

New York City Council Committee on Economic Development

New York City's Air Cargo Industry

By New York City Economic Development Corporation

Thursday, November 28, 2017

Introduction

Good morning Chair Garodnick and members of the Economic Development Committee. My name is Max Taffet, and I am a Vice President in the Ports and Transportation Department at the New York City Economic Development Corporation (NYCEDC). I'm joined by my colleague Andrew Genn, Senior Vice President in the Ports and Transportation Department. I would like to provide an overview of the air cargo industry's importance to New York City's economy and discuss the challenges and opportunities that the industry faces at John F. Kennedy (JFK) Airport. I will also review the study that NYCEDC and the Port Authority conducted on the industry, as well as highlight key initiatives and investments that both parties have made to position JFK for growth.

The JFK Air Cargo Industry

Since 1947, the City of New York has maintained a lease with the Port Authority of New York and New Jersey to operate JFK. NYCEDC administers the airport lease, most recently renewed in 2003 by Governor Pataki and Mayor Bloomberg. The current lease expires in 2050.

Domestic and international planes bring 59 million passengers a year to and from JFK. Over JFK's long history as a center of American aviation, it developed a vibrant ecosystem of on and off airport industries. Today, plane traffic from passenger and freight aviation operations employs 35,000 people in the air cargo industry.

As noted in both the 2013 NYCEDC and Port Authority Air Cargo Study and a 2017 report written by the Center for an Urban Future, air cargo is a critical part of the City's freight economy. In the 2013 Air Cargo Study, EDC and the Port Authority found that cargo-related employment at JFK exceeded 34,000; this generated \$2.2 billion in wages and almost \$6.6 billion in sales. It is estimated that every additional thousand tons of 1,000-ton air cargo handled at JFK creates up to 35 jobs in the City's supply chain. Needless to say, cargo is a significant job creator and boost to our economy.

JFK is currently the seventh-largest air cargo airport in the U.S. Our key competitors are airports that focus on the import and export of international cargo, including Miami, Los Angeles, and Chicago. Historically, Los Angeles has focused on the Asian market, Miami on the Latin American market, and JFK on the European market. With the "Open Skies" policies that began in the late 1970s and changing aircraft technology, both U.S. and foreign carriers have expanded international service to many more U.S. markets. This allows imported and exported cargo to fly directly to locations closer to points of production or distribution. Advancements in airplane fuel efficiency and lighter larger aircraft has resulted in aircrafts with increased airfreight belly capacity in new passenger airplanes—expanding the number of potential US air cargo ports of entry and exit. Because of these changes, we have seen Chicago, Washington Dulles, and Atlanta-Hartsfield seek to capture air cargo business from JFK.

But JFK remains a formidable competitor, and continues to be the nation's highest value port for import and export air cargo. In 2016, \$184 billion dollars' worth of international goods were sent into or out of JFK, representing over 18% of the value of total US international air cargo.

Moreover, the airport and New York City retain enormous competitive advantages, which JFK continues capitalized on. First, New York City remains the nation's largest consumer market, with an affluent, well-educated and diverse population. Shippers with goods destined for the New York metropolitan area, New England, and the Mid-Atlantic often make JFK their first choice. Second, JFK has the most international passenger traffic of any airport in the United States. The majority of international flights to New York City derive revenue carrying belly cargo along with passenger baggage. Third, JFK has specialized facilities such as the newly built animal handling facility that can handle almost every type of cargo. The airport has an unparalleled network of freight forwarders, customs brokers, and trucking companies that can process and ship cargo, and are familiar with ever-changing customs and security regulations.

The fourth factor might come as surprise to New Yorkers accustomed to living in dense, tight spaces. JFK actually has room for growth. With almost 5,000 acres, JFK can accommodate forecast demand for cargo facilities for the next 30 years. The airport is larger than Miami or LAX, and is approximately the same size as Atlanta-Hartsfield. Chicago O'Hare remains our only key competitor with more land.

