



Consolidators International, Inc.

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Air Freight's Biggest Challenge; the 90 Lb. Housewife:



What a nutty business we're in! Here is a \$100 billion industry depending ultimately on the shopping habits of a 90 lb. housewife. All the huge container ships with their 10,000 TEU capacity; all the triple 7s designed to fly halfway around the world without refueling are no more than scraps of metal if that housewife and her husband stop visiting the mall or car dealership and bank their money instead. Both air and ocean freight seem to be slightly pulling out of the deep recession, but we're not out of the woods until pocketbooks fly open.

What are the chances of the American consumer returning to her spendthrift ways, to going deeply into debt once again? Economists and psychologists seem to be in rare agreement, stating that no return to a splurge in spending is on the horizon. The Great Recession has left deep scars on the American psyche. Even normally optimistic retailers seem to agree. In the latest monthly statements reporting retail sales, executives from high fashion chains like Saks to discount stores like T.J.

Maxx are cautioning that a major uptick in sales won't occur until the second half of 2010 at the earliest. Since almost 90 per cent of merchandise in U.S. stores arrive from overseas by sea or air, the very cautious predictions by retailers do not bode well for our industry. Restocking inventory, which is the principal reason for currently improved air and sea freight volume, can't last forever. Unless that inventory is sold, the supply chain is broken.



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Will we see the boom times return in air and ocean freight? And if they don't, do we really need all those container ships plying the oceans and the airplanes flying over them? Hardly. At least 20 per cent of the aircraft and 30 per cent of the container ships now in active service could be retired. Those percentages are tough to accept, but they are realistic. As the saying goes, "when the going gets tough, only the tough will survive."

New Vice President Takes Charge At Backstage Cargo:



CII has been pursuing "niche" markets with great determination and persistence during the past few years in addition to our traditional freight forwarding and wholesaling business. We already have discussed in an earlier Newsletter CII's Tuna Support division, supplying parts and equipment to the multi-billion dollar tuna industry. This division is growing exponentially since started at the beginning of 2009. Another one of our niche markets, targeting the huge entertainment business, also is

getting greater attention at CII's Los Angeles headquarters.

A major step in providing greater and more complete services to the film, TV and concert business is the appointment of Maggie Martinez as Vice President of our entertainment division, Backstage Cargo. Maggie's coming on board adds great strength and know-how to our entertainment division. She brings to CII a wealth of experience and knowledge in this highly specialized business, having worked with film companies, TV networks and concert organizations all over the



world. Maggie numbers dozens of film, TV and concert personnel as her valued contacts. Says Maggie, "this is a very personal business. The world of entertainment is where emergency is routine 24 hours a day, seven days a week."

We welcome Maggie to our staff and are confident Backstage Cargo will grow in importance to CII in the months and years ahead.



Exactly What Are 3PLs & 4PLs?

Every so often, I'm asked by current and potential CII customers, "are you a 3PL?" Occasionally I'm even asked, "are you a 4PL?" My answer invariably is, "I'm a freight forwarder and wholesaler, proud of my industry's traditions and services to the shipper."

Customers' questions made me stop and think. "Just what are 3PLs and 4PLs? What role do they play in the transportation business?" I asked.

In my view, 3PLs and 4PLs are no more than fancy terms for marketing purposes. A 3PL to those few in our industry who are not familiar with the term, merely means, "third party logistics company." A 4PL is simply a term of one upmanship rather like 7-Up is better than 6-Up or Formula 409 cleans better than Formula

"...CII provides just about all of the services of a 3PL or 4PL—at a much cheaper cost. You name it; moving freight efficiently and hassle-free, warehousing, providing inventory control—the "old fashioned" consolidator does it all."

408. The terms are really no more than the creations of clever advertising and sales people who wanted to place their transportation companies on a more exalted level. The trade press, to their discredit, cooperated in this effort by accepting without scrutiny this

nomenclature and listing basically freight forwarders as 3PLs and 4PLs. The reality is that the traditional freight forwarder like CII provides just about all of the services of a 3PL or 4PL—at a much cheaper cost. You name it; moving freight efficiently and hassle-free, warehousing, providing inventory control—the "old fashioned" consolidator does it all.

Like so much in American business, 3PLs and 4PLs sell the sizzle, not the steak. One unintended, positive consequence of the current Recession is that shippers are taking a harder look at their 3PLs and 4PLs. "Just what are we paying for?" they ask. Increasingly, they are not getting satisfactory answers and either are dumping entirely their 3PLs and 4PLs or cutting back on their services. They are finding the emperor has no clothes.

Will Other Asian Airlines Follow JAL's and ANA's Example?

The recent announcement stating that the cargo divisions of the two major Japanese airlines, JAL and ANA, will merge their air and ground operations is another powerful indication that Asian air cargo is not what it used to be. These two proud carriers are banding together to staunch the enormous flow of red ink both are experiencing. The Great Recession is leveling everyone; large and small. The JAL-ANA cargo merger also tells us the few modest mergers among smaller carriers in China and India may only be a start in the Asian merger derby. Unlike the merger and acquisition activities among European carriers like KLM-Air France and British Airways-British Midlands, the big Asian airlines have remained independent. As the decline in Asian air freight volume continues with little hope of a substantial upturn, this go-it-alone attitude, encouraged by their governments' desire for national flag carriers, will change.

