



Cargo Security Still A Political Football:

American seaports haven't generated so much attention since the Boston Tea Party. The uproar in Congress, the White House and the press concerning the now scrapped purchase of Britain's port company, the P&O Group by Dubai World Ports, is shining a spotlight on ocean port security as no other development since 9/11. Will this concern now shift to a closer look at airport security? You had better believe it. Currently, the Transportation Security Administration (TSA) is planning to issue new and more stringent rules regarding security at U.S. airports. Rules which airlines and forwarders alike believe will inhibit international trade and crimp air cargo operations. Typical of the confusion among government bureaucracies, the TSA and its parent, the Department of Homeland Security, have seen a regime change during the past year with personnel coming and going. Hardly a stable environment to issue rules that can have an enormous effect on the fluidity and rapidity of international air cargo. Without getting too technical, one of the most important and controversial rules is the so-called Regulated Agent rule



requiring airlines to accept cargo only from known customers—both forwarders and direct shippers. If the shipment comes from an unknown customer, if there is no freighter service, the shipment is delayed until checked by airline or forwarder personnel. Aside from the delay, what happens to our industry's drive to find new customers for air freight? Does this mean that we must rely on our tried and true known customers for business? Where is our growth in retaining just existing customers and to be inhibited from finding new ones by cumbersome security rules.

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Unfortunately, too many current and proposed security rules are knee-jerk reactions and politically motivated rationales which will have the negative

Is Ryanair's Michael O'Leary A Jokester Or Savant?

Michael O'Leary is head of Ryanair, the European low cost carrier that is one of the largest and most profitable airlines in the business. After eliminating window shades, pillows and blankets and charging for all checked baggage on his new Boeing 737 aircraft, O'Leary is considering seriously the ultimate elimination—eventually making all Ryanair tickets free. While some traditional competitors dismiss his threat as ridiculous and others show irritation

that O'Leary is pulling their legs, if this Irishman makes good on his threat, competing airlines will be out of business. Is O'Leary joking or can he pull off this seemingly nutty idea? How can any business survive without charging for its services, particularly an airline with its high, fixed costs? Actually, there are all kinds of ancillary revenues Ryanair can charge to sandbag the customer who actually believes he is getting a free ride. Very few of us remember when small, feeder airlines weighed every passenger

effect of slowing cargo deliveries. It's hardly vital for a ship to be delayed up to 24 hours at destination because of security clearance as the vessel already has been traveling for more than two weeks. But for air cargo shipments which take only two days in transit, a 24 hour delay because of security clearance could be disastrous for the forwarder's customer and his tightly scheduled supply chain operation. We need less politics and more plain common sense in our approach to security procedures.

to ensure their small aircraft wasn't too heavy for lift-off. O'Leary can revive that custom with overweight travelers paying a hefty premium. Baggage could be charged right from the first ounce with no item spared. No exceptions for ladies' handbags or laptops. Food and drink could be served in the cabin at excessive prices. There are plenty of ways to make money without charging for tickets. O'Leary has surprised the industry before; he may do it again with this ultimate threat.

Announcements

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Gap Between Imports & Exports Continue To Widen:

Anyone who has walked down the aisles of a Wal-Mart, Macy's, Best Buy, etc. could be convinced the "Made-In-America" label has gone the way of the dodo bird. It's hard to assume otherwise when looking at almost every type of consumer item on the shelves. In 2004, the last year for compiled records, American consumers purchased almost \$375 billion worth of imported goods. Yet, the U.S. is the world's largest exporter, beating out China and other nations of Asia and Europe. How to explain this riddle?

We are the world's biggest exporter in terms of tonnage. A principal reason is—trash. The U.S. is very good at generating and moving trash. The U.S.' largest exporter in terms of volume was not Boeing, Hewlett Packard, IBM or any other of our great manufacturing companies. It was a totally obscure company based in California's Inland Empire called America Chung Nam, Inc., which exported 201,000 40' TEUs—of wastepaper. Right behind America Chung Nam is a better known company, Weyerhaeuser, which also exported paper but of a different kind—newsprint plus other kinds of paper products. The forest products company exported almost 155,000 TEUs last year. A manufacturing company doesn't show up on the export



until 10th position; Daimler Chrysler, which exported 50,000 TEUs or one quarter of the wastepaper volume.

