CII

NOVEMBER

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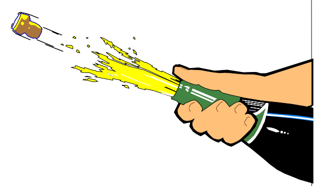
EXTRA!!! The Times EXTRA!!!

News & Views

A Toast To My Trip To Russia:



Last month, I found myself in the former land of the czars, Lenin, Stalin—and now Putin. Why was I in Moscow? During the past six months, CII has found a new niche—moving helicopters from the U.S. to Russia. This niche has been increasingly successful. So, I was off to Moscow to meet my Russian counterparts.

When the original helicopter deal was proposed, we had our doubts. Would we get paid? How were we going to get paid? When? How much? We were perfectly aware that Russia was a graveyard for U.S. forwarders' business. All talk and no action. The major reason we took the bet or "punt" was that our suppliers told us a number of orders already was in the pipeline. If worse came to worst, we could hold a multi-million dollar helicopter as hostage in order to get paid.

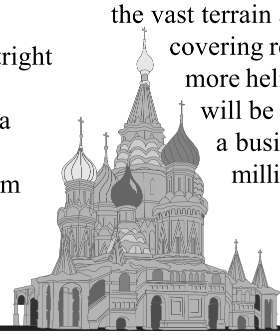
Within a week of the first helicopter on its way to Moscow, we realized the person on the other end of the "supply chain" possessed absolute integrity. The firm he represented was profoundly professional. We assumed that the people we were dealing with were transportation folk. They weren't. Rather, they were a law firm providing full legal services to any Russian or foreign company in matters of Russian law including Customs representation, trade facilitation and banking transactions. They are well established in Moscow with American clients such as Motorola and NBC.

After the endless haggling and outright chicanery that now passes for negotiations in our business, what a relief to deal with a person who has absolute integrity, representing a firm that is profoundly professional.

Profit margins enabled CII to devote as much time and effort as was needed to ensure--that each shipment recieved the "white glove" treatment.

After all the e-mails and faxes, I simply had to meet my Russian counterparts on their home ground. Thus, my first trip to Russia via BA. There, I met with the consignees. All of them could not be more praiseworthy of CII's efforts. They almost couldn't believe that every shipment arrived on time and in 100 per cent pristine condition. They couldn't find enough words of praise for our Mike Castro. I sat and listened for one hour as they poured praise on Mike. As I heard these compliments rain down on Mike, I couldn't help thinking that with all the talk about "supply chain management" and electronic transmission of documents; in the final analysis, forwarding still remains very much a people business.

My visit to Moscow yielded spectacular results. I was told to expect moving at least 150 helicopters next year. The helicopters are being used as a vital transport tool in Russia's oil and gas industries. This business is now the largest in Russia and is guaranteed to become even bigger with the increasing demand for energy products. Because of the vast terrain and with few good roads covering remote regions, more and more helicopters are needed. Mike will be supervising this operation; a business which should top $2 million next year.



Announcements

Inside This Issue:

"...all the talk about "supply chain management" and electronic transmission of documents; in the final analysis, forwarding still remains very much a people business. "

South Pacific Cargo Rates Continue To Rise:

As the Australian economy charges ahead and trade with the U.S. increasing sharply, space continues to tighten for both main deck and "belly" freight. Qantas, Air New Zealand and FedEx are steadily massaging their rates upward. It is long overdue. After thirteen years of declining yields, they are making finally a turn-around. As forwarders, we should welcome this change. I am a perennial optimist so perhaps in our world of freight, the dominance of price to the exclusion of everything else is coming to an end. The pendulum may be swinging back to service. If a survey were taken today of the quality of service provided by the airlines, key players in the South Pacific would rank among the top half dozen. Yet, these carriers' yields, together with just about every other carrier and forwarder, have been decimated over the past ten years. Shippers have been laughing all the way to the bank.

With the $A at the U.S. $0.75 mark, and the $Kiwi at $0.70, American products never have been cheaper. In addition to business to business products, which traditionally have been the mainstay of U.S.-South Pacific air cargo, we have noticed an increase in shipments of consumer products. I always have claimed that American manufactured goods are of the highest standards (we have the most productive, best skilled and most highly educated workforce in the world) but U.S. exports in recent years have been hampered by the high value of the U.S. dollar.

