

# THE FREIGHT FORWARDER AND THE DEVELOPMENT OF AIR FREIGHT

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## FOREWORD

Least understood of all the new elements in the formative air freight business is the air freight forwarder.

To the certificated airlines, he is a pariah, a middleman, a cream-skimmer—to be harassed and fought at every turn and, if possible, stamped out. To the shipper, the air forwarder is a doubtful quantity, with some theoretical promise of usefulness but of only partly proven worth. To the Civil Aeronautics Board, he is a problem child, not to be suppressed exactly but to be handled gingerly and tentatively pending further developments.

To himself, the forwarder is an essential cog in the air freight mechanism; an expert in overcoming the uncertainties of a form of transportation which is still unsure; a coordinator of different kinds of transportation in a field where the air alone is not enough; a salesman who can accelerate sharply the development of the air freight potential; and finally, a laborer fully worthy of his hire.

Somewhere in between these extremes, perhaps, lies the true picture of the air freight forwarder. His future in air freight remains to be proved. It may be inhibited by the opposition of the airlines and the doubt of the CAB. It may be assured or denied by the conclusions of shippers, who have the power of life or death over all carriers. It may be clouded by abuses of the forwarder himself. Or it may prove to be bright with promise and fulfillment for the forwarder and the air freight business of which he is a part.

## I

### FORWARDING IS A METHOD OF TRANSPORTATION

The railroads are a form of transportation. That is to say, a railroad by itself, with its own tracks and rolling stock, is capable of producing a complete job of transportation from shipper to consignee. So are the airlines a form of transportation. But forwarding is less a form than a method of transportation, in that the forwarder produces completed transportation not by the employment of his own facilities but by making use of the services and facilities of other carriers.

Forwarding was born, in surface transportation, when the railroads' tight control of inland freight transportation was first broken by the motor truck shortly after World War I. Railroad service for less-than-carload shipments of freight had long been lacking in speed and dependability, and was highly vulnerable to the competition of the intercity motor truck. More and more LCL freight was won from

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the rails to the highways, until "The LCL Problem" was one of the most critical facing the rail carriers.

Partly in a defensive effort on the part of railroads to solve this problem, partly in an aggressive effort to evolve a new and better method of moving LCL freight, forwarding companies were organized. Whether railroad-owned or not, their purpose was to coordinate rail and truck transportation, forcing LCL shipments into a limited number of channels between major cities, consolidating these small shipments into full box car loads for long-haul movement by rail, and accomplishing by motor truck the assembly and distribution of the shipments comprising the full carloads.

The service quickly proved popular with LCL shippers. With one pickup call to a forwarder, a shipper could bring one truck to his shipping platform to remove all LCL shipments for all destinations. Instead of puzzling out his own best routes for traffic to diverse destinations, the shipper left this to the forwarder, who not only occasionally but regularly moved LCL freight faster and with less handling and damage than the railroads or truck lines directly.

Furthermore, the shipper usually paid no premium for this superior, coordinated forwarder service. Railroad rates, long since shaken down to the point where differences in the costs of providing different services were reflected in the rate structure, were higher per pound for small LCL shipments than for large, carload shipments. Thus, the rail or truck LCL rate from A to B might be \$2.00 per cwt., but the carload rate would be \$1.80 per cwt. The forwarder, charging a competitive \$2.00 per cwt. to his customers, could consolidate his many small shipments into full carloads and move them from A to B for \$1.80 per cwt., leaving 20 cents per cwt. to pay his overhead expenses and earn his profit. With volume, this difference was enough.

In its surface transportation origins, therefore, forwarding proved profitable to forwarders and beneficial to shippers. Nevertheless, forwarders have not enjoyed the unanimous affection of railroads and truck lines. Some of the latter claim that forwarders "skim the cream" of desirable traffic between major LCL freight shipping and receiving points, leaving the remainder to be handled at still higher cost and heavier loss, because of the reduced volume, in rail and truck direct LCL service. The forwarders counter this with the assertion that the railroads and trucks earn so much more from the handling of consolidated forwarder carloads and truck loads as to be better off, over-all, than if the forwarders were not in existence.

This is not the place to carry on that argument. Suffice it to say that surface forwarding exists, that it has had governmental recognition since Congress enacted Part IV of the Interstate Commerce Act in 1943,<sup>1</sup> and that some railroads think well indeed of forwarders because the latter are among their best customers.

## II

### WHAT AN AIR FREIGHT FORWARDER IS AND DOES

Accurate evaluation of the place of the forwarder in air freight transportation necessarily implies a clear understanding of what a forwarder is and does, and why he does it.

