



Consolidators international, Inc.

MAY 2008



### Record First Quarter:



What recession? CII has just completed a history making first quarter. Volume was up and new customers are moving to us in droves. Peter and I have been the traditional front men for the company, but we cannot claim any credit for CII's achievement in 2008. Since Aussie Graham Burford came on board nearly one year ago as VP Global Sales, our business has moved into an exponential growth mode. Late last year, we added Brazilian-born Fabiano Ferreira to our Los Angeles marketing operation and now we're going like gangbusters.



I would like to add that fifteen years of keeping to our principles provides customers with a comfort zone when dealing with us. We take pride that in Los Angeles, we still are in the same offices (slightly bigger to handle the growth in personnel from three to twenty five), at the same address, with the same telephone and fax numbers, and still with long-standing staff members. Our Atlanta and New York offices are producing record numbers and also making a huge contribution to our achievements.



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### Tiny Pacific Air Cargo Pacific Has It Right:



Probably the smallest all-cargo carrier in America (a daily 747 service LAX-HNL), Pacific Air Cargo is handling the fuel surcharge in a manner that reflects its true cost. I believe airlines throughout the world have left themselves wide open to investigation by adopting the fuel cost as a weight cost instead of, as in ocean freight, being a ratio of the freight charge. It is crazy that the fuel surcharge should be the same LAX-YCR as it is LAX-PER. The distance to Perth is 10,000 miles as opposed to 1,000 miles to Vancouver. Surely, the aircraft would burn more fuel to Perth. Beti Ward, the owner of PAC, should be commended for her common sense approach in applying the fuel surcharge as a percentage of the freight rate.

Isn't it ludicrous that so-called freight guru, Ned Wallace, on many occasions, moves LAX-HKG freight on his aircraft for the FSC only? Ex JFK to most destinations, the FSC far exceeds the rate charged. Furthermore, why is that the bulk of the FSC has not been absorbed into the rating structure? Led by our President, Mr. George Bush, everyday

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we are being told we can only look forward to the price of a barrel of oil increasing. Most American passenger carriers are teetering on the edge of bankruptcy because they cannot keep pace in adjusting their fare structures with the constant increases in the cost of fuel. I always thought carriers had smart backroom boys who were able to measure all the costs and quickly recommend actions to senior management for implementation. Where are they in cargo? Even mighty UPS and FedEx can't even do the sensible



thing and apply base increases to absorb the major part of the growing cost of jet fuel, let alone adopting the same method of charging as Beti Ward and shipping lines.

In my opinion, airlines deserve to be fighting for their lives. For such a capital and labor intensive industry with huge running costs, they are truly gutless in the way they avoid dealing with the fuel cost. However, they have no problem paying peanuts to get their aircraft maintenance carried out in China or laying off quality staff from their operations so the customer receives a deteriorating level of service.



## Roadblocks Arising For Airport To Airport Truckers:



he split between domestic and international air freight couldn't be more dramatic than the current situation of the airport to airport truckers. One of the few success stories in the domestic "air" freight market has been the airport to airport truckers whose cargo never sees the inside of an airplane. Led by Forward Air, who seventeen years ago turned the concept into a viable business reality, trucking shipments between airports now generate greater volume than flying the cargo. The goose, however, has stopped laying its golden eggs. Last year's volume for the air freight truckers declined for the first time in a decade. Competition has heated up with a number of smaller players exiting the business unable to overcome high fuel and labor costs.

The three major players in airfreight trucking are Forward Air, Towne Air Freight and BAX Global. All three are hurting due to the double whammy of an economic slowdown and fuel costs that seem to escalate forever. Forward Air's revenues last year barely matched the year before while profits dropped significantly. Regional truckers who attempt to compete with the Big Three airport haulers are even in worse shape. Unlike the national air freight truckers who have economies of scale, there is insufficient volume to keep the smaller truckers rolling on a consistent basis. They are giving up the ghost.

