



DECEMBER

2004



Dale Lakin Joins CII In Atlanta:

From time to time in our newsletter, I have been commenting on the success of CII's Atlanta operation. Atlanta has become CII's most successful facility after LAX, with sales rising exponentially during the past few years. As our sales volume has increased, moving cargo swiftly, accurately and in the time promised has become a far more complicated and involved task than ever before. To ensure the highest standards of service for our customers throughout the southeast region of the U.S., we have brought on board one of the most skilled and experienced operations persons in air freight.



-business on the operations side. He covers the gamut of air cargo experience; from cargo airlines to express carriers to traditional freight forwarders and even airline trade associations such as IATA. Dale began his career at the dawn of the jet cargo age with his joining Airlift International, one of the original all-cargo airlines. He was also an employee at Flying Tigers before it was acquired by FedEx. Dale also worked at Airborne Freight and Air Cargo, Inc., the scheduled airlines' freight arm. Before joining CII, Dale was at SITA as sales manager-cargo solutions. Welcome aboard, Dale. Your experience, skill and knowledge of the air cargo business will be a great asset to CII.

Dale E. Lakin has joined CII as Director of Operations for the Southeast, operating from our Atlanta office. He joins Shawn Tatham, our Regional Vice President, to create the best sales-operations team in the entire southeast cargo market. Dale is a genuine veteran of the air freight -

Aussie Free Trade Agreement Goes Into Effect Next Month:

The long anticipated U.S.-Australian trade agreement goes into effect next month. With tariffs on manufactured items slashed to the bone, we expect a real bonanza in U.S.-Aussie trade. The stars are aligning. The U.S. dollar is down against the Aussie dollar and the economic climate is strong on both sides of the Pacific. Only current fly in the ointment is the huge passenger loads on aircraft by Americans visiting Australia. This cuts down on "belly" freight capacity, but help is on the way. Freighters are going to be added in the New Year to meet increased demand. Airlines are realizing it makes economic sense to schedule their freighters on the South Pacific run rather than into Asia as the business to Australia and New

Zealand is less seasonal. Cargo rates will continue to climb as airlines will have to look for return loads or backhaul from the South Pacific. Apart from perishables and a small amount of industrial products, there is far less cargo on the backhaul than into Australia. Rates will have to reflect this imbalance as many of the aircraft will be returning to the U.S. with less than full loads. Back in the good old eighties, \$5 per kilo from LAX to SYD was not unheard of. Ocean freight rates also are increasing. So, shippers simply will have to adjust to the fact that higher rates are in the offing. Balancing this is the brighter prospects for increased business due to the free trade agreement.



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DHL Growing In U.S. But Hemorrhaging Money:

When DHL's parent, Deutsche Post, the German post office and transport conglomerate, announced a major expansion of its U.S. subsidiary a few years ago, little did it realize that it was trying to catch a tiger by the tail. Deutsche Post already had swallowed Air Express International and Danzas, two big international forwarders. Thanks to a sharp growth in international air freight, it was doing reasonably well with these two acquisitions. Making DHL a major domestic express carrier, however, was a very different kettle of fish.



DHL Growing In U.S. But Hemorrhaging Money -cont. -

Blocking the expansion into this lucrative domestic U.S. market was two of the most powerful and well financed transportation companies on the planet. FedEx and UPS had absolutely no intention of relinquishing any of their highly profitable express business to this usurper. When DHL had a tiny share of the U.S. domestic market (largely an offshoot of its huge international business), the two U.S. giants viewed the express carrier with an air of benign neglect. But when Deutsche Post began making noises about expanding substantially within the U.S., buying Airborne Freight to bolster its fleet of aircraft and operating new hubs in Wilmington, Ohio and elsewhere, FedEx and UPS both viewed this new competition as a threat to their own domination of the market. Both took countermeasures and DHL, to paraphrase Bill Clinton, "is feeling the pain."

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While the company is mounting a \$1.2 billion challenge to FedEx and UPS, much of that money is hemorrhaging away. Losses in 2004 will amount to about \$389 million and during next year, that number is expected to grow to about \$648 million. Fortunately, Deutsche Post has deep pockets with millions of Germans licking stamps to swell its coffers. DHL will continue its loss picture in 2006 with further red ink. Reflecting the company's disappointing results, CEO Uwe Doerken has resigned in addition to the departure of John Fellows, the company's architect of its U.S. expansion program. DHL Domestic is facing a double whammy. Not only are FedEx and UPS determined to foil DHL's expansion plans, the entire domestic air express market is shrinking. Both FedEx and UPS report declines in air express shipments. It will be interesting to see how DHL extricates itself from this dilemma.

