

JANUARY
2006



Outlook For 2006:

In my December Newsletter, I discussed the progress CII had made during the past year. For the first issue in 2006 of our Newsletter, I would like to share some my thoughts about the outlook this year both for our air freight industry in general and Consolidators International in particular. Barring any new war as in Iraq or a natural catastrophe like Katrina where all bets are off, many of the trends begun a few years ago, will strengthen in 2006. The merger mania exemplified by Deutsche Post acquiring Exel and BAX Global by Deutsche Bahn in 2005, will continue. Fewer large freight forwarders will remain independent while smaller consolidators, following the lead of their big brothers, will merge with each other. The fact that bigness does not mean superior service but often results in a decrease in service standards hardly seems to bother either buyer or seller. Survey after survey of corporate traffic executives indicate they are not happy with mergers among airlines, shipping companies or forwarders. They claim service levels drop and customer service almost ceases to exist amidst the confusion of two companies becoming one. Traffic managers point to Exel, up until its acquisition by Deutsche Post, as one of the best forwarders in the business. With the German Post Office cutting personnel with an ax rather than a scalpel (250 Exel operating personnel in the U.K. alone were given pink slips), how can service standards be maintained? China, the King Kong of the Far East, will moderate its trade growth in 2006 for two basic reasons. One is the slow but steady increase in costs. Employees in China no longer are content to work for 25 cents per hour and live in military style barracks. The Chinese government, fearing unrest, is acceding to these demands. Second is

the belated but growing effort by the U.S. and other developed nations to place tariff barriers on Chinese exports very much like the textile agreement which is reducing Chinese exports of that commodity. A very pertinent question; can other countries, particularly in Asia, make up any slackening of Chinese trade? I don't believe so. Costs in countries like Japan, Thailand, Korea and Singapore are considerably higher than China and world demand for merchandise may well slacken. Most economists predict a slowdown in the U.S. economy later this year while Europe will continue stagnating. European air freight was so weak last year, many airlines serving that destination charged only a fuel surcharge with a nominal penny rate for legal reasons. The South Pacific will continue to be a bright spot for international air freight with Australia and New Zealand continuing to show economic strength. International air cargo volume will continue rising modestly, perhaps 2 to 3 per cent in 2006. The once held belief that air will take a significant share of international traffic from ocean has proven to be an impossible dream. New container ships are too big, too fast and too cheap on a per container basis. Domestic air freight will remain flat and perhaps even decline, which would be the first annual drop since air cargo became an industry fifty years ago. Truckers have proven to be remarkably adept in moving expedited LTL freight on a time definite basis to every part of the U.S. and at much cheaper tariffs than by air. They will continue to make inroads. How does CII fit into the overall 2006 cargo picture? Coming off a successful 2005, with greater dollar volume, number

Announcements

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of shipments and new forwarder customers, we believe our growth will continue at a measured and controlled pace this year. CII will grow only at a level that will ensure no lessening of our high standards of service. While we expect to upgrade our technical capabilities during the year, personal service will continue to be the hallmark of our services. Last year, CII had its greatest staff expansion in the company's nine year history to better serve our customers. Staff additions in 2006 will be made as needed. While our Los Angeles headquarters will continue to be the center of operations, a greater role will be played at our offices in New York (JFK) and Atlanta. Both facilities had banner years in 2005 and we expect every greater growth in 2006. Internationally, CII has developed an excellent network of experienced, skilled agents. The picture at CII for 2006 is sharp and focused. Our emphasis never will swerve from the belief that our customers come first, last and always. This belief has guided our operations during almost a tenth of a century and will continue even stronger in 2006.



Score One For Old Fashioned Freight Forwarding:



TNT made perhaps a not so surprising announcement last month that the huge Dutch transportation company was planning to sell off its \$4 billion logistics business to concentrate on traditional mail, express and freight forwarding. What TNT clearly saw is that the “supply chain solution” business is not all it is cracked up to be. At TNT, while logistics made up about a third of gross revenues, it contributed only 5 per cent to profitability. Many of TNT’s competitors should take a closer look at their profit and loss statements.

The fact is that margins in the logistics business are just terrible, despite all the hoopla about supply chain “solutions” emanating from every kind and size of transportation company from the Schenkers to the mom and pop one lane segment operators down the street. Logistics services is a low margin business and greater profitability for a wide diversity of services from warehousing to inventory control is increasingly difficult—with customers keeping an eagle eye on the cost of every aspect of the supply chain. Little wonder that TNT wants to expand its “old fashioned” freight forwarding business and extend its ground and express networks around the world while dumping its low margin contract logistics that was draining the multi-billion dollar organization.

Is Kitty Hawk Throwing In The Towel On Domestic Air?

What’s happening to domestic air freight? As indicated earlier in the Newsletter, it’s going nowhere. Latest manifestation of the no growth trend is the buildup of a ground services network by Kitty Hawk Cargo Airlines. Of course, that airline had been created and built entirely for overnight freighter operations. The Dallas-based carrier said it would add seven cities along the East Coast during January and add eleven more in the first quarter of 2006 for its ground service operations.

