



Consolidators International, Inc.

JANUARY  
2009



## A Doubled Down Recession?

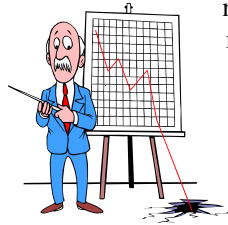


The current recession is a strange animal. If, as generally believed, the current recession started in December, 2007, what can we make of the really horrendous decline that occurred since the financial panic took hold in September of this year?

My belief, we are experiencing a recession wrapped in a recession. This current recession is the downturn that has caused such havoc in our industry. The initial recession, the one that started about a year ago, was a lumbering, garden variety decline not even identifiable until months after it had started. In contrast, there is no doubt about the pace and seriousness of the decline that began with the collapse of the financial sector this past September. It still is continuing and may be getting worse. We don't need economists to tell us our economy is going to hell in a handbasket. It has been doing so since banks and Wall Street houses began to fall like tenpins. The first recession was a whisper, our current one is a shout.

The implications of a recession within a recession are enormous. Whereas the recession that began last December barely sent a ripple across the air freight industry with slight growth still occurring, the more recent collapse has made a mockery of predicted cargo growth for well into 2009. On the ocean side, there is nothing less than mayhem with 10,000-TEU capacity ships being laid up. Air freight is suffering less than our ocean cousins because of the types of commodities carried, but it is hardly comforting to know that we can book cargo today for a flight tomorrow to almost any destination—capacity is so abundant and demand so weak.

The key question is; how do we interpret the current spate of bad news? Is the current recession largely an overreaction to the financial crisis last fall, suggesting the U.S. and



**Announcements**

**Inside This Issue:**

<i>A Doubled Down Recession?</i>	pg 1
<i>DHL Retreats From U.S.:</i>	pg 2
<i>Dubai-A Nation Built On Sand:</i>	pg 2
<i>Tending To Your Knitting:</i>	pg 2
<i>Few Supply Chain Answers:</i>	pg 3
<i>Boeing 787, Dream Or Nightmare?</i>	pg 3
<i>The Largest "Arline":</i>	pg 3
<i>Happy New Year!!:</i>	pg 3

world economy will get back on its feet relatively soon? Or, is the financial crisis a harbinger of continued weakness in the world economy? If so, fasten your seat belts—it's going to be a bumpy landing.

## DHL Retreats From U.S. With Tail Between Its Legs:

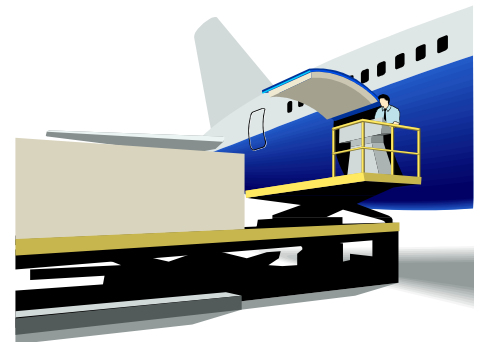


I hate to be right on this one. Five years ago, when DHL announced it was buying Airborne Express and entering the U.S. package express market "in force," I wrote in my Newsletter the attempt was doomed to failure. The competition from UPS and FedEx was too strong, Airborne was a rickety platform upon which to build an express service and the people hired to run the U.S. operation generally were incompetent. Why am I sorry to be right? The elimination of 9,500 jobs and the loss of \$10 billion in five years are sufficient reasons for anyone. In beating a retreat from the U.S. market, DHL's CEO

expressed the reasons in pure corporatese, stating, "it will serve the best interests of our customers, employees and shareholders around the world." Tell that to the 9,500 people laid off, many long-serving employees.

An interesting sidelight to this whole debacle is the situation involving DHL and UPS. Before shutting down, DHL had concluded an agreement for UPS to handle almost all of its domestic shipments totalling about \$1 billion in revenues. With no U.S. presence, there are no shipments. The UPS-DHL "agreement" is another indication of how meaningless contracts are in the air freight business.