For various reasons, the U.S. dollar continues to show weakness. While a blow to our national pride, a weakened dollar bodes well for U.S. industry. With a cheapened dollar, our goods are far more competitive in world markets. Countries like Australia and New Zealand are in the beginnings of substitute modes for their imports. Replacing cheap and often inferior quality Asian goods fore superior made American products will benefit both buyer and seller. Higher shipping rates and greater volume of exports lead to one happy benefit—greater profitability for our industry. The word "profit" has been absent too long from carriers' and forwarders' vocabularies.

Australia & New Zealand; MoreThan The Tasmanian Sea Separates Them:

In last month's Newsletter, I criticized severely the New Zealand government. It is basically a socialist government that I believe is leading the nation of my birth down a spiraling path of economic poverty, social injustice and loss of basic human rights. The government, led by Labourite Helen Clark, has been a disaster since the day she took office.

> *"With the new U.S.-Australian trade agreement to take effect January 1, 2005, Australian exports will find an even more hospitable home in the U.S."*

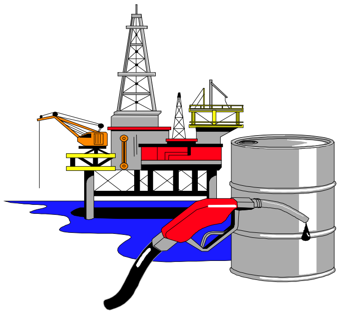
Across the Tasman Sea from New Zealand lies its sister nation, Australia. It is amazing how two countries, both from basic English stock, can evolve so differently. This was forcibly brought home to me last month when the Australian election results were announced. Little noticed in the U.S., the conservative, free enterprise government of John Howard was overwhelmingly re-elected. Under Howard, the Australian nation is moving forward while New Zealand is moving backward. His free enterprise policies have catapulted Australia into the fastest growing developed nation with a 6 per cent annual growth rate. Its GDP is advancing at a prodigious rate. Unemployment is down to a microscopic less than 4 per cent. Real estate values are going through the roof, making even California increases look pale by comparison. With the new U.S.-Australian trade agreement to take effect January 1, 2005, Australian exports will find an even more hospitable home in the U.S.

Under a free enterprise, capitalist system, Australia has become a "can do" nation. In addition to its strong economic growth, survey after survey reveals that Australians never have been more content with their lives or more optimistic about the future than today. It is indeed unfortunate that New Zealand refuses to take a few lessons from its sister nation.

End Of U.S. Textile Import Quotas A Big Unknown:

January 1, 2005 is not only important for the implementation of the U.S.-Australian trade agreement, the beginning of next year also will remove all textile import quotas. Like so much involving U.S. trade, all eyes turn to China. That nation already is the largest exporter of raw and finished textile goods to the U.S. Will textile exports from China overwhelm the already sickly U.S. textile industry and reduce sharply imports from other nations? Our agents in China report it is too early to tell; that textile imports from that nation remain a big "unknown." Capacity from China even now is critical and if Chinese textile factories go flat out with production, tight airlift will get even tighter. It will put a squeeze on all other types of exports as forwarders fight for space.

While CII is not a major importer of textile products from China, we are watching the situation with keen interest. We would not be happy if our business is pinched. Apparel importers would pay a premium to get their "hot" products to market fast, crowding out less timely products. Capacity inevitably would tighten. China is a two-faced market. Business is great, but the very success in generating traffic makes obtaining lift at a price you want to pay, is a continuing struggle. Let's see what happens when 2005 rolls around.



Are We Becoming A Nation Of Paper Shufflers?

Every so often, statistics jump up at you and reveal massive economic and social changes. Although I am a lover of U.S. style capitalism, I must admit not all trends are healthy or beneficial. I recently noticed the percentage of profits going to the financial and manufacturing sectors in the U.S. Since the end of World War II, the two slices of the economy have been changing inexorably. The money shufflers are gaining, and the makers of things you can feel, touch or wear are shrinking. Back in the nineteen fifties and sixties, manufacturing was king in the U.S. with 50 per cent of all profits going to those who made real products. Back then, about 15 per cent went to purveyors of financial services. Today, these percentages have almost exactly reversed themselves. This is all too evident in those who live in big houses in exclusive neighborhoods. Every house along the Atlantic Ocean in the exclusive Hamptons on Long Island is peopled by investment bankers or other money shuffling types. There isn't one manufacturer among them. Out here, along the Malibu beach, finding a maker of things in those multi-million dollar homes is far more difficult than finding the proverbial needle in a haystack.

