

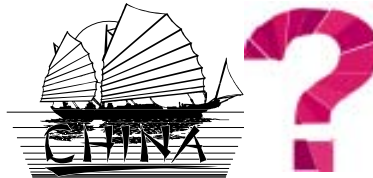


Don't Put All Your Eggs In The China Basket:

There is a definite slowdown in world trade. West coast ports are reporting disturbing signs of less activity while air freight traffic from Asia, particularly China, is showing less than full flights. You don't have to read between the lines to realize that China has an Achilles heel. Its weak spot: China has been reliant upon producing goods to the specifications of others; not manufacturing, shipping and marketing in its own right. As the Wall Street Journal recently commented, "the toughest challenge for China is how to transition from low cost, often no-name manufacturers to respected global brands."

The contrast with Japan is striking. After World War II, Japan was determined to become a maker of quality goods. They generally have succeeded. Toyota makes great cars and soon will surpass General Motors as the largest auto maker in the world. Sony sells the best laptops of any manufacturer. Canon produces the best photocopiers. Bridgestone tires are market leaders. Can anyone name one indigenous Chinese product? No! Chinese makers seem to be content to make lingerie for Victoria's Secret, computers for Hewlett Packard, toys for Mattel plus literally thousands of other products for end users. Making bids for international oil companies hardly will solve the utter lack of brand identification in America or Europe.

"Don't be hypnotized by China. The substantial growth of this market cannot and will not last."



At a recent Trans-Pacific Air Cargo Conference held in Los Angeles, I urged my listeners and the air freight industry at large not to put all your eggs in the China basket. Don't be hypnotized by China. The substantial growth of this market cannot and will not last. Already, there are disturbing signs of slowdowns in a number of industries in China.

Governments, including those in the U.S. and Europe, are becoming alarmed at the flood of goods imported from China and are starting to take protective measures. The reduced quota on Chinese textiles may be just the beginning of U.S. and European protectionist efforts. I believe the remainder of 2005 and full year 2006 will see more and more business pulled from China. There are many reasons for this expected reduction ranging from abuse of copyright laws to poor delivery schedules, more expensive transportation costs and an intractable government. I think companies like Yellow Roadway, now entering the China market, may have missed the boat.

I'm betting on Eastern Europe to take up the production reins from China. Nations making up the former Soviet bloc are hungry for work, have skilled and experienced yet low cost labor forces, offer tax abatements and other aids to encourage the establishment of production and distribution facilities by U.S. and west European countries. An intangible, yet equally important advantage in my book is similar cultural, political and the social heritage shared by Europe and the United States.

Announcements

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Aussie Forwarders See Blue Skies Ahead:

With growing uncertainty in Asian markets, it is a relief to report the air cargo market to Australia is alive and well. Recently, about a dozen Aussie forwarders popped into our Los Angeles office. They had come to the U.S. on sales trips. In fact, one customer had a five week itinerary planned to visit cities in the U.S. I didn't even know existed. He showed up directly after a thirteen hour flight from Sydney full of ginger and ready to take on the U.S. market. Each visiting Aussie saw the U.S. as a growing and increasingly important market. The high value of the \$Aussie dollar vis a vis the currently low value of the American dollar is stimulating U.S. exports across the South Pacific. America once again is becoming a major source of supply for goods needed by the Australian economy. Despite all the publicity surrounding America's demise as an export nation of manufactured goods, our Aussie friends don't see it that way. They see blue skies ahead.



