



Consolidators International, Inc.

FEBRUARY
2009



Lesson For '09; Assume Nothing:

Don't be surprised if the totally unexpected happens this year. If 2008 taught us anything, it was that if we thought something was so, it probably wasn't.

What kind of unexpected happenings occurred in 2008? Almost too numerous to count. Last year, plunging oil prices saved the airline industry just months after nearly destroying it. The dollar regained five years of losses almost overnight, turning economists' predictions of a continuing "soft dollar" on its ear while the suddenly "hard dollar" caused most of the U.S. gains in foreign trade to evaporate. Once arrogant bankers turned into despairing beggars clamoring for government hand-outs. The free market, so beloved by followers of Adam Smith, collapsed into a morass of government bailouts and rescue programs.

Against this backdrop, can we assume anything in 2009? Since the U.S. government now is printing money like there is no tomorrow (\$2 trillion and still counting), the dollar could take another reversal and nosedive. With the Middle East in one of its periodic upheavals led by the Israeli-Palestine conflict, oil prices could reverse themselves and shoot past \$100 per barrel once again. The airlines then would face a double whammy; less passengers and freight because of the deep recession coupled with higher fuel prices.

Seemingly least likely of all would be a miraculous recovery in the latter half of 2009, with cargo holds filling up once again and rates firming. I wouldn't go to Las Vegas with that prediction, but on second thought, Vegas could use the business.

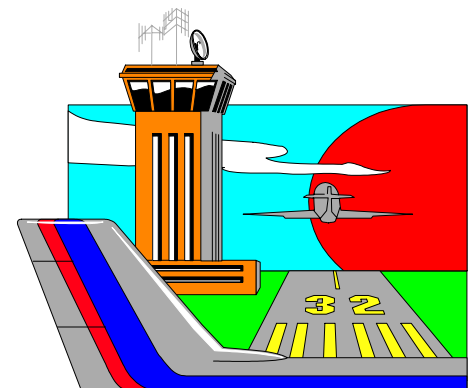
Airports; Latest Sites For Protestors:

With a worldwide recession, overcapacity on every major cargo route between the U.S., Asia and Europe—with resultant declining rates—the last thing airlines need is political disruptions of their flight schedules. Yet, that is exactly what happened last year in Asia and Europe, and may occur again in 2009. The late November seizure of Bangkok's Suvarnabhumi Airport by political protestors who kept the airport closed for almost a week and the more limited incident by environmentalists at London's Stanstead Airport in closing a runway, illustrates the airline's extreme vulnerability to anyone with a picket sign and wire cutters to cut through an airport fence.

The incident in Bangkok, in particular, received worldwide negative publicity. It

crippled Thailand's tourist industry and left thousands of tons of cargo lying on the airport's tarmac. Worse yet, the political demonstrators at Suvarnabhumi Airport achieved their principal goal of toppling the government in power and replacing it with a more friendly administration. Their victory could encourage other protest groups who may decide their radical causes will generate more attention by closing airports than marching down a few city streets. Unfortunately, too many governments, particularly in Europe, coddle these demonstrators. Why any government would side with the protestors and not the victims in the face of a worldwide recession, is beyond my comprehension. The international airline industry pays billions of dollars in direct taxes to their governments and generates billions more

in fostering international trade and tourism. Governments should not stand idly by. They should do much more, in concert with the airlines, to educate and explain to their citizens the importance of the airline industry to their nations' health and welfare.



Announcements

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4PLs—Do We Need Another Middleman?



American capitalism is a remarkable animal. Where else will you find three operational layers interposing themselves between shipper and consignee with each one claiming to save the customer money. There is the traditional freight forwarder, moving his customer's cargo from Point A to Point B in a direct, efficient manner. A number of years ago, the 3PL organization came on the scene claiming it could oversee the forwarder and choose independently among various logistics options. The latest entry in the supply chain derby is the 4PLer, who asserts he

can save the customer even more money by casting a wider net by (a) choosing a forwarder, (b) selecting a 3PL organization and (c) supervising the entire "supply chain" process. Of course, each company in this chain is charging a fee for his services. Instead of saving money, the shipper or consignee are paying triple charges.

The old adage that too many cooks spoil the broth is right on target here. In today's economic climate, companies are searching for ways to cut costs—not increase them by hiring generally useless "consultants" who spew out techno-

babble about supply chain "solutions" but would never dirty their hands by actually moving cargo. There are too many middlemen in American business; each one taking a cut and adding to costs. The wise freight forwarder is changing; morphing into other services like inventory control, warehousing, etc. He never forgets, however, that his primary role is to move his customer's freight in a timely and hassle-free manner. A shipper never hires a forwarder based on his controlling inventory or whether he can pick and pack. He selects the forwarder for his skill and experience in moving cargo.

American Consumers; Will They Or Won't They Continue To Spend?



It generally is agreed that 75 per cent of America's Gross Domestic Product (GDP) is generated by consumer spending. Until the current recession hit, consumer spending constantly was on the uptick. From SUVs to flat screen television sets; from ever bigger houses to designer wardrobes, the American family spent like there was no tomorrow. We became an affluent society unequalled in human history. With this recession, however, the most serious downturn since the Great Depression of 1932, consumer spending has come to a screeching halt.

