CII

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2005

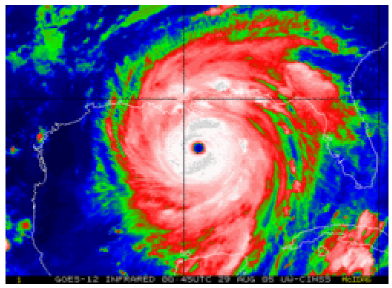
EXTRA!!! The Times EXTRA!!!

News & Views

Announcements

Inside This Issue:

Will Katrina & Rita Deal Knockout Blows To Economy?



Media coverage of the effects of Hurricane Katrina rightfully emphasized the human suffering, misery and dislocation of lives caused by this greatest natural disaster in U.S. history. But now that New Orleans and to a lesser extent the Gulf Coast are crawling back to at least a sense of normality, questions are being raised as to Katrina's effect on the U.S. economy in general and the transport segment in particular. Hurricane Rita, while having less impact, added to the confusion and negativism that now is becoming so prevalent.

Even before Katrina and Rita struck, there was a growing sense of unease as to whether consumer spending, usually about two thirds of gross domestic product, could remain at high levels. Soaring prices for natural gas, home heating oil and above all, gasoline, were gobbling up a greater proportion of what had been disposable income for food, clothing, vacations and "big ticket" items like home appliances. With the destructive fury of Katrina and its wiping out almost the entire economy of New Orleans and the Gulf Coast with a disruption in our oil supplies, even the most optimistic forecasters are predicting a one point drop in the growth of the nation's gross domestic product while a number of perhaps more realistic prognosticators believe an outright recession is on the way.

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Will the consumer continue to spend like there is no tomorrow? Or will he, or more importantly, she, cut back? Will $3 plus per gallon gasoline prices, higher interest rates, a spiking of the housing "bubble" in many regions of the country, plus a general feeling of malaise finally quench that irresistible urge to buy that SUV or that plasma TV set or a new outfit for the winter season? No one really knows. People who have bet against the American consumer in the past always have lost their wager. The U.S. consumer normally is a shopaholic, but these are not normal times. A perfect storm is moving in to threaten the U.S. economy.

What about our piece of the economic pie, transportation? How will we fare. Every time the airlines start to gain some traction; another wave this time in the form of almost unsustainable jet fuel costs, comes along to drown them. Northwest and Delta are two of the latest carriers to declare bankruptcy. Now, almost half of U.S. airline capacity is in Chapter 11, although U.S. Air is emerging after two years. Domestic forwarders are turning increasingly to surface transportation to move their freight because as one shipper recently stated, "we can't rely on domestic airlines any longer." Truckers also were dealt a body blow by Katrina with the largest LTL companies like Yellow Roadway and Old Dominion predicting reduced earnings for the remainder of the year because of the two hurricanes. Smaller, local truckers are scrambling to survive, let alone make a profit. Diesel fuel costs also have skyrocketed; drivers have disappeared and businesses even in areas not directly affected by Katrina has turned soft.

It is indeed ironic that while the Bush Administration focuses almost entirely on domestic terrorism and Iraq, a "minor" disturbance that began as a local storm in the eastern Caribbean, transformed itself into a Hurricane Force 4 that wiped out almost the entire Gulf Coast and greatly weakened the nation's economy. Where are your priorities now? Mr. President.

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Corrigan's Express In Major Advance:

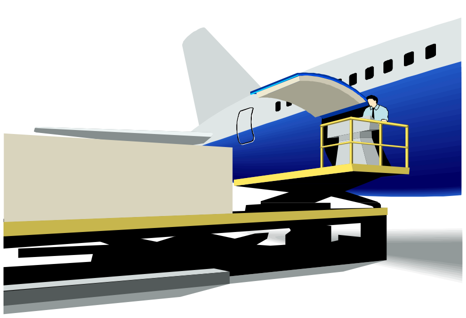
Corrigan's Express, with which we share office quarters at 8900 Bellanca, has had its ups and downs during the forwarder's four years existence. The latest development affecting Corrigan's is a huge plus, perhaps its greatest advance since the boutique forwarder opened its doors four years ago. CEO Jan DeGiorgio has just announced a reciprocal agreement between Corrigan's and the largest freight forwarder in New Zealand; Mondiale Freight Services, Ltd.

