



# Cargo Handling Project

Sliac, Slovakia



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## I. Introduction and declaration

This material is set for only for the sole use of the representatives of proprietors and the Tatra Air J.S.C. management and it is there for the sole purpose of being internally used by the company.

Company Hypera Management J.S.C. is the author of this report that has been given to them to prepare project proposal in two areas:

- A. Air Cargo Handling at the Sliac airport
- B. Logistic center Sliac
- C. Base financial scenario

Purpose of this report is to prepare a well-described, analytical and evaluating report including recommendations for the strategy and the implementation steps.

Company Hypera Management J.S.C. is affirming that in elaboration of this project they will proceed with maximum care, furthermore they will act in good faith and will apply everything that is necessary according to their conviction and in their judgment will consider as beneficial.

Although company Hypera Management is not liable as to what kind of materials are utilized and also are not liable for any kind of damages that may occur.

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### III. Abbreviations used

AP	Airport
ARR	Arrival
ATC	Air Traffic Control
AVI	Live animals
BTS	IATA code for Bratislava airport
BUD	Budapest airport
CGO	Cargo
CU	Customs office
DEP	Departure
DGR	Dangerous goods
EU	European Union
EXP	Export
HS	Handling Company
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IMP	Import
BRQ	Brno airport
LS	Airline Company
MD	Ministry of Transportation of Slovakia
MOTW	Maximum Take off weight
RFS	Road Feeder Services
RHS	Ramp Handling Services
RWY	Runway
Sk, SKK	Slovak crown (currency)
SR	Slovak Republic
STW	Stowing
SWOT	Strengths, Weaknesses, Opportunities, Threats
ULD	Unified loading devices
ULO	Airport Security
VIE	Vienna airport

## IV. Air Cargo handling area

### 1. Current situation from the transportation and political viewpoint

- Location  
Sliac is located between two cities of Banska Bystrica and Zvolen , just in the heart of Central Europe.



*Fig. Central location of the SLD airport, a natural intersection*

- EU expansion  
In the year 2004 EU expansion by 10 new member countries, including Slovakia has moved the economic center of Europe towards the East. Together with many other attributes it means a challenge for this region that has an excellent opportunity to become a hub for entrance into the Eastern part of Europe and that's where we generally are anticipating a contribution of the stagnating industrial level of the EU.
- EU further expansion candidates are Bulgaria, Romania, Turkey , Ukraine, all new markets well accessible from Slovakia

## 2. Transportation potential of the region

### → Attraction zone

Potential of air transport in this region is being characterized with so called attraction/catchment region, which in the case of SLD airport represents approximately 15 million inhabitants who are living in five countries around Slovakia and inclusive of Slovakia and they are Hungary, Czech Republic, Poland and Austria. From the view point of cargo transport for common consumers we can count on having the same number, although for production and distribution logistics we can anticipate a need of transportation coverage of a much larger region. Just as an example we can illustrate a high concentration of an auto industry with European production.

### → Cargo Transport in Slovakia

The dominant means of transportation of goods in Slovakia is the highway system, which represents 78.1 % volume, followed by railway 21.3% and others 0.6% (source Transport University JSC, Zilina). Volume between the years 1998-2003 has been 200 to 250 thousand tons with the knowledge that the Slovak republic accession into the EU was strengthening; year 2004 had a slight decline. This was due to the higher fuel prices and increased competition that lowered the prices of transportation services. Highway transportation, just as it is in the surrounding countries is constantly gaining its strength at the cost of railway transport that has been slipping be it in the quality of service or in the price competitiveness.

Air transportation of goods, or cargo is with its own characteristics predetermined to offer very quick delivery at long distances. This type of transportation is of course naturally more expensive than other means of transportation and therefore majority of the air cargo are commodities that require special care or higher level of added value. We are especially talking about the following types of goods: cargo high value (for example PC components, PC's, instruments), perishable food items, live animals so called AVI, dangerous matters so called DGR, express type, commercial samples, medical materials, spare parts, post office deliveries, humanitarian aid, military mission.

Potential for this attraction/catchment zone is especially in the area of the electronic industry, where the Samsung plant in the city of Galanta can play the key role. There should be an extra effort devoted to this opportunity. Other plants in this region are attractive as well as potential customers, for example Panasonic – Matsuchita, Flextronics, Dell, IBM, Philips and others.

Very strong is automotive industry in the Slovak republic / Volkswagen, PSA, Toyota Hyundai-Kia / that from the viewpoint of the export statistics of the country is number one with the significant potential especially on the import side where some components are being imported from Asia.

