



Consolidators international, Inc.

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Competitor Sells For Third Time:

One of our competitors has been sold for the third time in almost as many years. This time venerable English wholesaler Air Menzies International (AMI) wrote out a hefty check to Peter Whitfield.

There always are serious reasons for selling a company and there is merit in creating greater critical mass. We feel sure the new AMI will be a formidable foe.

For our part, we remain convinced that wholesaling is a very intimate business. We believe that by remaining independent, CII has the skill, dedication and flexibility to focus on you, the customer, in providing the highest standards of service. Sure, our newly installed "Smart Alec" web-based computer system is state of the art. Yes, there is structure and discipline within CII. Personal service remains our hallmark, however. Our bosses are not based on another continent and in another time



zone. Our management, and all our personnel, are inside CII's three offices, tending to the day to day needs of our business. To this day, we have resisted the temptation to install one of those modern voice mail phone systems because we believe that a real live, human voice is what you, the customer, wants to hear. Our entire operation is centered upon providing the finest in personal service. This lofty goal has been our objective from the first day of our operation.

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By remaining true to our ideals and goals, we believe CII can grow organically without the need of a merger or sale of the company. CII started on a dream by Peter and me fourteen years ago. Tssible dream"

Asia-Europe Cargo Also Slowing Down:

I am always surprised, but perhaps should not be, how often analysts and "consultants" are wrong when predicting air cargo trends. The Asia-Europe cargo market is a perfect illustration of misguided and incorrect analysis. The fallacious reading of this market was more than just an academic exercise. Millions of dollars have been committed to satisfy this supposedly fast growing market, which actually has been not much more than stagnant. A few years ago, marketing "experts" were trumpeting a huge new market; one that would equal the Europe-

North Atlantic in volume. Asia-Europe was the next big growth area for air freight. Both legacy and new cargo airlines jumped into this market. All-cargo carriers like Jade and Great Wall Airlines were formed to exploit this market utilizing big 747 equipment. Old line carriers like Lufthansa and KLM-Air France increased the number of all-cargo flights between the two historic continents. The results have been disastrous. Both Jade and Great Wall are running up huge losses. Lufthansa is switching a number of its flights from Asia-Europe to the North Atlantic. The all-cargo carrier, Cargolux, also is de-emphasizing flights



across Siberia for a greater number of trips ex-Europe to U.S. cities. A new Italian all-cargo carrier; Cargoitalia, has started twice weekly service from Milan to Chicago and New York. Let's hope the airlines are not repeating their mistakes in Europe with a "disproportionate" amount of flights across the Atlantic. With so many existing and planned flights across the Atlantic, forwarders will be paying airlines more money in fuel surcharges than their published rates.



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Too Much Equipment Chasing Too Little Business?

Last month, I commented on the decline of cargo business at the two busiest airports on the West Coast; LAX & SFO. I wondered if this lessening of volume was just a hiccup or a national or even international trend. I didn't have long to wait. Official statistics were published soon afterwards showing air freight volume both domestically and internationally to be very sluggish in the first quarter of 2007.

The decline was not confined just to air cargo. The trucking industry, both FTL and LTL, was showing fairly heavy declines as well. One truck forecasting company was calling the drop in truck volume a "freight recession" with the big truckers like Yellow and Old Dominion announcing declines of up to 10 per cent in revenues. The other major type of surface carriers; railroads, also were reporting drops in sales and shipments during the first quarter of 2007. Even ocean shipping, which has been the star of the transportation industry for the past decade with huge ex-Asia business to west coast ports, reflected a decline of about 3 per cent during the first quarter of 2007.

Air freight may not get the respect it deserves in many quarters, but at least one powerful financial leader believes that our industry is an accurate barometer of global economic trends. He is Alan Greenspan, former Chairman of the Federal Reserve. As head of U.S.' central bank, Greenspan was one of the most influential men in government. During his lengthy tenure at the Federal Reserve, Greenspan was considered second only to the President in power and influence.

"...Greenspan is convinced that air freight tracks either an economic upturn or decline six months before it actually happens."

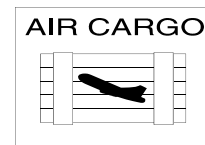
Ironically, while volume was dropping, all sectors of the transport business were announcing record or near record number of orders for new equipment. Boeing is having its most successful year in history for cargo aircraft with substantial orders for freighter airplanes. Both the cargo version of the triple seven and the venerable 747 are keeping Boeing's production lines humming. On the trucking side, truckers are starting to realize they "overbought" more than 100,000 trailer tractors last year just as their business was declining. On the ocean side, an almost record amount of 10,000-TEU container ships will slide down the ways this year, with a subsequent softening of rates as shipping lines frantically try to fill these new behemoths.

What does this across the board, gloomy transportation news tell us about the general U.S. economy? It tells us, in no uncertain terms, that the glory days of 4.5 per cent increases in GDP is but a memory. If we eke out a 1.5 per cent increase in GDP for the current quarter and the remainder of the year, consider the U.S.



economy fortunate. The chickens are coming home to roost in the form of high gas prices, a sharp drop in housing activity with sub-prime mortgage woes leading the way and continuing outsourcing of well paying industrial and service jobs to low cost countries. Let's hope the consumer ignores all this bad news and continues to spend like there's no tomorrow. If not, we're not talking about a sluggish economy—but a real recession.

