CII

March
2006

EXTRA!!! The Times EXTRA!!!

News & Views

Announcements

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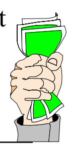
Iraq May Be A Quagmire But Let's Keep It Honest:

The horizon for the U.S. getting completely out of Iraq keeps moving further and further into the distance. While we are there, however, let's keep our involvement honest. Many of the civilian companies involved in the "reconstruction" of Iraq since our invasion, particularly Halliburton and its subsidiaries, have made billions in overcharges and outright fraud. Sadly, even companies in our industry are not immune to putting their hands in the cookie jar when they believe no one is looking.



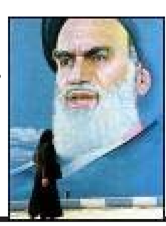
"Sadly, even companies in our industry are not immune to putting their hands in the cookie jar when they believe no one is looking."

One of our most respected forwarders, Eagle Global Logistics, was caught in just that compromising position when it submitted charges to the government "that were not actually imposed on its transportation providers." In plain English, Eagle submitted phantom invoices. Admittedly, the amount was small; $1.14 million, since repaid. The Defense Department wants an additional $2.8 million in penalties. Whether its billions by Halliburton or millions by Eagle, the principle is the same. Let's take Uncle Sucker for a ride when oversight is lacking.

Iraq, which was expected to pay for its own reconstruction from oil revenues, already has cost the U.S. $250 billion. Another $100 billion is expected to be spent during the remainder of 2006. Without these expenditures, our domestic programs could be funded fully. But President Bush, egged on by "sure shot" Dick Cheney, wanted a war when there almost was no evidence to justify it. If we must have an initial invasion, then a bitterly fought insurrection against our occupation, let's at least keep our civilian contractors honest.

What Do Iran And Air Freight Rates Have In Common? Plenty:

Iran, which rapidly is becoming the rogue nation par excellence, is posing a real threat to air cargo stability without even knowing it. Why are oil prices remaining so stubbornly high? There's no lack of supply. Shipping companies in the oil tanker business are reporting a softening of rates in the Middle East, Venezuela and other oil exporting nations opening their spigots wide to produce more black gold. Also, as the U.S. and world economies start to slow, less petroleum products are needed. So, why are oil future contracts continuing either to rise or to remain on a historically high plateau? The answer is Iran. No one knows what this unstable nation is going to do. Perhaps its paranoid leaders themselves are not sure of their next actions. Iran, for all its nuttiness, is the fourth largest oil producer in the world. It has an enormous effect on the price of oil. The uncertainty surrounding Iran's intentions is the prime reason for keeping traders on the NY Mercantile Exchange frantic and oil prices high.



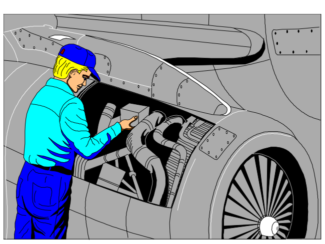
Surging fuel prices are pushing up the cost of air freight. On many trans-Atlantic routes, airline fuel surcharges are as high as the rates for cargo. This means that forwarders and their shipper customers are asked to pay twice the normal price. On other world routes, fuel surcharges practically are the transportation price. World air cargo is on a see-saw. As fuel surcharges go up; base rates go down—and vice versa. Hardly a stable environment where forwarders and shippers can plan sensible supply chain "strategies" when they don't know from day to day the cost of transportation. Perhaps instead of "taking out" Iraq which never posed the slightest threat to our nation, the U.S. should have focused its attention on a far more dangerous country to Iraq's east.

Without a solution to the Iran crisis; and it is a crisis, the cost of fuel will remain at best on a high plateau and at worst head for $100 per barrel. It's had a devastating effect on our industry.