Pharmaceutical and chemical industry is likewise a promising segment.

In the developed countries where the standard of living is on the rise, retail potential also plays significant role in sharing the air cargo transportation and in this region will grow.

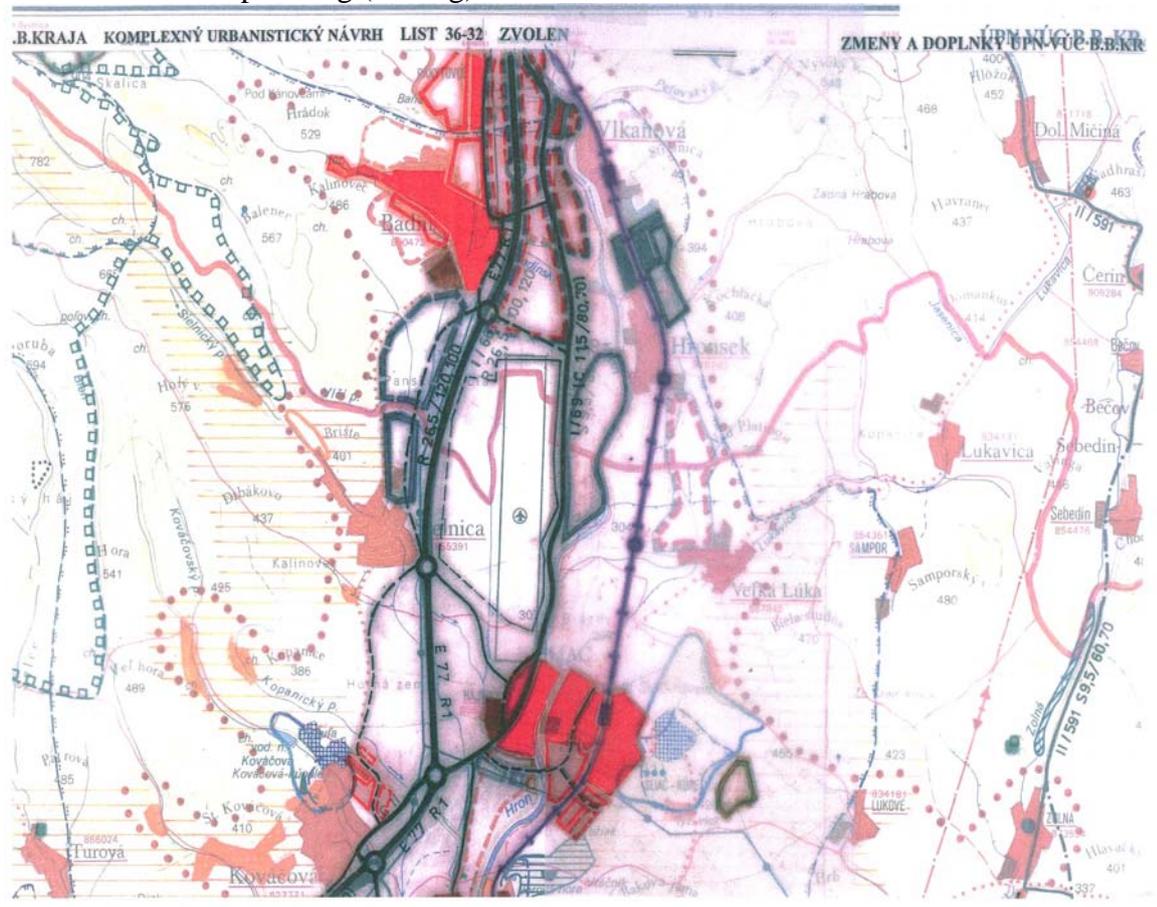
Furthermore it is necessary to say that the export potential of the local arms industry is present, even though is not reaching its glory from the past.

### 3. Sliac Airport, J.S.C.

Company “Letisko Sliac, a.s.” as the civilian operator was founded on 1/1/2005 according to Code No. 136/2004 Coll. of Codes from the former subsidized organization “Slovak Airport Management”.