Competitive Challenges and Opportunities

We recognize that there are several contributing factors to the recent decline in performance at JFK in relation to peer airports:

First and foremost, the growth of international traffic at competing airports due to Open Skies, evolving consumer markets, and changing technology has contributed to JFK's performance. This has shrunk JFK's catchment area. Where in the past, JFK had by far the greatest number of international flights, competing airports have pursued international routes and airlines have responded with additional flights to more destinations, meeting passenger and cargo demand.

Second, congested and constrained infrastructure adds time and costs to shipping from JFK. Tolls combined with limited cross NYC and Hudson River roadways can make it challenging for air cargo to get to and from JFK.

Third, JFK's facilities have not kept pace with modern standards, and many of its facilities are considered obsolete. Up until 1990, JFK was the largest air cargo port of entry into the US. The US air cargo industry was born at JFK and consequently JFK has an abundance of legacy infrastructure complicate reinvestment.

Finally, business and leasing practices and the lack of aggressive cargo marketing have limited growth opportunities. Prior to 2013, JFK representation was lacking at international and domestic air cargo industry trade events. While on a larger scale, major investments and facility leasing initiatives are pending next steps on the Governor's January 2017 Vision Plan for JFK, which incorporates additional air cargo facility investments.

Both EDC and the Port Authority recognized that the decline in cargo volumes needed to be addressed.

The first step in January 2013 was issuing a study of the industry and the airport's competitive challenges. The goal of this study was to identify ways to increase cargo volumes at JFK and reap the benefits of increased employment, wages, and sales. We recognized that these supply chain jobs offered entry-level employment and career pathway opportunities for city residents and workers.

The study found primarily that the demand for air cargo at JFK is projected to increase over the twenty years between 2010 and 2030. But in order to arrive at this forecast, required the Port Authority and the City to implement a host of initiatives to recruit new companies and carriers to JFK. As I will now describe, there are critical opportunities underway to improve and replace obsolete and aging air cargo facilities, update business practices and improve access to the airport, and promote and market JFK as a premier cargo destination.

Cargo Initiatives and Investments at JFK

Facilities

The ARK animal care facility at JFK, the JFK Airport Travel Plaza, and a new cargo building represent three examples of how obsolete and aging facilities are being updated to keep the airport competitive. This is especially important as the cargo business becomes increasingly specialized. Given the significant cost of air cargo compared to moving goods by land and sea, only goods that are high-value or have to arrive at their destination quickly are shipped by air. Shippers now require specialized facilities at major international cargo gateways to meet their evolving needs.

The ARK at JFK is a specialized facility that provides state-of-the-art animal handling to shippers at JFK. The shipment of live animals is a growing and lucrative niche market in air cargo. JFK's prior facility was woefully inadequate.

Phase 1 of the ARK opened January 2 of this year and Phase 2 opened in late June. The cargo facility is able to handle everything from horses and livestock to household pets. It includes quarantine facilities and inspection services that used to be housed near Stewart Airport in upstate Orange County. The City's Industrial Development Agency played a key role in making this facility a reality by helping to finance it.

JFK Airport Travel Plaza opened in 2014 and its parking facilities opened in 2015. Amazingly enough, this is the first rest stop for trucks and buses in New York City and the lot is filled with trucks and buses on a regular basis. It offers the cargo industry a state-of-the-art fueling facility for trucks, as well as bio-diesel and charging facilities for electric cars. Restaurants and services are provided for airport employees and drivers. The 7/11 on site serves more coffee than any other 7/11 in the US. But perhaps most importantly, the Airport Plaza includes a parking lot for tractor-trailers. This development responds to the industry need for truck layover locations, getting trucks off City streets.

While these new facilities lay important groundwork, additional new facilities are still very much needed at JFK. Last week, the Port Authority board authorized its executive director to execute a lease for a new, 346,000-square-foot on-airport cargo warehouse. This facility, the first to be built in over fifteen years, will consolidate most of the operations of the largest cargo handler at JFK, Worldwide Flight Services. This will enable the company to provide better service to its airline customers and speed up the delivery of cargo from plane to final destination.