Occasionally, Corporate Executives Are Public Spirited:

Most corporate executives today are concerned primarily with their stock options and bonuses. Occasionally, however, a corporate executive will raise his eyes from his stock quotation screen and engage in problem solving based on the broad national interest. Such is the case with Bill Zollars, head of recently renamed YRC Worldwide but known to most of us as Yellow Freight. Although a traditional Republican in most respects, Zollars actually is recommending a tax increase to pay for the upgrading of roads and highways throughout the U.S. Going against the current Administration orthodoxy in which any proposed increase in taxation is considered blasphemous and un-American, Zollars is convinced that more money by raising taxes is the only financially responsible method of improving many of our roads and highways.

Of course, there is a certain amount of self serving in Zollars' call for new taxes. Improved roads mean faster and more efficient delivery of cargo by his trucks. Which translates into higher profits not only for Yellow but all the other truckers. Whatever the reasons, Zollars is to be commended for a call to action which few if any corporate executives echo. With every air shipment picked up and with final delivery always by truck, air freight also would benefit from a much improved network of U.S. highways.



Trucking Companies Rarely Successful With Air Freight:

In thinking of Zollars and his Yellow Freight company, it reminded me that trucking companies who establish air freight divisions rarely are successful. Yellow is a perfect example. Started about fifteen years ago as Yellow Air Freight, the air cargo division of the trucking company in that time has gone exactly nowhere. Other trucking companies show equally dismal results. Old Dominion, a powerhouse in the LTL trucking, started with great fanfare an air freight subsidiary a few years ago. Today, not a peep is heard from that division.

The reasons for an almost complete lack of success by truckers in operating an air freight division (railroads also fell on their faces with the exception of Burlington Northern Air Freight which morphed into BAX Global) are not hard to find. The two disciplines are totally different. Air freight

requires a speed, precision and incisiveness through the entire transportation process that simply does not exist in the trucking business. Air freight people generally are better and more thoroughly trained in solving the inevitable problems and difficulties in moving a shipment ten thousand miles in 48 hours than their surface brethren. Also, in almost every case, the air freight division of a surface company rarely gets the respect and even the attention of senior management. Contrast this passive and often neglectful attitude with the air freight forwarder who lives and breathes air cargo.

While surface transportation is taking a bigger slice out of the domestic air freight pie, it remains the air freight forwarder who generates the business to the trucker.

Is Big Really Beautiful?

With the Schenker acquisition of BAX Global and Danzas' merger with Britain's Exel, the face of our industry is becoming almost unrecognizable even from a few years ago. The only two U.S. multi-nationals are Expeditors International and Eagle Global Logistics. Kuhne & Nagel and Panalpina are the only two large European forwarders who ostensibly have remained the same.

Fifteen years ago, the top ten global players included the following: Danzas, AEI, MSAS, Panalpina, Emery, Schenker, Kuhne & Nagel, Circle, Expeditors, EGL, Nippon, Kintetsu and UTI.

There is no question that FedEx will try and match UPS' acquisitions and acquire one of the above within the next two years. Rumor has it that TNT, after acquiring the Scandinavian forwarders, Wilson Group just months ago, is trying to hock its logistics/forwarding operations to FedEx. It is a sad fact that not one holding company has been satisfied with its returns on their freight investments since logistics became part of the operation. Running warehouses or conducting inventory control simply is not a money making venture.

The only publicly listed forwarder regarded as a darling on Wall Street is Expeditors. Its founder and CEO, Peter Rose, has made it crystal clear that he is strictly in the forwarding and customs clearance business and wants no part of money losing ancillary services. The others, including BAX Global (Pittston) and EGL have been investment disasters.

Air New Zealand Heads The Outsourcing Way:

The initial rumors now are being confirmed. It is pretty certain that Air New Zealand will eliminate its high quality engineering department and outsource its aircraft maintenance to Asia. With that nutty current NZ Government led by lesbian Prime Minister Helen Clark, I suppose it is all part of the free trade deal she is signing with China. As the 85 per cent owner of Air NZ, Clark and her coterie of colleagues are doing everything but handsprings to suck up to the greatest rogue nation on earth.

