



Consolidators International, Inc.

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Should We Be Having Second Thoughts About Afghanistan?

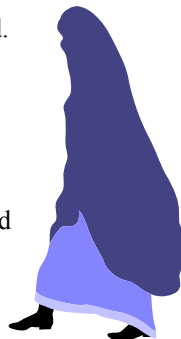


Unlike the war in Iraq which has aroused passionate debate on both the left and right, the conflict in Afghanistan enjoys solid support on all sides of the political spectrum. The next U.S. president certainly will increase the American presence there both in number of troops and billions of dollars in economic aid. General Petraeus, the major influence behind the Iraqi surge, now is commanding the troops in Afghanistan. He and others in the military have stated that as U.S. troops stand down in Iraq, many will be transferred to an expanding war in Afghanistan.

American opinion is solidly behind U.S. efforts in Afghanistan. There is something about our principal opponent, the Taliban, that strikes most Americans as inherently evil. Their medieval attitude toward government, women, education, music and the arts is repugnant to liberal and conservative thinkers alike. Despite their deserved reputation as Islamic fanatics, ready to kill and maim with almost no provocation, I believe we have to ask a basic question, "is defeating the Taliban worth U.S. blood and treasure?" Is it

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worth the inevitable rise in U.S. troop casualties as we pour more men and material into fighting such an elusive foe? Is it worth further destabilizing neighboring Pakistan which now is on the verge of bankruptcy? The Russians spent ten years in attempting to defeat the Taliban. They had to retire ignominiously with none of their objectives accomplished. We are smarter, better equipped, have more money to allocate for military and civilian purposes than the Russians ever possessed but who can say with assurance we will be more successful?



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Announcements

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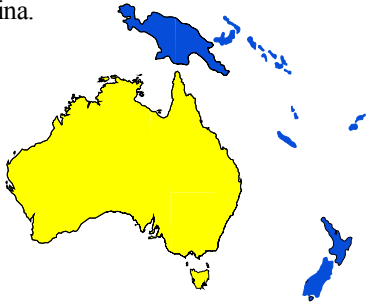
Exactly what does success in Afghanistan actually mean? Does it mean creating a democratic, pro-western government? Does it mean catapulting an overwhelmingly rural, backward population into the 21st century? Does it mean creating a new economic base instead of the country's current concentration in growing poppies for opium which now makes up about 90 per cent of its foreign earnings? And perhaps the most important question of all; does this remote nation in the middle of Central Asia advance the interests of the United States?

I believe we should at least ask these questions before Afghanistan becomes another Iraq in the size and scope of a U.S. commitment. The new President of the United States will have to think long and hard in assessing just how far we should go in making that country a centerpiece of U.S. policy.





Winston Churchill once called the Soviet Union a “puzzle wrapped up in an enigma.” The same can be said for modern day China. How to assess this nation which has come out of nowhere to become the third or fourth largest industrial power on earth? China’s growth rate last year was 8 per cent, higher than any other industrial nation. As impressive as this growth has been in the past 12 months, it actually has declined from 12 and 14 per cent during the previous two years—almost a recession by Chinese standards. Many American manufacturers with off-shore facilities in China continue to swear by that nation as the most effective place for making their goods. Yet, most recent surveys of manufacturing intentions reveal a growing number of U.S. producers are choosing Mexico, Central America and even home-based production facilities to make their goods, instead of China.



Mixed Signals From China:

Many economists have predicted that sooner rather than later, China no longer would be so dependent upon exports to fuel its growth. That prediction is mistaken. China still lives or dies by its export trade. As exports have slowed (exports actually decreased last year by a slight margin taking into account inflation), other areas of the Chinese economy have declined in tandem with its export picture. The Shanghai stock market has fallen by two thirds during the past year. China’s real estate market, a very sensitive economic indicator, has plunged, particularly in the big cities. And a once unknown word in the Chinese vocabulary, layoffs, have occurred in the Pearl River Delta, the heart of Chinese industry, as hundreds of companies have shuttered their doors and laid off workers.

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We in air freight are feeling the pinch of thinning Chinese exports. Overcapacity in lift on U.S.-China traffic lanes have risen as volume shrinks. Yields have fallen often reflecting rates barely above costs. Airlines serving the China market no longer talk about greater number of flights but how to reduce their current ones. A number of recent Asian all-cargo airline start-ups who expected the China market to expand indefinitely either are trying to merge or face bankruptcy. Yet, air cargo is comparatively in a healthy position compared to ocean shipping. The great steamship lines like Maersk, APL, Hapag-Lloyd are facing a sharply reduced China market. Huge container ships, ordered three and four years ago when times were flush, now are coming on line in a declining market propelled by reduced consumer demand in the U.S. and Europe. A few shipping people even are entertaining the idea of converting container vessels into cruise ships! Unless and until the industrialized world snaps out of its current recession, little growth can be expected in the China trade. Airlines and forwarders have to look elsewhere in the world for meaningful growth.

