



Consolidators international, Inc.

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If High Fuel Prices Don't Cripple Air Freight, Over Zealous Security Will:



NS annual meetings are primarily gabfests with lots of schmoozing, networking and worrying if you can compete against other golfers when it's tee-off time. This year's meeting, held a few months ago in Palm Beach, was different. Different because a Transport Security Agency (TSA) team was on hand to deliver cold, hard facts about air freight security, in addition to the usual speakers heating the conference hall with massive volumes of hot air.

The message from TSA was grim. Following a Congressional mandate, the first phase of industry compliance must be met at a 50 per cent level by early 2009 with the final 100 per cent level of compliance to be attained in August of the following year. What the security people did not tell the audience was, who is going to pay for the huge extra costs. Just the scanning equipment which is estimated to cost from \$35,000 per instrument to \$1.2 million will cost a small fortune! It's not enough that our industry has to grapple with sky-high fuel costs, a slowdown in the world economy, overcapacity on many routes and a sharp decline in volume. We now have to face totally unrealistic security measures which if implemented, could drive

medium and small freight forwarders out of business and destroy what little profitability exists for those who remain.



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The attitude of the TSA reminds me of the famous, or infamous, statement by a U.S. army captain who, during the Vietnamese war, said, "we have to wipe out the village to save it." Must we wipe out an industry vital to the global economy to attain an unrealistic level of 100 per cent security? The 450 CNS attendees, to their credit, rose up as one man to tell the TSA, in effect, to drop dead.

Announcements

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"We're mad as hell and we won't take it anymore," summed up their right-on attitude. Hopefully, the CNS meeting will serve as a catalyst for our industry in telling our Congressmen and women that while their goals of 100 per cent security in meeting threats from overseas are admirable, their "solutions" are totally unrealistic. If these rules go into effect next year, they could cripple and even destroy our industry. The government would have won a pyrrhic victory.

Connie Kalitta's Dream World Shatters When Forwarders Say No:



Connie Kalitta is a grizzled veteran of the air freight wars. For the past forty years, this ex-racing car driver has been part of this crazy business from up in Ypsilanti, Michigan. By this time, one would think Connie would have a pretty firm idea of what is successful in air freight and what isn't. After four decades in air freight, he should know what makes his primary customers--forwarders--tick. Yet

he seems to have forgotten the basic creed of the forwarder--never make commitments you can't keep, especially if it involves hard cash. Kalitta proposed starting a domestic freighter operation primarily to replace the defunct, all-cargo Kitty Hawk Airlines. With one critical difference than Kitty Hawk, however. Kalitta wanted firm, up-front commitments in hard cash from forwarders who would book on his airline. Not only did Kalitta want hard currency up front, his proposed rates actually were higher than Kitty Hawk's.

This in the face of an economic recession and a severe drop in domestic air cargo volume. Forwarders said no thanks. In the past, a number of other cargo airlines attempted the same gambit. All failed. If there is one lesson to be relearned from the Kalitta fiasco--forwarders are tight with their cash, as they should be in today's environment..



New Personnel To Handle Increased Business:

While negative conditions continue to buffet the industry, CII moves right along in expanding our company and adding to services. After fifteen years of continuous growth, we have made a number of adjustments to strengthen our business model. The result is the appointment of key executives to fill our expanding role in air freight. Both I, Julian Keeling, and Peter Lamy remain CEO and President respectively.

Graham Burford has joined CII as Vice President, Global Sales. A ten year veteran of the industry, Graham comes to us directly from Australia where he was sales manager for a large local forwarder. As Australia accounts for more than 75 per cent of CII's total sales, Graham's wealth of experience with this market truly strengthens our ability to grow serving "down under."

Tony Feist has been appointed Director of Special Projects. Tony's role is to look after shipments that are not part of our consolidation service. Through his expertise, CII rapidly is becoming the forwarder of choice for spares/raw materials for the remaining U.S.-owned tuna fishing fleet and factories based in the South Pacific and the Pacific rim of Asia. Tony is "ambidextrous," being equally at home with ocean or air freight. He already has been responsible for some very intricate moves of off-project shipments into Russia, American Samoa and the African continent.



Brazilian-born Fabiano Ferreira comes to CII directly from hotel management. Who is better to take control of our customer operations than a person who has spent years in front office management of major hotels throughout North & South America? Fabiano has taken this change from the hospitality industry to forwarding like a "duck to water." He claims there are many similarities on how the customer should be looked after. Multi-lingual and widely traveled, he brings a refreshing approach to how best CII can continue to grow all the while maintaining and improving customer service.



