



Consolidators international, Inc.

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As FedEx Goes, So Goes The Nation:



While Alan Greenspan's new book, "The Age of Turbulence," has received widespread attention with the bespectacled Mr. Greenspan appearing on multitudes of TV shows and giving dozens of newspaper interviews, one of his more interesting observations in the book is generating almost no attention. That is his conviction that FedEx plays an important role in anticipating general economic trends. Starting in the mid-nineties as FedEx became an increasingly important factor in moving air and surface freight, Greenspan, head of the Federal Reserve at the time, began following closely the package company's quarterly statistics. He believed then as he does now that FedEx, with its broad band of industrial and commercial customers, is perhaps an even more accurate predictor of our economy than the more traditional economic

indicators as auto sales, steel production and railroad carloadings.

There is little doubt today that when FedEx shows tepid growth, there is trouble ahead for the economy. What is Memphis telling us now? The company's latest quarterly statistics indicate that while international volume continues to show strength, domestic cargo shipments, particularly by air, delined rather sharply. Fred Smith sees little or no growth during the upcoming Holiday season. Odds are growing that the U.S. economy, the largest in the world, may be on the brink of that dreaded condition; recession. As Bette Davis remarked memorably in the film, All About Eve, "fasten your seat belts; it's going to be a bumpy landing."



The Iraq war undoubtedly is the most confusing in American history. Latest example, the famous or infamous "surge" in troops. We start with 130,000 troops in Iraq, add 30,000 for the surge, then subtract 30,000 after the surge has been completed. What do we end up with after all this expansion and contraction? Exactly 130,000 troops. If the amount of troops remains the same, why bother? That's a good question which no one seems to have the answer although President Bush and his surrogates are trying mightily to come up with some persuasive responses—with little success. If, as Bush & Co. contend,



More Confusion On Iraq:

the additional 30,000 troops have turned the tide in Iraq in our favor in just a few months, why be in such a hurry to pull them out? Using Bushmath, if 30,000 troops are aiding the cause of "freedom" in Iraq, why not ensure victory with 60,000 additional troops or even 90,000?

"Although 54 per cent of the American public believes the "surge" was unsuccessful and that we should get out of Iraq now, it is becoming increasingly clear that our armed forces will remain in that benighted country for years to come."



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"Odds are growing that the U.S. economy, the largest in the world, may be on the brink of that dreaded condition: recession."

Problem is we've heard that song before. Each time, the American public is tantalized with the assurance that we need a little patience to win that final "victory." But didn't that same President Bush back in April of 2004 claim that "most of Iraq is relatively stable" and in December, 2005 declare flatly that "we are winning the war in Iraq?"

Although 54 per cent of the American public believes the "surge" was unsuccessful and that we should get out of Iraq now, it is becoming increasingly clear that our armed forces will remain in that benighted country for years to come. A number of Bush loyalists now are comparing Iraq to Korea where American troops have been stationed for the past sixty years. As a famous general once aptly remarked, "it's much easier to start a war than to finish it."



U.S., Japan Extend Air Pact:

Buried in the trade press last month was the announcement that the U.S. and Japan have agreed to expand their air services agreement for the first time in a decade. If such an agreement had been signed with China, it would have been front page news. Like most other people in the cargo business, I have given little thought to Japan. Yet, it is the world's second largest economy and a major trading partner with the U.S. Perhaps we take the Japanese market too much for granted. Perhaps we feel the Japanese economy is a "closed" system where a few, traditional home grown cargo firms dominate the market with little chance of outsiders making serious inroads into it.

Maybe our industry should pay a little more attention to this huge trade market rather than obsessing with China. Perhaps we should show more patience and subtlety in soliciting Japanese customers. Generating more business in Japan is not an easy task, but I believe not an impossible one. Among foreign companies, the Japanese market has been left primarily to the very biggest American cargo organizations like UPS and FedEx and a few very large forwarders like Schenker and BAX. Mid-sized and even smaller forwarders have the pricing flexibility and high service levels which could attract Japanese shippers if we make a determined effort.

An interesting contrast. The U.S.-Japanese negotiators reached an agreement in just three days. Previous U.S.-Chinese agreements have taken five years.



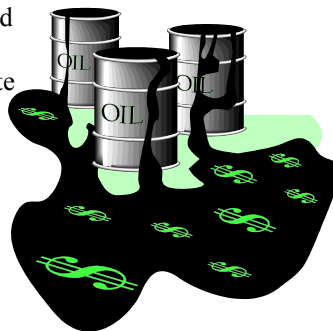
"Maybe our industry should pay a little more attention to this huge trade market rather than obsessing with China."

Trouble for BA And Its Partners In Crime:

Despite the Bush Administration's friendship with the business community, anti-trust legal mechanisms are alive and well in the U.S. Prosecutors have been able to prove in court that the Fuel Surcharge (FSC) was a conspiracy where airlines got together and colluded over price. Some airlines buy fuel and currencies in the futures market (Southwest is the most conspicuous example) to lessen the impact of any fluctuations. Others take their chances in the marketplace and hope (and pray) that any increases will be passed onto their customers with double quick speed.

What has always bothered me is the way arbitrary rates have been applied irrespective of destination and flight time. Why should a "bunny hop" from Miami to some point in the Caribbean carry the same FSC as an eighteen hour flight from Chicago to Singapore? Every country applies different taxes to jet fuel suppliers so the cost varies from nation to nation. The cost of fuel would be significantly higher, say, in Fiji, than in Australia. Air Pacific's costs would be far greater than Qantas'.

