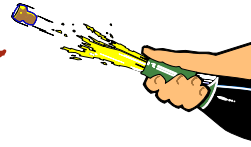




Consolidators International, Inc.

JANUARY 2012

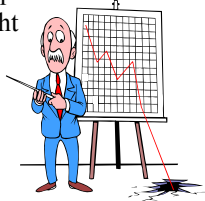


China's Growth Rapidly Decelerating:



When I predicted in last month's Newsletter that forwarders with almost all of their eggs in the China basket would be having a terrible year in 2012, I didn't realize my prediction would come true so quickly with this year still in its infancy. China is facing tough times. The cargo industry is suffering right alongside China's economic woes. Overcapacity in the air and on the ocean is the reality today.

China has staked the nation's economic life on retaining its position as the "factory to the world." That factory is perceptibly slowing down. The rest of the world, particularly the U.S., its largest single customer, are running tight ships in stubbornly slow economies. Inventory is lean and mean. Unlike 2008, when the financial crisis caught everyone off guard, U.S. importers now have a far more realistic understanding of what their customers will and will not buy. A strong inventory bounce for last month's Holiday season simply did not happen. Too many planes and too many ships carrying too little freight was the result.



"Because of the global slow-down, however, it is estimated fully one third or 20,000 of these factories, many under-capitalized and faced with government ordered hefty wage increases, are expected to shut down during the next few months."

It is hard to believe but there are an estimated 60,000 factories located in the Pearl River Delta alone, the economic heart of China. The scale of this factory landscape must be seen to be believed. Mile after mile of big and little manufacturers are grinding out products of every size and description. Because of the global slowdown, however, it is estimated fully one third or 20,000 of these factories, many undercapitalized and faced with government ordered hefty wage increases, are expected to shut down during the next few months. A combination of lack of business and sharply increased costs are playing havoc not only in the Delta but for all of China's manufacturing capabilities. My other prediction that forwarders who concentrate on handling American exports

Oil Remains Black Gold:



Everyone is going green. Everyone is getting on the sustained bandwagon.

But wait a minute. Let's have a check on reality. Fossil fuels, particularly oil, remains the overwhelming fuel used to maintain our way of life. Substitutes for "black gold" simply can't cut it in terms of cost and efficiency. A recent manifestation of this perhaps unpleasant fact was an announcement by Seattle-based Alaska Airlines. The carrier quietly announced last month that it was

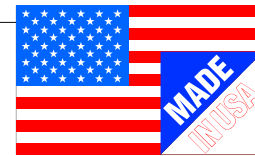
"The airline found that bio-fuels were costing six times the amount of regular jet fuel, even with the price of oil hovering around \$100 a barrel."

ending a test program utilizing bio-fuels as replacement for conventional aviation jet fuel. Alaska Airlines had been in the fore



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will have a banner year already is borne out. Overall U.S. exports year over year are rising at more than 10 per cent with even greater growth expected in 2012. Ironically, U.S. exports to China are rising at an even faster pace, close to 15 per cent. The shoe is on the other foot now. If the U.S. starts growing real economic muscles again, credit exports as the principal generator.

front substituting bio-fuels for kerosene on a regular, test basis.

The airline found that bio-fuels were costing six times the amount of regular jet fuel, even with the price of oil hovering around \$100 a barrel. It cost Alaska Airlines almost \$17 per gallon of bio-fuel vs. \$2.50 a gallon for conventional jet fuel. For the foreseeable future, "Big Oil" needn't worry that substitutes, bio or otherwise, will play a meaningful role infueling our ships, aircraft, trucks or any other type of transportation.



Article Discusses Shipper's Choice; One Forwarder or Many:



I was asked to write an article for the respected shipping magazine, "Inbound Logistics," on the topic, "One Forwarder Or Many." The article appeared both on line and in the magazine's print edition in the November, 2011 issue. I raised the question, "should the shipper utilize one forwarder or many for his logistic needs?" Readers of our Newsletter might be interested in the points I raised.

One Forwarder:

* Accountability. Mistakes can be pinpointed more easily.



* Concentrated freight bookings. Cost savings are maximized when using a single forwarder's preferred carriers.

* Single service standard. With a single source, shippers receive consistent service.

* Centralized billing. Processing receivables at a single source cuts down on errors, particularly if multi-international invoices are presented.

Multiple Forwarders:

* Greater experience and knowledge. No one forwarder has all the answers.

* Meeting a shipper's diverse needs. With a multi-agent approach, the shipper benefits from each forwarder's specific skills.

* Competition among forwarders. Leverage for additional services at minimal costs.

* Greater geographical coverage. No one forwarder can be at all places at all times. With multi-forwarders, less need for independent agents.

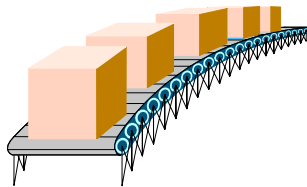
Before deciding on one forwarder or multi, shippers should decide exactly what they need. Defining those needs will help the customer make the right decision.

Just-In-Case System To The Rescue:



I have long advocated a greater use of the Just-In-Case (J-I-C) system for international supply chains. This system allows sufficient inventory on hand in the event natural or man made disasters prevent the normal transport of components, equipment and finished products to assembly lines or distribution points. The J-I-C method stands in stark contrast to the more prevalent Just-In-Time (J-I-T) system where parts and equipment are delivered almost at the last minute to save on inventory costs. The need for Just-In-Case to be more widely used was proven once again in dramatic fashion by the earthquake and tsunami in Japan last year and more recently, Thailand's worst floods in decades.

