



JUNE 2004



## Just How Well Integrated Are Supply Chain Systems?

Attend enough cargo conferences, read a good many transportation journals and you will come away convinced that supply chain systems are being integrated successfully into manufacturing and distribution operations of U.S. companies. Well, you would be wrong.

An effective supply chain remains an elusive goal for the great majority of U.S. corporations despite all the advances in electronic communication, the rise of 3PL organizations and an army of consultants and assorted experts offering non-stop advice on the subject. At a recent conference sponsored by Harvard Business School, it was reported that only 2 per cent of companies surveyed said their supply chain management systems was well integrated into their production and distribution operations. To add insult to injury, almost 50 per cent stated their supply chains were "totally ineffective," with most blaming their technical support systems as the principal culprit.



Is the cargo business emphasizing electronic gimmickry when it should be reinforcing the basics of our industry? By basics, I mean moving freight on time, in good condition and with no hassles. In survey after survey of shippers; their desire for fair pricing, honest delivery promises, user friendly paperwork and above all—a genuine interest and care of their valued cargo by their vendors is paramount. Those forwarders who respond to the genuine needs of their customers like Expeditors International go from strength to strength reporting continually increased sales and earnings. In our smaller way,

Consolidators International also has been successful for the past decade by listening carefully to the requirements of our customers, and responding to these needs.

Air freight is not a rocket science, but it does require hard work, skill, experience, knowledge and most important—a single minded dedication to the customer.

## Emirates Airlines Moving To Establish Hub In Auckland:

Think the word "Arab" and the word association is with murder, assassinations, riots, fanaticism, and general mayhem. One never connects the words air cargo and Arab. Yet, one of the fastest growing airlines' cargo division is Emirates Airlines in the tiny sheikdom of Dubai. This rapid growth was brought home to me when I learned Emirates is planning to establish a new hub in Auckland, my home town. If the plan comes to fruition, the move would put intensive pressure on Qantas and Air New Zealand. The Dubai-based carrier is looking at services from Auckland to Fiji, Los

Angeles/San Francisco and Buenos Aires as part of a major South Pacific expansion that would give the airline round the world capability. Emirates Airlines is expected to be granted a second daily flight between Sydney and Dubai later this year and will use its new Australia-New Zealand rights to draw Aussie cargo into its South Pacific network. The airline is planning a new flight from Perth to Auckland or Christchurch in the fall of 2004 which will be part of increased service to and from western Australia. Amazing growth from an airline whose home country has only 1.2 million

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inhabitants. Recently, Emirates placed the biggest single order in airline history; a \$19 billion purchase for new aircraft that was announced at the Paris Air Show last June. The carrier will be the largest customer of Airbus' new jumbo 380 with eight on order. For a combination carrier, Emirates has plenty of all-cargo destinations—19 to major air cargo centers around the world. It just shows what a little oil money can do when those funds are used constructively rather than for murder and riots.



## We've Often Said; Airlines Are A Crazy Business:

How would you rate an airline demanding of its supplier, Boeing, that in its new 737 aircraft they want removed all “non-essentials” like reclining seats, window shades, seat pockets and head rests? An airline that charges a wheelchair fee for all crippled passengers? Who flies not only to secondary airports but to third and fourth class airfields often as much as 150 miles from countries' major cities? A carrier who will not provide snacks of any kind nor even soft drinks but whose management seriously is considering charging for a glass of water?

You wouldn't rate such an airline very high on the list of passenger acceptance. As a matter of fact, with a complete lack of service and almost contempt for the passengers it flies, you would guess such an airline could not possibly survive. Guess again. Ryanair, with headquarters in Dublin, Ireland, pleads guilty to all of the above, yet is not only the most profitable airline in Europe but in the entire world based on every financial yardstick. Ryanair's profit of about \$400 million in its past fiscal year represents the world airline industry's highest profit margin.

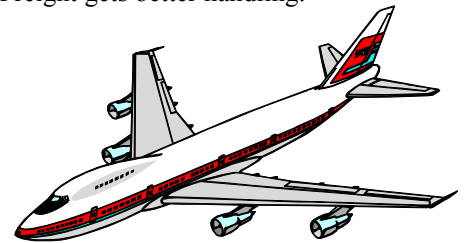
## New Boeing 7E7 May Stimulate Domestic Air Freight:

Speaking of Boeing, its new 7E7 which the company is touting as a “dreamliner” may help the domestic air freight business when the aircraft is expected to start flying later in the decade.

Candidly, our domestic air freight business can use all the help it can get. During the past few years, domestic air cargo actually has declined because of the softness in the economy plus truckers taking a greater share of the time sensitive market. The figures are depressing. Last

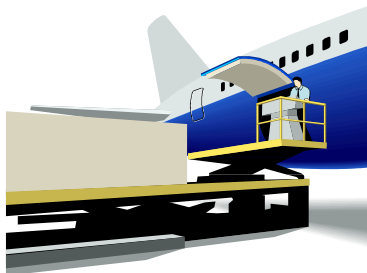
year, cargo moving by air amounted to a tiny, less than one per cent share of all inter-city freight traffic. This was a smaller percentage than a decade ago. Boeing claims that based on the new aircraft's operating efficiencies, a greater number of smaller U.S. cities can be served on a point to point schedule. Today, of course, with the notable exception of Southwest Airlines, secondary and tertiary cities are served almost exclusively through the hub and spoke system. Point to point flights could move domestic cargo to their destinations faster, make freight less prone to damage or pilferage because far less handling is necessary and it would eliminate delays which often occurs when transferring freight from one airplane to another at congested airports like O'Hare and DFW. The new 7E7 also has substantial cargo capacity, designed to accommodate eight pallet positions or 28 LD-3 containers. Forwarders can move

Are airline passengers masochists or will they accept any humiliation, every trial and tribulation in return for admittedly very low fares? If the Ryanair operation is any example, they will opt for submarine fares every time. The airline's growth in Europe has been nothing less than meteoric, giving “conventional” carriers like Air France, BA, Lufthansa, KLM and others their worst nightmares as they attempt to compete against this Southwest clone. What's next for Ryanair, standing room only for passengers? Freight gets better handling.



a lot of freight in those aircraft. For that hardy breed of domestic forwarders, the 7E7 could play an important role in the reinvigoration of U.S. cargo and help their business.

