



Consolidators International, Inc.

MARCH 2009



CII To Receive \$400,000 Grant For Screening Equipment:



We just have been informed by the Transport Security Administration (TSA) that CII has received a grant of \$400,000 to purchase screening equipment for the mandatory screening of 50 per cent of all passenger aircraft cargo. We are proud and grateful that the TSA has placed its confidence in our company to conduct these vital security procedures. Four of CII's staff worked for almost two years in preparing a presentation to the TSA. Their efforts were happily successful.

At this writing, CII will acquire at least two pieces of screening equipment and possibly three. One of the machines will be a massive structure, mounted on the floor of our Los Angeles warehouse. It will be an X-Ray machine and will be capable of X-Raying large wood skids with a weight capacity on their rollers of 4,000 to 6,000 lbs. The second machine will be an

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Explosive Trace Detection (ETD), hand-held device that is rubbed on cargo and picks up particles of known, "problematic" compounds.

Only a few very large forwarders now have this equipment. We urge our current and potential customers to utilize our screening facilities for fast, efficient and thorough screening of their shipments. Once screened at our facilities, cargo will be taken directly to the carriers for loading aboard their aircraft. We accept these new

Announcements

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responsibilities with a great feeling of pride that the TSA has placed in our hands a vital security procedure. It is a tribute to our capabilities and professionalism. The security of the United States is paramount at CII.

\$800 Billion Stimulus; What Does It Mean To Air Freight?



late last month, President Obama signed with great flourish the \$800 billion stimulus bill promising new jobs and economic growth based on this legislation. Just what do all these billions mean to the transportation business in general and air freight in particular? From my perspective, not much. Two thirds of the funds call for stimulating the economy by modernizing our "infrastructure" through public works projects. One third will go for a tax rebate which recipients may spend or save as they wish. If past history is any guide, most taxpayers will not spend the money

but will use their lump sum refunds either to replenish their bank accounts or pay off debts.

Building new roads, bridges, tunnels, hospitals and modernizing old ones will take years. Just assembling plans for construction of these projects and requesting bids will take at least a year. Modernizing our infrastructure is an admirable goal but it is a long term solution. Air freight needs help now! With an industry down 20 per cent and more, with aircraft taking "vacations" in the desert and jobs being lost, many of us do not have the luxury of waiting for long term solutions. As famed economist John Maynard Keynes once remarked, "in the long run, we are all dead." We need more help from American housewives than any

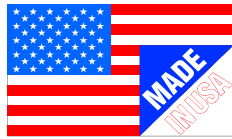
government bailout. The wild card is the economy. All other issues like bailout money, environmental concerns take a back seat. It is only Mr. & Mrs. American consumer, with her open pocketbook and his open wallet who can lift air and ocean freight out of our current doldrums. Giving the American consumer the incentive to spend now and not tomorrow is far more important than any bailouts received from Washington. I often think the U.S. is tied too tightly to its own free market ideology instead of using plain old fashioned common sense. Why not give money directly to the American consumer rather than indirectly through banks who may or may not extend credit.



Free Trade Dead As A Dodo:

Started in the Clinton Administration, free trade sprouted like weeds in the 1990s and early 2000. First came the NAFTA agreement between the U.S., Canada and Mexico. Then came CAFTA involving nations of the Caribbean. Free trade advocates believed these deals were only a start. Soon, all the major trading nations would be busily signing each other up with trade agreements. Now, reality has set in. Current negotiations between the U.S., Colombia, Panama and South Korea are going nowhere. It belies the naive optimism of the free traders. There's a little thing called the Recession that has put a dead stop to these negotiations. Now, protecting U.S. jobs is far more important than lowering trade barriers even with friendly nations.

My prediction; trade agreements on the order of NAFTA or CAFTA are a dead



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issue in Washington. While our legislators have not gone entirely protectionist, they are listening more closely to manufacturers and their employees who have been hurt seriously by free trade. The new bailout legislation lays out specific conditions to "buy American." The pendulum, at least for the moment, definitely has swung toward protectionism and the saving of U.S. jobs. No question about it; free trade has taken a back seat.

