



AUGUST 2004



More Competition For Domestic Cargo:

Two recent announcements have shaken up the domestic cargo business. Both Peter Rose of Expeditors International and David Beatson of Panalpina, almost on the same day, stated their international forwarding companies were entering the domestic freight forwarding business. Domestic forwarders need new competition like they need another terrorist attack. Domestic air cargo volume, despite a stronger U.S. economy, remains flat while yields continue to remain at a miserable one or two per cent.

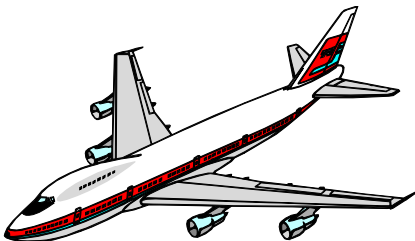
Principal competition will come from Expeditors. The Seattle-based company arguably is the most successful international forwarder in business today and CEO Rose is a hard-hitting, no-nonsense competitor. Panalpina's domestic operations, however, probably will be less successful. The company's U.S. operations are headed by recently

appointed Dave Beatson who has an uncanny ability to find new executive positions while companies under his command keep failing. However, the sheer weight of the two companies will put a crimp in existing forwarders' domestic business, particularly as the market has been stalled for the past few years with truckers generating greater volumes of business, and little expectation of future meaningful growth.

"Domestic forwarders need new competition like they need another terrorist attack."

While executives of both companies issued the usual blah-blah statements for entering the domestic market, i.e., "providing full logistic services to

Air Agreement Sets Big Expansion In China Flights:



You can't always get what you want in life, but the new bi-lateral aviation agreement with China gives U.S. all-cargo airlines almost everything they asked for. Shippers and forwarders also should benefit from this huge increase in capacity. Air cargo rates from China to the U.S. as well as the rest of the world currently are the highest in international cargo. That's because of the limited number of flights out of a nation that is

fast becoming the world's manufacturing superpower. Besides higher rates, capacity shortfall also has created bottlenecks in supply, particularly for the upcoming Holiday season

The six year deal calls for 21 additional weekly all-cargo flights by U.S. carriers beginning this month plus another 18 next March. The new frequencies will be divided up among the three existing cargo airlines; FedEx, UPS and Northwest plus one new carrier. Polar Air Cargo, which shares a fleet of 43 Boeing 747 freighters with its sister company, Atlas Air (now out of bankruptcy), is the most likely choice for the new carrier designation. Interestingly, one of the airlines putting in its bid for the China routes is Arrow Air.

Announcements

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existing and future customers," speculation is rife among forwarders that perhaps these two cargo giants are anticipating a slowdown in future international business and will require new markets to sustain their growth.

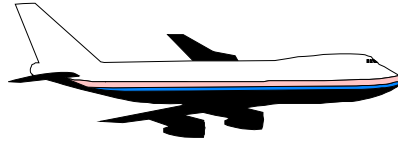


That company has been in and out of bankruptcy so many times, it has become almost a full time occupation for Miami lawyers. I guess they expect miracles to happen.



Boeing Receiving Surprising Number of Orders for Converting 747's

While orders for Boeing's passenger 747-400s continue to plummet (it's hardly a new airplane; Pan Am ordered the original 100 series thirty years ago), the aircraft maker is enjoying surprising success with orders for converted freighter versions of the jumbo jet. In particular, Asian airlines are lining up to order conversions of the 300,000 lb. capacity aircraft. Korean Air, China Air, Air China and Cathay Pacific are among the Asian carriers ordering converted aircraft. Although no U.S. carrier seems to need or want converted 747s, Europe is getting into the act with an order from Lufthansa. What's behind this spate of orders? Obviously, the strong Asian freight market is the major impetus for a cargo reincarnation of these once passenger aircraft. Shippers and forwarders should be as happy about this new development as with the new bi-lateral agreement with



China (see previous pg.). The big all-cargo jumbos will increase lift from Asia and should ease pricing as more capacity comes on line.