The merger of cargo operations at Malaysian and Thai Airlines would make both economic and operational sense. Both carriers are losing tons of money in their cargo operation. Both airlines have almost exactly similar routes from their

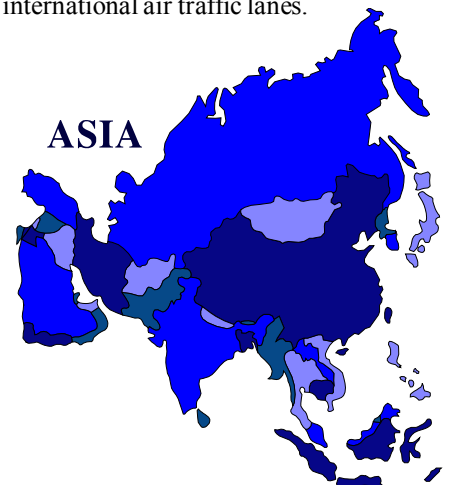
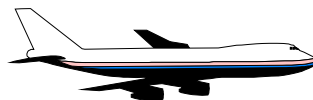
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hubs at Kuala Lumpur and Bangkok. Both utilize similar aircraft and avionics so that flight and ground handling crews could easily adapt to each other's operations. Both share that intangible but important quality of similar cultures and interests. Another merger, this time between Korean Air and the smaller China Airlines also would make sense. Both carriers are losing money in their freight operations and both duplicate many of the routes of the other. Air Vietnam is another example of the wisdom in merging with another carrier.



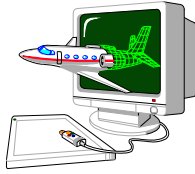
How long will the Vietnamese government pour millions of dollars into an inherently unprofitable airline just for the prestige of being a flag carrier?

Airline management talk constantly about "rationalizing" their operations. A little less rationalizing and a little more honesty about their predicament would place the Asian carriers, now responsible for about 75 per cent of Asian cargo traffic, on a much more realistic footing. Mergers and acquisitions would lead inevitably to higher rates, allowing the carriers and their forwarder agents finally to earn a decent return on some of the most important international air traffic lanes.





CII has just joined Cargo2000, the organization sponsored by IATA to improve the quality standards of the worldwide cargo industry. We thought long and hard before signing on the dotted line. Cargo2000 had been known throughout



CII Joins Cargo2000:

the air freight business as the home of the “big boys,” the major airlines and the big, international forwarders. That is changing, however. The Recession is making everyone, large and small, reconsider their positions. The goal of Cargo2000 is a quality management system that improves procedures and processes. It is an objective that is applicable to everyone

associated with our industry. This includes airlines, forwarders, ground handling agents and truckers. We think our membership in Cargo2000 will help us in providing enhanced quality services while aiding CII in retaining current customers and generating new business. Our membership is under the title of Regional Association Member.

Spectacular Example Of Airline Mistiming:



Amidst the rubble of the air cargo industry devastated by the current Recession, a new cargo airline has just taken to the skies. Aerologic, the joint venture of DHL Express and Lufthansa Cargo, now is flying three Boeing all-cargo 767s between Europe and Asia, ironically paralleling the same routes flown by their parents. What a spectacular example of mistiming! The air freight industry needs another cargo airline like airports need longer security lines. True, DHL and Lufthansa started to plan for this operation about two years ago when air freight was booming. Why did they stubbornly push ahead while watching air freight volume go down the tubes? Even Aerologic’s manager now admits, “our original business plan is totally obsolete.” As another example of management’s blind stubbornness in the midst of disaster, DHL

“I predict hundreds of millions of dollars in losses over the next few years if Aerologic indeed keeps flying.”

can be excused for making this catastrophic blunder. After all, they have been making mistake after mistake during the past few years culminating in its disastrous foray into the U.S. package express business. DHL and its parent, Deutsche Post lost a cool \$10 billion on that venture. Lufthansa, however, normally is a shrewd and cautious operator in the cargo business. The airline rarely commits serious mistakes. In this instance, Lufthansa management must have been dreaming in Frankfurt as chaos descended on their business. It proves

once again the human tendency to stick to a path when common sense says, abandon it. I predict hundreds of millions of dollars in losses over the next few years if Aerologic indeed keeps flying. Aerologic is issuing statements right out of the corporate handbook stating that cargo volume “is on track” and “meeting all expectations.” Either its people are living in a dreamworld or Aerologic is cannabilizing cargo from both its parents. Or perhaps a combination of both. It will be interesting to watch the progress or lack of it in this ill-starred joint venture.



How About Cash For Clunker Stocks?



The U.S. government has seen fit to offer up to \$4,500 for customers trading in their old gas guzzling “clunkers” for new, fuel efficient cars. Why stop with autos? Why not have a “cash for clunker stocks?” All those stockholders with losing investments would be paid by the Treasury Department to make up for their losses. Just imagine what a shot in the arm for the economy. It would make the \$3 billion paid out by the government for old cars look like petty cash!

Sincerely,

Julian A. Keeling