These three facilities are essential improvements at JFK. Continued investment in the remaining aging infrastructure is needed, as are additional specialized facilities.

Business Practices and Access

While interviewing businesses for the study, we heard one refrain over and over: why is it prohibited to ship goods to JFK in 53-foot trailers when every other airport in America allows them? EDC and the Department of Transportation cooperated on an analysis of JFK-bound trucks that led to the lifting of this restriction in March 2015. By allowing industry-standard tractor-trailers to be used at the airport, as opposed to the 48-foot trailers previously allowed, one additional pallet of cargo can be loaded onto each truck. An additional benefit to NYC residents is that this increased trailer capacity leads to a reduction in total volume of trucks on the road. Following the adoption of this rule change, UPS changed out its fleet serving JFK and now carries the same volume of freight in fewer trucks.

EDC, along with Department of Small Business Services, has also supported the creation of a Business Improvement District in Springfield Gardens. This area adjacent to the airport has over six million square feet of warehouse and distribution space critical to the efficient functioning of JFK. The district and its surrounding area is where a good portion of the region's customs brokers and freight forwarder businesses are located—these businesses and their employees power an industry that supports critical supply chain management for the JFK air cargo industry as well as the seaports in Brooklyn, Staten Island, and New Jersey. The district also features roughly 150 housing units, whose residents co-exist with the supply chain industry. Gateway JFK, as the BID is now called, was signed into law by Mayor de Blasio in December 2016 with the support of Council Member Richards and other local elected officials. As one of the few industrial BIDs in the City, it will work to ensure that city services, such as snow removal, are coordinated with the cargo businesses.

Marketing

Finally, both EDC and the Port Authority have made increased investments to market JFK's cargo capabilities. EDC and the PA have exhibited at the last three International Air Cargo Association trade shows and Port Authority representatives have attended additional trade shows to tell the JFK story and highlight our competitive advantages. EDC also promoted the trucking rule change in the media to ensure the industry became aware of the new opportunity.

Maintaining JFK's Role as a Premier Air Cargo Gateway

While there have been a number of changes over the past few years, we at EDC are mindful of the competitive threats that continue to affect air cargo volumes at JFK and we remain dedicated to pursuing new opportunities to maintain JFK's role as a premier air cargo gateway. With improved facilities, good business practices and effective promotion, we see JFK continue to be the premier air cargo gateway for the entire Northeast and Mid-Atlantic regions.

EDC's ultimate goal is to strengthen the City's economy and provide good jobs to our residents. We look forward to working with you, the Port Authority, and industry partners to grow the business.

Thank you for your attention. I would be glad to answer any questions that you may have.

Center *for an* Urban Future

Testimony of Matt A.V. Chaban

Policy Director, Center for an Urban Future

**Before the New York City Council Committee on Economic Development
Oversight Hearing Regarding New York City's Sagging Air Cargo Industry**

November 28, 2017

Good morning Chair Garodnick and members of the committee. Thank you for this opportunity to testify. My name is Matt Chaban, and I am policy director of the Center for an Urban Future. We're an independent, nonpartisan think tank based in Manhattan. Our two-decade mission has been advancing policies to increase economic opportunity by growing the economy for all New Yorkers.

Most of us have probably just returned from Thanksgiving trips to visit family, and many likely passed through the region's three airports. They were almost certainly crowded and congested, since even on a typical day, they are among the busiest in the world.

Those in the air cargo industry would do just about anything to have such problems, as I imagine we will hear from them today. The fact is, as the Center revealed in our *Freight Forward* report released this July, while passenger levels at JFK International have reached a record of 58.9 million in 2016, air cargo tonnage has fallen to historic lows.

This imperils not only a link to the global economy and an engine of the local one, but a vital source of strong middle-class jobs. The city must work to stop JFK's air cargo free fall.

