



Consolidators International, Inc.

AUGUST 2009



## When Political Disturbances Hit The Front Page, Cargo People Should Take Notice:

**C**argo people don't ordinarily concern themselves with political disturbances around the globe. When these disturbances hit the front pages of newspapers, however, forwarders should take notice. It wasn't too long ago that Bangkok airports were shut down due to political protests. Air freight inbound and outbound from Thailand simply stopped for two weeks. Now, an ugly situation is festering in China which may affect trade with our most important trading partner. Last month, in the northwest region of China, which few westerners were even aware of, ugly riots broke out between a Muslim minority and the Chinese majority. The Xinjiang riots led to more than 150 deaths of Muslims living there. These developments should send a stark message to everyone involved in trade with China. Underneath China's inexorable economic growth lies explosive political tensions. The gruesome scenes in Xinjiang reflect broader problems. At least 30 million jobs have been lost in factories located along China's east coast. Thousands of companies along the Pearl

River, China's single most important region for manufacturing, have shuttered their doors. Not able to find jobs along the coast, most of these newly unemployed have drifted back to their home regions like Xinjiang where no jobs exist either. Social and political pressures are boiling over. The Chinese government is trying to put a lid on this widespread discontent, but it is an open question whether it will be successful in the long run.

What air freight doesn't need is political trouble in China. Too many forwarders live or die by their business in China. It is easily the single most important international market for our industry. What has sent international air cargo into a free fall has been to no small extent the sharp drop-off in China volume. We need not only more trade with China, but also a more balanced level between exports and

*"We need not only more trade with China, but also a more balanced level between exports and imports. Currently, the China trade is lopsided..."*

**I**n last month's issue of our Newsletter, we announced the formation of a new division at CII, Tuna Support. In recognition of our fast growing tuna business, I am pleased to announce that Tony Feist, who has been in charge of that division, has been promoted to vice president, reporting directly to me. In his new post, Tony will be in an even more effective position to deal with executives and traffic managers at our major tuna customers including Star



Kist and Chicken of the Sea. Tony has been doing a great job as head of our new division. Volume has been growing by leaps and bounds. We are moving increasing amounts of tuna supplies and equipment via ocean and air both on a scheduled and emergency basis. In addition, CII now is in the re-

**Announcements**

Inside This Issue:

*Cargo People Should Take Notice:* pg 1

*Tony Feist, V.P. of Tuna Support:* pg 1

*Shake-Out In Cargo Airlines:* pg 2

*Airlines Keep Shrinking:* pg 2

*Not Enough "Shovel" Stimulus:* pg 3

*Near Sourcing:* pg 3

*CII Aids in Relief Efforts:* pg 3

imports. Currently, the China trade is lopsided with that nation's exports to the U.S. running five times greater than its imports from the U.S.. Little wonder westbound cargo rates are so weak. Will growing political unrest in China impact its economic position as "factory to the world?" Or will Chinese authorities be able to keep a lid on political and social unrest so that its factories keep churning out goods for the U.S. market without interruption? The next few years will tell the story for China, and its trading partners.

## Tony Feist Appointed Vice President, Tuna Support:

export business, re-exporting marine items like buoys that are made in Spain and utilized by the tuna industry in the western Pacific.

In the current gloomy air freight picture, our tuna business is one very bright spot.



## Shake-Out In Cargo Airlines:

**O**ne sector of the airline business certainly is contracting. It is the all-cargo carriers with big ambitions and small amounts of cash. They started flying when air freight markets were lush. They now are coming back to earth—either via the bankruptcy courts or just closing their doors. The latest casualty in this Darwinian struggle for survival is Cargo B, a Belgian freight carrier, less than a year in business. Cargo B was not a typical, under funded airline. It was financially backed by NYK, the big Japanese shipping line, flew the latest B747-400 freighters and had an ambitious route structure covering Europe, Africa



**T**here's an old truism that people living through tumultuous times almost never realize how much of their world is changing. People in the middle of the Industrial Revolution during the 19th century did not recognize the many changes happening right around them; for example, steam driven factories which were replacing homes and their "cottage" industries as the primary sources of production.

*"Every facet of the airline business has taken a hit. Airlines expect to lose about \$9 billion in 2009. Airline employment has dropped almost 30 per cent since the beginning of the 21st century; from 543,000 to 392,000."*

and Latin America. Cargo B joins Cargoitalia which shut down earlier this year after making grandiose statements about becoming a "major cargo competitor" in the U.S.-European cargo market. We understand Cargoitalia is attempting a comeback, but we'll believe it when we see it.

There is little doubt in my mind the drop-out rate of all-cargo airlines will continue, perhaps even accelerate during the remainder of 2009. The cargo market simply cannot accommodate all those 747s hauling freight around the globe. It may sound heartless to all those flight crews and ground personnel who are joining the unemployment lines, but we will be a healthier industry with a shrinkage in cargo airlines and fewer freighters taking to the skies. The underfunded, marginal carriers have been a not insignificant factor in causing rates to drop sharply—particularly on the critical U.S.-Asian routes. While the trade and business media have been concentrating on aircraft overcapacity on almost all cargo routes, forwarders have focused on their slimmer

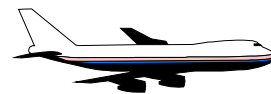
## Airlines Keep Shrinking:

So it is with the airlines. We in air freight are so close to our airline "partners," we often are not aware of the vast changes the carriers are experiencing. It is a bitter pill for airline management to swallow, but the carriers, particularly our domestic ones, have retreated back in size to the position they held back in the nineties. Every facet of the airline business has taken a hit. Airlines expect to lose about \$9 billion in 2009. Airline employment has dropped almost 30 per cent since the beginning of the 21st century; from 543,000 to 392,000. Wages and salaries are lower today than 10 years ago, while the cost of living is higher. Labor, as a share of airline operating expenses, has declined about 10 percentage points—its lowest percentage in history as fuel climbs to first place.