A parallel development is the renewed interest in manufacturing right here at home. Across the globe, low cost

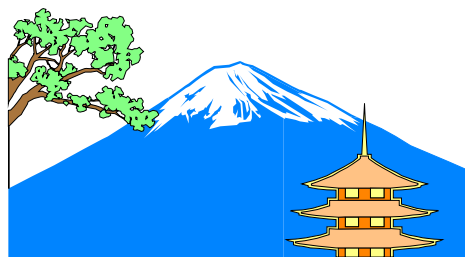


countries are becoming high cost. Wage increases throughout all of Asia, particularly in China, is blunting much of the workforce cost advantage which was the principal reason in the first place for moving manufacturing off-shore. The other key factor that may bring industry back to the U.S. is the ever spiraling costs of distribution in the total cost of a manufactured product. It obviously is cheaper to drive a truck a few hundred miles from factory to selling outlet than establishing a "supply chain" stretching many thousands of miles.

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Let's Keep An Eye On Japan:

The eyes of the air freight industry have concentrated on China and mainland Asia for so long, we often forget there is a chain of islands off this great continental land mass. These islands make up the imperial nation of Japan. The new Administration is not forgetting the importance of Japan. Secretary of State Hillary Clinton made Japan the first stop on her recent tour of Asia. Japan was our most important trading nation in Asia for many years until the China overtook it. Today, it is our second most important country for trade generating many billions in imports and exports.



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Unfortunately, Japan today is a basket case. Its once vaunted economic growth has shifted into reverse. Japan's GDP declined by almost 5 per cent in 2008, with negative growth predicted for the current year. Japan today most resembles the nations during the 1930s when their economies collapsed. Her government is ineffectual. Even the great exporting companies like Toyota, Sony, Nissan are reporting sharp declines in sales and profits. Shares on the Tokyo Stock Exchange are trading at prices last seen thirty years ago. Air freight volume has dropped about 25 per cent with once proud flag carriers like JAL and ANA

canceling cargo flights and laying off staff—a once unimaginable action by Japanese companies.

What lessons can be learned from the Japanese debacle? The first and most important lesson; government aid should be quick, dig directly at the roots of the problem and enlist the approval and support of the public. None of these lessons were learned in Japan. The once mighty stature of Japan, Inc. has been reduced to midget-sized. To the U.S. and the remainder of the industrialized world, take heed.

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Is Just-In-Time On Its Last Legs?

Ever since the 1980s when Japanese car makers introduced the Just-In-Time concept, the J-I-T system of distribution has become the Holy Grail of logistics. It has become almost a religion to its adherents with countless articles and papers written by academic types about the supposed advantages of this transportation method. They have claimed that keeping minimal inventory by delivering parts and components to the assembly line at the last minute was the difference between profit and loss of a product. Their basic argument, the J-I-T method was the key link in forging an unbreakable supply chain. Proponents of J-I-T said that as long as shipper, forwarder and carrier integrated their delivery systems, the method would work wonders in reducing inventory costs almost to zero with savings running into the millions of dollars.

Unfortunately, one key variable in the J-I-T process was beyond the control of the 3PL and 4PL providers. That variable was the economic health of the supplier. In flush times, that was hardly a problem. Today, however, it is not a question whether a supplier has the manufacturing skills to make a part or component of consistently high quality. The pertinent question is; will the supplier, often undercapitalized, survive in these harsh economic times to make the products contractually agreed upon? In China alone, thousands of suppliers have shuttered their doors and have declared bankruptcy. These closures are generating panic among U.S. traffic managers in companies ranging from cars to toys. One of the largest toy makers, Mattel, has been forced to switch dozens of its suppliers within the past year with a negative effect on its balance sheet.

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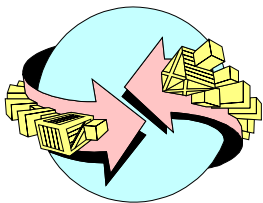
Perhaps it is time to admit that Just-In-Time simply isn't right under today's conditions. Perhaps it is time to take a more back to basics approach when moving freight. Perhaps it is time to prepare for stock outages by accumulating inventory. Perhaps it is time to step back to a simpler way of doing business. A new sense of reality will make today's distribution challenges more soluble.



Next Stop, Bangkok:



I have packed my bags for a trip to Bangkok. I have been invited to speak at IATA's annual cargo conference which will be held in that city during the first week in March. In next month's Newsletter, I will report on the Conference and my contribution to its theme, "Battle For Survival."



Sincerely,

Julian A. Keeling

