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Corporate Euphemisms Hide Air Freight Weakness:



his past May, the new CEO at Panalpina, Monika Ribar, gave the keynote speech at the annual Cargo Network Services Partnership Conference held in San Diego. Ms. Ribar, although a seeming improvement over Panalpina's past president, Bruno Sidler, whose disastrous appointment of Dave Beatson as head of the forwarder's North American division plunged the company into almost total chaos, is not averse to using euphemisms when plain English will do.

Ms. Ribar kept talking about the air freight business in pure corporatese calling for "highly engineered, technology driven distribution networks." She added that it was vital to work with "logistics concepts." This almost incomprehensible language was putting her audience to sleep until she came to the guts of her talk, when she suddenly started addressing the audience in plain English. As she stated, "Panalpina, always known as an air freight forwarder, has watched its volume in air cargo decrease from to 50 to 48 per cent of its business."



Ms. Ribar's admission that Panalpina's air freight volume is declining, is but another sign that all is not well in air cargoland. Overcapacity on just about every

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international route is the rule rather than the exception. Both the new cargo airlines and the legacy carriers are reeling under the impact of too many airplanes and too few freight. As surely as night follows day, overcapacity leads to softening of rates. The unvarnished truth is that ocean shipping, although facing overcapacity problems of its own, is eating air freight's lunch. The growth in ex-Asia-U.S. west coast ports' traffic has been little short of explosive. The ports of Long Beach & Los Angeles are running out of room to store their TEUs.

A little old fashioned shoe leather in pursuing new air freight customers would be far more effective than all the speeches about "logistics concepts" and making "supply chain management" a supposed top priority among forwarders. Unlike Ms. Ribar who derided "old fashioned," single minded concepts like moving cargo from Point A to Point B on time and in good condition, that is exactly what shippers want. I find it remarkable that the only people talking about supply chain management in high flown rhetoric are the consultants and big forwarder executives who haven't been on a loading dock in years. Shippers never waste their time orating about these theoretical issues. Ever attend a shipper's conference? Their



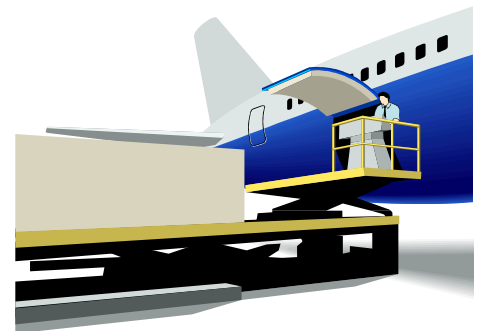
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time is spent discussing such bread & butter matters as rates, claims and how they can "goose" their forwarders to do a better job.

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Don't Knock The Iraqi War; It's Benefiting Some In Our Industry:

If anyone remembers Atlas Air at all, it's that wet leasing company that went bankrupt about three years ago after a downturn in the airline cargo business and whose President, Michael Chadrey, died tragically in a jet trainer accident. It seems Atlas has come back from the dead not because of any real revival in the airline leasing business but thanks to the U.S. government and its war in Iraq.

Latest financial reports from Atlas show a solid \$6.2 million in profits for the first quarter after losing \$3.7 million in the same quarter last year. Just why did Atlas score so well from last year to this one? Not from leasing aircraft; that business was down 16 per cent. Not from civilian operations. That also declined. The principal reason for a swing from loss to profit was military charters. Once a stop-gap operation for Atlas, it is turning into a real money maker. Flying soldiers, marines and cargo into Iraq jumped from \$73 million to \$115 million in the first quarter of this year.

I guess Atlas management must be among the biggest supporters of President Bush's Iraq strategy. Bush now talks about a "Korean" strategy for Iraq, meaning an indefinite presence of American troops in that poor, benighted country. U.S. troops have remained in Korea sixty years after the cessation of hostilities. American troops in Korea was a bonanza for an entire host of struggling non-sked airlines like World and Trans International which kept flying military charters to that country years after the war ended. What happens, however, if we pull out our troops from Iraq? Hardly a pleasant thought for Atlas management and all the other companies like Halliburton, who are feeding at the same trough.

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FedEx Strikes Out With Kinko's:

When FedEx acquired Kinko's, the chain of business supply and printing stores some years ago, the usual corporate rhetoric began flowing out of Memphis. A perfect synergy between the two companies. FedEx was moving decisively into new businesses. Customers buying printing supplies would drop off their FedEx packages right at the store. FedEx users would pick up printing supplies when they dropped off their packages. It was a beautiful theory, but somehow it never worked out that way. The two types of customers were distinct and different. Actually, Kinko's always was a weak sister in the highly competitive office and printing supply business. Profits have been slim at Kinko's, not nearly the ROI that FedEx enjoys. Revenues are flat and employee turnover is high. What was Fred



Smith thinking of when he decided to purchase Kinko's? Smith is truly one of the most creative and innovative executives in American business today. But he is not infallible. He should have remembered the former Mayor of New York, Fiorello LaGuardia's (for whom LaGuardia Airport is named) famous remark, "I don't make many mistakes but when I do, it's a beaut." The Kinko's purchase by FedEx is another reminder that success in one business does not automatically translate into good fortune in another. Less than 25 per cent of mergers or acquisitions, particularly in non-related businesses, are successful. Stick to what you know is a lesson that has to be learned over and over again even by high ego executives.