Since President Bush and Dick Cheney came to power in 2001, we have seen a change sweep across America. Initially under President Clinton, defense contractors were feeling the cold of the United States relatively at peace with the world. That is until they all got together and decided to carve up the market amongst themselves. McDonnell Douglas merging with Boeing was the big one. General Dynamics, Northrup Grumman and Lockheed Martin also benefited from collusion to swallow up the smaller fellows and thus create a defense oligopoly. You may remember all sorts of fraud was being committed against the government. Under Bush/Cheney, these illegal acts were swept under the carpet. Today, our defense “establishment” doesn’t need to cheat because they can name their own price. There is no real competition. This Iraq nonsense has been the icing on the cake. Who would be unpatriotic to argue against defense appropriations? Thus, all of the companies are recording record profits while social services are slashed. The telephone companies are doing the same non-competitive dance. Shortly, all we will have left are SBC, Verizon and Southern Bell.

Oil Crises & Oligopolies:

The same, in spades, goes for the oil companies. Since the mid-nineties, the big four (Exxon, Shell, BP and Chevron) have gobbled up Mobil, Texaco, Arco and numerous other, smaller competitors. What have we seen? Unfortunately, my predictions of five years ago have become only too true. I predicted more than five years ago this oligopoly would send the price of oil through the roof. This exactly is what happened. Initially, we were told that retailing was unprofitable, so service stations throughout America have shut down. Then, we were told refining is unprofitable with the result there has been no new refinery construction or expansion and upgrading of old ones for years. Why is this so; not because oil companies are unprofitable. They earn more money than any other industry in the U.S. It is to create a false shortage of supply. California is the best example. Burdened with a population explosion during the past twenty years, not one new refinery has been built within the borders of the State. Instead, Shell after acquiring a Chevron refinery in Bakersfield decided within one year to close it down altogether. The State government stepped in, however, and called Shell’s bluff by finding a buyer. Don’t talk to me about OPEC. It is the oil companies that control the vast majority of the world’s reserves. Shell’s stock price



just recently got clobbered for overstating their reserves! Bush and Cheney are friends of the oil companies and forget sympathy. They have absolutely no empathy for what has occurred with regards to the ordinary people of our nation who now have to pay \$50 plus to fill up our tanks with gasoline while oil companies continue to announce continual record profits while sitting on enormous amounts of cash in their treasuries.

"...it is goodbye to the middle class of America. Hello to a class of new poor and welcome to the filthy rich becoming even wealthier."

Inflation is falsely being held in check thanks to cheap imports from China. From whatever perspective, it is goodbye to the middle class of America. Hello to a class of new poor and welcome to the filthy rich becoming even wealthier. The spread today between rich and poor is the widest in U.S. history. Mr. Bush, you will leave behind a great legacy. Your foolhardy scheme to destroy social security long will be forgotten. But the favors to your friends in the wealthiest classes and to anti-American companies like WalMart, Chevron, Exxon, Pfizer and Citibank won’t!

Are Shippers Benefiting From Transportation Mergers?

The trade and business press carry story after story about the merger mania in the transportation business. In the air, DHL becomes part of Deutsche Post. On land, UPS swallows up Overnight Transportation. At sea, Maersk is acquiring P&O Nedlloyd to capture no less than 20 per cent of the global ocean container business. Every “winner” in this game of musical chairs claims a synergy with the acquired company to offer “fully integrated supply chain solutions.” Let’s cut out the corporate double talk and listen to the people who make the transport decisions—the shippers. How do they feel about these mergers and

acquisitions? They are not very happy. In fact, they are downright angry and frustrated about this trend in which the big get bigger and competition gets smaller. Shippers fear a greater concentration of vendors will reduce their bargaining power, inflate rates, lead to further consolidations and hurt service.

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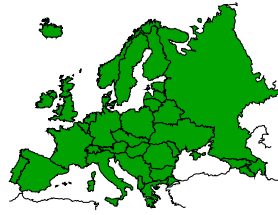
Based on direct experience, shippers claim that bigness, far from raising quality, reduces it. Critical shipments are delayed and even lost (witness UPS losing Citigroup’s tapes with millions of customers’ records). Service often becomes disastrous and options for changing carriers becomes lessened as fewer airlines, shipping companies and trucking firms operate. Perhaps that is why so many mid-sized forwarders are flourishing. They still provide personal service which the “big boys” have neglected in their zeal to merge and to transform their businesses into 3PLs, 4PLs instead of, as God intended, to move freight.