A Quiet But Growing Trend; America Is Starting to Manufacture Again:

One of Sir Isaac Newton's most famous laws of physics was, "every action has an equal and opposite reaction." Sir Isaac's law doesn't apply only to physics. It is just as valid in economics. America at long last is reacting against its almost total dependence on imports and is becoming a manufacturing center once again. Case in point, the fashion industry.

Forwarders who handle ocean freight as well as air are tearing their hair out. Their customers, both wholesale and retail, are experiencing extreme shipping delays at all southern California ports. On the other side of the Pacific, China's manufacturing capabilities are being stretched agonizingly thin as they try and make good on promises of delivery of finished products. One huge importer of fashion goods in the Los Angeles area has said, "the hell with it." He now is manufacturing 70 per cent of his products right in the middle of Los Angeles' garment district. By this time next year, he promises 100 per cent domestic production.

Why this switch back to domestic manufacture? There are plenty of reasons. First, he cannot rely any longer upon his overseas suppliers to deliver on time. Because his fashion items are time sensitive, late arrival equates to a canceled order. This manufacturer has suffered badly during the past year with his customers. They don't want to hear about traffic delays. When they sign a purchase order, they expect goods to be delivered on that date. Second, when his seamstresses and other workers are literally in the next room, he could monitor their output and guarantee quality every time. Unless he spent all his time monitoring his contract factories in China, he just could not rely upon a consistency needed to satisfy his customers.

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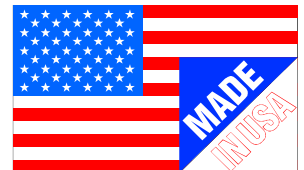
China likes to portray itself as the factory to the world. Its infrastructure, however, is more like a third world



country than an industrial powerhouse. Its rail network cannot cope with the demand for moving raw materials such as coal and iron ore. Its road network, apart from a few good highways along its east coast, is like the U.S. in the nineteen twenties. China's workforce is nowhere near the levels of sophistication needed to maintain current growth. There is an acute shortage of power leading many factories to operate at only 60 per cent of their capacity. This increases length of production time and causes broken promises of delivery.

"There is nothing worse in the retailer's world than to spend fortunes on advertising and promotion and not have the product on the shelves."

Today, large retailers make their promotional plans months ahead. They expect products to be delivered in time to coordinate these efforts. They cannot and will not change their schedules because ships are running late into San Pedro. There is nothing worse in the retailer's world than to spend fortunes on advertising and promotion and not have the product on the shelves. Retailers are starting to realize the additional cost of manufacturing locally, with its reliability of product and delivery date, more than offsets the lower production costs abroad. America is starting to wake up. Blindly buying from China has many drawbacks and the American retailer is beginning to realize this. When it comes to manufacturing, there is no place like home.



We Know The Airlines Are Suffering, But How About A Little Humility?

During the past three years, the pain and suffering of the airlines have become a constant refrain that only grows louder with the passage of time. Just a few days ago, Continental Airlines, considered one of the strongest of the legacy carriers, asked its employees to give back \$500 million in wages and benefits. Yet, airline cargo operations often exhibit the arrogance and disdain to forwarders that reflect a by-gone era when carriers were kings of the aviation hill. So, with the New Year just a month away, let me ask the carriers to show a little less arrogance and a little more humility in 2005 when dealing with forwarders—who provide 90 per cent of their international cargo business.

Here are a few basic steps carriers can take to improve relations. No whiz bang electronic bells and whistles; just plain common sense and a desire to serve.

When airlines accept bookings for cargo, please move the freight as booked. And if it can't or won't, please inform the forwarder of that fact. Tell him what you plan to do with this delayed cargo. Will it leave on the next flight; will it be re-routed via another city or will it just lie there in the warehouse or on the tarmac like some forgotten lover? If we forwarders know a cargo's status, we can keep our customers up to date.

Airlines assure forwarders that with all their electronic wizardry, cargo cannot be misdirected. Sure, and pigs can fly. If cargo bound for Sydney ends up in Rio, please accept some responsibility for the snafu. Tell the forwarder what steps you are taking to locate and move our cargo to its correct destination.

What about claims? a subject that never seems to come out of the closet. Freight is not treated as gently as passengers and damage occasionally does result. Let's handle claims in a professional and reasonable manner instead of your people retreating to the nearest bunker and denying all responsibility. We know money is tight but how about a few more humans in your customer service departments? Having a human answer inquiries on the telephone is worth more than a 100 voice mails and easily justifies the financial expense.

Panalpina; Are We Seeing The Decline Of A Once Great Company?

