



JULY 2004



Our Eleventh Birthday Party, July 14!!!

No, we are not celebrating Bastille Day! July 14th falls on the second Wednesday in July, the chosen day of the month since our first birthday party eleven years ago. No doubt we will be honored by the Air France staff taking a few hours off to celebrate their nation's birthday, if not in Paris, at least on 8900 Bellanca Avenue. Once again, we have available a limo service arranged by Peter to take care of

those who indulge too much in a "tinny" of Fosters or a glass of "plonk." We will look after you! Our annual birthday bash promises to be the best in CII's eleven year history, with food and drink overflowing. It has become the social event at LAX for our industry. Don't miss the July 14th date!



Happy Birthday!

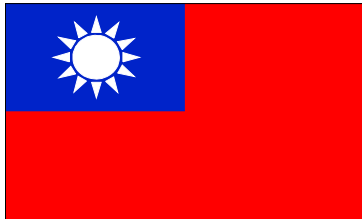
Announcements

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CII Opens Full Service Facility On Island Of Taiwan:

With China generating an increasing share of CII cargo volume, we believed it made solid business sense to open our own facility in that critically important market. Last month, CII established a full service facility in Taipei, Taiwan's capital, for a number of persuasive reasons. A growing number of Mainland Chinese companies producing goods for export are financed by Taiwanese capital, some \$5 billion worth and controlled from Taipei. We believed coordination between a Taiwanese office and our network of agents in China itself, was vital. And last but by no means least, CII had one of its most valued employees living in Taipei. Alice Hsaio, who many of our customers will remember as CII's very effective and competent Chief Financial Officer during our period of rapid growth, had moved to Taipei for personal reasons. Alice continued to keep in close contact with our LAX office. As a native of Taiwan, yet with many of her cargo contacts on the Mainland, Alice was in an ideal position to represent CII in now, our second most important market after the South Pacific. CII already had established a firm foothold in China, building a network of



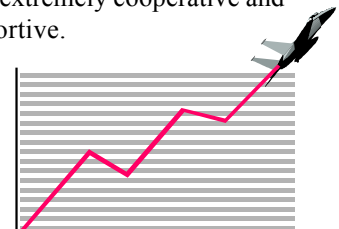
extremely competent, experienced agents in the key cities of Hong Kong, Shanghai, Beijing and Tianjin. With this new facility in Taipei to supplement our existing network of agents, CII now

is in a position to provide more direct, coordinated and superior service to one of the most important cargo destinations in the world today.

CII's First Six Month Results—Over The Top!

You can understand why we have much to celebrate this year. The first half of 2004 set new records for the company. If we continue at the same pace for the next six months, CII will complete a banner year. Revenue has taken a massive jump; shipments are way up and our customer count is at an all time high. Increased volume calls for increased investment and in our business that means more people to handle this jump in activity. Staff personnel at our New York (JFK) and Atlanta offices have been upped by 50 per cent. At our LAX headquarters, we're pushing out walls to accommodate new people like Mike Kelly who is our new COO and CFO and Jessica Topete who is doing a great job in customer service and providing general assistance. Where is our growth coming from? Australia is the star on CII's horizon.

Since the beginning of the year, business to Australia constantly has increased. Space has been very tight. Thank goodness, our old fashioned approach to freight forwarding continues to pay off. Our close, friendly relationship with CII's preferred carriers ensures top rated service for our shippers. Yes, for the past four years when business was soft, we could have said, "screw, screw, screw" to our suppliers. But we didn't and the results make happy reading. When we needed help from our carriers, they have been extremely cooperative and supportive.



CII's First Six Month Results—Over The Top! Cont.

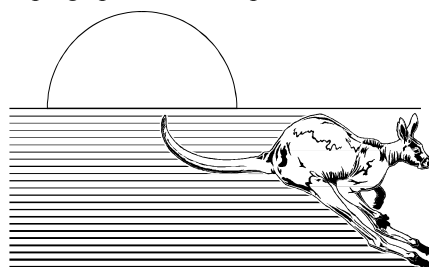
Our staff is cooking on all front burners. Alice and Margaret are doing a great job as are Mike, Catalina, and Ronen. Let's not forget Peter, our new President. CII's China business is growing by leaps and bounds and we expect even higher volume with the opening of a Taipei office. Margins have improved as have support

services in China, long the Achilles heel in this market. CII continues to reject unprofitable business not only throughout our system, but particularly in China. If one doesn't find a niche there, one can become a busy "idiot" handling all sorts of unprofitable traffic. Margaret and Alice won't allow this!

Australian Cargo Pact Could Boost Cargo Rates:

Elsewhere in this Newsletter, I comment on our strong Australian business which is helping CII attain record revenue and shipment goals. There may be more good news for airlines and forwarders serving the Aussie market. The recently signed U.S.-Australian trade agreement which goes into effect January 1, 2005, will abolish tariffs, limits and other barriers on a wide range of high value, time sensitive goods. Many of the products covered by the Agreement are well suited to air freight. Cargo people familiar with the U.S.-Australian air freight market are betting the new agreement will trigger a windfall of southbound U.S. cargo. Bruce McCaffrey, head of Qantas cargo for the Americas, is predicting a 50 per cent jump in rates in excess of \$3.00 per kilo for non-stop service to Australia.

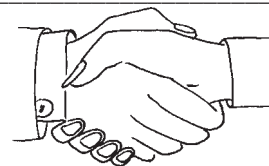
Manufactured goods account for almost 95 per cent of total U.S. exports to Australia. The new agreement would give American companies an immediate tariff advantage over European and Asian exporters. South Pacific carriers are ramping up service to capitalize on



AUSTRALIA

this new trade agreement. Last month, Qantas began a daily non-stop LAX-Brisbane flight while Air New Zealand

"Our close, friendly relationship with CII's preferred carriers ensures top rated service for our shippers."



started direct service from SFO to Auckland.