Of course, the wonderful quality about capitalism is that it allocates resources so efficiently. So, rather than turning out doctors, engineers, teachers, architects and others involved in the old economy, we are churning out investment bankers, hedge fund managers, "sell" side analysts and other financial types. Ask Harvard Business School grads what businesses they want to enter and 90 per cent will answer some aspect of financial management. No one wants to run a factory or heaven forbid, a freight forwarding operation. How long can this go on?

Record High Oil Prices; How Much Do They Reflect The Real World?

Last month, the Los Angeles Times business section's front page featured a photograph of a bunch of grown men and women jumping up and down and screaming their heads off. Who were these supposedly sane people? They were what I call "cowboys" but who are officially known as "traders" on the New York Mercantile Exchange. These "traders" were in a frenzy buying and selling oil futures. I felt so angry yet so helpless that these generally young men and women were getting their exercise by literally holding up the world to ransom supposedly in the name of free markets and open competition. At the time of the Times' story, the "excuses" made by the traders in pushing up prices to well over $50 a barrel was a general strike in Nigeria and drop in production in the Gulf of Mexico due to the hurricanes. What nonsense! Both areas produce a small fraction of the world's needs.

While I believe in free enterprise and sensible open markets, there comes a time when governments must intervene for the common good. Oil is an essential commodity, perhaps the most essential of them all. Here, the free market simply doesn't exist. When was the last time you heard about investors organizing an integrated oil company? Maybe back in the days of John D. Rockefeller and J.P. Morgan. Two or three years back, I commented on how all those oil mergers were leading to control by an oligopoly of oil producers. Sadly, I was right on the money. Oil now is in the hands of the Big Four; Exxon-Mobil (with a cash hoard in excess of $22 billion), BP, Shell and Chevron-Texaco. All four over the past year have been reporting net profits of plus $3 billion each quarter. Yet, this huge amount is but a fraction of their real income. They receive massive tax benefits for exploration and depreciation.

The biggest obstacle to our forwarding industry continuing its growth and prosperity is the price of crude. How that translates into the price at the gas pump and in jet fuel is the big question. We forwarders keep getting notices from the airlines about "unavoidable" fuel surcharges. Unavoidable or not, if they continue, these surcharges will price air freight right out of the market for thousands of customers. If oil companies continue to collude with, and allow these clowns of traders in the futures pit to manipulate the price of oil to $60, $70 and even $100 a barrel, heaven help our industry in particular and the world economy in general. We may see a return to the seventies with huge inflation, high interest rates leading to a global recession and massive unemployment.

Margaret & Alice Off To China Again:

Margaret Ng and Alice Hsiao, who head our Rapid Dragon Express division, are once again packing their bags for another visit to China, later this month. Business into and ex-China continues to grow for CII. During the past few years, we have built up a number of excellent relationships with Chinese forwarders. Every month, our shipment count and revenues continue to climb.

Despite all the headlines about the huge increases in China trade, the market is not that easy to develop and nurture. Our success can be attributable to the hard work of Margaret and Alice and the investment CII has made in this market. One of our Chinese partners recently said to us, "It's all about PRC." Our immediate retort was, "Yes, we know it is the People's Republic of China." "Wrong," they answered. "It is all about PERSEVERANCE, RELATIONSHIPS AND THEN THE CASH."

So far, we definitely have succeeded in the first two. As each month goes by, the third is looking more and more likely.

From Airline To Health Care:

Recently, Richard Anderson resigned as CEO at Northwest Airlines, ending an undistinguished career at that carrier. He took a job out of the industry as head of United Health Care, an HMO. I wonder; with Anderson in his new job, will patients need a 14-day advance notice to be sick? And will they get a discount if they stay over a Saturday night in the hospital? Just asking.