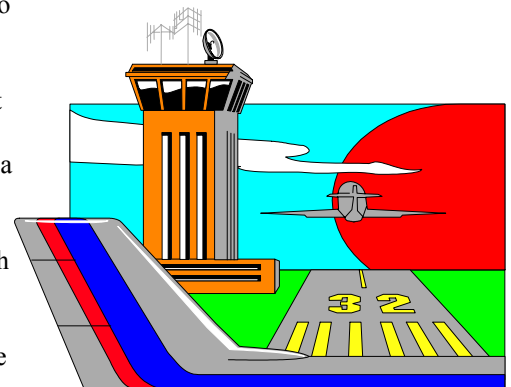
What Airport Is Showing The Greatest Growth? Perth In Western Australia:



Not too many years ago, the city of Perth on Australia’s west coast, was little more than a backwater in the down under continent. When people thought of Australia, it was the bustling cities of Sydney and Melbourne, the Great Barrier Reef and other popular destinations that came to mind. Few people outside of Australia had even heard of Perth. Today, that city’s airport is in the unlikely position of becoming the fastest growing airport on earth. Why is that once obscure place fueling an airline boom, unprecedented in Australian history? Perth has become the hub for airlines scrambling to serve a host of obscure

cities in western Australia with the unlikely and even bizarre names like Nifty, Cloud Break, Murrin, West Angelas, Area C and Bronzewing. These destinations are located in Australia’s Wild West, where the world’s largest iron ore deposits are to be found along with natural gas, oil, diamonds, titanium, bauxite and gold. It’s a bonanza both in passengers and freight for the Perth Airport. All of Western Australia, four times as big as Texas, has a population of only 2 million. However, more than 9 million passengers passed through Perth Airport last year, along with a record amount of cargo. But Perth is paying a price for this often frenetic activity. Passenger and cargo facilities are

hopelessly overloaded. New projects to ease congestion will cost billions. Let’s hope the mines don’t run out before reconstruction and upgrading of facilities are made.



Boeing And Its Machinists See The Light:



Shortly before this edition of the Newsletter went to press, Boeing and its machinists' union reached a tentative agreement to settle an almost two month-old strike. The strike was a long and costly one with Boeing losing about \$100 million a day in revenues with workers losing additional millions in pay. Why did Boeing allow the strike to drag on for so long when its order books were full with airline customers demanding delivery of airplanes already ordered—particularly the company's new 787.

The answer can be summed up in one word—outsourcing. Company executives insisted on retaining traditional management prerogatives in choosing how, when and where to manufacture their products. The unions said “stop” to outsourcing, pointing to the disastrous decision by Boeing to outsource many of the new 787 components to companies with little knowledge or experience in making highly precise parts for a modern jet airliner. Although Boeing agreed to a 15 per cent wage increase over three years (a very generous amount in these recessionary times) and an \$8,000 bonus to each worker, the company won on the most important issue. Boeing retains the ultimate authority to run its factories in the U.S. or anywhere else in the world exactly as it sees fit. Executives throughout the U.S. can breathe easier knowing they have a powerful precedent in Boeing.

While neither side mentioned the recent American Airlines' decision to order almost 50 new 787s at a cost of about \$5 billion, this must have been a major factor in settling the strike. The American order is the first large purchase by a U.S. carrier of the new plane and may be the harbinger of future orders by other domestic airlines. Boeing didn't want to delay production of its 787s any further. Behind the scenes, the Pentagon was breathing down Boeing's neck for delivery of the substantial military equipment Boeing produces for all three services. And of course, Wall Street was screaming for an agreement to halt the company's slide in its stock price which has dropped more than 50 per cent in the last year. With the strike settled, it will be interesting to see just when the first 787 actually will roll out of Boeing's assembly plant in Everett, Washington.

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Your Freight Is Safe On An Airplane:



Airline sales reps calling on me seem to think I have a bias against their employers. It is true I complain about the airlines when I believe those complaints are justified. When it comes to safety, however, the airlines most important attribute, my hat is off to them. Despite deregulation, huge losses from spikes in jet fuel and other increased costs, I am confident that CII freight will arrive at its destination in complete safety.

Airline safety is remarkable considering the thousands of flights each day in every part of the world. Our freight is far safer on an airplane than your going to the

hospital. Some 98,000 people died last year from “routine” procedures. More people in Manhattan have died from construction cranes crashing into their buildings than commercial airplane accidents. More people have perished from eating hot peppers or tigers breaking out of zoos and mauling bystanders than have died in carrier accidents. Throw in crocodile attacks and jellyfish stings and the same can be said for Australia.

We take airline safety for granted. The old axiom that you are safer in an airplane than in your car is as true today as when flight became a reality more than 100 years ago.

Links To The CIA Help Evergreen Obtain China Cargo Rights:



Despite a softening market in China, a number of airlines continue to press for the right to fly there. One airline that has been successful in this endeavor is the small carrier, Evergreen International, with headquarters up in McMinnville, Oregon. Evergreen has won the right to operate a cargo service directly from the U.S. to Shanghai, the largest commercial city in China. The circumstances surrounding its successful bid might make the basis for a spy novel because of Evergreen's murky links with the CIA.

These links have spurred two dozen Congressmen plus former Transportation Secretary Norman Mineta to write letters of support for an airline almost no one outside the airline industry has ever heard of and flies only 12 airplanes. Evergreen seems to have a special relationship with the U.S. government and particularly close ties to the CIA. The airline has been involved in carrying goods for the agency and owns a huge facility in Marana, Arizona purchased from the CIA and offered to no one else. The airline also has been heavily involved in flying cargo to Iraq with a good deal of its operating profits derived from its Middle East flights.

Interestingly, Evergreen's founder and head of the airline, Delford Smith, is an aviation buff. A few years ago, he purchased the only operational P-38 of World War II fame at a reported price of \$2 million. He also purchased the famous “Spruce Goose,” built by Howard Hughes, from the government which owned the aircraft. That huge seaplane now rests in a specially constructed museum at Evergreen's headquarters in McMinnville.

Sincerely,

Julian A. Keeling