



Ronen Is Tying The Knot

Our colleague, Ronen, owes a huge debt to CII. During last summer's school holidays, Peter and I decided to employ two French female university students who came to America for work experience. Ronen, being the young, single bloke in the company, was charged with the pleasant duty of showing the two young women around L.A. and its environs. This extra curricular activity sparked a romance between Ronen and one of the young French ladies. It resulted in our erstwhile work mate "popping" the question to Josephine before she returned home to Paris.

Ronen has shown remarkable restraint and patience in having his

bride-to-be thousands of miles away in Paris while he pined for her in Los Angeles. For the past nine months, Ronen has kept his nose to the grindstone, grinding out airway bills while constantly thinking of his beloved on the other side of the earth.

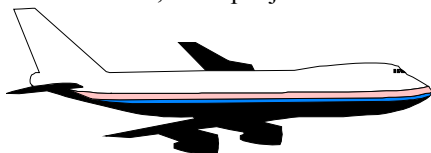
Our story has a happy ending. Josephine is returning to Los Angeles next month with the wedding to take place shortly after. We at CII are unanimous that Ronen could not have made a better choice. Josephine is gorgeous in mind and body and will make a perfect wife for Ronen. And Josephine is also very lucky.



Congratulations, Ronen and Josephine!

Is Boeing Lucky, Or Smart, Or Both?

Early last year, Boeing was on the ropes. Its \$6 billion tanker deal with the Air Force was falling apart due to corruption charges. A couple of its executives went to prison for, in effect, stealing plans from Lockheed for space exploration vehicles. Its CEO, with Boeing for thirty five years, resigned in disgrace. Then his successor was caught in a sex scandal with another, female Boeing executive and he also resigned. Perhaps most importantly, Boeing's new mid-sized air plane called the "Dreamliner," was going nowhere. The company's formidable rival, Airbus, was in the middle of a seemingly successful drive to sell its new series of aircraft, the super jumbo 380.



Eighteen month later, it's mostly blue skies for Boeing. Its stock is at an all time high. Management has pulled itself together although a CEO has not yet been chosen. Its new aircraft, renamed the 787, is starting to sell like hotcakes and its management seems to be arriving at a mutually agreeable settlement with the Pentagon so that the company's all important defense contracts are not in jeopardy.

Why this change in fortune? Boeing is one lucky company, aided by events mostly beyond its control. The greatest impetus to Boeing's suddenly starting to obtain orders for its 787—key to the company's commercial survival—is the high price of oil. From the start, Boeing promoted its new, mid-sized airplane as extremely fuel efficient, saving up to 30 per cent in fuel costs while having an even greater range than its larger 747. Airlines could fly the plane longer

distances with less seats to fill and at a cheaper per mile cost. When oil was \$25 per barrel, airline execs weren't too impressed with fuel savings. But with oil now around \$50 per barrel and on a plateau of \$45-60 per barrel for the indefinite future, the 787 began to make sense to airline management. Orders began to flow in, primarily from Asian carriers but amazingly, even from a couple of the "legacy" U.S. airlines who still are wallowing in red ink. Northwest and Continental obviously believe they have to face the future with modern equipment. Of course, once a few airlines order new aircraft, others believe they have to jump on the bandwagon. The airline business strictly is a herd instinct business. So, Boeing's prediction that it will sell more than 1,000 of these new aircraft does not seem that far fetched. Meantime, Airbus' giant 380 seems to have stalled in sales. After a bunch of initial orders, there has been silence coming out of Toulouse about this huge gas guzzler. What's that old saying; better lucky than smart?

Announcements

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3PLs; On Their Way To Nowhere:

It's the same old story. The transportation business, like the fashion industry, loves fads. And what fad was stronger during the past few years than the idea of a 3PL? A "third party" company that would assume all the logistics responsibilities for the shipper. This outside company supposedly teeming with high priced experts of all kinds, would handle every aspect of logistics for the shipper; from packing the goods to deciding the carrier, to booking the air or ocean voyage, and final delivery to the consignee whether across continents or across the street. All inventory would be handled by the 3PL; the shipper just could forget about moving his merchandise and concentrate on making money marketing and selling his company products. To top off this glittering mirage, not only would the shipper be relieved of all the messy details in transporting his goods, he actually would be saving money because of the efficiencies of the 3PL. Many corporations, large and small, succumbed to this siren call. From a zero start, 3PLs mushroomed into an industry generating hundreds of millions of dollars in revenues. Transport executives like

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David Beatson, who kept getting fired from his corporate CEO positions, magically became 3PL "consultants." In the rush to embrace this newest transportation fad, shippers never stopped to realize that high priced consultants and lower prices are mutually exclusive. After an initial burst of enthusiasm, more and more shippers began to realize the emperor had no clothes. Shipments were not arriving at their destinations any faster. Savings in inventory were illusory. Reports to customers often were garbled, incomplete or both with customers not knowing the status of their shipments.

Reality has sunk in. 3PLs are merging, shrinking or just closing their doors. The largest shipping company in the world, Maersk, is a good example of the rise and fall of the 3PL. Started with great fanfare a few years ago, with fancy new offices in Los Angeles and a large staff, Maersk,

one of the oldest and most prestigious names in ocean transport, genuinely believed it could provide a new and valued service to current and potential customers. Hard reality soon convinced management they couldn't. Today, Maersk 3PL is a shadow of its former self. The thirty person staff has been whittled down to a few lonely souls. The expensive office will be either changed to a much smaller one or closed completely once the present lease expires.

