



ICAO

ECONOMIC DEVELOPMENT

Voluntary Air Transport Fund



Air Freight Indices:

Catalyst to The Industry Development

Air Cargo market can be characterized as capital intensive, cyclical, volatile, seasonal and exposed to the international business environment. Given the fact that reasonably accurate pricing information isn't generally available to the market, the idea of a global "benchmark " has been brought up by many market players, with the concept often being related to the ever increasing sophistication of the industry to recognize financial risks and the need for risk management.

Shipping Freight Benchmarks:

Baltic Dry Index (BDI) and Shipping Derivatives

Baltic Exchange produces a wide variety of shipping indices covering different vessel sizes and different cargo types. It has a long history going back to 1744 when it was first established through casual conversations between merchants and ships' captains. In 1985, the Baltic Exchange launched the Baltic Dry Index (BDI) as a general indicator of shipment rates for dry bulk cargoes which is considered to be a general market indicator for the dry bulk shipping.

About 25 different freight derivative contracts are traded for settlement on Baltic benchmarks. Forward Freight Agreements (FFA) market volume have averaged 20,000 lots per week in the dry bulk sector. This represents 20,000 days of time charter per week. In the 12 months derivative transactions have been valued at USD 8.6 billion, with current open interest valued at USD 2.0 billion.

Project Purpose and Description

ICAO will cooperate with both governmental bodies and key partners in the industry to

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build a global air freight benchmark which is designed to reflect the movements in freight rates across the globe. The benchmark, hereafter referred as the Air Freight Indices (AFI), are baskets of spot freight rates, covering major air transport routes. The routes will be quoted in terms of US\$/t of cargo transported, published on a daily basis through ICAO online platform and opened to all the registered users. It can be viewed as the equilibrium price of air cargo transport, determined by the supply of transport capacities and the demand for transport.

Benefits

AFI provides an indication of freight rates changes and therefore an indicator of global trade, inter alia, in terms of electrical gadgets, high value goods and the perishable products. It can help companies with the planning process and decrease volatility.

AFI will also improve the price transparency on the market, which is especially important for the Small Island Developing States (SIDS) and Land Locked Developing Countries (LLDCs) whose economy is highly dependent to the air cargo transport and the Least Developed Countries (LDCs) who used to be placed in the vulnerable position due to lack of information.

At last, AFI will be used as the basis for settlement of Forward Freight Agreements (FFAs) which allows industry players to sell spot and forward contracts based on present pricing. This derivatives market enables the market players to hedge against the adverse price fluctuations of the freight rates, fuel prices, interest rates, foreign exchange rates and other sources of risk in the air cargo transport area.

Budget and support requested

Support will be required to collect the statistics of daily air cargo freights across the globe and to build an online indices publication system for the public to follow the freight rates movements. The budget also supports recruiting multi-disciplinary professionals to update the indices on a regular basis and to develop a manual which provides guidance as to factors which should or should not be considered in providing index assessments. At last, additional funding for the development of the template Forward Freight Agreements.



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For more information on ICAO's Voluntary Air Transport Fund please visit:
www.icao.int/sustainability/Pages/TRAF.aspx

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