It is a real David and Goliath story. Mondiale has 250 employees. It has offices in all of the major New Zealand cities; Auckland, Wellington, Christchurch and Hamilton. It has been in business some sixteen years and enjoys the highest reputation in New Zealand shipping circles. Mondiale moves freight both by ocean and air to world wide destinations. The new arrangement with Corrigan's gives the U.S. forwarder exclusive rights to handle all air freight to and from the U.S. into New Zealand. In announcing the new agreement, Jan said, "our people and facilities now are totally geared to satisfy Mondiale requirements." She is planning to add staff to handle this new business. The Mondiale people also are very pleased with this new, reciprocal agreement. Said CEO John Sargent, "our customers will be better served with a partner that is focused totally and understands fully the needs of the New Zealand importer. We were searching for years for the right U.S. agent. We placed a few shipments with Corrigan's and they handled our traffic with such success, we chose them as our exclusive agent." Corrigan's will be using primarily Air New Zealand's round the world freighter service although other carriers also will be utilized as the need arises.

It's a big advance for Corrigan's and we all congratulate Jan on her splendid achievement.

Southwest Bucks The Trend With Greater Cargo Volume:

Southwest Airlines is a remarkable airline. Now the largest domestic carrier in terms of passengers carried, it is becoming a force in air freight almost in spite of itself. Here is an airline that never really cared about cargo. It's fleet of all Boeing 737s is small, narrow bodied and full of passengers. With so much passenger baggage, cargo space is limited. Until recently, Southwest made absolutely no effort to promote its cargo capabilities. Yet, the airline's domestic freight volume is growing faster than at any other U.S. carrier, up almost 25 per cent this year while most other "legacy" airlines are reporting declines in cargo traffic.



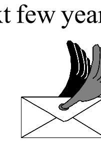
Why? The answer can be summed up in one word, "reliability." Shippers and forwarders are drawn to the airline's reliability. Southwest's more than 3,000 daily flights to almost 180 U.S. cities run like clockwork. Its on-time performance consistently is among the top carriers. It operates strictly a point to point operation with no crowded hubs to delay flights and their cargo. Southwest prefers to fly out of secondary airports (Oakland vs. SFO; Love vs. DFW) rather than gridlocked primary airfields. Perhaps most importantly, forwarders don't have to worry about whether Southwest, never having a loss year since the airline began back in the 1970s, will ever declare bankruptcy. Forwarders also like its honesty, so rare among most airlines' cargo departments. When cargo cannot move because of Southwest's limited belly capacity, it says so, giving shippers the choice of a later flight or switching to another airline. The carrier also offers forwarders a quality rare in the freight business, peace of mind.

It's Not The Same As Licking Stamps:

Deutsche Post, the German post office, is the exception to the rule that former government agencies are slow, cumbersome, shuffling bureaucratic organizations where the word "change" is unknown. Since going private about six years ago, the Post Office quickly realized it could not grow just by customers licking its stamps. Executives at Deutsche Post decided to jump into the world of logistics. Starting with the purchase of Air Express International, then Danzas and moving on to acquire Airborne Express and DHL, Deutsche Post is capping its efforts with the largest purchase in its 100-year history. The once sleepy German post office is acquiring Exel, the world's largest logistics provider, for almost $7 billion in cash and stock.

"...will Excel become a stronger competitor or will its retained British management become so embroiled in bureaucratic infighting with its German owners, the forwarder will lose its competitive edge?"

How will Exel, now one of the best run large logistics companies, fare under its new ownership? Of considerably more interest to the forwarding community, will Excel become a stronger competitor or will its retained British management become so embroiled in bureaucratic infighting with its German owners, the forwarder will lose its competitive edge? If the recent past is any guide, the prognosis is not good. AEI lost its cutting edge after being absorbed by Deutsche Post, despite the best efforts of veteran chairman, Gunther Rohrmann. DHL is losing hundreds of millions of dollars in the U.S. express market. The next few years will tell the story.