In the past five years, cargo volumes are down 6.3 percent, to 1.26 million metric tons. Since 2004, when volume peaked at 1.7 million metric tons, air cargo is down more than a quarter. That 1.26 million may still sound like a lot, but whereas JFK was the leading air cargo destination in the world into the early 1990s, it now ranks seventh nationally

and 22nd internationally. This despite companies like Amazon stoking record shipments of goods around the country and the globe, as we saw with the company's blockbuster weekend sales.

In fact, JFK runs counter to the national trend. Airports ranging from LAX to Miami to Chicago and even Newark are all up the past five years, with the national air cargo volume rising 6 percent; Chicago's rose a whopping 38 percent. Over the past two years Indianapolis is the only other of the top 15 airports not to see growing cargo volumes.

The decline in air cargo movements at JFK is a major problem for New York City's economy, particularly at a time when so few good-paying, middle-class jobs are being created in the five boroughs.

Over the past couple of years, the Center for an Urban Future has focused significant attention on the need to create more middle class jobs in New York City. The city's economy has been booming, adding around 700,000 jobs over the past decade. But relatively few of those positions have been middle-income jobs that are accessible to a large segment of New Yorkers.

The air cargo sector should be a key part of city efforts to preserve and grow middle class jobs.

There is actually reason to believe that—with the right support—New York's air cargo sector has significant potential for growth in the decades ahead. According to the most recent Aerospace Forecasts from the Federal Aviation Administration, air cargo movements in and out of U.S. airports are projected to increase at an average rate of 3.1 percent per year through 2037.

Much of this traffic is expected to come from abroad, which is a particular strength for JFK. While Domestic cargo movements are forecast to increase at an average annual rate of 1.3 percent, international cargo traffic is expected to grow an average of 3.8 percent annually.

If JFK could capture a proportional share of this growth, it would mean hundreds if not thousands of new middle-class jobs for New Yorkers.

At a minimum, New York needs to hold onto the good-paying jobs already associated with the city's air cargo sector.

JFK's air cargo industry sustains some 34,000 jobs citywide, both on-airport and in off-airport warehouses, distribution facilities, and regional suppliers, according to the Port Authority's count. Of these, more than 15,000 jobs are at the airport itself, comprising roughly 20 percent of JFK's total on-airport workforce.

Air cargo workers earn on average more than \$44,000 annually, with pathways to supervisory roles and higher incomes. Roughly four out of five of these jobs are accessible to workers with no more than a high school degree.

City and state officials can help this industry take off again.

Over the years, the Center has put forth a number of recommendations for city and state economic development officials, as well as the Port Authority, to address the challenges facing New York's air cargo sector. Here are a few of our suggestions:

Improve traffic flow on the Van Wyck Expressway. We suggest closing one or two entrance ramps on the Van Wyck Expressway during certain peak hours. Doing so would help put an end to the common practice, used mostly by taxis, of driving on the service road to get off and on the Van Wyck—a ritual that slows down traffic on the highway.

Open the Belt Parkway to commercial vans. Currently, the Belt Parkway prohibits all commercial vehicles, from 53-foot trucks to the commercial vans often used by overnight delivery companies. The Belt would provide a much faster alternative route for companies delivering goods to offices in lower Manhattan, and could possibly enable Kennedy to recapture some of the lost overnight freight companies that shifted to Newark Airport over the past two decades. This change would not open the door for trucks to operate on the parkway, since the low height of bridges over the Belt simply makes it impossible for trucks to pass.

Modernize aging cargo facilities at JFK. To keep airlines from moving their freight business to other airports, the Port Authority should address the serious shortage of affordable, modern cargo facilities at Kennedy. According to our 2013 *Caution Ahead* report, JFK's air cargo facilities are 40 years old on average, with 63 percent of cargo space considered “non-viable,” or unfit for modern screening, storage, and distribution.

Modernize the air traffic control system. To ensure that New York's airports can handle anticipated growth, the FAA and Congress need to approve—and fund—a

strategy to address gridlock in the airspace above New York and reduce incessant airline delays.

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