Airport is classified into a category of Public International Airports of the Slovak Republic. Significance of the Sliac airport is not only for this region where it is located, but also outside the borders of Slovakia, due to the fact that it is making it possible to have direct connection to and from the whole world. Sliac airport serves both the civilian and military operations. It is the property of Slovak Republic under the management of the Ministry of Defense of Slovakia, where based on an agreement it is also utilized for securing the civilian operations. The civilian operation is done in selected area where the tangible and intangible infrastructure (except the land) is property of the company. For take offs and landings we use runways that belong to Slovak government under the management of Department of Defense. For the securement and needs of managing the flights, airport has an organization set up called Flight and Operation Services of Slovak republic, which is state owned (LPS). LPS offer their services at the Sliac airport exclusively with their own radio navigation systems that are independent from the military infrastructure.

#### ➔ Territorial planning (Zoning)



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➔ Runway system

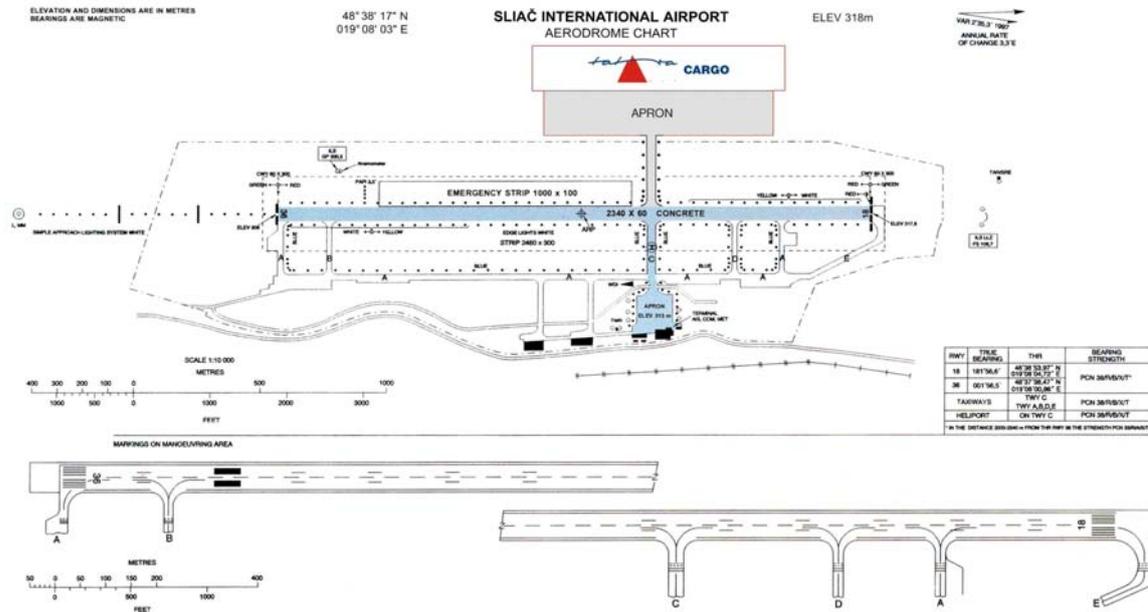


Fig .SLD airport drawing

Airport parameters – take off and landing strips:

**Runway 1: direction 18/36, length 2,340 x 60m**  
 ICAO Cat. .... Max. type: AN 124  
 Fire Category 4, max 7 if requested 24 hours ahead



Operational hours: 24 hours daily, 365 days per year  
 For existence and symbiosis with the military operation, airport has plenty of open slots for all types of aircrafts. Assumption is, that the SLD airport will continue to

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accommodate the types of aircrafts whose noise limitation restricts them from operation in the Western Europe.

Customs office is open during the scheduled flights and as requested.

→ Situation in the area of handling

In the area of offering handling services for passengers going through the terminal and at the ramp, the Sliac airport has the dominant role in cooperation with Tatra Air that takes care of the regular daily flights (1-2 times daily). These flights are via CSA airlines to and from Prague.

Buildings:

Airport has its own operational building serving for the administrative and technical purpose. This building is also being used for the needs of LPS, PZ SR, Customs and the Slovak Hydro meteorological Institute of Slovakia. For passengers there are independent individual spaces available for departures with the capacity of 70 passengers and for arrivals with 160 passengers capacity. Airport has its own fuel storage warehouse with 100 thousand liters of jet fuel capacity. This warehouse is the property of the company. Airport has its own parking lot for passenger cars (40) for the short term stay in a public space and 20 parking spaces for the long term parking that are accessible only with the security personnel.

To take care of cargo handling there is a temporary solution to convert a part of the operational building where we have machines parked. This could serve as an emergency solution for possible charter flights or as substitute truck transportation.