For my money, Air NZ has almost as proud a history as Qantas in being one of the safest carriers in the air. I wonder how passengers will feel flying on aircraft maintained by Chinese workers earning $0.30 per hour! Not only that, I also can't help wondering how many replacement parts will be Chinese made. Chinese workers may be good at manufacturing a cheap pair of socks. Sorry friends—I have no confidence in Chinese workers completing a "C" check on a 747-400.

Despite Cries Of Gloom, Small/Mid-Sized Forwarders Flourishing:

Despite claims by the large, multi-national forwarders, and there are less of them (see above), that they are crowding out small and mid-sized consolidators, the reverse actually is happening. At CII, we have seen a 50 per cent rise in forwarder customers during the past two years with the vast majority being small to mid-sized. The substantial growth at our company could not have occurred without the healthy expansion of our forwarder customers. Many are reporting record revenues and shipment counts.

Growth of the small to mid-sized forwarder is not confined to the U.S. It is a world wide phenomenon. Indigenous forwarders such as Australia's Pacific Network, the U.K.'s Uniserve and New Zealand's Mondiale, to name a few, are grabbing huge market share from their larger, global competitors. Their customer lists read like a veritable Who's Who of the biggest multi-national companies.

What's behind this growth? Two principal reasons. The first and most important is the stress on personal service which remains now and forever the heart of the forwarding industry. Most mid-sized forwarding executives have a genuine passion for their business. Contrast this gung-ho attitude with the faceless leaders of the big, multi-nationals who are kept well hidden in their bunkers with little or no contact with real world of the shipping business. The second reason is the "democratization" of the Internet which now makes it a useful and practical tool for even the smallest forwarder.

Even the airlines, who once disdained dealing with smaller forwarders, are jumping on the bandwagon. Sure, a few mostly European airlines still think it is all about "strategic" alliances with a few big forwarders like Danzas. But the majority of carriers want to develop strong working relationships with mid-sized consolidators. Take CII as an example. Fifty per cent of our payable checks to airlines are written out to UPS! We also have long standing relationships with several other carriers including FedEx, Air New Zealand, Japan Air Lines and British Airways. Their cargo management views CII as a great customer because of our reach in representing so many small to mid-sized players.

Contrary to what they claim, the big multi-national carriers are not on Easy Street. TNT's upper management (the company is owned by the Dutch Post Office) was in cloud cuckoo land when it made the decision last year to get back into forwarding (literally within ten years of exiting it altogether!). Selling so quickly might be the best decision it ever made.

I'll take odds that DHL, Danzas, UPS Supply Chain Management and Schenker will implode within the next three years. You heard it here first.

Global Slowdown:

History often repeats itself. Twenty years ago, Japan was riding the economic crest with huge exports and a dynamic domestic economy. Japan was on a roll until the global recession of 1991. Today, China is experiencing that same heady ride. And some of the same negative factors are starting to come into play. 2006 could be the year when globalization. so beloved by free market economists, could suffer some major setbacks. Many first world nations upon which China depends for the vast bulk of its exports, particularly those in western Europe, are entering into a slow recession. Unlike Japan, there is a growing economic

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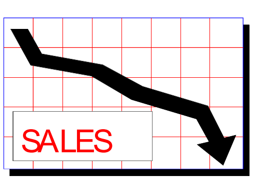
and political backlash against China. The U.S. Congress, for example, is threatening harsh reprisals against unlimited Chinese imports. China still is considered in some influential quarters as a "rogue" nation like North Korea and Iran.

The award winning documentary, "The Walmarting of America," sums up the man in the street's feelings toward China. Free market pundits like Tom Friedman and supply side economists are attempting to convince us, unsuccessfully in my opinion, how much better off we are in importing billions of dollars worth of junk we really don't need. Let's see what happens to China when a genuine world wide recession hits? If the bubble burst in Japan with a generally much stronger domestic economy, I don't rate China's future very high with its prosperity almost wholly dependent upon exports.



Sincerely,

Julian A. Keeling