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Need For Better & More Focused Trade Shows:

While the air freight business shows anemic growth at best, air cargo trade shows and conferences are proliferating like rabbits. From Dubai to Singapore; from Bangkok to Orlando, there is some kind of air freight trade show or panel almost every week of the year. Problem is; the content and format of most of these seemingly endless trade shows are the same old song and dance. Trade show sponsors seem to think that all they need is a conference hall and perhaps a nearby golf course for rest and relaxation to make a successful conference. How wrong they are! What they need is some electricity to spark these cargo discussions, rather than a bunch of stuffed shirt speakers mouthing verbal advertorials that put everyone to sleep.

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Most trade shows feature panel discussions that focus not on problems facing our industry but the special interests of the air cargo people making up the panel. Not too many executives in our industry are willing to say much that is substantive outside of telling their audience how great their own companies are.

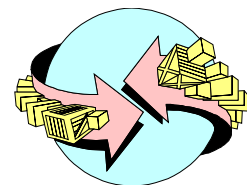
In attending many conferences over the years, I've heard countless theoretical discussions on "supply chain management" from cargo executives and academics. I never have heard, however, an actual ramp worker or warehouseman discuss the practical problems in moving freight. To me, a hands-on operator getting his hands dirty handling containers is worth ten senior managers from the executive suite who have forgotten how to make out an airway bill. To juice things up even further, why not have panel discussions that include at least a couple of the legendary voices of the air cargo business; individuals who have retired or who have made so much money in our industry (admittedly very few), they finally are freed up to say out

Announcements

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loud what they really think. Perhaps even (gasp) pay these people a modest stipend to appear at a Conference. We should encourage the voices of experience to speak at open industry sessions. Let's have fewer but better trade shows.



Bruno Sidler Falls On His Sword:

Bruno Sidler, recently CEO at Swiss freight forwarder Panalpina, committed an act which is all too rare in American business. Sidler fell on his sword, or to be more prosaic about it, resigned a few months ago. Reason: Panalpina discovered that a high ranking executive in the air freight division of the company juggled the books, resulting in a loss of about \$26 million.

Unlike the U.S., where executive failure often is rewarded with either a higher position in the company or a top job at

another corporation, senior managers in Japan and to a lesser extent in Europe, generally take responsibility for the mistakes of underlings in their organizations. Recently, the head of Japan Air Lines resigned because of inefficiencies in the ranks.

We have become a very forgiving nation, at least among the upper echelons of business. Let a blue or white collar worker make a serious mistake and he or she gets the ax almost immediately. Let a senior executive make an even more serious error

that may cost the company millions of dollars and he gets a promotion. Where is simple justice? Where is the old Puritan ethic of taking responsibility for your actions? In our own industry, we have too many Dave Beatsons who climb to higher positions while the companies they managed go down in flames behind them. We need less Dave Beatsons and more Bruno Sidlers.



Book Urges Caution In China Business Dealings:

We all enjoy being vindicated. I'm no exception. I feel justified in warning about doing business in China, with the publication of a new book that reinforces my views. It is generating enormous interest in Chinese and American business circles. Titled, "One Billion Customers" and written by James McGregor who was chief China correspondent for the Wall Street Journal for five years, the book offers a realistic, honest picture of how the Chinese view American business and American businessmen. No U.S.-China Chamber of Commerce fantasies here. McGregor, who visited almost every region of that huge nation while under assignment for the Journal, and who spoke to literally thousands of Chinese business people, government officials and ordinary workers, claims no foreigner can have any chance of survival without understanding how the Chinese are obsessed with recent history in which they were humiliated by the West. They won't hesitate to make the Westerner feel guilty for the past 200 years if it can give them an advantage in negotiations. Foreigners are expected to be very sensitive to Chinese feelings, but don't

expect reciprocation. A common belief is that "you owe us something for past injustices and humiliations." Commerce in China, despite a thin veneer of communism "equality" is all about making money and the status that derives from it. The Chinese are not particular about how they make money. Foreign businessmen quickly discover that "anything goes" in China. The Chinese system is almost incompatible with honesty. Contracts are broken with impunity if the Chinese find they run counter to their interests. Generally, the Chinese are not interested in forging genuine partnerships with western companies. What they really want is a vehicle to gain access to foreign technology, capital and know-how while retaining Chinese control.

Finally, a network of family and personal relationships is far more important than the abstract rule of law so prized by westerners. Yes, American business is becoming increasingly dependent upon Chinese products, but as "One Billion Customers" forcefully echoes my belief, let's not put all our eggs in the Chinese basket.



Australian Customs Disaster--New System Unworkable:

Government bureaucrats generally have the best of intentions, but oftentimes their well meaning efforts make things worse rather than better. Such is the case with the change in the Australian Customs system which was introduced last October at a cost of about \$200 million. Called the Integrated Customs System or ICS, the new system was a disaster from the start. It has been plagued constantly with problems. Shipments that used to be cleared within a day now are taking up to two weeks. The heart of the problem is the amount and kind of data now being demanded by Australian customs inspectors from shippers and forwarders. The system automatically rejects any numerical variation in electronic clearance documentation. Very few forwarders anticipated how strict the new data requirements would be an were not prepared for them. This debacle is all the more dispiriting

because of Australia's importance as a trading partner with the U.S. Australia is one of the few nations in which the U.S. has a trading surplus. The Australian economy, while off its high of a few years ago, remains quite strong. We at CII are disturbed particularly because Australia remains our single largest market. The consensus among Australian brokerage and forwarding people is that the new system should be scrapped and the old one retained. We heartily agree. Often, supposed progress is no progress at all. The old system worked perfectly well and if it ain't broke, why fix it? Ironically, the old computer system has been dusted off and now is being used in a limited manner, working alongside ICS.