My major concern is that FedEx and UPS may raise their rates now that a competitor, admittedly a weak one, is no longer in the picture. Here was an undertaking doomed from the start.

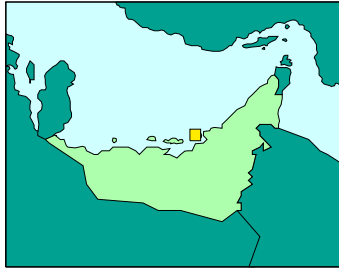


## Dubai—A Nation Built On Sand:



The recent announcement by Emirates Airlines that profits had dropped by almost 90 per cent during the first half of the year is another striking indication of how precarious are the fortunes of the various city states along the Persian Gulf. Dubai, the city state in which Emirates Airlines is based and which has received the most attention from the world's press, has been decimated by the double whammy of collapsing oil prices and a financial meltdown.

Most people think of Dubai as another Middle East oil producing state. It is not. Dubai has no oil under its sands, but derives almost all of its wealth from the billions of dollars flowing in from oil rich states like Kuwait, Saudi Arabia and Bahrain. Lacking any real financial management experience, the ruling sheikhs hired hot shot financial managers from the U.S. and Europe. Carried away by \$150 per barrel oil and with almost no oversight, these mostly young managers poured billions of dollars into every kind of investment from glitzy, overpriced Las Vegas hotels to acquiring major stakes in



shaky banks like Citibank. Dubai's ruling elite, with billions of other people's money, became convinced they were the Switzerland of the Middle East. Thousands of companies (almost all of them financial services) with hundreds of thousands of employees would flock to their sun-baked nation where summer temperatures often reach 130 degrees. Huge office towers sprang up; thousands of private homes and condominiums were built and hotels that would make the Taj Mahal look like a public housing project were constructed. Even an indoor ski run was built. Currently, the office towers wait for tenants. The streets upon which the houses and condominiums were built are

devoid of life. Hotels, with their \$1,000 per room per night rates echo to bare corridors. Today, Dubai is literally and figuratively a nation built on sand.

What about Emirate Airlines, the flag carrier of Dubai? Reflecting the arrogance of its nation's rulers, the airline became one of the biggest customers of Boeing and Airbus. It placed the largest single order for Airbus' jumbo 380s, believing Dubai would become the principal transfer point between Europe and Asia for passengers and the main transshipment center for cargo. Little of these grandiose plans have come to fruition. With oil prices mired in the less than \$40 a barrel and the financial holocaust continuing, Abu-Dubai may well become the ghost city of the Middle East.

---

*"With oil prices mired in the less than \$40 a barrel and the financial holocaust continuing, Abu-Dubai may well become the ghost city of the Middle East."*

---

## Often, It Pays To Tend To Your Knitting:



Fifteen years ago, when Consolidators International opened its doors, Australia generated 75 per cent of our business. Fifteen years later and with a ten-fold increase in sales volume, Australia together with New Zealand, still provides CII with 90 per cent of our revenues. We never have regretted that decision to concentrate on the market "down under." Australia is one of the most active trading partners with the U.S. Australia also is one of the few nations which has an unfavorable balance of trade with the United States, importing far more of our goods than it exports.

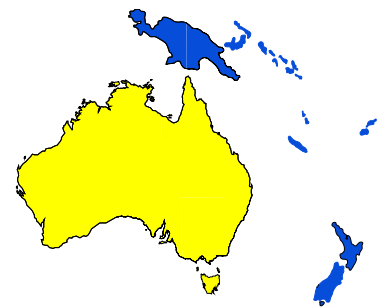
Five years ago, CII formed a division, Corrigan's Express, to offer even greater service to the Australian and New Zealand markets. To celebrate five years in the business, Corrigan's Express is offering

Australian forwarders a series of cutting edge rates and a schedule and variety of services that often is superior to the Big Three in international forwarding; DHL, Schenkers and Expeditors International. Corrigan's Express believes it can be the agent of choice for Australian forwarders/brokers requiring a professional partner in

---

*"Australia is one of the most active trading partners with the U.S. Australia also is one of the few nations which has an unfavorable balance of trade with the United States, importing far more of our goods than it exports"*

---



the U.S. who offers a potent combination of personal services and hi-tech capabilities. Too often in the past, Australian forwarders have been disappointed with their American "partners" who have promised much and delivered little. Australian shippers are no different than their American counterparts. In these recessionary times, they are demanding the highest quality of services from their forwarders to retain the business and goodwill of their customers. Corrigan's Express will respond to these demands in every respect.

