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Consolidators international, Inc.

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EXTRA!!! The Times EXTRA!!!
News & Views

U.S. Falling Behind In China Trade:

There is little doubt that just after a few years into the 21st century, China has become the most important and challenging trading partner with the U.S. All indications point to an acceleration of this trend as we move deeper into the century. Our trade deficit with China is reaching historic levels. Never before in our history has the U.S. recorded such a huge deficit with any one nation. Largely because of this trade deficit, China now owns the staggering amount of $1 trillion in U.S. Treasury securities.

Our trade deficit with the "Celestial Kingdom" has escalated from $83 billion in 2000 to more than $200 billion in 2006. Fully 7 percent of our nation's GDP is generated by our trade deficit with China. That nation's share of ocean container volume from Asia into the U.S. has grown from 11 percent in 2000 to 70 percent in 2006. Air freight volume from China has catapulted from 20 percent of all cargo from Asia at the turn of the century to almost 80 percent today. Our trade with Europe, the Middle East and Latin America is flat at best and declining at worst. Without China, there would be no growth at all either in air or sea commerce.

Walk into any Wal-Mart or Target store and at least 75 percent of the merchandise on their shelves originates in China. West Coast seaports would stagnate without China trade. With China out of the picture, we could throw away all the Boeing 747 freighters flown today or being built. What can the U.S. do about this enormous trade imbalance and dependence on one country? So far, it's all talk and no action. Our Secretary of the Treasury, Henry Paulson, keeps flying to China for "talks." While there, he makes brave statements urging China to concentrate on the nation's domestic market, raise its currency, lower import duties and open up financial markets to westerners. The Chinese arrange lavish state dinners for Mr. Paulson and completely ignore his advice.

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The U.S. never should be dependent on one nation, any nation, for our country's prosperity. In my opinion, it's time not to talk tough but to act tough. Let's not give the Chinese a free ride. Let's not allow our markets to be flooded with their goods while U.S. companies face a maze of restrictions in attempting to sell our products there. Polite and "civilized" negotiations with the Chinese during the past few years have gone nowhere. Let Congress stop focusing on non-binding resolutions which do nothing to shorten the war in Iraq and concentrate on meaningful legislation that will place the U.S. on an equal footing with China. Free trade is great in theory, but when hundreds of thousands of jobs are lost throughout the U.S., a little spoonful of protectionism isn't such bad medicine.

Announcements

Inside This Issue:

IATA Is Waking Up To Reality:

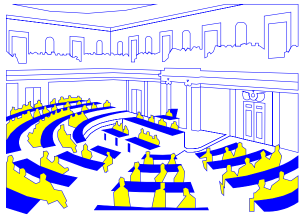
IATA, trade association for the international airlines, has long been considered a lumbering, slow moving organization with its feet firmly planted in mid air. But the enormous changes in civil aviation since 9/11 is forcing even this most bureaucratic of organizations to recognize today's realities. At a recently conference held in Mexico City, the theme of IATA's meeting was "Keeping It Simple Will Lead To Future Profitability." I'm glad to see mighty IATA is taking a leaf out of humble CII's playbook. We have been living with the philosophy of keeping it simple since CII opened its doors thirteen years ago.

IATA

Senate Showing More Sense Than House On Security:

Ever since 9/11, a debate has been raging on how ocean and air cargo can be made safe from sabotage by terrorists. The U.S. House of Representatives recently passed a truly draconian bill which stipulates that international freight should receive the same screening as passenger luggage by October, 2009. Fortunately, cooler heads in the Senate, led by Jay Rockefeller (D-West Virginia) realize the House bill is far too reaching and could jeopardize our entire economy. A number of Senators are planning to modify it substantially.

Our business certainly requires modification of this bill. If the House bill becomes law, international air freight literally would be grounded. There simply is no security equipment either being built today, or under development, that would be quick, reliable and operated by qualified staff to carry out such a massive job. While inspecting cargo to be placed on freighter aircraft would be a huge task, it pales besides checking freight in the bellies of the enormously greater number of passenger airplanes. Passenger aircraft carry about 6 billion pounds of international cargo per year. They are typically goods that require fast shipment like auto and electronic parts and perishables like seafood which is



becoming an increasing part of our business. With cumbersome screening processes, much of that business would shift to ocean. Why pay the much higher rates of air freight when its greatest advantage; speed, is lost? Airlines are warning that many international passenger flights would be canceled if they could not carry cargo. On many of these flights, cargo is the difference between profit and loss.

Let's have genuine security for ocean and air cargo, but also let's not kill the goose that lays the golden eggs. Let's have a measured approach to screening cargo that will balance our legitimate security needs with the economic requirements of our nation.

"Let's have a measured approach to screening cargo that will balance our legitimate security needs with the economic requirements of our nation."

Beatson, like Lazarus, Rises From The Dead:

In last month's Newsletter, I commented on how Bruno Sidler, former president and CEO at Panalpina, had jumped from the frying pan into the fire by taking an executive position at EGL Global Logistics. Obviously, EGL's head honcho, Jim Crane, is so busy buying his own company, he didn't have the time to find any better executive than Sidler to fill the position.

This month comes news of another Lazarus rising from the dead, this time in the form of an announcement of the appointment of David Beatson as CEO of a forwarding company up in Massachusetts, Globalware Solutions. Obviously, Globalware Solutions was not looking for solutions when it hired Beatson—one of the worst executives in the cargo business. While he was head of Panalpina's North American division, Beatson together with Boss Sidler, almost ruined that venerable Swiss forwarding firm. I'm constantly amazed at how incompetent executives in our business not only shift from job to job, but actually land positions with more pay and responsibilities. I sometimes think our industry has a death wish with so many forwarding heads better suited to the mail room than the executive suite.