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Alan Greenspan Big Fan Of Air Cargo:

During his tenure at the Bank and even today, Greenspan telephones Fred Smith, CEO at FedEx, and other cargo leaders to ascertain how the air freight business is performing. Greenspan believes that air freight shipments are a clear snapshot of the trend line for the general economy. In the short term, shipments reflect a currently strong or weak economy. Over the longer term, Greenspan is convinced that air freight tracks either an economic upturn or decline six months before it actually happens. Manufacturers adjust their production lines and shippers either to increase or decrease their delivery schedules.

I second Greenspan's opinion. I always have believed that air freight is a more accurate reflector of the nation's and the world's economic health than sea commerce. Although air traffic comprises only about 4 per cent of international

transportation volume, much of what is shipped by air is high value goods which rise and fall with the general economy. On the other hand, a huge percentage of what moves by sea is commodities like oil or food products that remain fairly constant in volume whatever the status of the global economy.

As Comedian Rodney Dangerfield used to say, "we get no respect." Air freight actually is an important harbinger of what's ahead for our economy. More attention should be paid to air freight volume by corporate and government economists in addition to CEOs. Who knows? Perhaps the first Nobel Prize will be given to that economist who correlates air freight trends with the condition to the world economy.



Conflict In Iraq; Parallels With The Thirty Years War:

It's a shame more American students don't study European history. If they did, students would learn about the Thirty Years War. That war in the fifteenth century dragged on for an almost unimaginable thirty years. What was so interesting about that war was not who won or lost, but that after about five years of fighting, soldiers on either side completely forgot exactly why they were on the battlefield. They just soldiered on, killing each other, out of sheer habit and routine.

That long ago war reminded me of the conflict in Iraq. The U.S. has been engaged in that conflict for "only" four years but increasingly, American soldiers and marines from the "grunts" on the ground to the highest officers in the Pentagon, have forgotten why fighting continues and casualties keep mounting. I don't think even Vice President Cheney, perhaps the most passionate and stubborn defender of the war, now can

state with certainty exactly what the U.S. military are doing in Iraq. All the reasons Cheney and his fellow neo-conservatives confidently predicted in the lead-up to the war, have been exploded. The belief that Iraq would become a democracy and set an example for other Arab nations also to become democratic states; that oil revenues would result in a prosperous and free-market Iraq; that Sunni and Shiite would like down together like lambs and live in peace and harmony; and that the non-Arab Kurds would love their Arab neighbors, share their oil revenues and not wish to become an independent nation. All these assertions were no more than the fantasies of President Bush and his circle of neo-cons like his vice president and Messrs. Wolfowitz, Perle and Kristol. What do they have to say after more than four years of war, almost 3,500 casualties, \$500 billion spent and an Iraq that is totally dysfunctional? Exactly what are we doing in Iraq? I wish someone would provide a persuasive answer.

Virgin America Finally Wins Operating Certificate:

Sir Richard Branson, if nothing else, is persistent. After years of effort and millions of dollars spent, Virgin America finally has won its operating certificate from the DOT and now can fly within the U.S. But is it a Pyrrhic victory?

The airline expects to start operating four flights a day between SFO and JFK starting in late summer and using Airbus 320 equipment. Sounds fine until one realizes there are about six other airlines flying that same route every day of the week. These are among the biggest and strongest carriers in the industry. With Virgin added to the picture, about 10,000 seats will be available on a daily basis. Are there that many people flying each day between San Francisco and New York's JFK? That doesn't take into account the flights into Newark Airport from SFO by Continental and other airlines serving the NYC market. Let's hope the Virgin investors who have sunk \$53 million into the venture know what they are up against. Compounding the problem is the fact that Virgin is operating in two of the

most expensive cities in the U.S. Virgin's choice of the high-priced San Francisco-Bay area as its corporate headquarters was more of an ego trip by Branson than a sound business decision. Something will have to give. I suspect Virgin will have to announce very low "introductory" fares to make any appreciable dent in the market. Of course, all the other carriers instantly will match the Virgin fares with everyone losing in the process.



Sincerely,

Julian A. Keeling

U.S.-E.U Opens Skies Agreement Puts Heathrow Up For Grabs:

The Open Skies agreement approved by the European Council this past March is a typically twisted, convoluted set of bureaucratic new rules and regulations affecting airlines serving the two largest international markets. Not many in our industry fully understand them. One of the Council's few easy to understand directives, however, was throwing open London's Heathrow Airport to all airlines. Currently, the airport is dominated by British Airways with only a few American airlines allowed to fly in and out of the U.K.'s premier airfield. A number of U.S. carriers campaigned vigorously to open up Heathrow, but one wonders what all the fuss and bother is about. For Heathrow, without doubt, is the most shabby, outdated and inconvenient of all the major "gateways" in the world. I have been traveling through Heathrow as a passenger for the past three decades and can attest that almost nothing has been done in that time to upgrade or update its facilities. The airport is a disgrace to the airline industry and to England, particularly compared to the new airfields in Hong Kong, Tokyo and Bangkok, to name a few.

Why the airport authorities allow incompetence and sheer hostility of many of its personnel to flourish, is a mystery. They make your stay at the airport as unpleasant as possible with incomprehensible directions and instructions. Make sure to have a good meal before you arrive at the airport. Its restaurants serve miserable food at outrageous prices. Heathrow's dominant airline, British Airways, has the unenviable distinction of reaching the top spot in the "Lost Luggage League" with an astonishing 28 per cent of its passenger luggage lost at the airport.

The old saying, "you may be sorry what you get" could be applicable to the airlines clamoring for slots at Heathrow.

