



Consolidators international, Inc.

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have been forced to catch up with technology. My twice weekly fax messages to our customer base has been replaced with a "blog" site, www.thekeeling.com. Published at least two to three times per week, I report on the cargo space situation and service to our major market, the South Pacific. Also, my opinions on what's happening in our world of forwarding, airlines and shippers. Living in a country where free speech is protected by the first amendment of our Constitution and not having to report to any bosses, I am able "call 'em as I see them." In the fifteen years I have communicated by Newsletter



and fax, many readers have stated to me they enjoy some of the subjects I tackle. However, my purpose apart from provoking a little thought is also to entertain. Forwarding is a serious business and because it is so serious to everyone in the industry, there are times when we truly have to lighten up. This is the philosophy of the Keeling blog. To inform and to entertain. I never forget that today's newspaper is tomorrow's fish & chips wrap!

Announcements

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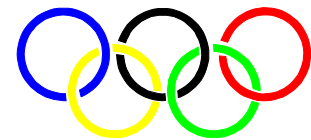
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What's Ahead For China After The Olympics?:

In the bunting has come down, the banners have been furled. Beijing's city streets have returned to their normal traffic jams and skies have returned to a dull gray thanks to widespread pollution. This is China after the Olympics when reality returns. What is reality today in China? It is not a pretty picture for a nation that has shown unprecedented growth during the past generation. What's happening in the Pearl River Delta, the manufacturing heart of China, is a good indication of general economic conditions throughout much of the country. By the end of the year, there could be a staggering number of 100,000 manufacturers shutting their doors in the Delta. Reasons include the increasing costs of raw materials, transport, labor and perhaps most importantly, the recession



taking place in China's largest customers; the U.S. and Europe. Those embattled factories remaining in business will see wages rising 14 per cent per year into 2012. Thus, in a three year span, wages will rise almost 50 per cent by government fiat, making these plants even less competitive. What has taken Chinese government officials and business people by surprise is the stunning speed at which market conditions have changed. A scant few months ago, factories in the Delta were running 24-hour shifts. Today, the "For Rent" sign is on the front of hundreds of its buildings. No one expected the Chinese market to churn out low priced goods forever without serious competition from other, hungry nations. But the speed which has turned the Pearl River Delta, the most important manufacturing center in China, from a thriving one to almost a Depression-like decline is unprecedented in that nation's recent history.



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Outsourcing companies are not only looking elsewhere in Asia, Latin America and eastern Europe for manufacturing sites, but actually are considering returning to the good old U.S.A. to make their products. As one close student of the Chinese economy recently observed, "all the lights are red; I don't see any green signals."



In The Age Of The Internet, How Efficient Are FedEx & UPS?



We now live in the age of the internet and in today's world of cyberspace, how efficient are FedEx & UPS? This is hardly an academic question as millions of UPS & FedEx customers rely on those two companies as their principal transportation vendors. I believe I can answer that vital question without fear or favor as I now no longer utilize either of those companies in any meaningful way after being a major customer of FedEx since 1989 and UPS since 2000.

Both companies have expanded significantly in the past twenty five years through acquisition and organic growth. Both have taken slight changes in direction. UPS, basically a trucker, wanted to expand into the air. FedEx, after starting and for the first twenty five years of its existence being an airline, wanted to become a trucker. Each wanted to invade the other's territory.

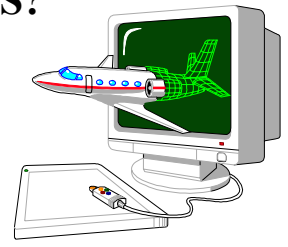
The background and culture of the two companies are quite different. Most executives at UPS come from an engineering background in transportation. Many started out either as truck drivers or working in UPS' shops. They were basically blue collar workers. The culture of FedEx couldn't be more different. Fred Smith graduated from Yale and his Master's Thesis was a new way of moving air freight—a method still in use forty years later! When Smith started FedEx, he naturally gravitated to executives with his own background, "blue blood" Ivy Leaguers with MBAs. Naturally, the FedEx boys are well compensated, not only because of their educational and social backgrounds but also having to live and work in Memphis instead of the canyons of Wall Street. UPS executives, on the other hand, rank amongst the most poorly paid by Fortune 500 standards.



There is a great difference on how either company treats its executives. Many budding replacements to Fred Smith have fallen out of favor and are forced to either remain in the company in a subservient capacity or to move on. UPS, in contrast, is very similar to IBM in the days of founder Thomas Watson where everyone was assured of a job until retirement as long as he kept his nose clean and wore a white shirt to work every day. Although the two integrators have lots of differences in how they do business and promote themselves, they have one thing in common. They are bloated organizations. Senior executives at both companies are empire builders. UPS and FedEx may complain about fuel costs, but in my opinion, both companies have too many layers of useless, expensive management. Also, I wonder if the people at both companies really know their markets. Do customers care whether their courier envelopes are received before ten o'clock or before three? The United States Postal Service often delivers mail as late as 4 PM and no one seems to complain about that. Only one USPS van delivers mail to CII's office at 8900 Bellanca six days a week, but just about every time I poke my head out of the office door, I see a UPS or FedEx van whizzing by. Do they actually need so many delivery vehicles?

