



Consolidators International, Inc.

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With Shipping Lines Raising Rates, Can Airlines Be Far Behind?



Early this past summer, while most people involved in the business of transportation were taking their annual vacations, a bomb dropped into the waters of the world. The world's largest steamship company, Maersk, announced fairly substantial rate increases on almost all of its routes. Like loyal soldiers, almost all of the major shipping lines; Hanjin, Hapag-Lloyd, Yang Ming, APL and others followed suit with their rate increases. Shippers suddenly awoke from the summer doldrums. "What's going on here?" they asked. "With a global recession, the most severe in seventy years, with demand for space falling like a stone, how can the steamship lines have the audacity to raise rates?"

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The lines had a simple answer, survival. Rates had been driven so low, the lines claimed, "they could no longer function as safe, reliable, transporters of goods." Shipping lines pointed out that it cost less for a 20' container to move ex-California ports to Hong Kong, a distance of 10,000 miles, than to drive the same container from Long Island to New Jersey, less than 35 miles distant. Customers were skeptical the rates would stick. "Published rates today are pure fiction," they asserted. "Ten minutes after they publish the new



rates, their sales people will be on the phone with special discounts for preferred customers."

With all economic reports indicating a steady but slow recovery from the deep recession, shipping lines believe their business will be not far behind and the new rates will stick. The next few months will tell the story.

Carefully watching their ocean cousins' attempt to raise rates in the middle of a horrible downturn are the airlines. Both combination carriers and all-cargo airlines have followed much of the same recession script as the shipping lines including lowering of cargo capacity by parking aircraft in the desert, and also reducing frequency of flights on their route structures or eliminating them altogether. Some of the airlines are starting to raise rates, using the same rationale as the shipping lines. Lufthansa has led the parade with raises up to 30 per cent. KLM-Air France followed. A major all-cargo airline, Cargolux, has raised its rates. On the domestic side, Delta has hiked rates as did its new "partner," JAL. Will more carriers follow? Yes, since airlines generally move lockstep with each other. Will air shippers, as their ocean counterparts, accept the new, higher rates in face of soft demand? The next few months will provide the answers.

Announcements

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Graham Burfurd—Vice President, Global Sales:

From time to time, we like to comment on the contributions of some of the CII staff. This month, we would like to highlight Graham Burfurd, CII's Vice President, Global Sales. Graham is Australian, arriving in the U.S. a few years ago to join CII in furthering his career in air freight. Entering the forwarding business just shy of his 21st birthday in Sydney, Graham rose rapidly through the ranks to become proficient in a wide variety of cargo skills including customer service for both importers and exporters, sales and route development.



Graham was posted to Asia where he worked with key accounts to expand his firm's business in the China-Australian trade. After 18 months in Asia, Graham came to the States where he was hired by

CII as Global Sales Vice President. With CII for almost three years, Graham has helped grow our company by 30 per cent in revenues. He has helped to solidify current customer relationships and to find new customers to utilize CII's services. Graham's philosophy is to work "outside the box" when necessary to satisfy a service provider or a customer's individual needs.

Graham believes there is no substitute for hard work, combined with great personal relationships with customers. He has a great future at Consolidators International

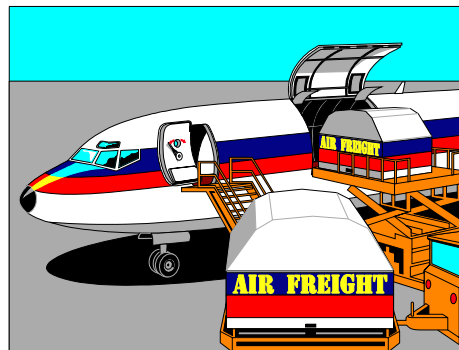
While Boeing Languishes, Its Press Office Keeps Busy:

Perhaps the busiest facility at Boeing's Chicago headquarters is its press office. While development of the company's "Dreamliner," the 787, continues to languish with conflicting statements as to just when the new jet's first flight will take place, Boeing's press people are busy little beavers issuing all kinds of statements to the business and aviation communities in general and Wall Street in particular.

One recent statement that raised many eyebrows in aviation circles and among Wall Street's group of analysts was Boeing's confident prediction that during the next twenty years, almost 4,000 jet aircraft worth about \$500 billion will be produced and sold just in the Chinese market. It is interesting to note that while Boeing cannot say with certainty from day to day as to future flights for perhaps the single most important aircraft in its history, it can predict with seemingly total assurance as to what will happen twenty years into the future of a very volatile country. My belief is that Boeing's crystal ball is not only cracked, it has blown wide open. Unfortunately, no one, not even the Chinese, has a guide to the future. The nation's rapid expansion has cooled down and there is far less passenger and air freight volume today than just a year ago. If demand continues to slow both on the passenger and cargo side, the enormous increase in aircraft predicted by Boeing

simply will not occur. Who knows what kind of government China will have twenty years down the road? While it's highly unlikely that the Chinese will revert back to pure communism in the Mao Tse Tung style, perhaps China will change its mind about the importance of getting rich, forget Adam Smith and return to the tenets of Buddhism. On the cargo side, "old fashioned" ocean freight is taking big chunks out of air freight's once unquestioned domain of fast, reliable transport. When a 10,000-TEU container ship can make Long Beach from Hong Kong in two weeks, air cargo's time advantage is cut down sharply. The recent decision by Ralph Lauren, the highly successful designer, to utilize ocean for all of its international transport needs with the exception of only the most dire emergency shipments, is an ominous straw in the wind.