"Obviously, Globalware Solutions was not looking for solutions when it hired Beatson..."

The Qantas Saga Continues:

It seems like eons ago that a group of Australian, Canadian and American investors bid for controlling interest in Qantas. There were more hurdles in getting approval than at a track meet, but success seemed to be finally in their grasp. Despite howls of protest from the Australian media that Qantas was being sacrificed to the gods of greed and avarice; that the proud Australian flag carrier would become another no-frills airline, government approval—crucial to a successful bid—was given. Now, the private equity consortium's almost $9 billion bid for the airline is coming under strong pressure to withdraw as many large institutional (and small) Qantas investors are balking at the share price to be paid.

Even the government is having second thoughts. They now realize that Qantas is not just another airline in Australia. Qantas has just completed an outstanding year with profits higher than expected. It owns an irreplaceable set of assets with an outstanding service and maintenance record. There are tremendous barriers for any new competition to enter the domestic Australian market. In my opinion, unless the equity group raises its bid considerably, the deal will not fly.

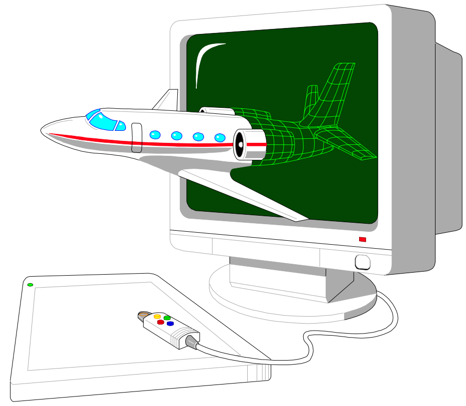
Some lighter moments from Qantas. The airline's chairwoman, Margaret Jackson, was interrogated recently by security officials at LAX because they found detailed aeronautical diagrams in her hand luggage. Ms. Jackson explained that she was chairperson of a major world airline and the diagrams were part of her Board duties. She was met with an incredulous response, "but you're a woman, how can you be head of an airline?" Jackson had to prove that indeed she was head of Qantas by pulling out all kinds of identification from her purse.

More Productivity From Automation? Yes! More Profitability? No!

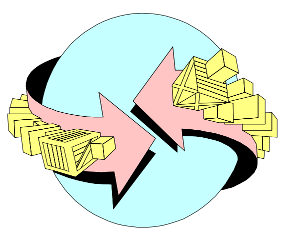
After reading for the umpteenth time another article on how much more productive we freight forwarders have become since automating our systems, I've been pondering one puzzling question. Are all these fancy EDI systems making our business more profitable, or less? Why is it that thirty years ago, when forwarders had little more than a typewriter and telephone as tools of the trade, return on investment was 20 percent? And why is it that after the transportation industry has spent billions moving into the cyberspace age, the forwarding industry's average return on investment is little more than 2 percent? There's a disconnect here. Isn't automation supposed to lower costs, thus making a business more profitable? That supposed law of economics doesn't seem to apply to moving freight. We are offering customers more services, more information about their shipments than ever before in transport history. Yet, we forwarders don't seem to be reaping the rewards of all this largesse. Also, why is it that after thirty years of technical progress, an international air shipment arrives at its destination only six hours earlier than a generation ago? Various "experts" tell us that we no longer can compete as plain vanilla forwarders, but must become "supply chain strategists." But who's laughing all the way to the bank? It's not us chain supply strategists but our customers. We're already giving away the store but our customers keep demanding not only the merchandise but the fixtures as well.

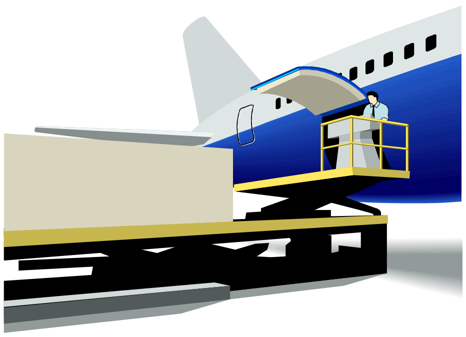
"And why is it that after the transportation industry has spent billions moving into the cyberspace age, the forwarding industry's average return on investment is little more than 2 percent?"

Ironies abound in this age of cyberspace. One forwarding firm's CEO recently boasted of the number of operating people he didn't have to hire because computer automation was the doing the job of tracking, tracing and invoicing his customers. In the next breath, that same CEO said he had to hire ten new programmers to handle the increased computer load. I suspect the ten new programmers were far more expensive than any savings in operational staff. Of course, that doesn't include the hiring of a



software firm to develop a suitable program for the forwarder. These costs generally run in six figures for a smaller forwarding company and well into seven figures for the big boys. And what happens when a shipment is late, missing or damaged? Forget automation; the irate customer picks up the old fashioned phone and wants to talk to a human to find out what's happened to his freight. Forwarders should be less concerned about automation and take more interest in their bottom line. Are we in business to serve the customer? Yes. But our first order of business should be to make a fair profit when we shed blood, tears and sweat to ensure a customer's shipment moves on time, in good condition and with no hassles.





Sincerely,

Julian A. Keeling