



Consolidators international, Inc.

# FEBRUARY 2008



## No Recession At CII:

**D**espite all the talk about a recession, Consolidators International is moving ahead with additional people and increased funding to institute significant improvements in our operation. We believe these changes will make CII a stronger and more focused company. The changes will allow CII to improve our systems and processes, offering greater response to our our customers' needs. We will discuss CII's operational improvements in greater detail in next month's Newsletter. I would like, however, to now summarize the changes we are instituting not only at our LAX headquarters, but throughout CII's domestic and international network.

- \* Upgraded e-mail/fax status reports
- \* Additional customer service staff
- \* Strengthened operations in Atlanta/New York
- \* In-house IT department
- \* Automated booking facility
- \* In-house tracking and tracing through our web-based computer system

A few key services will not change. Real voices will continue to answer our telephones and our stress on personal service never will waver.

## Announcements

### Inside This Issue:

<i>No Recession At CII:</i>	pg 1
<i>Fedex Acquire DHL U.S.?</i>	pg 1
<i>Exports Booming to Australia:</i>	pg 2
<i>China Freezes New Airlines:</i>	pg 2
<i>Conqueror Of Everest - RIP:</i>	pg 3
<i>Lufthansa's Cautious Forecast:</i>	pg 3
<i>Politics May Trump Trade:</i>	pg 3

## Rumors Flying That FedEx Will Acquire U.S. Operation of DHL:

**A**s this Newsletter goes to press, rumors are flying that FedEx is negotiating with Deutsche Post to acquire its U.S subsidiary; DHL. The best thing that could happen to Deutsche Post is to rid itself of this humongous money loser. If the talks fail, DHL should abandon the U.S. market. Ever since Deutsche Post bought Airborne Express about four years ago and folded it into DHL, results have been disastrous. Aggregate losses in the U.S. market have topped the \$1 billion mark and Deutsche Post recently wrote down its investment by about \$850 million. The stock of ABX Air, the successor to Airborne and the principal carrier for DHL, has dropped from more than \$8 per share to less than \$3. Try as it may with TV ad blitzes, print advertising and local promotions, DHL never has been able to capture more than 6 per cent of the U.S. express market. DHL made the classic corporate mistake of believing what is successful in one market

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will be successful in another. As a worldwide express service, DHL undeniably is a powerhouse. But it is a powerhouse in moving express cargo from country to country where high rates can be charged. In the intra-U.S market, with FedEx and UPS setting the rates, DHL is caught in a no-profit trap. Little wonder that the finance chief at the company does not believe DHL will make a profit in 2009, let alone this year. No management likes to think it has blundered. But DHL misunderstood the market from the moment they entered it. DHL was reliving the past when U.S.

express volume was climbing in double digits. Instead of an ever-expanding pie, however, the current market is a mature, static one with FedEx and UPS focusing not on growing their domestic revenues but in keeping the business they already have.

A growing number of Wall Street analysts and cargo consultants now agree. Either merge, DHL, or cut your losses and get out of the U.S. market before you lose your leiderhosen.



## Exports Booming To Australia:



In the middle of January, Qantas advised the forwarding community that because of the heavy volume of freight destined for Australia, a backlog of 48 tonnes had accumulated in their Los Angeles cargo terminal. Backlogs in January, the quietest shipping month of the year, are simply unheard of. Heavy cargo loads in January portend excellent volume for the remainder of 2008 to “down under.” Airline pricing is governed by one operative word; capacity. Too much available capacity and rates are low; tight capacity brings high prices. The year is hardly one month old and already Qantas and Air New Zealand have announced rate increases. Other airlines undoubtedly will follow suit and raise their rates as well.

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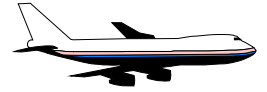
*"The year is hardly one month old and already Qantas and Air New Zealand have announced rate increases. Other airlines undoubtedly will follow suit and raise their rates as well."*

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The declining value of the dollar is finding new buyers for American goods. But there is a joker in the deck. Note I said American goods, not American-made goods. Much of the outbound freight being generated is in the form of re-exports. A mini-boom also is occurring with ocean freight. Apart from a jump in now cheap agricultural products, the two commodities experiencing huge export growth still remain traditional U.S. exports; scrap metal and waste paper! We want to assure our customers that CII has secured additional space on the carriers serving the South Pacific and we feel confident that our company can handle shippers' increased requirements.



## China Freezes New Airlines:



While the South Pacific cargo market is strong, all is not well in other regions of the world. In China, government bureaucrats are making more sense than free market advocates. The recent decision by Li Jiayang, who is head of the China Civil Aviation Authority, to freeze new airline applications for that nation is a very practical decision. Overcapacity on many air routes in China now is the rule rather than the exception. Fully 39 applications for new air carriers, of which about 18 came from all-cargo airlines, were received. Obviously, if the free market were to prevail, there would be chaos over China's skies.

Contrast this realistic approach by China to the European Economic Commission allowing “freedom of the skies” between Europe and the U.S. to begin in March. The new ruling allows airlines to fly from non-home country cities in Europe to destinations in the U.S. BA, for example, could fly between Paris and New York; Air France between London and Chicago. While this nod to “open skies” was

applauded by free marketeers on both sides of the Atlantic, little thought is being given to the very real problem of overcapacity when these new rules take effect. I don't much care about passenger overcapacity. My business is freight. I foresee a substantial jump in cargo capacity once these wide-bodied aircraft with 100,000 lbs. of cargo belly space take to the skies across the Atlantic. What will this added capacity do to rates, now in the cellar because too many airplanes are chasing too little cargo? Currently, some 20 million pounds of cargo capacity are available each week between the Continent and the U.S. Do we really need more capacity? I don't think so.