Ryanair's Success In Europe Cannot Be Duplicated Across Atlantic:



A few months ago, Michael O'Leary, CEO at Ryanair, the highly successful intra-European airline, stated that he plans to launch a low fare, trans-Atlantic airline within the next three to four years. He thought start-up costs would reach the \$300 million mark. In his remarks, he talked about \$50 fares across the Atlantic.

O'Leary must have been conferring with the leprechans in his native country. Flying short hops in Europe with no frills service and crossing the Atlantic where travelers even in coach expect reasonably decent service, are two completely different businesses. Ryanair is enormously profitable because Europeans seem willing to put up with an almost complete lack of service for their short flights and to fly between obscure cities in order to take advantage of extremely low fares. Will spoiled American travelers accept the draconian Ryanair philosophy for eight-ten hour flights? I doubt it. Even if travelers accept the trade-off between almost no service for ultra-low fares, profits come from the front of the airplane in business and first class. All of the trans-Atlantic airlines agree that the real money is made with its business and first class passengers, plus cargo. Ryanair wouldn't recognize a first class seat if they stumbled across it. Also, crew scheduling to comply with stringent FAA regulations regarding maximum flight hours means "lay over" costs that rapidly eat into profits. There's also a little matter of competition. At last count, some 49 carriers offer trans-Atlantic service.





As a New Zealander born and bred, and with CII doing substantial business in my place of birth, I naturally am interested in any development at that nation's principal airport in Auckland. What is occurring at Auckland International Airport (AKL) may be a harbinger of things to come at other major international airports with subsequent negative consequences for the world's airlines and their freight forwarder customers.

The basic issue is privatization. From almost the first days of commercial aviation, airports always were conceived, built and operated by government or quasi-government organizations generally known as airport authorities. Auckland International was no exception. However, a few years ago, the New Zealand government decided to sell it to private investors. The airport now is listed on the New Zealand Stock Exchange. Such major airports as London's Heathrow, Paris' Charles de Gaulle and Amsterdam's Schiphol also have been partially privatized or about to go the privatization route.

A License To Print Money?



Why is far-away Auckland's International Airport a bellweather for airports around the world? Why should air freight people be concerned what is happening there? Simply because the Auckland Airport Authority which runs the facility, is seeking a 30 per cent increase in airline fees starting Septmeber 1. Other airport authorities are closely watching the outcome. Carriers serving New Zealand, particularly Air New Zealand with the largest number of flights at AKL, are crying foul. Even at present fees, the airport is hugely profitable. Opponents of airport privatization say if the Auckland Authority is successful in its efforts, other privately owned airports around the world will take heart and start agitating for higher fees. Higher fees for airline users will result in only one outcome; increased passenger fares and raised cargo rates to cover carriers' increased costs.

Do airports exist for public good or private profit? Is an airport an important part of its community serving regional commerce and industry, or is it an engine for making money? Free market idealogues say there is only one objective in any enterprise—maximizing profits. I say those free marketeers are wearing blinders. In my opinion, public good is far more important than private greed.

A well run airport with fair and reasonable rates for airlines serving it is more than just a collection of runways and restaurants. It is a major factor in the economic health of a community. Let's hope the greed and avarice shown by AKL's management will not be shared by other airports.



Another Mid-Sized Forwarder Bites The Dust:



Air freight analysts claim that it is the mid-sized forwarder who is the most vulnerable in our industry. Too small to compete with the big boys in personnel and electronic capabilities and too big to provide the intense personal service of the "mom & pop." single lane operators. Their claim is vindicated once again with the example of the Stonepath Group, which is about to go belly-up.

Originally an Internet start-up before the dot com crash, New England based Stonepath is almost a textbook case of a mid-sized forwarder's initial growth and then decline. Over a five year period from 2001 to 2005, Stonepath had \$1.13 billion in revenues and losses of \$372 million. Poor fools like self-styled industry guru, Guy Fox, who thought they had sold their companies to an outfit with bottomless pockets, were taken to the cleaners. Most shareholders of the companies sold to

Stonepath ended up only with down payments. Promised future payments vanished into thin air. Reason; Stonepath during the past two years literally could not make good in honoring any of its financial obligations.

In order to stay alive, the company sold most of its assets. Today, they face involuntary bankruptcy. It is interesting to note the two gentlemen behind the demise of Stonepath were none other than Dennis

Pelino and Bob Arovas. Both were Fritz executives whom Lyn Fritz to this day up in his vinyard in Napa wishes he had never met these two gentlemen. Fritz almost was bankrupt when the customs broker was acquired by UPS. It is no secret that the hierarchy at UPS found out, too late, what a mess they were buying into.

Pelino & Arovas have egos to match that of Donald Trump. Many an employee of the companies that "housed" these two losers will have smiles on their faces to see their ineptitude finally catch up to them. Let's hope there is no repeat of a "David Beatson" with these two characters re-surfacing with another company to wreak havoc as they did with Stonepath.

Sincerely,

Julian A. Keeling