Airfreight trucking is hardly a small business, weighing in at about \$5 billion per year. It has shown consistent growth during the past number of years as both forwarders and direct shippers have looked for lower priced alternatives to domestic air freight. The airlines have helped the truckers' cause by downsizing their domestic jets to narrow bodies and smaller regional size aircraft. 2008, however, will stop that growth dead in its tracks. Here is another indication that domestic air freight is hardly immune to an economic slowdown.



## CII Gets Bigger In New Zealand



n late March, I traveled to New Zealand to sign an agency agreement with New Zealand's largest forwarding company, Mondiale Freight Services, Ltd. No, we aren't making any changes in our CII operation there, which is headed by my brother Rex and niece Jenni. We already have a very successful and mature business into Auckland. However, an opportunity to be closely linked with the most successful freight forwarding company ever in N.Z. history is simply a once in a lifetime opportunity.



One of our goals is to be the biggest cargo customer of Air NZ and Air Tahiti Nui into Auckland. This means within a short space of time we will be offering daily consolidations ex-LAX together with beefing up our frequencies ex-ATL and JFK. Mondiale's size, customer base and dedication to the U.S. route will help us quickly achieve our goals.

Both Mondiale and CII-N.Z. will operate independently. In saying that already, synergies are taking place that is raising the level of service to the New Zealand forwarding community. Brother Rex and Mondiale Director John Sargent are as excited about our growth opportunities as we are up here.

## April 1st Big Day For CII:



n April Fool's Day, I signed a bulk space agreement with UPS making us their largest forwarder customer to Australia. This is no joke. The agreement calls for firm allocated space twelve months of the year. Isn't that amazing? A \$40 billion revenue per annum company with 400,000 employees signing a deal with a \$20 million operation and forty staff? Talk about David and Goliath and what a partnership! It is true the BSA agreement came at a hugely increased cost. But we believe our Australia-destination customers will realize quickly if they haven't already, that no-one else can match our reliability into Australia. When

the silly season arrives, our customers will be in the box seat.

Australia accounts for seventy five per cent of our revenues. Our forward (no pun intended) thinking in making this move with UPS demonstrates the faith we have in keeping to our niche market--the South Pacific.

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## Five Years And 200 Helicopters Later:



It is exactly five years since I received a call from a Russian forwarder (who was recommended to us by a fellow Los Angeles forwarder who felt he wasn't equipped to handle Russian traffic), asking CII to move a couple of Bell Helicopters to Moscow from Texas.

Of all the relationships I have made in business, this one is the most outstanding. Much has been made of how business is accomplished in former Soviet countries and I must admit the first conversation I had with my Russian counterpart was one of trepidation. However, I decided what the heck, it was such a grand opportunity and why not give it a go?



Our Russian agent has paid us every fifteen days since we moved our first consignment and Misha Perlov quickly became a personal friend. Now, 200 helicopters and \$millions of revenue later, the relationship is as strong today as when I flew to Moscow in 2003 to meet and shake hands with Misha.

To many, Russia is one of those countries where the risk factor is too great in doing business. But if one asks about my experience in dealing with our former arch enemy, I can only claim my relationship with Misha's company is a highlight of my being nearly forty years in the freight business.

## Airlines Now Yielding To Laws Of The Jungle:



hirty years ago, the CAB was heading into the sunset. A "free market" dawned for the nation's airlines. Ideology triumphed over experience and common sense. Under the once benign supervision of the CAB, the two principal players in cargo, airlines and forwarders, both made money. Forwarders' yields were about five times in 1978 as compared to today. Airlines also made money hand over fist with all-cargo aircraft criss-crossing the U.S. nightly. So much for the many benefits in "freedom of the skies."

