Consolidators international, Inc.

APRIL 2008

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News & Views

With the U.S. In Recession; What's Ahead For International Trade?

Despite the Pollyannish assurances from President Bush and his Secretary of the Treasury that the U.S. economy is "sound," (shades of Herbert Hoover!), there is no doubt the nation is sliding into a recession. Financial markets are in turmoil, consumer spending has slowed, housing prices are way down and unemployment is rising. The price of oil, fueled by speculation on the Chicago Mercantile Exchange, is hovering around $100 a barrel despite softer demand not only in the U.S. but abroad as well.

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Airlines are doing the unthinkable; cutting a number of domestic flights because the cost of jet fuel is making many routes uneconomic. While international routes have remained largely unaffected. they too may be impacted if the price of jet fuel continues to rise.

Announcements

Inside This Issue:

What effect has the weakening of the U.S. economy had on international trade?

Surprising little, considering the almost complete collapse of financial markets here in the U.S. International trade around the edges has taken some hits. Container volume at the key Los Angeles-Long Beach ports is down about 5 per cent. East coast ports also are reporting declines in revenues and TEU shipments. Cargo volume at LAX and SFO are also losing ground at about a 7 per cent rate but the global transportation system hardly has collapsed. Shipping companies are introducing huge, 6,000-TEU vessels onto their most heavily traveled routes while airlines continue to place in service new Boeing 777 and 747 freighters. International forwarders are keeping busy. A number of the very largest forwarders actually are doing quite well—for now. Companies like Expeditors and Panalpina are reporting record revenues and profits.

Mid-sized consolidators, by and large, are following in the "big boys'" footsteps with good revenue gains. Profits are being pinched, however, due to incredibly fierce competition.

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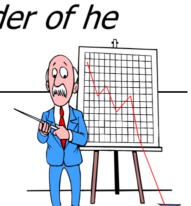
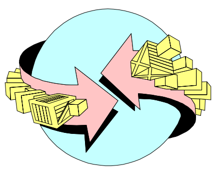


There is definite concern about the future in forwarders' offices but certainly no panic. The future is very hazy. The so-called "de-coupling" of world markets from the U.S. recession is more myth than reality. Slowdowns in orders at Chinese, Malaysian, Thai and Vietnamese factories are becoming the order of he day. The American consumer, although shopping is in her blood, is definitely scaling back with gasoline at $4 per gallon and food and other essential costs rising. Forwarders, whose primary business is domestic, will bear the brunt of the slowdown. The trucking industry is in a depression, not a recession. Shipment count is down considerably with truck stocks 75 and 80 per cent off their highs. The remainder of the year will be a difficult one, but forwarders have experienced tough times before. We have the flexibility, experience and knowledge to weather any but the most severe economic storms.

Where Are International Trade Agreements Heading? Nowhere:

Fifteen years ago, everything was coming up roses for international trade agreements. President Clinton and his Administration were congratulating themselves on the passage of NAFTA which would free restrictions on trade between the U.S., Canada and Mexico. Other trade agreements were contemplated with an entire group of nations including South Korea, Colombia and Peru. Fifteen years later, how the atmosphere has changed! While trade under NAFTA has increased through the front door, hundreds of thousands of American jobs were being lost through the back door.



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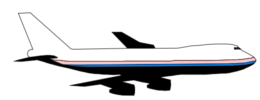
Today, the once highly touted multi-lateral and bi-lateral trade negotiations are entirely off the radar screen. Negotiations between nations to lower trade barriers have heen postponed indefinitely. Unlike fifteen years ago, when there was a consensus that unlimited trading between nations was good for everyone concerned, the current atmosphere is totally different. Political opposition, and not only from Democrats, is building.

Opponents of free trade, which has become a code word for globalization, will continue to prevail in the media and Congress. For both political parties, free trade is becoming a convenient scapegoat for every ill in our economy.

Do we need trade agreements at all? We have no trade agreement with our single biggest trading partner—China. Yet, trade between our two nations is flourishing. Ditto with our most important European trading partners—the U.K., Germany, France and the Scandinavian countries. Trade agreements provide employment for hundreds of government bureaucrats who busily write up the complicated clauses but have little use in the real world. I never have met a forwarder who told me his business has increased because of a government trade agreement.

Mayhem At Boeing:



A year ago, Boeing was on top of the aviation world. Orders for the new 787 "Dreamliner" came rushing through the door. Its older aircraft like the 777 and 747 were finding new life as freighters. The company's military business was flourishing with Boeing prepared to bid on the $40 billion U.S. Air Force tanker contract.

What a difference a year makes! Boeing's bright future has turned to ashes. Reflecting the company's problems, its stock has declined sharply from more than $100 per share to the low seventies. Production of its 787 "Dreamliner" is hopelessly behind schedule. In one of its greatest mistakes in the company's 100-year history, Boeing decided to "outsource" much of its 787 production to companies with little experience in building complicated aircraft components. Boeing management believed they could save millions of dollars per aircraft by turning over much of its production to outside companies, many of whom were in "emerging" nations. Instead, the fateful decision to outsource much of its production will cost Boeing hundreds of millions of dollars in late deliveries and the ill-will of many airline customers.