Ever since 1991, airlines have been in a bind to hold onto their rating structure. In fact, prices may have declined. Since 2000, thanks to spikes in fuel costs (fuel now accounts for a higher percentage of airline costs than labor), carriers have been in a catch-up mode simply because the vast percentage of the FSC has gone straight to their bottom lines. That is an unequivocal fact. Unlike shipping lines who have had a thirty-year history in applying BAF's/CAF's for a month or two. If it looked like there would be no significant changes, they would incorporate that cost into their rates. Airlines knew if they copied that, the increased rate would not hold.



British Airlines, Korean Airlines and their buddies deserve their substantial fines. The FSC and Security surcharge for the most part is a ploy to increase rates. The TACT went the way of mechanical adding machines twenty five years ago and was replaced by "contract" rates. Freight always has been considered incremental income for passenger carriers much to the chagrin of all-cargo airlines. As airlines' financial fortunes have taken tumbles, so has the quality of senior management. In a nutshell, airlines have been gutless for far too long in charging compensatory rates. That is until the windfall and security surcharges caused by 9/11.

"The quicker you decide to sell rates with a fair margin of profit and get rid of security and FSC charges, the better off you will be."

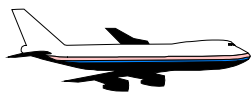
To my airline friends, you certainly have screwed up this time. The simple fact is that you have been caught with your pants down; colluding in formulating security and fuel surcharges. As individual airlines, you have had a horrible history of not getting rate increases to stick. Along come increases in costs by way of insurance, fuel and "whoompty do" and you found you could slam the freight industry with ridiculous hikes with FSC charges. That was your way to compensate for quoting freight rates below your costs. The quicker you decide to sell rates with a fair margin of profit and get rid of security and FSC charges, the better off you will be. By the time the courts are finished, you—the airlines—will be shelling out billions of dollars. Pity you didn't take my advice a year ago!

Bruce McCaffrey; Ultimate Survivor:



irline executives rarely last long at their jobs. At the combination carriers, where cargo is an incremental item on their balance sheets, cargo executives are expendable. At the all-cargo carriers, where red ink is more common than black, heads of cargo also are the fall guys. One exception to the rule is the long lasting career of Bruce McCaffrey, Director of Cargo at Qantas.

Bruce has been on the Qantas hot seat for the past twenty years. He has seen innumerable changes in airlines' cargo operations. From being tightly supervised by governments to relatively laissez faire in pricing and routes; from being carriers of primarily emergency shipments to becoming vital partners in the Just-In-Time system of minimal inventory at the assembly line, Bruce also has witnessed vast changes at his own airline. Qantas has changed from a bureaucratic, government-owned organization to one of the most profitable publicly held companies in Australia. The airline's board, once run by government bureaucrats, now has a board and officers who are dynamic and entrepreneurial



driven. Aided by shareholders' revolt, Qantas did not fall into the hands of a predatory, American-based hedge fund. The shareholders had great respect for the direction Qantas was heading and saw no need for change.

Bruce has reported to at least a dozen bosses in almost as many years. Many were Aussies, but most were outsiders with little or no cargo experience—par for the course at most passenger airlines. Some brought good ideas to the table; some were good administrators, but others quickly demonstrated they were plainly fools. Over the years, many experienced, competent executives either fell on their swords or were turned out because they didn't fit the corporate mold. Through all this turmoil, Bruce hunkered down, kept his eyes open and his mouth shut and did his job. Twenty two years

ago, he took command of U.S.-Australian cargo from his boss, George Stark. It was and remains the crown jewel of the airline's freight operations. He has kept it that way for the past two decades.

Bruce never has taken any Dale Carnegie courses. He is basically a hard guy to get to know. He also has had a number of health setbacks. Like many other corporate executives, he has faced the nights of long knives with smart Alects determined to unseat him. In spite of these distractions, Bruce has concentrated on achieving the only goals that matter—running a tight, cost effective ship and delivering profits each year—to stifle his critics.

My hat is off to you, Bruce. Although we have shared just a few social moments together, our twenty-year relationship has been almost always strictly business. I could hardly say our working together as forwarder and airline has generated a friendship. Yet, I remain in awe on how much you have achieved for Qantas by remaining steadfast in your principles. It demonstrates once again that if one possesses integrity and stands up to be counted when the chips are down no matter what the consequences, one cannot only survive but prosper.

Bruce is an outstanding example of this timeless truism

Forwarders Succumbing To Commodity Pricing:



t's remarkable that airlines remain in business. They either are too greedy (see above analysis of FSC pricing), or too stupid to realize they are dumbing down their service levels to commodity pricing.

Unfortunately, forwarders are closer than we think in emulating the airlines by selling air freight as a commodity and not as a premium service at a premium price. Our friends at the carriers have turned their business into one huge commodity. Their profits derive not from their rates in carrying our freight, but in their wholly unsupported charges for FSC and security. Let's not fall into the same trap as the airlines. The kind of sub-par pricing among the carriers melts their brands and

erodes passenger and forwarder loyalty. In the not too distant past, the major carriers had distinct personalities. American was the glamorous trans-con airline; United the solid workhorse; TWA with its Howard Hughes background, the adventuresome airline. Customers responded to these distinctions. Today, all

the airlines offer the same, cattle-car coach service with a few, overhyped differences in international first and business class. What was once an industry proud of its passenger and cargo standards, now offers only one inducement—price. We forwarders cannot allow commodity pricing to dominate our industry. We offer unique and special skills in the complicated process of moving a shipment across a continent or above an ocean. Let's not undersell these efforts. Competitive pricing, yes. Commodity pricing, no.

Sincerely,

Julian A. Keeling