The success of Boeing's new conversion program constitutes a rare defeat for arch rival Airbus. The European aircraft maker had expected a number of all-cargo airlines to order its huge new 380 aircraft. Of all the cargo airlines, however, only FedEx has committed itself to the new airplane. It has ordered ten 380s at a cost of \$2.5 billion. As Boeing snootily commented, "it doesn't make economic sense for a 380 to haul freight when it costs ten times as much as a converted 747."

Fuel Surcharges Keep Heading North:

Those pesky little fuel surcharges airlines are adding on their invoices to their forwarder customers show no signs of disappearing. Indeed, the opposite is happening. Fuel surcharges are heading north, with increasing speed. Since last December, fuel surcharges have quadrupled with these add-ons seemingly becoming a permanent fact of life. Almost every economist predicted last year that oil prices would retreat from the "unsustainable" levels of \$37-42 per barrel. And every economist, as is so often the case, was flat out wrong. Every indication points to high prices for the foreseeable future. While "Big Oil" companies like Exxon Mobil and Chevron Texaco now have a license to print money, airlines and their shipper customers are hurting.

The danger, of course, is that as air freight rates go higher because of these surcharges, more cargo will be shifted to trucks. While international cargo will not be as affected because the delivery time between air and ocean is so enormous, domestic freight is far more vulnerable. Cargo that's now on the edge now in



terms of its ability to afford air transportation could slip into surface modes that are only a day or two slower but considerably cheaper.

Unfortunately, fuel surcharges haven't peaked yet. FedEx and UPS raised their fuel surcharges on air shipments to record levels. Funny how these three giants compete so furiously for business, but when raising rates are concerned, they act in unison.



As Bette Davis so famously said in the film, "All About Eve," "fasten your seatbelts, it's going to be a bumpy landing."



Did We Go After The Wrong Country?

The recent revelations by the Congressional Investigation Committee that Iran may have had far more of a role than Iraq in al Qaeda operations leading up to 9/11 forces voters to ask perhaps the most important question of the 2004 Presidential election. Did we invade the wrong country? Did almost 1,000 American soldiers die because of a "mistake" and confusion as to what country was doing what? Did we destroy a nation's infrastructure and create anarchy in the streets based on faulty intelligence? Did we create an atmosphere of chaos where terrorists now swarm into a country from surrounding nations where none or very few used Baghdad as a base in the past? Are these results the legacy of a war that is becoming increasingly clear the U.S. did not have to fight?

"Did we destroy a nation's infrastructure and create anarchy in the streets based on faulty intelligence?"

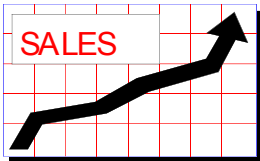
History is full of unintended consequences. Iraq is no exception. The neoconservatives around President Bush genuinely believed the destruction of the Hussein regime would "make the desert bloom" with a happy and contented people, a free market economy and a prosperous and stable Middle East. How wrong can you get? Iraq today is a far more dangerous place under its "provisional" government than it ever was under an admittedly brutal dictatorship. Ask all the civilian workers who have been kidnapped.

What are we going to do about Iran with its growing nuclear capability (Iraq had absolutely none despite Vice President Cheney's insistence) and militant mullahs? Unfortunately, no much. The neocons prescription; waging "preventive" wars has been wholly discredited. We simply will have to learn to live with our mistakes and not be pushed into rash actions based on total or even partial misinformation. Cautious judgment, not mindless action is the answer.

CII Continues To Grow At LAX And Atlanta:

CII continues its sizzling growth both at our home base at LAX and at our facility in Atlanta.