On the military front, Boeing also has stumbled badly. Because the company had the original U.S. Air Force tanker contract for almost forty years, Boeing believed it could "coast" to a new one without worrying about any real competition.

The Air Force invited competitive bids and a consortium led by Northrup-Grumman and Airbus decided to enter the battle. Boeing was dismissive. The Air Force never would award a major contract to a consortium with a European partner. They would never gamble with an airplane that literally was still on the drawing boards. They would stick with the tried and true—Boeing. How wrong Boeing was!

The Northrup-Grumman consortium won the bid with a bigger, faster and greater payload aircraft. Boeing submitted its 30-year old 767 with few modifications, believing it was adequate for the job. The Air Force believed otherwise and Northrup-Grumman won one of the largest military contracts in history—with Boeing reduced to taking ads out in the Wall Street Journal to protest and requesting a review of the award.

The Boeing fiasco proves once again that arrogance is no substitute for sound judgement and plain hard work in submitting a bid. Boeing believed it had a God-given right to government business based on past performance. The Air Force thought otherwise and the American taxpayer will benefit with a better airplane at considerable savings in cost. Heads should roll at Boeing after these humiliating defeats. "Wonder Boy" CEO Jim McNerny. whose office gave final approval to these decisions, should admit these major mistakes and shoulder much of the blame. He should at least by reprimanded by the company's Board and perhaps even asked to resign.

Boeing is a great company. But even great companies stumble. It remains to be seen how long Boeing will take to revive its greatness.

Air Freight Caught In Climate Change Controversy:

With all the worries our industry is facing; a weak global economy, overcapacity, jet fuel surcharges, etc., air freight hardly needs another problem. But one concern, once no bigger than a tiny cloud on the horizon, is turning into a thundercloud. The hot topic increasingly discussed in airline executive offices and aviation trade organizations, is global warming. Our international cargo association, TIACA, sees the issue as one of the most important facing air freight today and in the future.

Environmentalists care only about the so-called carbon footprints airplanes make in the sky, and seemingly have no regard for the importance of air cargo in international trade. Through a recent schedule mix-up, a BA 747 flew empty of passengers from London to Toronto. It did carry a belly load of freight, however.

Environmentalists vociferously complained about the "wasted flight." When BA explained that it had a commitment to its cargo customers to deliver the freight on time despite lack of passengers, the environmentalists replied the cargo was far less important than "polluting" the skies.

Our basic problem; what can air freight do about this legitimate concern? The issue is becoming more serious because major corporations increasingly are considering climate change as a major problem. They are seeking to pitch themselves to customers as doing everything in their power to limit carbon emissions. More ominously, they are telling their vendors to shape up on this issue or lose their business. Among the big names joining the climate change brigade is Wal-Mart, Dell Computer, News Corporation and HSBC Bank. Other corporations are sure to follow.

Except to cut carbon emissions by limiting our growth, there are few practical options for the airlines and the forwarders who use them, to reduce emissions. Of course, our industry does not want to add to this problem, but environmentalists and their political allies must realize that international trade has been a major factor in the economic success of many countries—particularly emerging nations who were mired in poverty for literally thousands of years. A balance must be found.

Landmark Open Skies For Australia:

The U.S. and Australia recently concluded a landmark open skies agreement that will eliminate restrictions on U.S.-Australian air services. Under the new agreement, airlines from both countries will be allowed to select routes and destinations based on passenger and cargo demands without limitations on the number of carriers serving the route or number of flights.

Unlike the "open skies" agreement that went into effect last month between Europe and the U.S., the new agreement is healthy for both countries' airlines. In Europe, untrammeled competition will result in grief for the airlines rushing in to serve destinations from non-home-based originations. Australia, however, is in the midst of a vigorous economic expansion and could benefit from additional airlines serving the U.S.-South Pacific market.

Initial beneficiary of this new agreement will be Virgin Blue, which plans to expand its current domestic Australian network to the U.S. Qantas and United, the two combination carriers currently serving the market, probably will witness an initial drop in passenger and cargo volume. But there is enough business "down under" for both new entries and current airlines in this, one of the strongest global markets.

Sincerely,

Julian A. Keeling

Australia's Economy Defies Global Cooling:

One happy exception to the economic malaise surrounding much of the industrial world is Australia. CII is indeed fortunate that Australia remains our single largest market. The country is booming and so is CII's business "down under." The Australian economy is so strong, the nation's central bank is raising interest rates while the U.S. is cutting them. Corporate earnings are up and the Australian dollar recently touched 94 cents to the U.S. dollar—a 25-year high.

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While the U.S. worries about how long and how deep our current recession will last, Australia's economy continues to grow at about a 5 per cent annual rate. There is strong demand for Australian commodities; iron, coal, uranium, wheat, cotton and wool. Australia has become the chief supplier of raw materials to Asia and is benefiting from that continent's explosive growth. Billions of dollars are being spent on Australian roads, ports and airfields to improve the nation's infrastructure while the U.S.' transportation network languishes.

Trade between the two nations also is booming. Earlier this year, air freight volume between the U.S. and Australia was so heavy, Qantas slapped an embargo on cargo shipments. While volume has eased somewhat during the past month, Australia remains one of the strongest trading partners with the U.S. and one of the few where America enjoys a trading surplus.