Technological infrastructure:

For servicing of aircrafts, airport has its basic infrastructure: electrical source for feeding the aircrafts, equipment for loading and unloading the baggage and cargo loading, equipment for deicing of aircrafts, for fuel filling and other type of equipment serving the technical needs of aircraft care taking.

LPS and SHMU have their own technological infrastructure built for the needs of the civilian operation at the Sliac airport.

→ Airline Companies flying to and from SLD in 2005

◆ Regularly scheduled flights:

CSA – traditional operator between PRG - SLD

◆ Freighters – in the area of cargo aircrafts, this year there was no movement at all. But a few years ago the Aeroflot Company used this airport to transport their cargo on a regular basis. Only in our memories we now see pallets loaded for the Russian machines.

◆ RFS - additional regular air cargo operations are so called RFS – Road Feeder Services, or alternative truck transportation. Their purpose is to offer cargo capacities between the hubs that are used by a large capacity aircrafts and small airports where the capacities are limited namely by the types of aircrafts.

Because this type of cargo handling is nonexistent, these trucks are not coming to SLD airport.

→ Post and courier companies

Traditional and inseparable part of transportation ever since the beginning of flying is the mail delivery.

Nowadays this service is no longer as lucrative for the airline companies. The prices are about the level of cargo per kilogram of weight.

Almost majority of carriers have agreements with the national postal companies and according to their capacities and ability of the network they are offering and transporting frequently a significant volume of mail.

Due to the heavy introduction of electronic mail, volume of transported mail is not declining. Handling of this type of mail is secured either by the Postal authorities with their own capacities, or with outsourcing for example cargo handling companies at national airports.

Likewise courier companies that are frequently called Integrators established themselves in Slovakia. The larger ones such as UPS, FedEx, TNT and DHL are being presented at the BTS airport in rented spaces.

→ Forwarding agencies

Their role is very important, without them would be difficult to get by.

List of these companies in Slovakia, compiled based on their volume of business in transportation in 2003

Cargo Partner s.r.o.

Dachser – purchase of Lindbergh a.s.

ABC European Air & Sea Cargo s.r.o.

Kuehne + Nagel s.r.o.

PKZ Slovakia s.r.o.

Slovfracht Slovakia a.s.

Frans Maas Slovakia, s.r.o.

M&G Group

Šped-Trans a.s.

CCS cargo Customs services s.r.o.

Express Slovakia a.s.

Courier / integrator/ companies

DHL, TNT, UPS, FedEx,

World Courier SR s.r.o.

DeutschMann Internationale Spedition s.r.o.

OKEG Kurier Express Grell, Remax Courier Service

Maersk Logistics s.r.o.

#### 4. Rival airports

From the regional viewpoint we can consider five international airports as rivals. They are Bratislava, Vienna, Budapest, Prague and Brno. Every one of these airports still has the chance to grow in transportation and the market share in handling. Mutual rivalry and tremendous pressure of logistic chains is not giving high hope for perspective at the Vienna airport. Below I will mention just the basic characteristics of each airport but for detailed analysis of strong and weak points of rivals we need to have more input data.

- **Bratislava BTS** - Capital city of Slovak republic enjoys its better geographical location as far as the regions are concerned. Thanks to the developing transportation infrastructure it is in the key place where it is a crossroad of corridors North - South and East – West. Area of the BTS airport is easily accessible from just finished expressway between Budapest and Prague. Bratislava is traditional railway hub and even the airport is connected to the railway network.  
  
In recent privatization process , Vienna airport won with highest bid. Our prediction is that Vienna will control the development of airport taking into consideration their own Austrian interests, thus not moving the cargo operation from VIE to BTS.
- **Vienna – VIE** - largest in the region in PAX, cargo and in post, has monopoly in handling, high prices, not having sufficient cargo administrative, hub for Austrian airlines and at the same time STAR VIE alliance is working on campaign to build large hub as the main gateway to central and Eastern Europe. Airport has many years of experience handling cargo freighters type 747F.
- **Budapest - BUD** - hub of the national airline Malév, which has considerable economic difficulties. Malév cooperated with Alliance SKY TEAM, then switched to One World. That was in line of airport privatization , where the winner became BAA, British Airport Authority. Now Spanish group Ferrovial placed the bid to take over BAA and speculations are that they are interested in UK airports only, so others like BUD will be sold. In the area of cargo handling the airport operator plays the main role. He is the one who profits from the regular operation of 747F type freighters that it is serviced by the strong IT industry in Hungary.
- **Prague – PRG** - Ruzyne airport is the home base for CSA airline, a member of the SKY TEAM Alliance; airport is at their peak of interest for the influx of low cost segment. It is rapidly expanding and it has plenty of air terminals. The bottleneck is their carrying capacity of the runway system.
- **Brno – BRQ** - it is the first privatized international airport in Czech republic. Thus far it was put aside as far as the PAX area of development is concerned. New moment is the announcement of Ryan Air operation. In cargo, Brno has been successful for approximately 2 years when it was the hub of Coyne Airways Company that is operating cargo between points in Western Europe and Central Asia. In the middle of 2004 cooperation with this airport ceased because a new way was found how to bypass the noise restriction at selected airports in France and Belgium. A new initiative is to create a public logistic center.

