



Let's Make Fuel Surcharges Commissionable To Forwarders:

Now that fuel surcharges have rocketed to \$0.50/kg (actually higher than freight rates to some destinations!), a question that requires answering is: isn't it about time forwarders get some share of the "profit" airlines are reaping from this surcharge? As it now stands, the surcharge is a "disbursement" which is passed onto the shipper at cost.

My personal opinion: it is about time this surcharge should be incorporated into the selling rate. It would be similar to the practice years ago by shipping companies with their once "c/baf" surcharge. It is obvious the price of oil will not go back to \$20 per barrel anytime soon and perhaps never.

For fifteen years, the cargo sector of the airline business has been in disarray. Shippers and forwarders have enjoyed a constant decline in rates. Any rate increases have been stymied with carriers forced to reduce tariffs after bravely raising them. There are a few exceptions, most notably the South Pacific where carriers are sticking to their guns. I believe the airlines are too frightened and timid to insert security charges (which now are permanent) and fuel surcharges into the body of the rates in fear of forwarders leveraging those tariffs.

In last month's Newsletter, I warned about the lack of new hires in the airline industry. Quite frankly, apart from one or two exceptions, the quality and competence of the airline cargo executive has declined progressively since the airlines hit the skids post 1991 Gulf War. Top young executives have left the airline industry for greener pastures.

In my opinion, gutless, poorly qualified senior airline people are using the jump



in oil prices to grab a freight increase. Don't kid me: the rise in fuel prices cannot be quantified in a flat rate per kilo. For starters, short haul flights use lesser amounts of fuel. The price of fuel varies according to the routes the carrier serves. And some airlines have successfully hedged future oil prices. Give me a break. We all know that most rates ex-United States are dirt cheap. A straightforward, in the open rate increase is fully justified. Most airlines are hurting. Mr. Airline Executive: just have the courage to announce an increase in

Kitty Hawk recently announced its revenue and tonnage losses for the year were continuing with a particularly sharp drop in the second quarter. The Dallas-based carrier said that at best, only a modest projection of growth for its air arm during the remainder of 2005 could be expected. Concurrent with the report of lower earnings was the announcement that the airline was extending significantly its nationwide ground network. These two announcements by one of the leading domestic all-cargo carriers together with BAX Global's recent reduction in lift and greater emphasis on road service, are major indications of serious trouble in domestic air freight. Dedicated, expedited trucking services are grabbing larger volumes of "must move" cargo that once unquestionably traveled by air.

Announcements

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rates and hold the forwarding community to the new price level. It really is that simple. Stand up and be counted. Don't hide behind fuel and security charges.

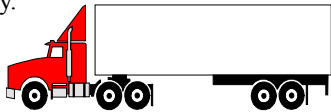
Domestic Air Freight; R-I-P?

What's happening to the once \$10 billion domestic heavyweight air freight business? Simply put, circumstances are converging to accelerate a downward spiral that seems almost impossible to stop or reverse. Truckers are taking up the slack. Truckers may be made up of "dese," "dose" and "dem" guys but they saw an opportunity and took full advantage of it.

"Dedicated, expedited trucking services are grabbing larger volumes of "must move" cargo that once unquestionably traveled by air."

Domestic Air Freight; R-I-P?-cont-

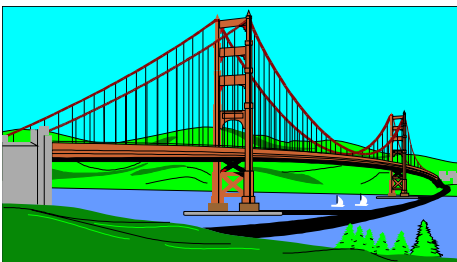
Sky high jet fuel prices, elimination of many domestic flights or substituting smaller aircraft by the carriers combined with traditional disdain for cargo by senior airline management, created a vacuum in air freight which truckers were only too glad to fill. Surface carriers always had a cost advantage because it's much cheaper to drive a truck than fly an airplane. In the past, however, truckers did not have the reliability nor consistent level of service that shippers demanded for their premium freight. That no longer is the case. The big LTL trucking companies, and even the smaller ones, have combined up to date IT systems with smart scheduling that allow truckers to deliver freight to almost any destination within the U.S. as quickly as by air, at lower cost and often with greater reliability.



Perhaps most surprising, even when cost is not a determining factor ground often still has the edge. Forwarders increasingly are opting for expedited ground service even if it is more expensive because "we cannot rely on the domestic airlines any more" That's a frightening thought for airlines hoping to win back cargo that has shifted to the nation's highways. The trend toward surface traffic here in the U.S. may provide a window on the future of ground services around the world as models for distribution and transport. Life is full of ironies and the air freight business is no exception. Just after World War II, John Emery, Sr. started Emery Air Freight and almost single-handedly created an industry initially geared to handle emergency shipments. Fifty years later, we may be going back to the future with domestic air cargo once again becoming primarily a vehicle for emergency packages.

New Qantas Non-Stop SFO-SYD Service To Aid Forwarders:

International air freight is in much better shape. A striking example of the diverging trends between domestic and international cargo is the West Coast-Australian picture. Air freight service for the important San Francisco-Bay Area market, which of course includes Silicon Valley, will be improving early next year with the start of new Qantas non-stop service between SFO and SYD. The airline has announced that starting next March, three Boeing 747-400 flights per week will be traveling "down under." Since these are passenger flights, cargo capacity on each aircraft will be limited to no more than 50,000 lbs. of belly cargo depending on passenger loads and wind conditions.