These melancholy thoughts sprang to mind with the current spate of airline shutdowns, bankruptcies and consolidations. What is happening to our great domestic airline industry? Within the space of a few days, Aloha Airlines, Challenge Airlines and ATA stopped flying. Frontier Airlines filed for bankruptcy. And the greatest upheaval of them all; American Airlines canceled thousands of flights leaving passengers and

"Within the space of a few days, Aloha Airlines, Challenge Airlines and ATA stopped flying. Frontier Airlines filed for bankruptcy. And the greatest upheaval of them all; American Airlines canceled thousands of flights leaving passengers and shippers in the lurch."

shippers in the lurch. Other airlines are considering removing from service a number of their aircraft for FAA inspection which will cause even more havoc. Who knows the outcome of the Delta-Northwest merger (if the unions approve)?

Are these happenings the proverbial "canary in the coal mine?" Do these shutdowns and bankruptcies suggest that maybe it's the first sign of a disaster for the domestic airline industry? It has been

unequivocally been weakened by the once unimaginable cost of jet fuel and untrammled competition. What is genuinely frightening about the current situation is that with the exception of Frontier which remains in the air, the other carriers simply shut down. They did not "reorganize" under Chapter 11, but died quickly. In the not too distant past, big stakeholders such as banks, lessors and aircraft makers had a lot at stake, enough to keep a troubled airline flying while debts were restructured and new capital sought. In today's economic climate, nobody is willing to invest a dime in a stricken airline.

Fortunately, our company is almost wholly international in scope. The all-cargo and combination airlines we deal with like UPS, British Airways, Cargolux, Lufthansa, Qantas, Air New Zealand are in far stronger financial positions than their U.S. counterparts. Our cargo continues to move quickly and efficiently. Let's hope the U.S. virus does not spread overseas.

## "Near Sourcing" The Next Manufacturing Trend?



In the world of international trade, the last two decades has unquestionably belonged to China. From a poverty stricken, largely rural nation, China has emerged as the great manufacturing success story, the "factory to the world." But as Sir Isaac Newton taught us four hundred years ago, every action has an equal and opposite reaction.

Global manufacturers are starting to have second thoughts about the 10,000 mile distance to China, raising questions about its manufacturing quality, the creep of inflation with attendant higher costs, and the rising of its currency, the yuan, making that nation's exports less competitive. Reacting to these factors, a small but growing number of shippers are looking to "near source" their

manufacturing processes. That means finding and securing raw materials, components and even finished goods as close as possible either to their point of consumption or to final processing. This strategy is directly opposite the scouring of the world to find nations with the lowest cost production of goods. Companies adopting this strategy, however, believe there are compelling offsetting factors. These include greater control by the shipper and lessening costs along the entire supply chain. Rising fuel costs, slowing world trade expansion and tapped-out American consumers also are causing many companies to rethink their almost single minded allegiance to the lowest manufacturing cost without regard to distribution or quality controls.

How will this near sourcing trend affect forwarders who move the great majority of parts, components and finished products around the world? Not significantly because goods still will have to be moved with only the source of supply changing. Ocean freight will remain the dominant form of international transportation with air retaining its share. Because supply would be closer to final distribution points, shipping should be faster and freight needn't be piled up in distant, foreign sea or airports waiting to be sent. Near sourcing is a healthy trend for U.S. jobs and our entire economy (take note, Lou Dobbs) and should be taken up by more manufacturers.

## Virgin Atlantic Can't Consummate Cargo:



hile Virgin's chief, Richard Branson, generates attention by comporting himself with coconut oil as a substitute for jet fuel, his cargo department just isn't being consummated. The airline recently shuttered its Los Angeles and Orlando freight facilities and laid off most of its cargo staff. Virgin's only remaining U.S.

facility is in New York with a greatly shrunken and demoralized staff. Cargo just doesn't seem to have the glamor and excitement of the jet set world that Sir Richard craves. The Virgin cargo web site boasts of its "commitment to, and focusing on customer satisfaction." Unfortunately, there will be a lot less Virgin people to focus on customers.

*Sincerely,*

*Julian A. Keeling*