The Rise & Fall Of The European Union:

Signs are mounting that the most “unholy of alliances” has cracks in its armor. We are not talking about the historic Holy Roman Empire” but the current European Union. First came the referendum on the European constitution. That was roundly defeated in France and Holland. Now it is an impasse on the budget caused by France and Germany demanding that Britain forfeit the three billion Euros it is about to receive for agricultural subsidies.

Like the World Trade Organization, the European Union, in my opinion, is about to collapse. Why this pessimistic view? I believe there are several factors:

- * Most free, sovereign nations are intrinsically nationalistic.
- * Self-interest consistently has been the dominant force behind most major decision making. The agricultural policy of the many different nations is a prime example.
- * The Union has expanded to include new members in Central & Eastern Europe who do not view France and Germany as the guardians of the Continent.



* There always has been a history of conflict between the larger members of the Union and its smaller members. In some cases, these conflicts far pre-date the Union itself but go back centuries to nation rivalries. A Spaniard looks differently toward a German than an Austrian regards a German. These entrenched feelings and beliefs never will disappear.

* The demographics of “old” Europe have changed. Germany, France, Italy and the United Kingdom have huge localized social issues now to contend with.

* Leadership. Europe has cultivated a new breed of touchy-touchy, feely-feely socialists. The likes of a Chirac, Schoeder or Blair do not have the strength of character to make the right decisions. Gridlock has become the name of the game in Brussels, capital of the E.U.

* Global organizations become bogged down in bureaucratic gridlock, thus impairing sensible decision-making.

* The Union was established in the late nineteen fifties (then known as the E.E.C.) principally by Germany and France to ensure they never will fight again. The structure has changed with the inclusion of so many countries with far weaker economies than the original members. Yet, the rules hardly have changed since the Union’s inception. These rules now are too archaic and cumbersome for the 21st Century.

* Unemployment. France, Germany and Italy; the three largest countries in the Union, now have unemployment at more than 10 per cent. The three countries may have to face up to the fact that tariffs and depreciation of the Euro may be the only methods by which to protect their remaining industries. With such high unemployment, social unrest is on the rise.

* Every member looks for an angle to take advantage of, and thinks nothing of bending the rules for its own benefit.

Golf; That Most Capitalistic Of Sports:

CI received such an enthusiastic response to our items on golf in a previous Newsletter, we decided to add a few thoughts to my favorite sport.

* Golf is undeniably the most capitalistic of sports. In what other sport does an individual require self reliance, independence and personal responsibility? And like capitalism, golf is unfair and unjust. There are risks and hazards with the golfer reaping his own rewards. No team member to help him. You live with the randomness of fortunes in golf as you do in investing your money.

* To do better, always better, is the goal in golf. Unfortunately, how badly you play a round, it always is possible to get worse.

* Golf is inexplicable. One day, you’ll go out and shank it, find all the traps and miss all the greens. The next day, you almost are shooting par.

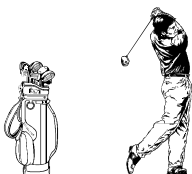
* Golf symbolizes the struggle in which the gulf between perfection and the player’s potential is more visible than in any other sport.

* It’s one sport where man is trying to become a machine that hits the ball perfectly every time. But he happily will

always fail because we are men and not machines.

* Every golfer keeps trying for mastery of the game that he cannot conquer. That is why he needs his fix come rain, snow or hurricane.

On the morning of her wedding, a lovely bride came down the aisle and noticed her husband-to-be’s golf clubs were leaning against the altar rail. “What are your golf clubs doing here?” asked the annoyed soon-to-be bride. Replied the future husband, “This isn’t going to take all day, is it?”



Sincerely,



Julian A. Keeling