<sup>1</sup> 56 STAT. 284 (1942), 49 U. S. C. §§1001-1022 (1946).

First of all, it should be understood that a forwarder is not a broker or a commission agent. He is a carrier—called an “indirect air carrier” by CAB definition in contrast to the “direct air carrier” definition applied to airlines and operators of aircraft for hire.

Like direct air carriers, the forwarder must define the scope of his operations in respect to areas he proposes to serve and commodities he proposes to carry. Under the Civil Aeronautics Act, he must secure some type of authorization from the CAB before he can engage in operations as a common carrier. Having done so, he must publish his rules and rate tariffs, issue his airwaybills, assume responsibility for the movement of traffic offered to him by shippers, transport it to the proper destination and consignee, take a receipt upon delivery, collect all charges lawfully due, pay valid claims for loss or damage, and finally submit such reports as the CAB may require. In every respect, the forwarder conducts his business as a carrier and in the carrier essentials described he is no different from any other carrier, direct or otherwise.

But there is one significant difference between a forwarder and an airline, and that is that the forwarder does not own or operate the carrier equipment—planes in the case of air carriers, of course—by which the freight from which he derives his income is transported from place to place. The air freight forwarder may or may not own or operate motor vehicles to move traffic to or from airports, but he does not and under law cannot own and operate aircraft.

When an airline takes a consignment of freight from a shipper, it transports the shipment to or toward the billed destination on one of its own aircraft. The cost of air carriage is simply the cost to the airline of operating the plane schedule on which the freight is a part of the total load—and perhaps a small part in relation to passengers, mail, and express. This tends to obscure the true cost to an airline of carrying air freight, and leads to loose rate-making.

When a forwarder takes a consignment of freight from a shipper, on the other hand, he must purchase the air transportation necessary for the movement to or toward destination. He has no plane of his own which he must operate whether there is freight to go or not. He cannot dismiss air transport cost for his freight as a minor detail in relation to other essential costs. He must pay some direct air carrier's tariff rates or he will not move his freight at all, and the charges of direct air carriers are the largest single item in any air forwarder's operating expenses.

This being so, the forwarder naturally does what he can to reduce this major cost item. One measure to accomplish this purpose is so commonly employed that it has become popularly accepted as a universal characteristic of forwarding. That is the consolidation of shipments, by which is meant the taking of traffic from several or many shippers, consolidating as much of it as possible into a single consignment to a single destination or break-bulk point, and turning it into a single airline shipment in connection with which, on the airline airbill, the forwarder or his agents are both shipper and consignee.

This single airline airbill may cover a manifest which includes many forwarder airbills and many kinds of freight from as many different shippers to as many different consignees. But it is the single airline airbill on which the forwarder buys the air transport he requires, and the larger the shipment under ordinary conditions, the less the rate per pound. This consolidation procedure of the forwarder, therefore, has the simple purpose of reducing his costs.

Also it is normally the means of the forwarder's livelihood. In principle, competitively, his charges for transportation of a shipper's traffic must not exceed those of his competitors, including direct carriers, service conditions being equal. Since the forwarder must charge no more than the direct air carrier, yet must pay out of his revenue the direct air carrier's charges for airport-to-airport transportation, he must obviously pay less per pound to move his freight than he collects per pound from his shipper customers—he must, that is, if he is to have anything left for other expenses and profit. Since normally a larger weight of shipment means lower cost per pound, the forwarder consolidates as many shipments as he can.

In addition to this consolidation procedure, there is another characteristic of air freight forwarding, and that is the special emphasis put on ground transportation and its coordination with plane schedules. Paradoxically, in air freight, ground transportation is at least as important as air transportation. Some think it even more important. This is because the airports between which planes fly are commonly remote by miles from the freight shipping platforms of air freight customers. Furthermore, much air freight originates at or is consigned to places which are still off-airline, making a surface haul of perhaps scores of miles, and a transfer from surface to air transportation, essential elements in the air freight transportation.

These surface moves, long or short, do not occur automatically. They must be arranged, and the manner of their arrangement determines whether the performance of air freight service is to be of the sort which attracts, holds, and develops air freight tonnage. Forwarders, most of whom have some background of experience in rail, truck, or express transportation, consider themselves especially qualified to work out effectively this necessary coordination of air and ground transportation. In fact, they believe they can manage it more effectively than the airlines.