We could use this new, although admittedly limited lift. Cargo volume to the South Pacific is strong with the Australian economy still a vibrant one. The new Australian flights complement very nicely the recently begun Air New Zealand non-stop service between SFO and Auckland. Interestingly, these two nations are among the very few in which the U.S. has a favorable balance of trade. Forwarders now can cut as much as two and three day transit time to Australia with the new service. No need to truck cargo down to Los Angeles with the inevitable delays in transferring cargo to flights out of LAX.

Welcome Aboard, Roger:

Roger Carias joined us last month as Senior Accountant. Prior to deciding that air freight looked as though it was full of opportunity, Roger was in hospital administration. Roger obtained his degree in finance from LaVerne, one of the finer private colleges in southern California. After just one month, Roger has devised and implemented a number of vast improvements in Administration/Accounting. Both he and Lyne Enzweiler, V.P. Administration, work as a team. They are leaving no stone unturned. If they find areas where our systems can be improved, they just go ahead and make the necessary changes. Already, Roger is a highly respected colleague. His quiet professional manner is matched by his enthusiasm to improve our systems. I certainly appreciate what he is doing for CII and it's nice to have another smiling face in our office.



Canberra Nixes Bid By SIA For Australia-U.S. Route:

Singapore Airlines received a setback when its application for a direct Australia-U.S. route was denied by the Australian government in Canberra. The airline was seriously disappointed after a lengthy lobbying campaign in the Australian capital. SIA spent millions of dollars in lobbying efforts to obtain the route. Australia's flag carrier, Qantas, however, breathed a sigh of relief. The Australian-U.S. route is the most profitable for the airline both in passenger and cargo traffic. Stirring the mix was that mischief maker, Sir Richard Branson, whose domestic Australian carrier, Virgin Blue, wants permission to fly South Pacific routes. And adding to the confusion, if that was possible, top government officials support a merger between Qantas and Singapore Airlines. Neither airline is enthusiastic about joining and the government's wishes, announced at the highest level, probably will go nowhere.

China—A Study In Contradictions:

People in our industry wonder why I don't want to join the cheer leading crowd for China. Isn't China the "factory to the world," the source of almost all the growth in air freight? Yes, China currently is an export powerhouse but that nation is so riddled with contradictions, its future growth and prosperity is by no means assured.

The role of government in China is exactly opposite to that in Western democracies. In public places, where citizens of most democratic societies would expect a government presence, it is inactive and absent. In contrast, the Chinese government is active and present in private places in ways that would startle people from free-market nations. The Chinese government makes no effort to protect its 1.5 billion citizens from industrial pollution, the worst in the world, nor make its citizens healthier. It has no equivalent of the SEC, let alone an Elliot Spitzer, to protect investors from financial fraud. In a number of cases, officials have become accessories to all types of investment scams.



Korean Air Lines Number 1 In Cargo:

While all eyes seem to be focused on China, another Asian nation, Korea isn't doing too shabbily on the economic front. The country is booming and unlike China with its almost total concentration on exports, Korea has a healthy mixed economy of domestic demand and solid export growth.

The country's flag carrier, Korean Air

Despite its official "hands off" policy toward industry, the Chinese government is highly intrusive both in large and small companies as owner, entrepreneur and manager. It produces goods as varied as steel and toilet paper. Independent banking as we know it, simply does not exist. The government controls every major bank, awarding credit to its friends and supporters rather than by free market forces.

"The government controls every major bank, awarding credit to its friends and supporters rather than by free market forces."

The government is intrusive in peoples' private lives. It searches homes without search warrants, arrests its opponents on trumped up charges of encouraging prostitution and sentences these unfortunates to "labor education" without benefit of trial by jury.



By removing itself from activities that are considered the government's domain in most democratic, market oriented societies and meddling in those activities that are not, China attempts to combine and compromise the very premises of the two opposite systems of communism and capitalism. In attempting to compromise and unite these two opposite systems, China has created a volatile and dangerous cocktail blending the worst aspects of capitalism and socialism. When will all these contradictions catch up with the now pulsating Chinese economy? I predict sooner rather than later.



Most passengers, when thinking about the men up in front in the cockpit, imagine them to be humorless, straight as arrow types. Somewhat surprisingly, most pilots have a sly sense of humor which shows up in bars where crews often congregate after a flight.

Here are some of their irreverent, off the record definitions of various aviation terms.

* Barrel roll: Unloading the beer for a hangar party.

* Bail out: Dipping the water out of the cabin after heavy rainstorm.

Pilots Do Have A Sense Of Humor:

* Pilot: A poor, misguided soul who talks about women when he is flying and flying when he's with a woman.

* Occupied: An airline term for a lavatory.

* Glider: Formerly an "airplane" prior to running out of fuel.

* Navigation: The process by which a pilot finds his way from Point A to Point B while actually trying to get to Point C.

* De-Icer: De person dat puts ice on de wing.

* Exceptional Flying Ability: Has equal number of take-offs and landings.

miles. The German carrier had retained top position for the previous nineteen years. Winning of the top spot by Korean Air says something about the changing fortunes of Asian vs. U.S. and European airlines. Three out of the top four airlines in cargo ton miles for 2004 were Asian with Korean Air in first place, Lufthansa second; then followed by Singapore Airlines in third and Cathay Pacific in fourth.

* Radar: An extremely realistic type of video game often found at airports where players try to send small game pieces called "blips" from one end of the screen to the other without colliding with each other.

* Final Approach: Many a seasoned pilot's last landing; many a student's first landing.

Sincerely,

Julian A. Keeling