Panalpina is one of the most venerable names in international transportation. It was moving freight in the days of the sailing ships. The Basel, Switzerland-based freight forwarder long has enjoyed an enviable reputation throughout the world. Its employees; from executive staff right down to the people on the docks, were life long staffers with decades of loyal service to the company. But as so often happens in the corporate world, it takes just a few misguided individuals and a couple of wrong turns to transform a once iconic company into one of derision. This is what's happening at Panalpina.

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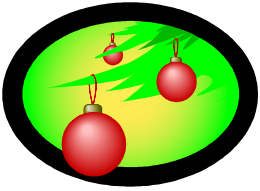
Panalpina decided it wanted rapid, not organic change. Out went the people who for the past fifty years made the forwarder one of the most envied in the business. In came the "Young Turks" led by schoolboy-looking and actually not much older Bruno Sidler. Sidler claims he is innovative, but if Panalpina's North American operation is any guide, Sidler is not innovative but destructive. Changes made on this side of the Atlantic have turned the company on its ear, and not for the better. Sidler's first and most deadly move was to hire one of the worst cargo executives in the business to head up Panalpina's North American operation. David Beatson, now head of Panalpina in North America, must have been born under a lucky star. One of most incompetent executives in the transportation business, he goes from one great job to even greater ones as the companies he heads crash and burn behind him. His employ at Emery helped that historic company goes down in flames; his running Circle Air Freight was a disaster until Eagle rescued it. Almost as

soon as the ink was dry on Beatson's contract with Panalpina, he moved company headquarters from Miami to the suburban northern California town of Foster City. The move was designed to rid Panalpina of the excellent management that had built up the forwarder into a major force in the USA and to bring in his cronies as incompetent as himself.

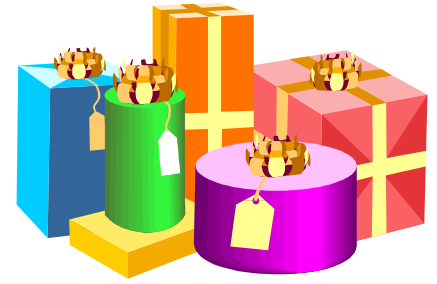
Beatson's buddies not only sequestered themselves in Foster City, but also spread out to the forwarder's facilities throughout the U.S., squeezing out people who had spent their entire professional lives with Panalpina.

Beatson made sure to take care of Number 1. Just as he did at Emery and Circle, he negotiated a golden parachute which rumor has it, is better than any performance bonus he could receive over the next ten years. Beatson is showing a great deal of confidence in his future at Panalpina, isn't he? Mr. Sidler, can I give you some advice based on thirty years experience in this business? If you think the "new" Panalpina is innovative, the decision to make Beatson chief of North American operations has set you back fifty years in the States. My suggestion; quickly allow Beatson to use his exit package and bring back, if they are available, some of the previous managers who were responsible for making Panalpina such a great company in our world of transportation.





Christmas 2004



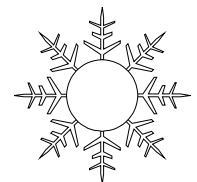
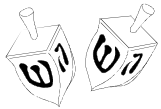
It seems as we get older, Christmas comes around faster each year. As always in our society, the secular and the spiritual vie for dominance. Churches are crowded, but so are shopping malls. Worshippers attend sunrise services while shoppers line up at 6 AM to catch store “specials.” Tis the season to be merry, but also to be shopping. As we look back upon our corner of the world, 2004 generally has been a good year for air cargo. Growth in international volume has been the highest since the mid-nineties. As one Asian airline executive commented, “2004 was so good in our part of the world, 2005 never will match it.” Amount of domestic freight moved by air grew slightly, reversing years of decline. With the strength of the market, rates generally have firmed although most forwarders still are not earning a decent return on their investment.

Our largest overseas partner, China, is sending out mixed signals. Because of tariff reductions on furniture and outright elimination of customs duties for textiles, imports from that nation are expected to increase. Yet, its government seems at long last to attempt to cool the Chinese economy by tightening credit and raising the value of its currency against the dollar. If the value of the dollar is lowered against the yuan, it could help our exports. Overshadowed by all the attention paid to the Chinese market, air cargo volume to the South Pacific has grown enormously during the past year. Australia and New Zealand have become extremely strong destinations ex-U.S.. American exports to that part of the world have been aided by the strength of the Aussie and Kiwi dollar; their highest in years.

With elections out of the way, the U.S. political scene has become stabilized. Like or loathe President Bush, he is our President for the next four years. It behooves every American to wish him success on both the international and domestic scenes. His attainments are our attainments. Americans have much to be thankful for this Holiday season. We remain the most prosperous and powerful nation on earth. We are a generous country; no nation gives more to charity or to help the less fortunate, than our people.

Sincerely,

Julian A. Keeling



*Happy Holidays
to all from the Consolidators staff!!*

