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## Price Fixing Investigation Just Getting Warmed Up:



What was once a little cloud on the horizon is turning into a major thunderstorm. The air freight price fixing case is ramping up as reports come in that a number of managers at several major air freight forwarders were arrested. When people get arrested, you know it's a serious matter.

The spreading anti-trust case has to do with fuel and security surcharges. Investigative authorities both in Europe and the U.S. have been targeting the large, international forwarders. In seizing their files, government authorities are discovering the forwarders' partner airlines either have not been adding surcharges or if added, have been tacked on at a discounted price. While the big forwarders were either wholly or partially "forgiven" these fuel and security surcharges, small and mid-sized forwarders were given no such relief.

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They have been hit with maximum charges. IATA's CASS is the collection agency for the carriers. Their records would show clearly what the real facts are. CNS, the cargo arm of IATA and whose advisory board is made up of representatives of the big airlines and large forwarders, has been very tight lipped about the entire situation. It is clear to this observer that collusion has taken place with either no charges at all to the big forwarders or fairly substantial discounts. While the "big boys" are paying less than their fair share or nothing at all to the carriers, it

**Announcements**

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has been at the expense of the small and mid-sized forwarder who as usual, "gets no respect." Let's hope the authorities on both sides of the Atlantic get to the bottom of this mess and prosecute accordingly.

## Air New Zealand Showing How To Make Money And Keep Staff Happy:



During the past few years, almost all the news about airline management and relationship with their workers were negative. Pay and staff cuts; benefits either eliminated entirely or cut to the bone; longer working hours with no increase in pay—the depressing litany goes on and on. It's a pleasure to turn to an airline whose management is making a concerted effort to work closely with its staff. This management is improving company morale, providing its passengers with a more enjoyable flying experience and making heaps of money at the same time. As a New Zealander born and bred, I'm proud to say the airline is Air New Zealand (ANZ). Here is a born again

airline, which was close to bankruptcy in 2001. Yet, in its last fiscal statement ending June 30th, just six years later, the airline reported its best results in a decade. Net profits rose a staggering 123 per cent to (U.S.) \$155 million while revenues climbed 13 per cent to \$4.3 billion. Under CEO Rob Fyfe, the airline is breaking new ground in staff and passenger relations. It is rewriting the management relations book, with executives rolling up their sleeves and working closely with ANZ' staff. They are taking actions that most other airline executives would consider unimaginable. Senior management actually dons flight attendant uniforms and do all the work of

FAs on the aircraft including serving passenger meals, chatting with them and doing all the safety announcements. They also spend a day manning the check-in counters and even load baggage. Fyfe and his crew believe that change is inevitable in the airline business and they want to be in the forefront of this change. Hopefully, next on their list will be cargo. ANZ already is a solid player on South Pacific routes, but improvement always can be made. The other major South Pacific carrier, Qantas, also hasn't done too badly in the financial department. For the same fiscal year as Air New Zealand, Qantas reported a net profit of almost (U.S.) \$600 million and revenues of close to \$14 billion. Good things are happening down under.



## If Boeing Is So Smart, Why Can't They Predict The Status Of The 787?

**B**oeing is a remarkable company. It can predict air cargo growth for the next twenty years down to the last decimal point, but can't project accurately the progress of its 787 "Dreamliner" for the next six months. If Boeing's air cargo predictions twenty years ago were accurate, our industry would be triple its size today. Boeing is similar to those brokers who keep predicting the future of the stock market. If they really could predict the future, they all would become millionaires and retire early.

Boeing says flatly that air freight will increase at a 6.2 per cent annual rate for the next twenty years. Why are they so confident in this prediction? Is it because they want to sell more freighters? If truth be known, air cargo has not attained a consistently 6 per cent growth rate for the past number of years. Domestic air cargo actually is showing a negative growth rate with reduction in volume of about 2 to 3 per cent per year. Air cargo is bumping up against a number of formidable obstacles which may get worse in the coming years. Contrary to what Boeing and many other

cheerleaders for air freight are predicting, it is ocean, not air, that is taking great leaps forward.

One almost never hears of shippers converting to air from ocean. If any conversions are taking place, it is from air to sea. The reasons are many. Ocean, of course, is far cheaper than air. Many shippers, even those who used air almost exclusively, are starting to rethink their priorities, relinquishing speed for lower rates. Shipping companies have become more aggressive in selling their services as greater number of huge, 10,000-TEU container vessels come into service. These enormous fast ships can make U.S. west coast ports from Asia in less than two weeks.; With many companies more interested in slower, less expensive yet time definite deliveries, air freight is feeling the pinch. Already there is overcapacity on many routes—particularly the vital China-U.S. segment. Jim McNerney, Boeing's CEO, is a prime



example of what the Greeks call hubris, or overweening arrogance. He began to believe his own press clippings as the savior of Boeing. He then fell into the same trap as Airbus, overpromising and underdelivering. Airbus' flagship airplane, the 380, is two years behind schedule and \$6 billion over budget. Despite the recent hoopla over Singapore Airlines receiving its first 380, the aircraft is hopelessly unprofitable. Boeing, of course, initially promised the first test flight of the 787 to be this autumn, but now is conceding that the initial flight of the aircraft will be no earlier than the spring of 2008. Boeing's many customers for the airplane are bitterly disappointed for the inevitable late deliveries, particularly its first customer, ANA, as the Japanese carrier wanted to use the aircraft to fly passengers next summer between Tokyo and Beijing for the 2008 Olympic Games. McNerney broke the wise rule to underpromise and overdeliver. Let's hope that our nation's premier airplane builder suffers only a hiccup and not a major illness in this 787 embarrassment.