## 5. S.W.O.T. analyses

### → STRONG POINTS:

- ◆ excellent geographical location
- ◆ sufficient slots and no night restrictions
- ◆ catchment area 15 mil inhabitants
- ◆ intermodal access - highways and railways
- ◆ planned highway entrance
- ◆ free zone connection to Western Europe

### → WEAK POINTS:

- ◆ deficiency of cargo handling capacity
- ◆ low volume of cargo clearing
- ◆ inexperienced human resources
- ◆ minimum amount of experience with RFS
- ◆ no regularly scheduled flights using wide body aircrafts

### → OPPORTUNITIES:

- ◆ Influx of investments into production capacities
- ◆ 8,0 % GDP growth of SR
- ◆ cargo potential of IT and auto industry
- ◆ big potential with Samsung and Dell
- ◆ CEE hub for some of the integrators
- ◆ connection to RFS network
- ◆ cargo logistic center

### → THREATS:

- ◆ moving cargo operation form VIE to BTS
- ◆ squandering opportunities with not building cargo terminal
- ◆ de-monopolization of cargo handling in VIE
- ◆ departure of Samsung plant from SR
- ◆ activity acceleration at the Brno and Ostrava airport

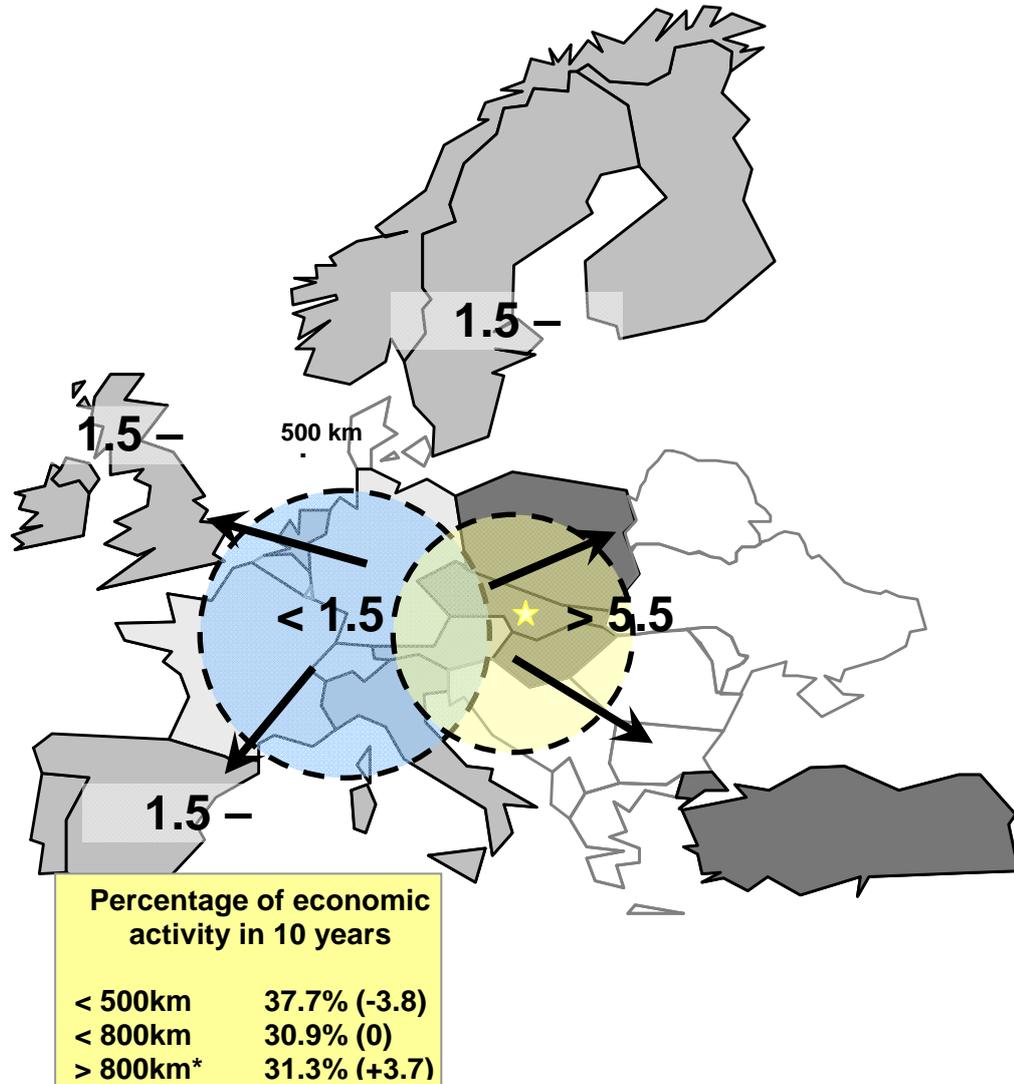
## 6. Prognosis

Under the global presumptions in the area of cargo air transportation we can anticipate the next 10 years an increase in Europe between 5 to 6%. Although Eastern Europe will record an increase that will be significantly higher and it will be 12 to 15%. This exceptional two-digit increase can statistically help the countries of Western Europe to reach the above-mentioned 5-6% increase for EU.

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Based on the statistical data we can conclude that the volume increase of air cargo has twofold direct proportionality of the GDP increase.

Fig. Mean annual GDP increase in the region 2002 - 2012



An inclusion of Eastern Europe to EU strengthens the tide of investments into the region and it is almost a sure thing that there is a movement of European economic center towards the East. This is illustrated by a massive influx of subjects conducting their business in logistics. They are entering the Central and Eastern Europe. Likewise investors specializing in industrial zones and logistics are very active and the new logistic centers are growing in record volumes.

## 7. Strategic vision

According to our opinion, basic ambition of the Sliac airport as far as the passengers are concerned should be to create conditions for regional connection to Prague, Frankfurt or Munich. There is a chance also for charter flights to Mediterranean region and for the incoming market France, Holland and Great Britain.

In the area of transportation and cargo clearing and mail, it should be a clear vision to build an air logistic terminal for the “catchment” region consisting of BTS, VIE, BRQ, OSR and South Poland.