## Supply Chain Strategists Have Few Answers Today:



**I**n the days of heady transportation growth, supply chain strategists had plenty of “solutions” to move goods faster and with greater efficiency. In today’s recessionary climate, these same “experts” have little to say. The sobering fact is that supply chain strategists are on the sidelines. Shippers are demanding old fashioned price medicine from their forwarders and let’s forget all those complicated supply chain theories. The decline in air and ocean volume is placing a new perspective on what is effective and what is not in moving goods. Complicated supply chain strategies are out. Back to basics in moving goods from Point A to Point B are in. It is indeed ironic that double digit increases in air and ocean freight volume of a few years ago was not

---

*“It is indeed ironic that double digit increases in air and ocean freight volume of a few years ago was not due to the efficiency of the various modes of transport nor the globalization of industrial production but was the result of over the top consumer spending driven by enormous levels of debt.”*

---

due to the efficiency of the various modes of transport nor the globalization of industrial production but was the result of over the top consumer spending driven by enormous levels of debt.

All those new 10,000-TEU container ships; all those widebodied freighters were actually the result of 90-lb housewives and their open pocketbooks. When those pocketbooks slammed shut, the entire logistics industry went into a tailspin. If air and ocean volumes are to make a comeback and to resume its growth, the consumer will have to stage a spectacular revival of what famed economist John Maynard Keynes called “animal spirits.” This comeback may take years, particularly as the entire psychology of spending has changed. After years of zero growth, Americans actually are starting to save. Result, a scenario that will show modest growth rates. We in the cargo business should plan accordingly.

## Boeing 787 “Dreamliner;” Dream Or Nightmare?

**B**oeing’s principal line of business seems to be changing. What was once an airplane manufacturer has become a company whose main product is a line of excuses. If Boeing keeps delaying the rollout of its 787 much longer, it risks becoming aviation’s laughing stock. I have commented on Boeing’s snafus before but every time I bring the subject up, another delay is

announced. It seems hard to believe today, but when Boeing began selling this aircraft (from a sales point of view the most successful airplane in Boeing’s history) almost three years ago, the company announced its first flight would take place in September, 2007—more than two years ago. Now, the most optimistic date for its initial flight is the final quarter of 2009 and deliveries to

the airlines are scheduled to begin in the first quarter of 2010. In another era, people responsible for this debacle would fall on their swords. Today, despite lower sales and earnings, Boeing executives, most noteworthy CEO Jim McNerny, receive pay increases and bonuses. In American business today, failure is rewarded.

## What’s The Largest “Airline” In The U.S.? Not Delta, American Nor United:

**T**he recent Delta-Northwest merger makes that airline the largest in the world. But is it? There is an “airline” whose aircraft are sitting in airports throughout the Southwestern United States. It is the “Desert Air Force,” which is growing by leaps and bounds. This “Air Force”

consists of older airplanes grounded, usually permanently by the airlines. The number is staggering. Currently, about 2,100 aircraft are resting quietly in the U.S. Southwestern desert with about 1,100 more expected to join them in 2009. These aircraft represent a history of jet aviation ranging from the earliest Boeing 737s built

over forty years ago, to the relatively recent MD-80s and 747s. What are the airlines going to do with all these airplanes? And how will they affect new aircraft orders? Here’s another vexing question airlines and aircraft manufacturers must answer to restore health to the airline industry.

## Let’s Hope 2009 Will Be A Year To Remember:

*2008 was a year to forget. Let’s hope 2009 will be a year to remember. A safe, sane, healthy and prosperous New Year to all!*



Sincerely,  
Julian A. Keeling