Forwarders are unlike direct air carriers in another important respect, and that is their freedom from worry about the return load problem which constantly besets the airlines. The balance of traffic flow in the United States is from east to west and north to south. Full planes can be dispatched by airlines from eastern and northern terminals, but return trips must be relatively full, too, if loss is to be avoided. This characteristic of direct air carrier operation, which influences in every possible way the policies and practices of airlines, is completely lacking in forwarder operation. The forwarder has no planes to fill. If all his traffic goes one way—a situation which would break any direct air carrier—the forwarder is unconcerned.

To summarize, forwarders are like airlines in that both are air carriers, but unlike them in that forwarders operate no planes, seek to consolidate loads, specialize

in ground transportation and its coordination with air schedules, and finally escape scot-free from the return-load compulsion which haunts an airline's existence. The mere recital of these essential differences hints at the somewhat less than cordial relations which exist between airlines and forwarders.

### III

#### WHY THE CERTIFICATED AIRLINES OPPOSE THE FORWARDERS

It has been mentioned earlier that the railroads and truck lines are not all favorably inclined toward forwarders in surface transportation. To say similarly that the certificated airlines are not all favorably inclined toward air freight forwarders would be an extremity in understatement. The certificated airlines' opposition to air forwarders has been thorough, vigorous, bitter, and persistent. And it still goes on.

The several steps in the airlines' campaign, first of forwarder prevention and then of forwarder elimination, will be related shortly. It seems appropriate at this point to examine the basic airline objections to forwarding as a method of air freight transportation. To do so may place in better perspective the specific airline steps in opposition which remain to be related.

At bottom, the certificated airlines are opposed to air freight forwarders and forwarding for reasons which stem directly from post-war conditions in air transportation. The first of these conditions was the advent of that child of war experience and war-surplus equipment, the cargo airline. The second, related to the first, was the need of the airlines for traffic and revenue to support the expanded air transport system which they were encouraged to build up by the optimism engendered in the war years. The third condition, growing in turn out of the first two, was probably no more than a human feeling of uncertainty about the future of the new-born air freight giant and an equally human fear that it might slip from their control to that of others, including forwarders.

The certificated airlines' opposition to their all-cargo competitors has been the natural reaction of those who have and want to keep. This opposition extended quickly to air forwarders because the certificated airlines believed, with reason, that the cargo airlines and the forwarders were allied in their efforts to seize and control the air freight traffic of the nation. This belief was bolstered by the fact that forwarders supported the cargo airlines and the latter supported the forwarders in their respective struggles for Civil Aeronautics Board recognition and certification. Determined as they were to obstruct invasion by the cargo airlines, what was more inevitable than the certificated airlines' equal determination to frustrate that cargo airline henchman, the air freight forwarder?

The certificated airlines were even more determined than they might otherwise have been to throttle the forwarder because they had an oversupply of cargo space on most flights in most directions. This surplus space resulted from overestimates of the post-war market for air transportation. The airlines had to fill this space. They had to develop sales staffs to cultivate freight traffic and provide the other

ground facilities to handle the needed freight tonnage. Most certainly they did not want forwarders to solicit in competition with airline salesmen and turn the resultant tonnage over to the cargo airlines. But almost equally were they opposed to forwarder handling of freight on a consolidation basis, which would hold freight during hours when half-filled planes were departing and dump it on the airlines in large consolidated loads at the peak of the evening mail and express rush hour. The airlines were positive, from what they knew of surface forwarder operating methods, that air forwarders would do this.

Finally, the certificated airlines were simply unsure of themselves and their ability to cope successfully with forwarders who, with the skill of long experience, might earn and control great blocks of tonnage, and with this control might misuse their power to force service and rate concessions from this or that yielding airline. There was some excuse for this apprehension. In surface transportation, forwarders had never been slow to exploit an advantage of this sort.

These, then, were and still are the basic reasons for certificated airline opposition to air freight forwarders. The validity of these reasons is open to question, of course. But these reasons and these fears—for all the reasons are based on fear of competition—represent the foundation stones supporting the whole, ramified airline campaign for the extinction of air freight forwarders.

#### IV

##### AIRLINES *v.* FORWARDERS

Forwarder applications to the Civil Aeronautics Board for certificates of convenience and necessity touched off the first concerted certificated airline attack on what they considered their new enemy. Docket 681 *et al.*, when at last it came to trial before CAB Examiner Cox in New York on February 17, 1947, found the airlines en masse, led by the Air Transport Association, in opposition to 78 forwarder applicants, some of them surface forwarders seeking to extend into the air, some new companies with experienced founders and respectable working capital, and some just young men with an idea of making a place for themselves in the new air freight business.

Week after week, the hearings droned on, in New York, Chicago, and Oakland, and finally in Washington. Everywhere the testimony was the same, the forwarders characterizing themselves as the best and surest road to a huge, profitable air freight transportation system, the airlines insisting that forwarders were useless "middlemen" which air freight would be far better off without.