The LAX staff has grown by 50 per cent since the beginning of the year. Latest addition is Maritza Gonzalez who joins CII in Administration. Elaine, Catalina and Cynthia are burning the midnight oil trying to stay on top of our growing business. So, can you blame them in asking for help? Since January 1, revenues have doubled and shipment count has increased by 20 per cent. Maritza joins us with solid industry experience in administration. Already, her operational experience has proven invaluable. Thank you, Maritza, for all the hard work you already have put in. You are helping our team climb to the top of a mountain of work generated by this, happily, huge increase in business activity. In just a very short time, you have become a first rate member of our team.



Atlanta also is smoking rubber. Shawn Tatham, our Southeast Regional VP, last month appointed Nuon Khun as Administration Manager at CII's Atlanta office. Her arrival could not have come at a more opportune time. Like Los Angeles, our Atlanta office is breaking all sales and shipment records. Nuon's success is another example of what makes America great. During the 1970s, Nuon's family was caught up in the chaos of Pol Pot and his genocidal regime. As refugees, they moved to Thailand, where Nuon was born. Her family emigrated to the U.S. where they started a new life. Her first home was Long Beach, CA and two years ago she moved to Atlanta to complete her college education. Upon graduation, she joined CII. Little did Nuon realize what she was getting into! Both she and Shawn are working seven days a week to keep pace with our growth. But she loves the work and customers are deeply appreciative of her, citing her skill and dedication. Their comments confirm Shawn's choice as the perfect one. Welcome aboard, Nuon.

It's Crunch Time Down Under:

Cargo volume to Australia shows no let-up. This huge pace of activity has been a cargo fact of life since the beginning of the year. Every airline serving the South Pacific has been struggling to keep up with huge increases in volume. It only will get worse as the new U.S.-Australian trade agreement kicks in January 1, 2005 (subject to ratification by both nations). We're anticipating continued backlogs of cargo right up to Christmas.

We're very proud of CII's relationship with our chosen carriers serving the South Pacific. We never miss an opportunity to praise and compliment their capabilities. Now, it's payback time! From now until the end of the year, CII will be pressing our preferred carriers to move our freight on time and on schedule. No tarmac "left behinds" for our customers' freight. The other day, a customer asked me why in the past eleven years, CII never has wavered in our concentration on the South Pacific. "Surely, there are other markets that are larger and faster growing," he stated. I was happy to answer him with this retort. "The South Pacific still is as valuable to CII today as it was when we first opened our doors. My reasons are simple and clear-cut. Here they are,"

Political Stability

Economic Strength

Common Cultural Ties

Same Language (although with different accents)

Business Ethics (unlike so many of our trading "partners," New Zealand and Australian business people possess the same high ethical standards as their American counterparts)

However, the over-riding factor in our concentration on "down under" is that we have real fun working this market. Every day, we are presented with challenges yet when it comes to this market niche, we thoroughly enjoy finding solutions. Aussies and Kiwis are just great people to deal with!



Twelve Years Old And Getting Better:

Our 11th birthday bash, held last July 14, offered a big "Thank You" to our customers, vendors and suppliers. They have helped make CII the biggest, and we think the best, wholesaler in the business. The more than 200 guests who attended our annual event represented the best and brightest air freight people at LAX. It is their hard work, skill and experience that has made LAX the single largest cargo airport in the U.S.

It was our most successful party yet. But the most talked about and most heavily attended social event of the summer didn't just magically happen. Weeks of thorough planning, which had to take place while our people were carrying out their usual duties, made our party such a huge success. Elaine, Catalina, Margaret and Cynthia huddled for many hours setting up the Modus Operandi for the party and once that great day arrived, working so hard at the tables serving up those delicious shrimp and superior cuts of beef. The only disappointment, Peter's fresh fish from Fiji never arrived, but so much food and drink were served, our guests didn't seem to miss it.

The two Mikes, and Ronen also did their part, but it was our female staff where all the kudos should go. They never looked at a clock and made our 12th Anniversary bash the talk of LAX. They started at 6 AM and didn't finish clean-up until 5 PM. Thank you all so much.

Now, it's on to 2005!



Sincerely,

Julian A. Keeling