I think both Fred Smith and Mike Eskew (yes, he is UPS' CEO who usually is an invisible man hiding most of the time in his bunker in Atlanta) should step back and take a good look at what's going on in the trenches and in management around them. If they did, they could put half their fleet of surface vehicles on cinder blocks and or sell them off, together with highly paid executive colleagues.

What makes me draw these conclusions? The airline departments of both corporations. When FedEx acquired Flying Tigers, they bought a company with \$750 million (mainly forwarder business) in revenues. Today, the "023" product of FedEx is less than \$50 million. The operational and staff levels who look after the forwarder business still is the same size as it was fifteen years ago. UPS,



until this year, has grown its forwarding business while FedEx has virtually gotten out of the business. I never have seen so many people sitting around in high places and making work for themselves in what truly must be an unprofitable business. Having visited the hubs and spokes of both companies, I see armies of people walking around, looking important but actually doing very little. Another point. What never ceases to amaze me is how they load their aircraft. They copy the military. The military's MO is to get their aircraft in the air on time whether they are fully loaded or not. But FedEx and UPS are not dealing with an emergency in Iraq. Their containers often are rarely fully loaded, thus sending out half filled aircraft. Compared to most airlines who will move heaven and earth to maximize their loads on every flight, FedEx and UPS, by comparison, are just a joke.

In summary, Fred and Mike, here are three ideas to increase your efficiency and grow your profits.

* Get rid of all the layers of unnecessary management caused by empire building within.

* Take a hard look at your ground fleet and their efficiencies. Do you really need all those trucks and vans, particularly in this day and age of sky high gasoline and diesel fuel prices? Is outsourcing during your busy times a solution?

* Stop the practice of flying aircraft only partially loaded. It is all about your ground operations and how bloated they are. In the main, they are run by people from the floor sweeper up who care little about the job they do. It is all about the paycheck and your generous benefits. You two guys need to instill a little Lee Iacocca in you. Jump into your electric carts, put on your hard hats and take tours of your facilities here and around the world. See how inefficiently and expensively they are run.

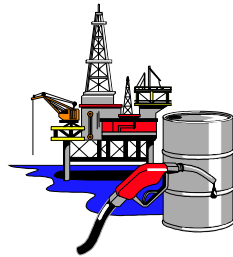
Will Airlines Give Back Their Ill-Gotten Gains?



When oil hit a record \$147 a barrel this past summer, airline computers couldn't run fast enough to spew out higher and higher fuel surcharges to hapless shippers. Now that oil has dropped sharply in price and with predictions of lower rates for oil as we head into the winter with far less use of gasoline for driving, will the airlines reduce their surcharges as quickly as they raised them? Don't bet on it. There have been some small reductions, about 5 per cent by a few airlines. Most carriers, however, are standing pat with their surcharges. Airlines are prime examples of one of capitalism's unwritten rules; prices go up sharply in a tight supply market, but decline far more slowly as supply increases.

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What infuriates me is that billions of people around the world are suffering from high energy costs primarily because of a few people manipulating the price of oil at the New York Mercantile Exchange. Don't listen to the pundits and supposed "experts" who tell us it's all about supply, political instability, the weather, blah, blah. The real fact of the matter is that traders on the Merc talk the price up or down to create a constant spread between the positions they take. Currently, oil is on a generally downward spiral as most traders are buying "put" options for the future in expectation of lower prices. I wouldn't want to place the health of the world economy on those pirates in lower Manhattan, however.



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Where are the politicians to prevent unrestrained speculation in the oil pits? Why don't they do something constructive instead of telling us to pump up our tires, or to allow unrestrained drilling off our shores? The Department of Justice will send ill and disabled ex-Qantas employee Bruce McCaffrey to jail for "price fixing" while it does nothing to investigate the collusion among traders who are reaping millions of dollars while millions of people can't pay the almost \$4 prices at the pump.

Too Many Cargo Accidents; Let's Upgrade Safety Standards:



Among all the difficulties air cargo is facing, one very serious problem has been swept under the rug. It is the standards of safety for all-cargo aircraft and their crews. Within the last three months, at least seven cargo aircraft have crashed, taking the lives of 46 people including crew members on the ill-fated aircraft and innocent bystanders on the ground. These aircraft have ranged from a small Beechcraft to huge Boeing 747-200s. While all the crashes have been tragic, two really stand out. The loss of two of Connie Kalitta's Boeing 747s really crystallize attention on the glaring disparity between the safety rules for passenger aircraft and all-freighter airplanes.