When the last word had been said, the record had attained the breath-taking total of more than 10,000 pages of testimony and exhibits. The Examiner had the staggering task of separating the wheat from this mountainous pile of chaff and writing an appropriate report of findings. It took him months, but in April, 1948, he said, at last, "Let the forwarders operate."

Followed more months of Board consideration and a few days of argument

before the whole Board. Then on September 8, 1948, the decision: By three votes to one, an order under which virtually anyone who wanted to be an air freight forwarder and who was free of the taint of control by a surface carrier, could secure a letter of registration good for up to five years of experimental operation. It was a decision which wholly pleased perhaps only a few forwarders. Certainly it incensed the certificated airlines.

They refused to admit defeat, and filed a petition for review of the Board's decision with the United States Court of Appeals for the Seventh Circuit in Chicago. A stay of Board action under the order, pending such review, was requested and initially granted. On more complete evidence the court later set aside the stay and the matter now pends on petition for review. Briefs are filed or in preparation for filing, and a decision may be expected next year.

These legal steps have not represented the whole course of the certificated airlines in opposition to the forwarders. One retaliatory blow was the virtual elimination of the normal difference in airline rates per pound between large shipments and small ones. Instead of having one charge per pound at a hundred pounds and successively lower ones at 500 pounds, 1,000 pounds, 2,000 pounds, and so on—affording the rate "spread" within which forwarders can consolidate profitably—the airlines generally filed rates which were same per pound at all weights from 100 pounds to 16,000 pounds, and squeezed the forwarders still further by reducing their—the airlines'—100 pound rates to the lowest levels permitted by the Board. The effect of this on some forwarders was fatal.

More recently, to get the best of the forwarders—or perhaps of each other—certain airlines have given special encouragement to the employment by shippers of the airlines' assembly and distribution rules. Under these rules, a shipper can send a number of consignments to or beyond a single destination, for airline break-bulk and delivery or reforwarding; or a consignee can have an airline assemble various consignments from several suppliers in a given city and send them on to him as a single lot shipment. The charge for assembly or distribution is inconsequential and the shipper or consignees gets the benefit of the lowest rate applying on the gross weight of the combined shipments. The providence of these arrangements from the standpoint of airlines, and the legitimacy of certain novel variations on the basic theme which one or two of the airlines have devised, are now under investigation by the Civil Aeronautics Board—at the instance of the Air Freight Forwarder Association.

## V

### WHAT DOES THE FUTURE HOLD?

In the light of this recital, which has been more concerned with the give and take of litigation than with the more constructive aspects of the air freight business, it may appear fanciful, especially with vital cases still pending, to predict a bright future for the air freight forwarder. Yet that prediction must be made, for this reason: Air freight, for success as a medium of transportation, demands the employment of the forwarder method.

The essential characteristics of the forwarder method are coordination and flexibility. To no form of transportation are these characteristics so vital as air freight.

Coordination of different kinds of transportation is something which, for some reason, direct carriers of any sort—rail, water, road, or air—find themselves incapable of embracing with the whole-hearted enthusiasm which is the key to full effectiveness. Whenever a direct carrier of any type attempts coordination with one of another type, it does so gingerly, reluctantly, and piece-meal, insuring failure.

Yet coordination of air and surface transportation is an inescapable prerequisite to air freight. In air freight, the air alone is not enough in serving even airport cities, to say nothing of thousands of non-airport sources of freight traffic. A prior and subsequent truck or rail haul is inevitable in the movement of virtually every air freight shipment, and coordination is paramount if service is to be satisfactory—if speed on the ground is to match speed in the air.

Flexibility is second in importance only to coordination. Flexibility means prompt diversion to another route when one is filled or closed. Flexibility means that a load backlog, or equipment shortage or failure, or bad weather, tying up one airline or route will not ground the freight awaiting transportation. Flexibility in operation will move that freight on another airline or via an open route, and give the shippers the dependability as well as the speed to which they are entitled.

Forwarders and the forwarder method are supreme in these two essentials of coordination and flexibility. To forwarders alone are coordination and flexibility not only altruistically desirable but selfishly necessary. They improve forwarder service and reduce forwarder costs. Since they are essential to air freight service of the highest quality, the place in air freight of their prime exponents is assured.

No doubt contention and litigation will go on. No doubt there will be further lack of team-work between scheduled airlines, cargo airlines, and forwarders. This is unfortunate, too, because all have much more to gain from working, than they have from fighting, with each other. But eventually peace or at least an armed truce will come, and then air freight will hit its stride.