Amazon steps up air game with new cargo deal

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Online retail colossus Amazon on Thursday boosted its fledgling air cargo service as it moves to gain more independence from freight firms for delivery of online purchases.

Atlas Air Worldwide Holdings will provide air cargo services to Amazon, which also obtained an option to buy a stake in the New York-based company, the companies said in a joint release.

"We are excited to begin a strategic long-term relationship with Amazon to support the continuing expansion of its e-commerce business and to enhance its customer delivery capabilities," said Atlas Air chief executive William Flynn.

The agreement will include Atlas Air operating of 20 B767-300 converted freighters for Amazon. Operations were to begin in the second half of this year and ramp to full service through 2018.

"We are excited to welcome a great provider, Atlas Air, to support package delivery to the rapidly growing number of Prime members who love ultra-fast delivery, great prices and vast selection from Amazon," said Amazon senior vice president of worldwide operations Dave Clark.

The deal included Amazon getting warrants allowing it to acquire as much as 20 percent of Atlas Air common stock shares at a price of $37.50 over a five-year period, according to the companies.

"The natural step for Amazon is controlling more of its own transportation and logistics, including additional air cargo and other transportation operations, as these are almost a necessity to continue the rapid expansion of Prime and Prime Now," Baird Equity Research said in a note to investors.

Amazon last month started up its own air cargo service, laying down a challenge to companies like Fedex and UPS, which deliver much of its goods.

Aircraft leasing firm Air Transport Services Group said Amazon's Fulfillment Services unit will lease 20 Boeing 767 freighters, to be operated by ATSG, to serve Amazon customers in the United States.

The move was to "ensure air cargo capacity to support one and two-day delivery for customers," according to Clark.

It could boost Amazon's standing with customers, especially during the heavy shopping of the end-of-the-year Christmas period.

Over the past two years both UPS and Fedex struggled with the high volume of goods ordered online to meet delivery commitments.

"We continue to believe that Amazon is in the early stages of building out larger-scale transportation and logistics operations to add capacity beyond existing providers, to lower logistics expenses, and ultimately, to offer specialized services to third parties," Baird said.

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