services”, MSc Thesis, Sciences Po, France
- ASSAF, A.(2009) “Are US Airlines in Crisis?”, *Tourism Management*, Vol.30, Australia
- CHANG, Y.H.,CHANG, Y.W.(2009) “Air Cargo Expansion and Economic Growth: Finding the Empirical Link”, *Journal of Air Transport Management*, Vol.15, Taiwan
- GROSSO, M.G.,SHEPHERD,B.(2010) “Air Cargo Transport in APEC:Regulation and Effects on Merchandise Trade”, *OECD Trade and Agriculture Directorate*, Paris
- HATTY, H.,HOLLMEIER,S.(2003) “Airline Strategy in the 2001/2002 Crisis:The Lufthansa Example”, *Journal of Air Transport Management*, Vol.9, Frankfurt
- IATA, (2011) <http://www.iata.org/whatwedo/cargo/Pages/index.aspx>
- IATA, (2011) “Costs”, *Cargo E-Charterbook – Q1*
- IATA, (2011) “Promising Rise in Air Travel and Freight”, *Industry Financial Forecast*
- KASARDA, J.D., GREEN, J.D.(2005) “Air Cargo as an Economic Development Engine: A Note on Opportunities and Constraints”, *Journal of Air Transport Management*, Vol:11, USA
- MUN, H.C.(2006) *Airfreight Forwarding*, Singapore Logistics Association, Singapore.