The pressing question today is; will consumers return to their spendthrift ways once the recession inevitably ends? Or will there be a sea change in the way Americans apportion their earnings similar to Europeans and the Japanese whose spending habits are far more carefully controlled? Will the American family, whose savings rate was zero for many years, return to that "old time religion" of socking money away for that rainy day and future retirement? No one really knows. But the answer is crucial to the

economic future of the U.S. and its trading partners around the world. Today, consumers no longer are racing to the mall to buy Asian-manufactured electronic devices or \$1,000 handbags made in Italy. Today, people are standing in line at post offices using old fashioned postal

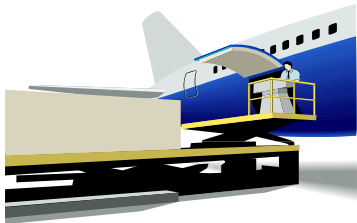
"The future of the transportation industry, sea, air and truck is riding to an enormous extent on the spending habits of the American consumer."

services to send their packages rather than picking up the phone to call FedEx for package deliveries at ten times the price. Today, once best selling, huge SUVs that are living rooms on wheels, are sitting unsold on dealers' lots while small cars roll off showroom floors.

The future of the transportation industry, sea, air and truck is riding to an enormous extent on the spending habits of the American consumer. All those huge 10,000-TEU container ships; all those shiny new freighter aircraft from Boeing & Airbus either will be used productively or laid up as useless junk depending upon open or shut pocketbooks. When world economies are growing and international trade is humming, air freight thrives. Its higher cost

than ocean is seen as the price of doing business. But when global economies take a collective dive and international trade declines, air no longer is viewed as critical and down goes air cargo volume. Somewhat surprisingly, lower cost ocean traffic is taking an even bigger hit than air. The only downturn to which the current recession can be compared is the Great Depression of 1932. That economic catastrophe lasted almost ten years and ended only with the start of World War II. The memory of 1932-41 is burned into the memories of the still living senior citizens who experienced it. Will our current recession strike fear and terror into the hearts of people today, paralyzing their actions in the future? Let's hope a balance is struck between reasonable spending habits and a sensible savings rate. The future of our industry, indeed the entire U.S. economy depends upon the answer.

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China's Airlines; No Longer Wine & Roses:

If any further proof were needed of China's rapidly declining growth, it's the dire condition of that nation's airlines. Airlines flying the flag of China are in for major changes and "restructuring." All of the Chinese carriers are struggling with falling revenues from passengers and cargo plus colossally wrong hedging bets on the price of fuel. These negative factors will generate the highest losses in the history of the nation's fledgling airline industry; some \$1.5 billion.

China's honeymoon with Boeing and Airbus is over. The Chinese Civil Aviation Authority is urging all state carriers either to cancel or at least



delay new aircraft orders in 2009. Since Chinese airlines have on order 180 aircraft from the two airplane makers, the command from the CAAC is another bodyblow to Boeing and Airbus. Two of the principal Chinese carriers; China Southern and China Eastern are receiving bailouts from the government of almost \$500 million. China's flag carrier to international destinations; Air China, also is on the hand-out line for almost \$1 billion in aid.

The hope that China almost alone could pull the world out of its deep recession now is seen as a vain delusion. Instead of stimulating the world's economies, China is dragging it down. Its domestic consumer market has collapsed for western goods. The single ingredient which fueled China's enormous growth;

foreign trade, is a pale imitation today of what it was in past years. Shipping lines which built enormous 10,000-TEU container vessels primarily for the China trade, are laying up ships due to sharply diminished demand. In the air, Cathay Pacific is delaying "indefinitely" construction of a huge cargo terminal at Hong Kong's airport which was to be used almost exclusively for the China trade. Many of the international forwarders, particularly the larger ones, were depending almost entirely on China traffic to grow their business. How wrong they were. As I have said repeatedly over the years; don't put all your eggs in the China basket. The chickens are coming home to roost.

Drop In Cargo Volume Could Bring Forwarders Shakeout:

While anything could happen this year (see first item in our Newsletter), the chances of a miraculous economic recovery during the latter part of 2009 is a sucker's bet. Perhaps all the government bailouts and rescue programs with a price tag of \$2 trillion will help firm up business in 2010, but that will be too late to save many businesses—including those in our industry.

Back in September, when the financial crisis really took hold, there was some hope that air freight would escape the worst effects of the downturn. That hope now has faded. Major sectors of the economy; from the crucial financial

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markets to construction to retail, are in full retreat. The auto industry, particularly our domestic makers, has fallen off a cliff. What initially looked like a downturn similar to the six recessions since World War II, now appears to be a replay of 1932.

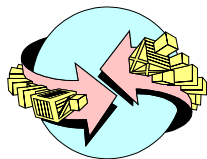
There is no question in my mind that the forwarding industry will witness a shakeout this year. Some weak forwarders will be sold off, with their owners receiving far less than they once had imagined. Others simply will shut their doors and hope to sell off their accounts for a percentage. Airline consolidation will continue with a number of "perhaps" situations like the merger of British Airways and Qantas actually being consummated.

Shakeouts can be ultimately beneficial to our industry, or they can be ugly. I predict this round will witness both. I also believe our industry will be smaller when 2010 rolls around than it is today.

George Bush—He Kept Us Safe:



Supporters of George Bush claim that whatever disasters his Administration may have inflicted on the American public, the former President "kept us safe from terrorist attacks." Perhaps so, but with an unending war in Iraq and a growing one in Afghanistan, a financial meltdown unequalled since 1932 and the highest unemployment rate in decades, the needless local suffering after Katrina, and a once unimaginable budget deficit, the terrorists may have figured, "why bother?"



*Sincerely,
Julian A. Keeling*

