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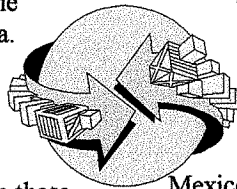
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World Trade Agreements; Are They Worth The Paper They Are Printed On?

During the past few years, trade agreements have been signed all over the world. There is the NAFTA agreement between the three nations of North America. There is the CAFTA agreement between the U.S. and Central America. And there is the Australia-U.S. Free Trade Agreement. But are these agreements, signed with much fanfare by politicians of all stripes, worth the paper they are printed on? The answer is decidedly not.



Let's take a quick look at each of them. The NAFTA agreement was supposed to increase trade between the U.S., Canada and Mexico by eliminating tariffs and cumbersome customs rules and regulations. Although Canada was part of the agreement, NAFTA's main thrust was with Mexico—to stimulate trade between our nation and their's. The framers of the agreement believed it would not only stimulate trade, but perhaps more importantly, raise the volume of Mexican industry and improve the nation's

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standard of living. Five years after the agreement was signed, there is little industrial, social or political progress south of the border. The government is paralyzed between conservative and radical factions. Illegal aliens continue to pour across the border because of few employment opportunities in Mexico. And broken down Mexican trucks, now allowed on U.S. highways, could pose serious threats to life and limb. Many forwarders rushed to establish facilities along the Mexican border to take advantage of the trade opportunities supposedly fostered by the NAFTA agreement. Sadly, many of these offices are closed today.

The CAFTA agreement between the U.S. and Central America is a case of smoke and mirrors. Almost nothing has changed in trade patterns between the U.S. monolith to the north and the seven tiny nations to the south. Trade still remains in its traditional groove; bananas and other agricultural products moving north and industrial goods shipped south. Our company is particularly interested in the U.S.-Australian Free Trade Agreement. Some 75 percent of CII's business is generated down under. What's happening down there since the Agreement was signed? Not much. Despite all the hoopla, trade still is pretty much the same. Australian exports have benefited somewhat, but the reverse is true ex-United States. Freight rates generally are a barometer of the health or lack of it for exports and imports. In the case of air freight, rates have remained static at best. Ocean rates are weak because of all that new capacity coming on stream with those huge 10,000 TEU container ships.



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The problem lies not so much between the nations involved in these treaties but a familiar threat lurking 10,000 miles away. That threat is our old nemesis, China. Its trade tentacles spread across the world. Cheap Chinese manufacturing has impacted the U.S., as it has in Mexico. All those Mexican maquiladora plants that sprung up along the border to manufacture cheaply for American companies now find they have been trumped by even cheaper factories in China. Ditto for Central America. The seven little nations try and compete against China, producing items like textiles and inexpensive apparel. They get murdered by the industrious Chinese. With Australia, even the cheaper U.S. dollar doesn't hack it anymore. Australian importers, like their brethren everywhere, are interested only in price. If American goods are too expensive, the Aussies will turn elsewhere—almost inevitably to China.



We Need More Balance In China Trade:

Back in the nineteen thirties, the slogan in Nazi Germany was, "Today Germany, tomorrow the world." Fast forward seventy years and the slogan can be updated to "Today China, tomorrow the world." In terms of transportation, the world is becoming a one way street—China to the rest of the world. Such traditional trade lanes as U.S.A-Europe, Europe-U.S.A., Japan-world and Europe to its former colonies in Asia and Africa, are shrinking into oblivion.

There simply is no balance in China trade between that nation and the rest of the world. If there is no leveling off of Chinese exports and there is no sudden jump in Chinese imports, the world is heading for an economic showdown. All the platitudes about globalization, supposed to provide the basis for uplifting poor nations out of poverty through the production and export of goods, will come to naught if China keeps pumping out its exports. Other Asian nations like Malaysia, Vietnam, Thailand, Singapore and even India are hurting. The recent coup in Thailand is no help to that nation's export drive. In the case of Africa, despite almost sixty years of independence from England and France, there is less wealth today than when the African nations were under colonial rule. In the case of countries like Zimbabwe, formerly Southern Rhodesia, there is absolute chaos.

Norman Mineta Resigns As U.S. Transportation Secretary:

Little attention was paid, even by people in our industry, to the resignation of Norman Mineta as U.S. Secretary of Transportation, last July. Yet, as the person overseeing the Department of Transportation and the Federal Aviation Administration, Mineta was the most powerful person in our industry. Mineta, who is 74, resigned after a six year tenure under both the Clinton and Bush Administrations, to take a job with a large public relations firm. Was Mineta effective in this key transport role? Not particularly. He was a caretaker rather than an activist. He missed the opportunity to overhaul outdated U.S.

While China is not the only culprit in helping to destroy the underpinnings of globalization, it must take much of the blame with its attitude of me first, me last and me always. Globalization has not promoted the benefits of democracy and a fairer distribution of wealth. Rather, more people are living in greater poverty than ever before. The World Trade Organization has been an abject failure in attempting to lift the living standards among underdeveloped nations. Its only claim to "success" is helping to destroy the middle class of the world's nations. Our world cannot go back to the days of colonialism and gunboat diplomacy. At least, however, let's try and revive some of the traditional trading blocs between nations. Although often unfair to the "southern" nations as producers of raw materials and foodstuffs, at least there was a certain solidity and sense of tradition among these countries and their peoples.