The growth of the China-U.S. air cargo market is generating almost all of the buzz in air freight circles, but in its own quiet way, traffic across the South Pacific is demonstrating equal growth on a percentage basis. It is likely to grow even stronger as the effects of the new trade agreement kick in. In our air freight industry, racked by a combination of brutal price competition with slow or no growth in many markets, it is heartening to detect one destination, the South Pacific, as the exception. We believe superior service will be rewarded with rates that finally will offer forwarders, not shippers, reasons to smile all the way to the bank.

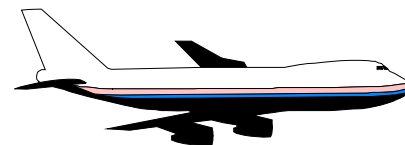
Virgin America; Do We Need Another Domestic Carrier?

One question that seems to have been forgotten amidst all the hoop-la, publicity and "spin" generated by the announcement of a new airline, Virgin America; a carrier that supposedly is scheduled to begin operations in the middle of next year. The unasked question is, "does the U.S. really need another domestic airline?" As a strictly "paper" airline, Virgin America probably has received more attention during the past few months than the rest of the industry combined. Credit Sir Richard Branson's unique gift for publicity to generate all this attention.

Yet, reading between the lines, this airline exists primarily in the imagination of Sir Richard. It has no route structure; it has no operating personnel except for a few people working out of a Manhattan office;

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its acquisition of aircraft was made with a leasing company rather than an airplane maker like Boeing or Airbus because Virgin America could cancel the order with almost no penalties and most important of all; the airline has at this date no firm financing which could run into the hundreds of millions of dollars for such an ambitious project. Branson has intimated that he is bestowing the carrier with the hallowed Virgin name, but no money.



Lost in the hype and spin of this projected new airline is the reality that the current airline industry needs a new carrier like it needs a hole in the head. Not only are the "legacy" carriers losing billions of dollars, but even the low cost airlines (LCCs) are finding profitability far more elusive than ever before. Once Wall Street favorites like Jet Blue, Air Tran and ATA have seen their shares dip sharply due to increased competitive pressures, higher fuel prices and the costs of expansion. While passenger volume is up, fares are down to fierce infighting by the Internet providers; Pricelines, Orbitz, Travelocity and a host of imitators. Stir another airline into the mix and air fares could drop even further with horrific results for every carrier's bottom line.



U.S. Occasionally Does Something Right; Refuses United's Request:

Last month, United Air Line's request for a \$1.5 billion bailout from the U.S. government was rejected for a second time. The airline almost immediately scaled back its financial demands and the Air Transportation Stabilization Board said it would consider the reduced request. If it were up to yours truly, United's financial demands would be permanently deep sixed. Why am I so scornful of the fate of the once largest airline in the U.S. and still a major player among the "legacy" carriers?

My contempt for United is based both on hard facts and personal experience. I believe if United gave up the ghost, neither passengers, nor shippers, nor forwarders would be particularly harmed. When Eastern Air Lines went out of business about fourteen years ago, there was a huge outcry particularly along the East Coast where Eastern was strongest, that passengers and cargo would suffer enormously if the carrier went belly up. Well, Eastern did go belly up and except for unfortunate employees, other airlines took up the slack with passengers and shippers suffering no distress at all. On a personal level, a few years ago I attended a CNS Conference where Jim Hartigan, then chief of cargo at United, was a featured speaker. Hartigan, who perhaps was one of the most inept cargo

executives in air freight history, not only spoke pure nonsense in his prepared remarks, but seemed incapable of translating his barrage of statistics into the human touch. During a break, I had an opportunity to chat with him. I made a simple request. "Why don't you visit the United customer counter at LAX and pretend you are a customer?" Hartigan looked at me as if I had gone "bonkers" to even think of him, the big executive, stooping to act like an ordinary customer. I then proceeded to tell him of my personal experiences with United during the previous ten years, saying, "not only is your staff surly and unhelpful but if they moved any slower, they would be moving backwards!"

Hartigan was the kind of executive who could quote you cargo facts and figures, discussing at length "supply chain management." If you asked him, however, about a lost shipment at O'Hare, he would look at you blankly. Unfortunately, that was a common attitude at United whose employees believed they were God's gift to the airline industry. Compare that attitude with those of the low cost carriers of today. I recently flew on two of these airlines; Jet Blue and Airtran. Service from check-in at the ticket counter to welcome aboard on the airplane, was outstanding.

The staff obviously had been well chosen and trained to make their airlines an enjoyable experience. Compare that attitude to that of United and some of the other traditional carriers with their "cattle car" mentality, and with most United flight attendants looking like unhappy grandmothers!

Forget computers, cell phones and blackberries. It's the people. Gordon Bethune was able to turn Continental around from being the worst of the legacy carriers to the best. He did it not by introducing fancy new electronic gear, but persuading his employees it was their responsibility to make the airline work. United would do far worse than copying Bethune's methods. Without a transformation in attitudes, United will continue down the same disastrous path it has followed during the past fifteen years. United's disappearance would be a blow to Chicago, would throw thousands out of work but don't we live in a capitalist society where companies should be allowed to fail? What would happen, of course, is that other carriers would step in to take up the slack and the general traveling public would be affected hardly at all. From a cargo point of view, United has been an insignificant and irrelevant factor for many years. I wouldn't mourn its passing.

Sincerely,

Julian A. Keeling