It was indeed an ironic coincidence that almost the same day Boeing made public



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its grandiose prediction, KLM-Air France announced it was ridding itself of the airline's entire all-freighter fleet and turning the aircraft over to its subsidiary, Martinair. Management at the combined airline simply felt they could not make money flying all-cargo aircraft under the KLM-Air France banner. The airline's announcement was reality; the plane maker, fantasy.

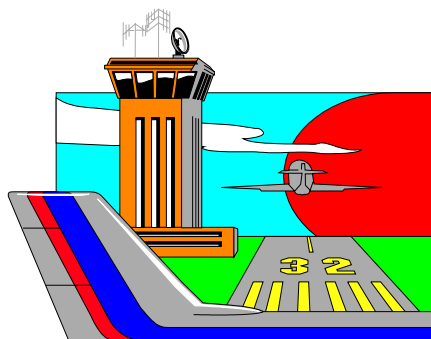
Boeing isn't the only aircraft maker with pie in the sky predictions. Its chief rival, Airbus, also is not shy in making grandiose pronouncements about the future of aviation. The latest prediction from Toulouse; almost 25,000 new jet aircraft will be built by the year 2028. For 2010, however, the Airbus mood is much darker. It is considering a reduction in the number of aircraft produced because of the global recession.

What's Happening At Frankfurt Airport Could Mean A Real Game Change:



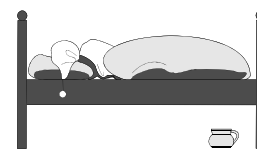
here is a bizarre situation developing at Frankfurt Airport in which the right hand doesn't know what the left hand is doing.

The Airport has been granted hundreds of millions of euros to construct a third runway, which will increase capacity significantly. Completion of the runway is scheduled for 2012. At the same time, the courts in Hesse, the state in which Frankfurt is located, have decreed that



starting in 2012, the airport will be closed to almost all night flights between 12 and 5 AM. Reason, to give the densely populated region in and around Germany's fifth largest city, peace and tranquillity during their sleeping hours. Of course, the projected curfew hits cargo flights the hardest as many of these flights take off and land in the early morning hours. The decision, if confirmed by higher courts in the State (and all indications are that it will be) is a hammer blow to Lufthansa, the principal airline flying cargo out of Frankfurt. The carrier is protesting vigorously the upcoming ban, threatening to take its cargo business to other German cities and pointing out there could be a loss of 15,000 local jobs if the curfew takes effect.

The problem is almost unsolvable because of the sharply different priorities; a need to provide global cargo service or the desire by residents to get a good night's sleep. So far, slumber is winning out over



global commerce.

On a much smaller scale, a similar pattern is developing right here in the Los Angeles area. Burbank Airport (now called Bob Hope Airport) also is banning 11 AM to 5 AM flights because of the huge (and well connected politically) population in the neighboring San Fernando Valley. While very little freight flies out of Bob Hope Airport (most of it is small package express dominated by FedEx and UPS), the trend is troubling. There could be a real game change for air freight if other airports and their local governments decide the nighttime comfort of surrounding residents is more important than global commerce.

What! Sir Richard Actually Opening His Wallet:



ver the years, we have read and heard about the exploits of Sir Richard Branson. Ballooning around the world, photographed at plush global watering holes with beautiful women, attempting to be one of the first civilians in space; these are the doings of a man determined not to be "just" another faceless corporate executive but a modern Howard Hughes. What we never hear about is Sir Richard actually opening his wallet and spending his own money—until now.

The Australian airline, Virgin Blue, in which Branson has a major interest, is in deep trouble. So much so that Sir Richard was forced to cough up \$65 million (U.S.) as part of a deeply discounted \$231 million capital raising project designed to bolster the airline's balance sheet. The airline's ill-starred expansion into the U.S. market under the V Australian name, is losing money by the bushful. Its domestic operation in Australia is running at a



substantial loss, with Qantas a strong competitor. Betting the wrong way on oil futures through hedging didn't help. The upshot, Virgin Blue will record a sizeable loss of about \$150 million for the fiscal year ending June 30th.

Sincerely,

Julian A. Keeling

FedEx—A Confused Barometer:



red Smith's latest revenue and earnings statement reflected the confusion in our economy today and what will occur tomorrow. On one hand, he predicted an upturn in the economy, particularly in retail, housing and automotive. At the same time, he cautioned that his company's revenues would lag behind the upturn. Reflecting shippers' tightness, it was FedEx' cheaper rates for ground shipments that shone the brightest. More expensive domestic air was down more than 20 per cent. The overnight, high cost business needs a strong economy which remains in the future.

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