## New Security Rules May Knock Out Just-In-Time:

**W**hen in the air freight industry realize the need for security—even enhanced measures. But we worry about how heavy-handed lawmakers, whose closest contact with air freight is sitting as passengers above an airplane's cargo hold, will literally take the law into their own hands by determining what added security measures are necessary and what the costs will be. As envisioned by Congress and the Transport Security Administration (TSA), the added costs won't be cheap. The Congressional Research Service, a respected, non-profit organization dedicated to analyzing government expenditures, estimates the cost of added security measures to be almost \$4 billion over the next decade. What it does not estimate is perhaps a more important determinant—the loss of transit time in meeting these more stringent security demands.

In the universe of air freight, time is our most important asset. Despite all the high-flown, detailed analyses by supply-chain gurus; plain, simple speed in transit, shortening the time span in moving freight, is what justifies our value to shippers. Any obstacle to rapid transit of goods makes us less desirable in the eyes of shippers. Longer delivery schedules may deal a knock-out blow to the most utilized and favored method of distribution today—Just-In-Time or J-I-T.

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J-I-T is predicated on a fast, dependable flow of goods to the assembly line or distribution point. J-I-T allows inventory to be cut to the bone. It saves manufacturers millions in lessened inventory and interest costs. Take away speed and reliability and the entire J-I-T concept collapses. So does one of the most important reasons for air freight. Everyone in the logistics business—shippers, airline people, forwarders—keep haranguing our government to proffer security rules that are effective, not entwined in red tape, and most importantly, allow free and unhindered flow of goods. Yet, Congress and the TSA seem to ignore our industry advice, based on our direct, practical experience. Let's get our trade groups; the Air Forwarders Association, ATA and IATA, to work together on this vital issue. We need a full court press to awaken our legislators and bureaucrats to the real world of air freight.

## Costs & Recalls Prompt Second Thoughts About China:

**R**eaders of our Newsletter are well aware of my belief that we should not put all our eggs in one basket—China. China's position as the undisputed center of world low cost, outsourced manufacturing, has eroded these past few months and may well continue to decline into 2008.



A small, but growing number of trans-national manufacturers either are leaving China or are seriously considering pulling

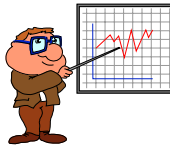
out of that nation because of higher costs and uncertainty about production standards. Techtronic Industries, makers of the famous Hoover vacuum cleaner as well as one of the world's largest makers of power tools, is expanding investments elsewhere and cutting back on production facilities in China. The Dutch electronics giant, Philips, is directing its subcontractors to move from China to Vietnam because China has become "too expensive."

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There is a variety of negative factors causing company executives to take a second look at China. These include dwindling industrial space near ports and airports, spot labor shortages and higher wages for those working, and longer supply chains as shippers move operations inland. China now has an industrial base that often is higher in cost than surrounding Asian nations like Vietnam, India and Malaysia. To its credit, Chinese manufacturers are improving their productivity, but costs are rising much faster. It's a race that I believe China will not win. It's an old story. Business always will look for the lowest costs wherever it may take them. Mexico learned this harsh lesson some years ago. Many of its maquiladora plants went on reduced shifts or shut down entirely when the great sucking sound from China was heard. China may also be a victim in the not too distant future.



**W**ith the bull market turning into a bear, many stocks are underwater. There are certain statements by corporate CEOs and their chief financial officers that flash warning lights when pronounced. These statements can include: "We're postponing our earnings release." When that statement hits the wires, nine times out of ten, the earnings will not be good. Always assume the worse and

### What Investors Don't Want To Hear:

watch your stock drop 10-15 per cent. "Our chief financial officer has resigned." CFOs never resign when the company is doing well. The auditors have caught irregularities on the company's books and it is the CFO who must walk the plank. "We've found accounting irregularities." (see above) The new CFO can explain these "irregularities" until the cows come home, but Wall Street hates to hear messy accounting results. Out come the sell

recommendations. "We're lowering our guidance." The kiss of death, particularly if a company has been less than truthful about its earnings in the past. Of course, if a company gives all of the above excuses in one quarter, rush to telephone your broker and pray you can get rid of the stock before a deluge of sell orders.



### When All Else Fails; Why Not Try Animal Sacrifices?

**N**ormal maintenance procedures just weren't working at Nepal Airlines for one of its two Boeing 757s. In desperation, the

maintenance staff decided to sacrifice two goats to appease Akash Bhairab, the Hindu sky god. The sacrifice seemed to work. The airplane now is flying its regular

schedule. Perhaps I should stick pins in my voodoo doll the next time one of CII's airlines leaves my cargo behind.



*Sincerely,*

*Julian A. Keeling*