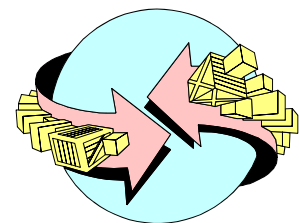
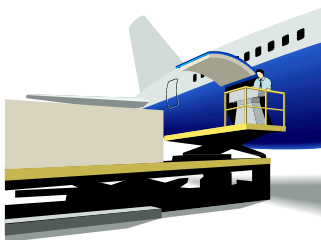
"The need for Just-In-Case to be more widely used was proven once again in dramatic fashion by the earthquake and tsunami in Japan last year and more recently, Thailand's worst floods in decades."



The Thai floods did not receive as much world attention as the Japanese earthquake and tsunami for one principal reason. Far fewer lives were lost in Thailand than in Japan. The havoc and destruction suffered by Thai's manufacturing base, however, particularly in the nation's electronic and auto parts capabilities, were far worse than Japan's. Some 40 per cent of those factories were underwater. To the Thai nation, it was an unmitigated disaster. In excess of 600,000 jobs were destroyed and a \$100 billion hit to its GDP. For many customers, their critical outsourced supply chains were snapped. The shutdown of Thai factories making Hard Drive Discs (HDD) created havoc in the electronic industries. It will cause a shortfall in production of almost 4 million computers in 2012. Intel lost \$1 billion in revenues in its third quarter because of the company's reliance on discs made in Thailand. The floods also curtailed severely the production of auto parts, primarily for Japanese car makers. They faced the double whammy of earlier lost production time due to that nation's earthquake and tsunami. Toyota alone lost production of 37,000 vehicles, making a mockery of Thailand's claim as the "Detroit of the East."

Were the supposed savings in millions of dollars of inventory costs utilizing Just-In-Time worth the billions lost in shuttered production lines? Hardly. U.S., European and Japanese manufacturers have been penny wise and pound foolish in making J-I-T the ultimate solution to their production problems. Their executives would sleep better at night knowing adequate inventory was on hand to keep assembly lines humming despite the growing number of global natural and manmade disasters.

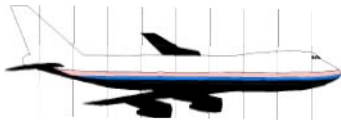
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Despite A Recession, Glut Of New Aircraft Orders:



here's no talk of recession in Chicago and Toulouse, the headquarters of Boeing and Airbus. Despite uncertain economic times, both companies are enjoying a glut of orders. To company executives and Wall Street analysts, the future looks even brighter. Boeing just raised its dividend based on its fat order book. Airbus is anticipating a demand for 900 new freighters during the next two decades with Boeing echoing that prediction.



Just who is swelling the airplane makers' order books? Many, of course, are the legacy carriers; the Lufthansas, Uniteds, Qantas, Singapores of the aviation industry. But a surprisingly large percentage are just out of the gate carriers with huge orders, particularly among untested Asian carriers. As one Cathay Pacific executive wondered, "will they (the new carriers) know what to do with these airplanes?" Even established carriers are going hog wild. American Airlines, which is in bankruptcy, recently signed an order with Boeing that is the largest in the carrier's history. Middle East airlines are also hungry for new aircraft and not small, narrow bodies either. What will Emirates Airways do with 50 new triple 7s coming soon after substantial multiple orders for new widebodied aircraft?

While passenger traffic continues to hold up in this continuing global downturn, freight is not so fortunate. Traffic was down last year and shows few signs of reviving in 2012. Many air customers are switching to slower ships with their lower rates as they eye logistics costs through financial microscopes. Can shaky airlines conduct going out of business sales of their new aircraft?

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The Hub & Spoke System For Ocean Shipping May Become The Norm:



ur ocean cousins are hardly in better shape than air freight. To put it plainly, they are in a deep funk. I have commented earlier that mergers and consolidations may become more prevalent this year--particularly among smaller lines. How long can trade lanes support 25 different shipping lines? As the liner trade continues to wallow in red ink (even mighty Maersk is not immune), future service will suffer to an even greater extent

than today. "Slow steaming," which shippers have protested in vain because delays in delivery drive up inventory costs, now is turning into "super" slow steaming with even longer delivery dates. Soon, it will be faster to walk across the Atlantic. Service patterns inevitably will change. Rather than direct port to port service, a hub and spoke system, very similar to the airlines, will become the norm. The big mega ships with up to 18,000 TEU capacity, will

call at relatively few large ports with transshipments to smaller harbors. Service levels will suffer both in time and efficiency. How different today's maritime environment is than yesterday's. Then, liners boasted of the speed and sailing frequency of their new container vessels in delivering customers' freight. Air freight should take advantage of the turmoil in ocean shipping. Remind customers not only of the speed in delivery but the efficiency which air provides.

Occupy Wall Street Chooses Wrong Target:



hen the Occupy Wall Street protests began early last year, they initially won sympathy and approval of millions of people around the world. The ninety nine per cent responded to the movement's claim to bring about greater social and economic equality. Recently, however, Occupy Wall Street has gone off on misguided and even bizarre tangents which have turned the vast majority of the ninety nine percenters against them. The attempts last month to close the ports of Long Beach, Los Angeles, Oakland and Portland were a particularly stupid and senseless act. Didn't these protestors realize the four ports funnel billions of dollars worth of exports to countries around the world? That these exports reduce our nega-

tive balance of trade and provide millions of American jobs? That truckers and long-shoremen earn good wages while keeping these ports running efficiently as an enormous conduit for dollar earnings? These mostly young protestors seem to have not a clue as to how our economy works.

Why don't the Occupy Wall Streeters occupy the trading houses of the huge Wall Street investment and brokerage firms like Goldman Sachs, J.P. Morgan, Merrill Lynch and others whose financial manipulations contributed so heavily to the worst recession in 80 years? Turn your attention to Wall Street and leave the ports alone.

Sincerely,

Julian A. Keeling