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## Sir Edmund Hillary—Conqueror Of Everest—R.I.P.



As a New Zealander born and bred, I read with mixed emotions of the passing away last month of Sir Edmund Hillary at the age of 88. Sad this remarkable person had died, but exhilarated that a New Zealander had been the first to achieve a goal which had eluded so many before him. Sir Edmund, of course, was the first man to stand atop the highest peak in the world—Mt. Everest. He achieved this amazing feat together with his Sherpa guide, Tenzing Norgay, in 1953 after many before him had tried to climb to the top of the world and failed. Sir Edmund was not just another mountain climber, however. He was a deeply driven man who used his fame not to make millions in acting as a spokesman for advertising or linking his name to dubious promotions, but to help others—particularly the nation of Nepal, site of Mt. Everest. Under his

sponsorship, millions of dollars were raised to help modernize a country that barely had advanced beyond the stone age when Sir Edmund made his historic climb. Schools, hospitals and roads were built in Nepal under the guidance and financial support of Sir Edmund. Contrast this with today's “me” generation who live only for pleasure and indulgence. Sir Edmund Hillary will be missed not only by the citizens of New Zealand but everyone throughout the world who applauds a unique life.



## Lufthansa Weighs In With A Very Cautious Forecast:



Unlike its sister Germany company, Deutsche Post which lives in an air freight dream world, Lufthansa is very much the realist where cargo is concerned. Recent remarks by the head of Lufthansa Cargo, Andreas Otto, re-enforces my own mixed views of the air cargo market. Noting that Lufthansa is generating only about 50 cents per kilo on a number of its cargo routes, a historic low, Otto ticked off some of his tempered beliefs. He believes that while international air freight will grow at about a 5 per cent pace, capacity will overshadow this growth at more than 6 per cent. With capacity outstripping volume, no less than 50 freighters currently are redundant in the European market, in his view. He also believes operating twenty five-year old Boeing 747-200s with their gas

guzzling appetites is “ruinous.” Of course, for many of the all-cargo carriers who have jumped into the business, the 200 series is their mainstay.

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Otto is not particularly optimistic about the China market, considered the air freight “saviour” by many supposed air

cargo experts. Lufthansa finds the rapid growth of the China market is slackening to about 7 per cent per year, down from double digit growth of the past few years. Even more ominously, the trade imbalance between China and the rest of the world is growing, not shrinking, despite the weakening dollar. He calls the China market “stagnating” and that all of Asia is demonstrating slower growth. Lufthansa is reacting to this slowdown by scheduling more freighters away from China and into the U.S. The airline also has established a new hub in of all places—Mexico.

Of all the combination carriers, Lufthansa perhaps is the most level headed relating to cargo. The airline has been a leader in moving freight for the past generation and its voice must be listened to with respect.

## Politics May Trump Trade:



Sir Isaac Newton first said it 400 years ago. For every action, there is an equal and opposite reaction. Sir Isaac’s discovery not only applies to physics, it applies to international trade as well. The past few years has witnessed an explosion in international commerce. If current trends continue, almost 25 per cent of U.S. GDP will be generated by trade-related activity. But will it? An opposite reaction may occur, as there is plenty of reasons for skepticism. Once a murmur decrying the loss of U.S. jobs for overseas and the weakening of our industrial might, is turning into a roar. Candidates in both political parties’ primaries increasingly are highlighting the loss of jobs and manufacturing capacity as the single most important issue facing the U.S. Romney’s win in Michigan last month was just the start of a drive by all the candidates to stress the loss of jobs issue. Fueled also by popular TV commentator Lou Dobbs, the outsourcing of U.S. jobs has thrust itself into the forefront of the U.S. electorate. U.S. exporters have been aided to a minor extent by the decline in the dollar but the trade deficit with China still is running at about \$23 billion per month.

We can’t expect any help from the highly touted multilateral and bilateral trade negotiations. All hope that the World Trade Organization’s round of multilateral talks would be completed in 2008—opening new markets for U.S. manufactured goods, has been abandoned.

Widespread opposition to any furthering of free trade is growing among both

political parties and their leading candidates. So-called Presidential “fast track” authority has run out with no one expecting it to be revived whomever wins the next election. Opponents of free trade—which has become a code word for globalization—will continue to prevail both in the media and the U.S. Congress. For both Democrats and Republicans, free trade will be made the scapegoat for every economic ill facing the nation. The glory days of Tom Friedman, once the most influential proponent of free trade through his books and New York Times’ column, have long since vanished.

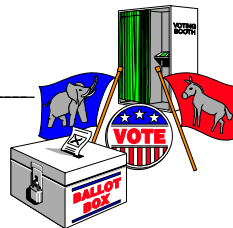
How will damage to the unfettered movement of goods and services between nations affect the transportation business? Initially, not too much effect as there will be more talk than action.

Americans like the bargains offered at the Wal-Marts of our nation based on low priced imports. They are not likely to give them up. In the longer term, however, Congress may well pass laws that will undercut U.S. trade, with new rules and regulations that would restrict international commerce. I believe the next few years will be a watershed in U.S. trade relations with the rest of the world.

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*Sincerely,*

*Julian A. Keeling*