Typically, in announcing the new aircraft, Boeing made almost no mention of its cargo capabilities. Rather, the Chicago based company in its press releases raved about the airplane's new, larger windows and “space age” interior with barely a mention of what flies in its bellies. Yet, freight plays an ever-increasing role in airlines attempting to squeeze every last penny of revenue from their aircraft. Boeing doesn't seem to know its own potential.

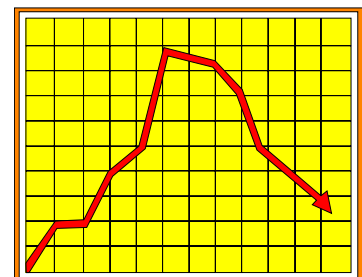


## Does ACMI Have A Future?

ACMI, which has become an acronym for a completely expended lease of aircraft has seen its glory days come and go—at least for all-freighter airplanes. Does the business at all have a future? Forwarders have an interest in the matter because so many freighters, particularly the various series Boeing 747s, were leased rather than bought outright by the airlines. The spectacular rise and subsequent flameout of Atlas Air, the largest ACMI operator, strongly suggests there is very little future for this type of aircraft acquisition.

Even before 9/11, which sent all of aviation into the tank, ACMI prospects were growing dimmer. There was the “lemming factor” with too many imitators attempting to pile into the market to follow Atlas' early success. This despite the fact there was an inherent limit to ACMI growth. Many airlines' pilots unions had written into their contracts that under no circumstance could management utilize aircraft leased under ACMI contracts. Also, a number of airlines sensibly negotiated short term ACMI leases to test cargo markets before purchasing their

own freighters. This was the case with a number of Asian carriers including China Southern, Dragonair and Air China.



**Does ACMI Have A Future? cont.**

Unlike car leases when leasing an automobile actually is cheaper than buying it under a conventional installment program, ACMI is a very expensive way of operating an airplane. To justify a lease from Atlas or its competitors, an aircraft has to fly full and often. With over capacity on most international routes a seemingly permanent fact of life (exception, ex-Asia to the U.S.), cargo

departments simply could not justify the high leasing costs to senior management or the airline's Board. Airlines understandably have become very conservative in acquiring any types of aircraft; passenger or freighter. With 1200 airplanes parked on U.S. deserts; with international cargo volume showing little growth and domestic freight revenues actually declining, there is little

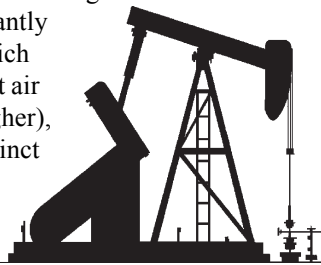
incentive to rush out and sign long term or even short term leases. ACMI was a shrewd response to those heady days back in the 1980s and 1990s when cargo growth literally seemed headed for the skies and airlines couldn't get enough of equipment to move the freight. In today's sobering climate, ACMI is more of a recipe for disaster to the world's airlines than salvation.



**Tough Luck Airlines Struggle With \$40 Per Barrel Oil:**

Airline executives often must wonder if they were born under an unlucky star. Just as they were barely recovering from the three worst years in aviation history, the carriers have been hit with record fuel prices. Those \$40 (and higher) per barrel oil prices are just about wiping out all the progress airlines have made towards financial recovery after enduring an economic slowdown, the 9/11 terrorist attacks on the World Trade Center, the Iraq war and SARS. With fuel making up between 10 and 15 per cent of all their operational expenses, airlines weren't designed to fly with \$40 per barrel oil.

What are the repercussions in the air cargo industry if fuel continues to hover at or above the \$40 mark? Not good. In addition to fuel surcharges which shippers reluctantly accept (and which makes high cost air freight even higher), there is the distinct possibility that carriers will cut back on flights and/or substitute less expensive smaller aircraft instead of the big widebodies to save on fuel.



Forwarders might have to face the prospect of less lift for customers' freight. Is there any solution? Oddly enough, the solution lies not with pumping more oil out of the ground, but ending the chaotic situation in Iraq. A genuine resolution of the Iraq crisis, in the opinion of most oil analysts, could knock \$8 to \$10 off each barrel of oil due to the current "fear" factor roiling the petroleum futures market. In addition to the political, moral, social and economic imperatives for finding a solution to the Iraqi entanglement, it could spark renewed growth in air freight



**11th Brirthday Celebration Bash!!  
Wednesday July 14th is the date!!!**



Mark it on your calendar now. Starting time 12.00 noon. As is the case with last year, Pete will be providing a stretched limo service to pick up and drop off anyone who has difficulty with transport.

The same old trusty fare of barbed steaks and shrimps will served up along with the usual liquid condiments.



Each year our annual bash seems to get better and better. It is a great day to catch up with old friends. We expect this years event to be our best ever.



Sincerely,

Julian A. Keeling