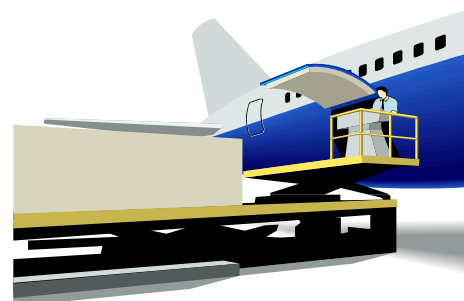
*"There is little doubt in my mind the drop-out rate of all-cargo airlines will continue, perhaps even accelerate during the remainder of 2009. The cargo market simply cannot accommodate all those 747s hauling freight around the globe."*

bottom lines caused by too many planes carrying too little freight. Air freight never will return to the glory days of high yields unless and until supply and demand balance out. The Recession has administered strong medicine to our industry. Perhaps it will make us wake up to the fact that growth no longer is automatic. Airlines will have to prove they have kicked the habit of their addiction to market share with resultant overcapacity. Only fewer carriers with less aircraft will return our industry—airlines and forwarders—to a business that actually makes decent returns.



*"...far more of older aircraft wind up in the desert. Air freight is not alone in its shrinkage. The entire airline industry is contracting."*

Airline purchase of new Boeing and Airbus aircraft hides the fact that while new planes are being ordered, far more of older aircraft wind up in the desert. Air freight is not alone in its shrinkage. The entire airline industry is contracting.



## Administration's Critical Mistake; Not Enough "Shovel" Stimulus:

**I**t now is clear that the Obama Administration made a fundamental mistake in how it apportioned almost \$1 trillion in stimulus money to combat the most serious U.S. recession in 70 years. Instead of shoveling money at banks and Wall Street investment houses, the Administration should have placed stimulus money in the hands of the "shovel brigades" whose new and existing infrastructure projects would have jolted the economy and provided hundreds of thousands of additional jobs.

The bailout of the banks and particularly a number of Wall Street trading firms like Goldman Sachs and J.P Morgan, which amounted to hundreds of billions of dollars, did not create one new job. What it did accomplish was enormous profits for money center banks and Wall Street financial trading houses with those companies subsequent announcements that future pay rises and huge bonuses to their personnel will be awarded at the end of 2009. In the meantime, Main Street continues to suffer with continuing job lay-offs and punk consumer spending while Wall Street gorges itself on profits fueled by government money.

## CII Aids Pro Packing In Its Worldwide Relief Efforts:

**P**ro Packing is a very interesting company. Pro Packing is unique in that it specializes in the packing and shipping of disaster relief supplies for many international charities. CII is privileged to work with Pro Packing on many of its humanitarian shipments. Our vice president, Mike Castro, has worked closely with Pro Packing for almost a decade and has developed a close working relationship with Charles Demarais of Pro Packing. During this time, we have shipped emergency relief supplies of up to 20,000 kilos per shipment to all four corner of the earth including nations like Zimbabwe, Myanmar (Burma), India, Sri Lanka, Malawi and Egypt. Pro Packing places great faith in CII to choose the right airlines with the right connections at the best possible rates. We

Where was the Administration's priorities? Our highways, bridges, tunnels and airports badly need repairs and upgrades. Why give the money to paper shufflers? In my home state of California, freeways, many of them built fifty years ago, require at least \$2.5 billion in repairs and new construction. Instead, we're driving into potholes from hell. With stimulus funds, the entire Air Traffic Control system, could be brought into the 21st century. The Administration finally is realizing its error. Both President Obama and Vice President Biden say they want infrastructure projects to move more rapidly. The Department of Transportation (DOT) is beginning to release a few billion in funds for construction. With all this new money being allocated, don't forget airport freight terminals. Many of them were built in the DC-3 era.

Modern cargo facilities are badly needed at many of our airports to help make our industry more competitive.



never have disappointed them. Late last month, CII moved an extremely large emergency shipment to Cairo at express rates because of the urgency of the shipment. The shipment was available to the charity within 24 hours after its departure from LAX. We feel honored that CII can participate in Pro Packing's worldwide humanitarian efforts.

*Sincerely,*

*Julian A. Keeling*

## One Unintended Consequence Of The Recession— Near Sourcing:

**O**ne of the more interesting unintended consequences of the current recession is a revival of near sourcing. Near sourcing, of course, is a sourcing strategy that shrinks the distance to a substantial degree in which cargo travels. The global recession is pushing many shippers and their agents to "think out of the box" in making their supply chains leaner and meaner. With labor costs rising in most of the "emerging" nations and workers' salaries shrinking in "advanced" countries as the recession bites deeper, one of the principal reasons for moving entire supply chains 10,000 miles distant, labor costs, becomes less persuasive. Near sourcing would provide major relief from supply chain challenges made worse by being continents away. To the manufacturer who can satisfy customer demand for "hot" products quickly because production and distribution facilities are close by—it makes a great deal of sense if labor costs are not that much higher than suppliers thousands of miles distant.

The last few decades have seen a vast outflow of American manufacturing facilities to foreign nations. It is easy for academics to talk glibly about the benefits of global trade in the abstract, but try and convince a factory worker who has lost his job because his plant has moved lock, stock and barrel to a distant offshore destination. The recession could be a stimulant in swinging the pendulum back to our shores. Near sourcing isn't a complete answer to the logistical challenges facing the shipper and his forwarder—but it may be a current and innovative one.

---

*"The recession could be a stimulant in swinging the pendulum back to our shores."*