Unfortunately, major costs to forwarders and their customers have been incurred, in addition to production and distribution delays because of the colossal backlogs at Australian sea and airports. How's --

How Do You Put Services In A Container?

The drum beat goes on. Everyone from the U.S. Department of Commerce to the National Association of Manufacturers keep exhorting American industry to generate more exports. Let's fill those ocean TEUs and air LD-3s with American merchandise on the return legs to the bountiful ports of Asia, the South Pacific, Europe and South America. Easier said than done.

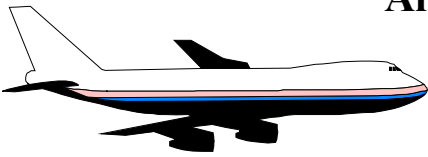
While the high cost of U.S. goods generate all the attention, what is little known is that fully 40 per cent of all exports are services that you cannot put in a container. They consist of financial and consulting services our sophisticated U.S. economy provides. Everything from investment by American businesses in Chinese factories to proffering very valuable advice on European mergers and acquisitions by Wall Street investment houses. Services are the "invisible" trade between the U.S. and the remainder of the world. While service exports are growing, U.S. exports of products that people can wear, eat and use have been essentially flat for the past number of years.

How can we respond to the challenge of greater physical exports? There is an opportunity for American entrepreneurs to reinvent American manufacturing to match the growing demand by an increasing number of high end consumers throughout the world for high quality, fashionable, name brand consumer and business goods. We need the U.S. equivalents of Ferrari, Gucci, Ferragamo and Chanel. Let's launch a U.S. based manufacturing and marketing mission for American products built by skilled, well paid U.S. workers. When that mission is accomplished, the now empty containers sailing and flying westward will fill up with U.S. products.



--this for a revolutionary idea? Have Customs pay for at least part of the additional costs. Let's hope things get back to normal soon.

Are We Building Too Many Freighters?



The airline business is very much like commercial real estate. At the height of boom times, companies fall over themselves in announcing huge amounts of new office building, apartments, warehouses to satisfy projected demand. Almost invariably, when these projects are completed a few years later, the nation's boom has turned into a bust. The buildings, started with so much optimism, now become "see through" properties. Since no one occupies them, you can see right through them.

The airline business, particularly our cargo portion, now is copying real estate's unfortunate sense of timing. Currently, both Boeing and Airbus are taking substantial new aircraft orders for

freighters from both cargo and combination airlines. These include Boeing's long range 777, and a cargo version of its venerable 747, called the 747-8. At Airbus, the European jet maker has taken almost as many orders for its freighter super jumbo 380 as for its passenger version.

With this outlay of billions of dollars from the world's carriers, one would assume cargo growth is faster than a speeding bullet. No such luck. Paradoxically, today's air cargo market is showing signs of weakness with no real upturn in sight. Traffic growth is slowing amidst rising concern that soaring energy prices are putting a brake on global economic activity and dampening demand for air cargo. There are plenty of question marks for the health of our industry when these new, large capacity aircraft take to the skies. The heady growth of 15 to 20 per

cent per annum, standard in the late eighties and nineties, already is ancient history. Domestic air freight volume is flat, if not declining, while international air cargo is expected to grow at little more than a 3 per cent rate during the next few years. "Old fashioned" ocean freight actually is demonstrating greater growth than air, as more shippers prefer slower yet cheaper methods of transport. Let's hope these shiny new airplanes, after coming off the assembly lines at Boeing and Airbus, carry real freight, not just promises.

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Aviation Pioneers Would Find Today's Airline Business Incomprehensible:

As my readers are well aware, I have not been shy in criticizing airline executives for deficiencies in outlook, judgment and plain common sense. But a little praise also is in order. Airline people are working under conditions that perhaps are unprecedented in American business. This set me to wondering how the aviation pioneers would have fared in today's economic, political and social climate.

How would the legendary executives of the past; C.R. Smith of American Airlines, Pat Patterson of United, Juan Trippe of Pan Am and Eddie Rickenbacker of Eastern handle today's perpetual crises in civil aviation? My belief, not very well.

These guys were highly skilled in the art of politics, not so much the nuts and bolts of running an airline. They were far more at home in the offices of the CAB or influential Congressmen than in the grease stained hangars holding their DC-3s or China Clippers. In the nineteen thirties and forties, that was where the action was. The CAB, backed by Congressional mandate, set routes, established fares and disallowed competition. Being on the right side of the CAB and powerful Congressmen made profits assured, routes protected and kept the growing airline business safely to themselves

Today, these pioneers would have found the airline business unrecognizable. Unfettered competition between the legacy carriers and upstarts like Jet Blue. Fares changing literally by the minute. Fuel costs that would be unimaginable fifty and sixty years ago. Who ever heard of hedging fuel prices? Yet, astute hedging today can mean the difference between profit and loss. Just ask Southwest Airlines. Yes, Messrs. Smith, Patterson, Trippe and Rickenbacker created an industry. But is their descendants who will succeed or fail under vastly different circumstances.

Sincerely,

Julian A. Keeling