The Maersk example is but the tip of the iceberg. Customers are discovering their traditional forwarders can perform a first rate job without the expensive bells and whistles of the 3PLer. There is a vast difference between genuine progress and smoke and mirrors progress. The transition from piston engined aircraft to jets was genuine progress. Replacing the traditional forwarder with a 3PL is smoke and mirrors progress. I believe their time has come, and gone.

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Jan DeGiorgio Appointed President At Corrigan's Express:



We always like to keep a friendly eye on our neighbors and the accession of Jan DeGiorgio to the Presidency of Corrigan's Express is one of those delightful occasions. Corrigan's Express began as a forwarder about two and a half years ago. Starting from scratch in a very tough competitive environment, Corrigan's managed to carve out a small but growing niche for China-U.S. air and ocean business. The original head of the company, Warren Barnes, decided to move back to his native U.K. to explore forwarding opportunities there. It was unanimously decided that veteran cargo executive Jan DeGiorgio should replace him.

It was a wise choice. Australian by birth, Jan has some twenty five years of experience in international air freight. She has held executive positions at Eagle Global Logistics and Emery Air Freight, among others. She is extremely popular with shippers, airline people and even her competitors who think very highly of Jan. Best of luck to you in your new position and let's hope that some of Corrigan's retail business comes down CII's wholesale pike.

Announcing 

Where Will The Airlines' New Hires Come From?

With all the frustrations, sadness and deservedly genuine anger among current airline personnel who see their once inviolable pension benefits cut off at the knees, little attention has been paid to perhaps even more ominous development. If United Air Lines' Bankruptcy Court approves transferring the carrier's pension assets to the U.S. Government's Pension Benefits Corporation, United's employees will see their pensions reduced by up to 80 per cent. It will be very tough on them. But other, perhaps even more dire consequences for the traveling public, the shipper and his cargo agent will occur unless the financial fortunes of the airlines improve.

This ominous development is the shortage of new hires. In the not too distant past, people with many different skills competed for employment at the airlines. Reasonably good pay, steady work, solid pension benefits and travel privileges were the rewards.

Today, the picture is vastly different.

Only travel privileges remain. Pay has been cut, lay-offs are the rule rather than the exception and pension benefits have been cut to shreds, if they exist at all. What young person in his/her right mind would want to join an airline with all these negatives? Both the passenger and the freight forwarder now take for granted that the airline chosen has the finest equipment, kept in superb flying condition by dedicated flight and ground personnel backed by skilled flight controllers, weathermen and all the other airline people behind the scenes who make most flights smooth and uneventful.

These skilled, experienced people are getting on in years, however. Sooner or later, and in many cases sooner, they will be retiring because of age with or without adequate pensions. In the past, when airline jobs were a source of pride, younger workers effortlessly filled these gaps. Today, airlines are finding these retirement holes much harder to fill. A modern jet is not a simple mechanism. On

the contrary, the new Airbus 380 and Boeing 787 are among the most complicated pieces of machinery ever designed and built. They will require constant, skilled care with experienced flight and ground crews stationed at bases throughout the world. Airplanes are not only complicated, they have long lives. It's hard to remember but the first Boeing 747-100 was bought more than thirty years ago by Juan Trippe of Pan Am. Trippe and Pan Am are long since gone, but the Boeing 747 and its successor incarnations still are flying and remain the backbone of the world's freighter fleet.

Freight forwarders now take the airlines for granted. If freight can't be put on one flight, there always is another a few hours later. Without the airlines, however, there is no forwarding business. Forwarders should light a fire under airline management to make jobs for new hires as attractive as the old ones.

Branson Riding His Airline Hobby Horse Once Again:

Sir Richard plays with airlines the way children play with toys. And like kids with toys, he's always getting bored with old airlines and seeking new ones. Branson's latest grab at the airline brass ring is his attempt to start a new, international-Australian based carrier. My bet is that Sir Richard will have as much success with this new venture as he is having with Virgin America—which is zero. Like everything else Branson touches, it is a complicated story.

Branson started a domestic Australian carrier, Virgin Blue, a few years ago when the traditional Aussie airline, Ansett, went

bankrupt and shut down. For a while, Virgin Blue flourished, with no competition. Then, Qantas decided to join the battle with a new, low cost domestic carrier, Jetstar. Jetstar soon began cleaning Virgin Blue's clock. From a dominant position in the market, Virgin Blue dropped to well below 50 per cent share. A major investor in Virgin Blue was the Patrick Corporation, a large, Australian based transportation company with port and rail interests. Fed up with Branson's and CEO Brett Godfrey's miserable performance, Patrick decided to make a hostile bid for Virgin Blue. They now control a majority interest with 62 per cent

of the carrier, although Branson and Godfrey refuse to sell their shares.

While Virgin Blue suffers shrinking volume and low load factors, Branson is on his airline hobby horse once again. He's looking for investors for a new Australian based airline to serve international markets. In the old days, Branson could have used his ersatz glamour to lure suckers into his tent. With a new reality in the airline business, those days are gone forever. With Qantas doing a first rate job both internationally and through its domestic carrier, Jetstar, Australia needs a new airline like a hole in the head.

Sincerely,

Julian A. Keeling