As the strategic goals we are proposing to set the following:

- ◆ construction of cargo handling company
- ◆ construction of modulated cargo center
- ◆ to develop closer ties to Samsung, Kia and Toyota logistics
- ◆ to go all-out in promotional gimmickry to get large capacity cargo aircrafts to operate from here
- ◆ operational base of smaller cargo aircrafts with flight range up to 4 thousand kilometers
- ◆ regional hub for some of the integrators, ideally TNT or Fedex
- ◆ construction of RFS distribution center and connection to the European network
- ◆ to acquire synergy from the intermodal possibilities and opportunities to railways and planned highway North to South
- ◆ to get for the cargo clearance for the international mail

## 8. Recommendations

This report came to a distinct opinion that in the area of cargo handling Sliac airport has an excellent opportunity effectively and with return on investment of 5-6 years to be profitable. Precondition for them is that in very short time they should be able to find a solution including having the project ready for potential partners.

From the airports viewpoint it is necessary to count during the planned reconstruction on extension of runways, both take off and landing with the new calculation of 3000-3200 m. Location and the open fields of the airport make it possible to even further extend the runways up to 3650 m.

In view of the above mentioned opportunities we are proposing to immediately get going with this and incorporate it into so called Master Plan. This Master Plan has to contain a proposal for a speedy establishment of cargo handling including the license process and finding a temporary solution regarding the terminal.

Before the preliminary study for the cargo center gets under way there needs to be a meeting(s) with the potential partners such as TNT, Slovak Post, Samsung, KIA, Korean Air, Asiana and others.

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Subsequent steps will be the business plan, which will predict economic data into a realistic and optimistic version. This business plan will be the main document for financing this investment for the cargo center.

## V. Conclusion

This report has been prepared by the Hypera Management s r.o. Company as per agreement from June 2006. Information included in this report was based on the accessible information as of the date of writing and it is presenting findings and proposals for customer in given parameters.

## VI. Annexes

Air Cargo tonnage forecast - attachment 1

Cargo and mail handling park – Sliac : Base scenario - attachment 2

Summary : Cargo and mail handling park - Sliac - attachment 3