Bruce McCaffrey; Fall Guy For The DOJ Price Fixing Investigation:

Bruce McCaffrey, late of Qantas Airlines, may have had the title of VP Americas, but he was treated as middle management and took orders from headquarters in Sydney, Australia. The man survived about fifteen bosses in almost as many years. It is to his credit that he stuck to the job he was employed to do as most in his situation would have vanished into that great hangar in the sky. He worked diligently for his employer for twenty seven years, always being one of the first to arrive at the office and the last to leave each day. During the nineteen nineties, when rates were declining rapidly, the one thing Bruce did was to control rates. Bruce held his pricing as best he could to maintain full loads on his aircraft. Qantas' rates due to him always were the benchmark from which the airline's competitors discounted their rates to attract business.

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With this as a background, it is nothing short of disgusting how this man has been thrown to the wolves by Geoff Dixon, CEO at Qantas. His Australian colleagues can sit in their armchairs swiggering on "tubes" of Fosters with total immunity, smiling that he has taken the rap for decisions they were responsible in making. Bruce suffered a severe stroke in the nineties and still has mild paralysis. He had few interests outside of the job and few friends inside or outside the industry. A couple of Dale Carnegie courses would not have been amiss for the man. Bruce unceremoniously was dismissed from Qantas last year, with Dixon declaring that Qantas would not pay for his defense. Bruce did not have the resources to fight the battle against the unlimited millions of the DOJ and thus had to face the music. Industry respect



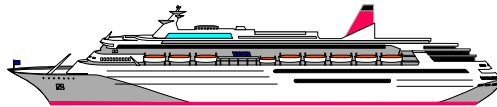
for CEO Dixon must be at a low ebb. While hanging out Bruce to dry for taking the rap, at the same time Dixon almost orchestrated a debt-ridden private equity buyout of the airline which would have personally netted him tens of millions of dollars. For my money, Dixon deserves the contempt of the entire industry. Qantas' reputation also has taken a huge hit.



Airlines Can Take Lessons From The Cruise Industry:

Recently, I attended a bon voyage party in Long Beach for friends who were sailing on a 10-day cruise to the Mexican Riviera. Driving back from Long Beach to Los Angeles after the party, I began thinking about the cruise business and how fundamentally its psychology is different from the airlines. Both share a striking similarity, of course. They both use enormous amounts of fuel, jet and bunker, to power their airplanes and ships. Despite the fact that both industries cannot exist without burning huge amounts of fuel, one business faces increasing consolidation and bankruptcy while the other is enjoying--if not record profits, solid earnings. Shares of the airlines are at depression levels while cruise shares are at holding their own with a number of companies even paying dividends!

Why the difference? Airlines have dug themselves into profitless holes by stressing price to the exclusion of all else, failing in customer service and lumping themselves together as commodities with almost no brand loyalty except mileage programs. Cruise lines are moving in completely opposite directions. Instead of retiring aircraft, they are building more ships. The industry is focusing more on customer service (despite necessary fuel surcharges), innovative product that differentiates between each line, and new and exotic ports to satisfy the differing needs of their customers. As cruise lines seek to expand and improve their product, airlines are moving in the opposite direction, literally shrinking their seats to jam more passengers into their aircraft.



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The airline industry has absolutely no vision for the future except to consolidate and charge higher fares on less flights. In contrast, cruise lines are focusing on brand identity, product innovation and an expanding base of passengers. Airline management would do well to study the actions, and perhaps more importantly, the positive attitude of their sea-going cousins.

The World Can Thank The "Cowboys" We Call Commodity Traders:

Speculators and traders in the pits of the Chicago Board of Trade and at the New York Mercantile Exchange are largely responsible for the huge rise in oil and other commodity prices. Prices today have nothing to do with supply. Oil is gushing out of the ground the same way it has for the past hundred years. Gasoline consumption in the U.S. actually is going down, spurred on the huge rise in prices at the pump and a slowing economy. Today, "big oil" is an oligopoly. Combine total control of the market with the actions in the pits by the "cowboys" in their stupidly colored dust coats and you have a perfect recipe for a world ripped off by its most important commodity.



What will happen when the pendulum swings the other way and prices spectacularly fall? Just as with Bear Stearns, the government will bail out the losers. Whatever happens, the you's and me's will be paying the price for a bunch of crooks who at the end of the day are making veritable fortunes with virtually no risk.

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Isn't it ridiculous that airlines, trucking companies and other industries dependent upon fuel oil and who directly and indirectly employ millions of Americans are staring bankruptcy in the face with no chance of government intervention and help? While at the same time, oil companies continue to receive tax breaks in the \$billions and speculators and traders rest comfortably with their ill-gotten gains? They know that no matter what, Uncle Sam will come to their rescue should the artificial markets they have created, collapse.



Sincerely,

Julian A. Keeling