As Supply Chains Stretch, So Do Insurance Claims:

Starting about ten years ago, everyone got on the logistics bandwagon. Companies began selling logistics "solutions." It didn't matter what role a company played in the transportation mix. Trucking companies, warehousemen, freight forwarders, shipping lines; all magically transformed themselves into logistic providers. They changed their names, redesigned their logos and printed new business cards with the word "logistics" prominently displayed. Of course, many of these newly minted logistics companies eventually discovered their reach had exceeded their grasp. They discovered the phrase, "supply chain solutions" rolled easily off the tongue but were extremely difficult to achieve. Expanding global trade only made matters more complicated and supply chains more prone to error. Quietly, but closely watching the transformation of much of this once simple cargo business into the complicated world of logistics was the insurance companies; "silent partners" of the transportation industry. These sharp eyed insurance mavens quickly discovered that when one company takes responsibility for an entire supply chain, insurance claims often rise. With claims rising, insurance firms began to realize that too many logistic companies often signed contracts they were unprepared for, or ill-equipped to handle. The supply chain "experts" thought it just an extension of the cargo market in which they had operated previously. Running an entire supply chain, however, was far more involved than simply moving freight from Point A to Point B. Many companies understood one link in the supply chain but few could manage competently the entire system from start to finish. Cargo not infrequently was diverted to incorrect destinations, damaged or even lost. Insurance companies began asking a number of questions. Are logistic customers providing complete data and setting realistic goals? Do logistic providers have the ability to meet their contractual obligations? Many of the answers were unsatisfactory. To protect themselves, a number of insurance companies have begun offering expensive, comprehensive policies covering the entire supply chain rather than for separate operations. These single, comprehensive policies is a trend which likely will grow and will add another cost to the business of moving goods. Ah, for the simple days of traditional freight forwarding.

CII Continues To Grow In New York

Lisa and Debra are doing such a great job, we have outgrown our New York facility already. On October 1st we move into brand new premises, the directory details as follows:

Consolidators International Inc. JFK

167-43 148th Ave
Jamaica, NY 11434
Tel- 718-656-7447
Fax-718-656-0246

Unfortunately, even though our new location is less than one mile from the old one, we could not take our telephone and fax numbers with us. Our New York customers will love our brand new premises. Access is far easier with service far superior because the warehouse is larger and has more dock doors than the old Rockaway building.

Lisa and Debra are exited about the move. They claim our customers will enjoy even higher levels of service.

Will All-Cargo Airports Finally Become Viable?

All-cargo airports have had a history of miserable failure. The few started with great fanfare including the all-cargo airport outside of Dallas is going nowhere. Another one in North Carolina now is an industrial park. Shippers don't like them; forwarders don't like them and airlines don't like them. The reasons for this dislike are many. Primary reason is that forwarders still depend on passenger flights for "belly" freight. As a matter of fact, belly space cargo still accounts for the major volume of international shipments. Also, belly space is needed as a backup if a freighter flight is grounded by a mechanical problem. Today, there is no "critical mass" that would generate sufficient volume by forwarders and airlines to make a cargo airport viable. Ironically, forwarders actually have increased their focus on major hubs like LAX and JFK despite cargo congestion because they can truck in freight from a wider radius and use the increased volume to obtain better rates and preferential space access from the airlines.

As major airport congestion increases, however, airlines and their forwarder customers may consider reluctantly all-cargo airports as an alternative. When airports expand, which they do constantly, their managers always consider passenger needs first with cargo a distant second. When push comes to shove, it is freight that always gets the heave-ho. Airports like SFO and LAX make no secret of their wish to move freight elsewhere. While forwarders fret about the increasing congestion at major airports, they will do absolutely nothing until their customers tell them to operate at an all-cargo airport. If it makes sense to the customer and shipper is big enough like manufacturer Dell or retailer Wal-Mart, forwarders will respond to this demand. If congestion becomes too severe at LAX and other major airports, perhaps there is hope yet for planned or projected all-cargo airfields like the one in Victorville, CA.

Sincerely,

Julian A. Keeling