Little wonder that our trade deficit will hit around \$550 billion when our largest exports in volume are low margin products. And little wonder that air cargo flying westward from U.S. shores travel with light loads while eastbound traffic is bulging. The much maligned Bush Administration is at least attempting to meet the challenges facing the U. S. manufacturing sector. It has formed a Manufacturing Council and also an Office of Manufacturing & Services within the U.S. Commerce Department. Don't expect great things from these groups but at least it is an indication that the Bushes can't preach free market economies and globalization while our manufacturing base—source of past U.S. prosperity—goes down the tubes.

Air freight, of course, handles high value products. Our plants and factories must produce more of electronic, computer, transportation equipment, auto parts, printing equipment and other high value items to fill our aircraft traveling westbound. We never will show more than anemic growth unless and until the U.S. manufacturing sector expands once again.

EEC Investigation Of Cargo Rates—An Exercise In Futility:

Little noticed on this side of the Atlantic is an investigation into air cargo rates by the European Economic Commission. The Commission is charging a number of European based airlines like Lufthansa and KLM-Air France with colluding to set air freight rates. What our industry hardly needs is a bunch of bureaucrats checking into cargo rates which are not too high but entirely too low! With cargo volume across the Atlantic basically flat and competition fierce, airlines are dumbing down to the lowest tariff levels in years. Where the carriers are acting cute is not in setting conventional rates, but in similar fuel charges. With these kind of charges,

the carriers are acting in lockstep despite the fact that fuel costs vary among the airlines. Some carriers hedge future fuel prices more successfully than others. Fuel is purchased at different locations with differing prices. And why should a forwarder pay the same fuel surcharge for trips of different lengths?

The EEC must have more important matters on their agenda than chasing after air cargo tariffs. Like helping to jump start the economies of Europe which have been moribund for the past decade. Or loosen labor laws which now make it almost impossible to dismiss redundant workers, thus making very difficult for European manufacturers to compete successfully against Asian producers.

In Sixteen Years From A Healthy Industry To A Sick One:

A customer in New Zealand sent me the complete business section of the Los Angeles Times, dated August 30th, 1989. Airlines dominated the business news. Marvin Davis, an L.A. billionaire, was madly buying up United Airlines' stock. United's share price (I know it's hard to believe) was \$275. American Airlines was being pursued by an unknown predator. Its share price was \$91.50, jumping \$10.25 in one day. Alfred Checci had just completed the purchase of Northwest for \$4.05 billion. Continental was trying to hock itself off to, of all people, Donald Trump. The only carrier among the big 5 not in play was Delta.

What a difference 16 years makes! Today, Northwest and Delta are in bankruptcy while United just has emerged from Chapter 11. Of course, Delta's and Northwest's shares are worthless today. American Airlines, despite a huge, accumulated debt of about \$10 billion, is keeping its head above water while speculators are jumping the stock all over the map. From \$8 per share last year to more than \$25 today, it is one of the biggest winners on the NYSE. Continental, almost in bankruptcy sixteen years ago, now trades at about \$20. U.S. Air has emerged from bankruptcy and is selling in the mid thirties after its acquisition of America West.

Free marketeers constantly rail against all regulation, but was regulation so bad for airlines, passengers and forwarders? Regulation allowed some competition but also allowed affordable air fares, healthy airlines and well paid staffs. It was a privilege then to work for an airline. Today, under deregulation, we have poorly paid employees (with the exception of pilots and they now are forced to take cuts) and with few benefits. Hanging over our industry is the uncertainty that except for some low cost carriers, actual survival is at stake in this brutal age of the lowest common denominator.