People in our industry have called me a Luddite; a man who refuses to be swayed by every new hi-tech innovation. My conviction is that the many tiered supply chain tracks will be getting increasingly rusty as logistics providers begin to realize that while they are trying to become all things to shippers, their profits are going down the drain. Egged on by literally hundreds of articles in the trade press predicting that a many sided logistics service organization is the wave of the future, hundreds of companies rushed in to offer a variety of options to their customers in which they were ill-equipped either financially or operationally to do the job. Many of these companies now are looking at bleeding red ink balance sheets. Perhaps they should concentrate more on simply moving cargo for their customers and less time on a great many complicated, profitless ancillary services which are difficult to perform.

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The airline simply is facing reality. Expedited shippers increasingly are transferring their shipments from air to cheaper trucks, accelerated by high airline fuel prices. One problem Kitty Hawk faces is that in the midst of a greater role for its surface network is expensive replacements of its older, gas guzzling 727s to more efficient and newer 737s. The substitution of the newer aircraft is costing millions while its surface carriers move more of the carrier’s freight. My prediction; Kitty Hawk will be utilizing its aircraft for a smaller and smaller percentage of its business.

The Message From Dubai:

The Ninth Dubai Air Show, which took place this past November, is another indication of the growing importance to the aircraft and airline industries of this tiny Gulf State. Together, Boeing and Airbus racked up nearly 110 orders for new, large commercial aircraft worth about \$20 billion at list prices. The Dubai Air Show clearly outclassed the traditional Paris Air Show at LeBourget Field (where Lindbergh landed in 1927) where far less aircraft orders were recorded. During the past few years, Dubai has come out of nowhere to become a major player in the international passenger and air freight business. Its flag carrier, Emirates Airlines, now is the second most profitable carrier in the world. It was the first to order the jumbo Airbus 380 and remains the largest purchaser of these aircraft with an order for 45 airplanes. The airport at Dubai is now the most important “crossroads” airfield between Europe and Asia with Emirates Airlines generating a larger percentage of this business each year.

The success of Emirates Airlines gives credence to the belief that if Arabs stop fighting among themselves (and everyone else) and forget political animosities, they can be an effective force in business—particularly if they are backed by extremely wealthy rulers and rich private citizens. In making its mark in the airline business, Emirates seemingly has turned its back on politics and runs the carrier strictly as a business. More Arabs should take their cue from United Arab Emirates.



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There's Something Strange About All Those Billions Pouring Into The U.S.

We keep reading about the hundreds of billions of dollars flowing into the U.S. from foreign investors who are supposedly helping our acute imbalance of trade with their investments. At least, that's what the economic apologists tell us when they announce our growing trade imbalance each month. But has anyone stopped to think what a crazy world we are living in? All the economic text books tell us that rich countries export their surplus capital to poor nations to take advantage of investment opportunities there. Yet, what actually is happening is that poor nations of the world are net exporters of capital to the richest country in the world—the United States. This is in contradiction to every economic theory. In September of 2005 alone, the last month in which statistics are available, foreign investors pumped a record \$102 billion into U.S. assets, which equates to almost \$3.5 billion per day. Most countries don't attract \$3.5 billion of other people's money

in a month, or even a year, let alone a day. In fact, not many countries can handle a tidal wave of \$100 billion in net capital inflows in one month. Such a sudden and large infusion of money would trigger an economic tsunami in most parts of the world.

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It is indeed ironic that the richest nation in the world is depending on some of the poorest countries to redress its balance of trade with huge net inflows of cash. It is

rumored that the Chinese Central Bank alone is sitting on \$100 billion in Treasury notes and other U.S. government obligations. Something is wrong with the world when the most popular destination for foreign capital is a nation currently engaged in a seemingly endless and expensive war in Iraq, running massive deficits and sporting a stock market that has gone nowhere in the past year. One effect of all that capital washing ashore on the U.S. is a possible credit bubble that if burst, would wreck not only our economy but also most of the world's. There are only two possible solution; borrow less or produce more to reduce our trade deficit. But no one in Washington seems to be listening. They are too busy fighting a disastrous war abroad and wire tapping Americans illegally at home.

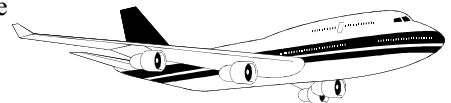


New Boeing 747-8 Saved By Air Freight:

While the fortunes of Boeing have risen dramatically during last year, with hundreds of new aircraft orders, one major "new" airplane has been given the cold shoulder by the world's airlines. It is the 747-8, an advanced version of Boeing's venerable 747 which first took to the air almost forty years ago. The 747-8 is an attempt by Boeing to position itself against the Airbus Jumbo 380. On the

passenger side, it is a flop with airlines showing absolutely no interest. Freight is another story. The airplane makes sense as a step up from the 747 both in range and cargo capacity without the huge expense and almost too much capacity of the 380. It should be remembered that the 747 truly created the international air freight business as we know it today. Two major cargo carriers;

Cargolux and Nippon Cargo Airlines together have ordered almost 20 of this improved aircraft, allowing Boeing to start cranking up production for the 747-8. More orders are expected from cargo carriers and combination airlines' freighter divisions.



And to all, the best of New Year's!



Sincerely,

Julian A. Keeling

Happy New Year