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rules on foreign ownership and control of domestic airlines. He was largely invisible when Congress attacked and won the fight to keep a Dubai-based company from acquiring the management of a number of U.S. ports. The position of Transportation Secretary, appointed by the President and confirmed by the Senate, is admittedly a hot potato. He or she must balance the the many different demands of many different constituencies—all with their own agendas. Let's hope the next U.S. Secretary of Transportation, Mary Peters, (nominated by Bush but not yet confirmed by the Senate) will be more forceful and resolute in carrying out her vital duties.

The TNT Story Continued:

I'm continuing to be fascinated by the TNT story as it relates to the reality, not the fantasy, of our industry. Here is one of the big four integrators going its own way and so far prospering because of its realistic thinking. To quickly recapitulate, TNT a few months ago sold off its logistics business, which accounted for about 35 percent of its total revenues of about \$14 billion. Many in our industry thought TNT management had taken leave of its senses to sell off such a large piece of its supposedly highly profitable business. In my book, TNT management was crazy like a fox.



Why did TNT exit the logistics business? Because TNT is a very sober Dutch company and shut its ears to the high flown rhetoric of the "one stop" shopping theories of the 3PL logistic gurus. TNT makes most of its money moving freight and express on its worldwide network. In TNT's view, logistics was not a networks business. And logistics was not a particularly profitable business. At TNT, it generated only about 3 percent of its profits despite accounting for 35 percent of its volume. In theory, logistics contracts require swift and reliable road and air transportation. But in practice, as TNT learned, this requirement really did not exist. Also, contract logistics generally means a single contract with a customer to manage its supply chain or spare parts feed. In TNT's opinion, that made the logistics supplier an in-house employee rather than an outside agent—with all the risks that entails. TNT wanted its independence and contract logistics bound the company to its customers to a much too close and uncomfortable degree. So, TNT got out when the getting was good. It sold the logistics division to a private equity company called Apollo Management for a handsome \$2 billion. The supply chain management business, particularly the 3PLs, would be far healthier if they stopped listening to their own propaganda and viewed the cargo business through realistic rather than rose-colored glasses.

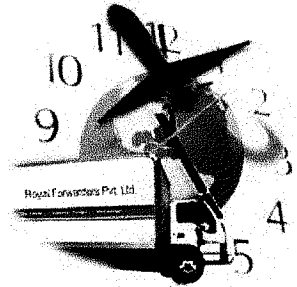
Needed By U.S. Airlines, New Attitudes Toward Freight:

Sometime this month, the Journal of Commerce will be running an article signed by me regarding the air freight situation among U.S. airlines. In my estimation, that situation is not good. I charge U.S. airline management with indifference, disinterest and even disdain toward cargo. Perhaps these attitudes can be understood when it is realized that at the combination carriers, senior managers always are promoted from the passenger side. To be assigned a cargo position at most domestic airlines is asking to be sent to Siberia. Airline managers do not seem to have rear view

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mirrors on their aircraft. They don't see the LTL truckers rushing up to take away their domestic cargo business. For one of the great ironies of our business is that truckers, whom the airlines disdained as little more than illiterate thugs, have become enormously effective competitors. As a matter of fact, integrators like BAX Global and all-cargo airlines like Kitty Hawk, boast of their expanded ground networks, not their air capabilities. As the airlines continue to pack them in on the passenger side, as they announce higher fares and start making some money after a five year drought, the carriers are reasserting their old arrogance. "Who needs freight?" they ask. A number of them are appointing General Service Agents (GSAs) to handle their freight instead of traditionally keeping it in-house. Cargo sales offices have been closed and freight salesmen have been dismissed en masse. I haven't seen a domestic cargo rep in two years despite my office being located less than a mile from LAX.

Freight forwarders need less airlines' tricks and more honesty to maintain and expand their business. Like not having the airlines change rates too quickly and without warning. Or canceling flights because there is not enough passenger loads so the already booked freight gets the heave-ho. We are the airlines' best friends and should be treated accordingly. Some 70 percent of all domestic freight is originated by forwarders (in international, the figure is 90 percent). Without a new attitude toward freight, without greater cooperation between airline management and forwarder, truckers will continue to grab greater market share.



Qantas Forms New Freight Subsidiary:

While U.S. airlines play fast and loose with their freight operations, international carriers are expanding their cargo activities. The latest foreign flag carrier to expand its cargo operations is Qantas. The Australian airline is stepping up its freight operations with a new, wholly owned subsidiary called Australian Air Express.

The new subsidiary is starting operations this month with the conversion of four passenger 737s into freighters. More will be coming on line during the next few months. Qantas CEO Jeff Dixon said that freight business would be a major focus in the next twelve months. "Growing our freight operations is a core strategy for Qantas aimed at diversifying and

strengthening our revenue base," he commented. Quite a contrast with the cargo philosophy of most U.S. carriers. When did we last hear from a U.S. airline CEO declaring that freight was an important, strategic part of his business? As the old song goes, "I can't remember where or when."

DHL Keeps Shuffling Along:

A few issues ago, our Newsletter suggested DHL shut down its U.S. operations because of its inability to compete with FedEx and UPS while racking up losses of close to \$1 billion. I'm more convinced than ever before our advice was sound after discovering that the transportation subsidiary of Deutsche Post is shuffling once again its top management in an effort to make the U.S. division profitable. Good luck. Just as rearranging the deck chairs on the Titanic was useless to the doomed

ship, shaking up its executive staff will not save DHL's American division from drowning. In another change of direction, DHL is taking its road cargo business out of the company's express division and folding it into its logistics unit which basically is DHL's Exel division. Reflecting even greater weakness, DHL will stop providing financial details of the company's U.S. operations but will "blend it in" with financial statements of the entire company. In effect, hiding U.S. results. How's that for transparency in corporate governance?



Sincerely,

Julian K.
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