Qantas Planning Outsourcing of Engineering Work:

Not too long ago, many of the world's airlines prided themselves on almost all engineering and technical work accomplished "in house." The major international carriers built up highly qualified professional staffs of engineering and technical people who became more familiar with their aircraft than the original manufacturers. Qantas went one step further. It developed its own technical manuals claiming the airline went further than the recommendations of the manufacturers in setting safety standards.



Today, with their obsession in reducing costs, many airlines are "outsourcing" their engineering work to others. Qantas is the latest, melancholy example. Together with its other "down under" airline, Air New Zealand, Qantas is about to dump most of its engineering employees and transfer the bulk of the work to China.

When is this madness for about our passion for cheap Chinese labor going to reverse itself? Will it be too late for the western world to lose its enterprise and manufacturing skills? It's one level of manufacturing skill to make a stuffed toy; it is another to properly maintain a complicated 747. Would I trust Chinese workers to make plush toys? Yes. Would I trust them to service our aircraft? Quite frankly, no. It is not that I am inherently anti-Chinese. There is any number of good, solid reasons for my skeptical attitude toward outsourcing of aircraft maintenance to China. One; China has no respect for copyright or intellectual property. Two; would I trust a Chinese company to use genuine and legitimate parts for my aircraft? I don't think so. Do I have confidence in the qualifications of Chinese engineers? Do they match our western trained and licensed airline technical staffs? No. I simply don't trust their method of education and training. Nothing is sacred any longer. In the name of globalization, America and its western partners have sold their workforce down the river. Lou Dobbs is right. We have sold our birthright to knock off a few-

" In the name of globalization, America and its western partners have sold their workforce down the river."

-cents on an article of clothing or a screwdriver. Who are the beneficiaries in addition to China itself? It is the greedy Fortune 500 companies and their ilk. I predict a groundswell of nationalism rising up from the grassroots that will force governments to take action and reintroduce tariffs to halt the spread of one way trade with China. Already, the Democrats in both Houses of Congress are introducing protective legislation. Listen; Qantas and ANZ management; I would think carefully in what you are doing. Exporting your engineering talent will not bring about the cost savings you expect to achieve. And it may mean more in "down time" than your savings in personnel.

Cargo 2000, What A Joke:

In the nineties, a number of airline cargo executives with little to do, persuaded a few of their forwarder buddy cronies to band together in an association. They would meet on a regular basis in different parts of the world (the more exotic the better) to develop in written form measurable quality standards and processes on how cargo should be handled and moved. The objective; preparing cargo for the 21st century. Fast forward to 2006. We're still no further down the track than ten years ago. One of the original "founders," AEI's Gunther Rohrmann, now says that after ten years of countless meetings and announcements, "I now recognize that Cargo 2000 is moving too slowly." Well, Mr. Rohrmann, why is this so? As a "bread and butter" worker in the cargo trenches for the past 35 years, Let me give you my opinion. First, you and your buddies simply enjoyed taking time off at

company expense to meet in some colorful city (funny, you never arranged meetings in Cleveland or Toledo). These meetings were held a few times each year to utter profound and utterly meaningless pronouncements while spending most of the time socializing and impressing one another by puffing out a whole lot of hot air.

In the eighties, excluding the United States, the forwarding world was introduced to ISO certification standards. It was great for the promoters (management consultancies and accounting firms) to squeeze tens of thousands of dollars each year in fees based upon the threat that if they were not ISO certified, they would lose business automatically. Airlines even were suckered in. It wasn't until the late eighties when British Airways lost its accreditation that the transport world realized what a hoax had transpired. B.A.

cargo never went out of business because it no longer was ISO certified. Today, you hear little of ISO. The cargo industry has a great many and more important things to worry about.

The same can be said of Cargo 2000. Rohrmann and his band of acolytes worked hard at blackmailing others into the fold. They even reduced fees to next to nothing. But events have passed them by. Elitist clubs are an anachronism. Ask the Masonic Lodge! Cargo 2000, as a start, should rename itself "Cargo 2020" to make it a more relevant organization. That will give the "boys" another fourteen years of meetings to shoot the breeze and talk nonsense.

Sincerely,

Julian A. Keeling