What is long overdue is a common set of standards covering both passenger and cargo flights. It is truly incredible that rules for crew flight time on all-freighter aircraft haven't changed since the 1950s when piston-engined aircraft were the norm. Pilots on cargo flights are allowed to work longer hours than their passenger brethren, yet ironically many all-freighter trips are made at night when crew members are generally less alert than during the daytime.

Maintenance procedures for older aircraft should be tightened. While airlines love to announce purchase of brand new all-cargo airplanes like Boeing's Triple 7 aircraft, these new airplanes make up a very small part of the airlines' all-freighter fleets. Many of the airplanes used as air freighters, particularly by the small, less capitalized airlines, are older versions of jet aircraft like the Boeing 747 200 which came off the factory floor forty years ago

and MD-11s which are almost as old. With proper maintenance, these planes can fly almost forever. However, outsourcing of mechanical work by the airlines is becoming more prevalent due to cost pressures with maintenance often handled by small, obscure firms in Asia and Latin America. Cargo airplanes share the same airspace as passenger aircraft and for the safety of both, their crews and aircraft should adhere to the same safety standards.

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It's The Best Of Times And The Worst Of Times For Two Qantas Execs:

Little did Charles Dickens realize when he penned those famous lines that it would describe the fate of two Qantas executives 150 years later.

The tale of Bruce McCaffrey, former Vice President-Cargo at Qantas and Geoffrey Dickson, CEO and soon to retire from the Australian airline, shows once again how cruel and unfair life can be. Bruce is heading for jail after pleading guilty in the price fixing case by the DOJ against a number of U.S. and foreign carriers. His boss, Geoffrey, is set to retire in October with a fat pension and no doubt substantial "consulting" fees. Yet, who is the greater culprit in the recent history of Qantas? It certainly wasn't McCaffrey

who may have made a mistake in colluding with other cargo airline execs, but there is no doubt in my mind he would not have dared to take such radical and illegal actions without the full knowledge and support of Qantas' most senior officials. Yet, it is the ill and disabled McCaffrey who is the "fall guy" for many airline people who knowingly and deliberately fixed prices to the detriment of shippers and their agents, we forwarders. Dickson has been a disaster for Qantas during his five years at the helm of the airline. Yet, he leaves unscathed from the Australian flag carrier. He almost succeeded in selling off Qantas to a greedy private equity firm in order to pocket hundreds of millions of dollars for

himself. He failed in this attempt only because of a revolt by shareholders, employees and the disapproval of the Australian government. He outsourced almost all of Qantas' maintenance operations to an obscure Asian outfit. After this outsourcing, what had been one of the finest fleets in the airline business, has become prone to accidents and irregularities in maintenance records. Dickson almost single handedly has destroyed the morale of Qantas' hard working employees. Quite a legacy for the retiring CEO of Qantas Airlines. Yet, off he goes riding into the sunset stuffed with saddlebags of money from an airline he almost brought to its knees.



Those Ambulance Chasers!

One of the true negatives of the U.S. legal system is the so-called tort system and the law firms who specialize in tort cases or class action lawsuits. On many an occasion, the law becomes an ass when lawyers see an opportunity for huge financial gain. Most class actions fall into this category with the plaintiffs making little and the lawyers making a lot.

Following on from the Department of Justice's successful prosecution of several carriers over the fuel surcharge

fiasco, several law firms are communicating with shippers, consignees and forwarders seeking to represent them in class action lawsuits against the carriers. These people spend huge sums canvassing their services and, of course, should their lawsuits become successful, they can reap enormous amounts of money. The reason, their "fee" is based upon a huge percentage (generally 40 per cent) of the spoils.

Many forwarders have asked us what we are doing in this regard and our simple

answer is, "nothing." I have thrown hundreds of letters unopened straight into the rubbish bin. Our job is to move freight and keep CII moving forward. We act purely as a collection agent for the carriers and every dime we have collected over the the past seven years has gone straight into the hands of the airlines, not our's. Should any of these ambulance chasers be successful in their lawsuits, we will determine our course of action then. In the meantime, I have no interest in the activities of these "bottom fish dwellers."

Where Will It End? At Least One Airline Wants To Weigh Its Passengers:

With the airlines counting every pound and kilo, it was only a matter of time before carriers began figuring passenger weights into their calculations. One low cost airline, Air Asia X, is planning to factor in passenger weights with the total weight of the aircraft, primarily for fuel requirements. As always, cargo will get the short end of the stick as the more the passengers weigh, the less freight can be loaded on the aircraft. The Kuala Lumpur-based carrier

also is seriously considering charging overweight passengers a higher fare.

Will the next step be for Air Asia X to place weighing scales next to its check-in counters?



Sincerely,

Julian A. Keeling