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CURRENT EFFORTS TO IMPROVE THE SOVIET FREIGHT TRANSPORTATION SYSTEM

Robert S. Scavone
Vice President, Finance & Planning, Atlantic Division
Sea-Land Service, Inc.

GOOD MORNING. THANK YOU FOR INVITING ME HERE TODAY TO ADDRESS THE CHANGING FACE OF TRANSPORTATION ACROSS THE SOVIET UNION. I WILL SPEAK PRIMARILY ABOUT SEA-LAND'S AGREEMENT WITH SOVIET OFFICIALS TO HELP THAT COUNTRY MODERNIZE ITS RAIL FREIGHT SYSTEM. THIS AGREEMENT -- OR PROTOCOL -- IS REALLY AN ARRANGEMENT FOR US TO WORK TOGETHER TO MAKE AN EXISTING SYSTEM WORK BETTER -- FOR THE ECONOMIC BENEFIT OF THE SOVIET UNION, FOR SEA-LAND, AND FOR ANY USERS OF THE IMPROVED RAIL SYSTEM.

TO PUT MY PRESENTATION IN ITS PROPER CONTEXT, I'D LIKE FIRST TO BRIEFLY DESCRIBE SEA-LAND, THEN TO IDENTIFY THE GLOBAL MARKET TRENDS WHICH HAVE LED IT TO THE SOVIET UNION, WHICH IN TURN HAVE LED TO OUR HISTORICAL AGREEMENT TO WORK JOINTLY TO IMPROVE THE RAIL SYSTEM. I BELIEVE YOU WILL SEE THAT THE OBJECTIVE OF SEA-LAND TO CULTIVATE THE CONTAINERIZED SHIPPING MARKET THROUGH THE SOVIET UNION, IN FACT, SERVES THE PURPOSE OF IMPROVING AVAILABLE RESOURCES FOR NON-CONTAINERIZED TRANSPORTATION, AND FOR BUSINESS IN GENERAL.

ON A COLD DAY IN 1956, SEA-LAND SERVICE PLACED 58 TRUCK TRAILERS ON THE DECK OF A VESSEL NAMED THE IDEAL-X AND MOVED THE CARGO INSIDE THOSE TRAILERS -- OR CONTAINERS -- FROM NEWARK TO HOUSTON. NOW, AS A SUBSIDIARY OF CSX CORPORATION SEA-LAND CONDUCTS CONTAINER SHIPPING OPERATIONS IN EVERY TIME ZONE IN OVER 70 COUNTRIES.

DURING THE COURSE OF THAT GROWTH, WE HAVE NOT BEEN STRANGERS TO CENTRAL EUROPE OR TO EASTERN EUROPE. FOR INSTANCE, NEXT QUARTER WE WILL BE CELEBRATING A QUARTER-CENTURY OF SERVICE TO POLAND. ADDITIONAL SEA-LAND OFFICES ARE OPENING IN BUDAPEST, BERLIN, CZECHOSLOVAKIA, AND WE HAVE RECENTLY ARRANGED TO PROVIDE DIRECT SERVICE TO OUR FINNISH CUSTOMERS THROUGH OUR AGENCY IN HELSINKI.

NOW WE HAVE ENTERED THE TRANSPORTATION PICTURE IN THE SOVIET UNION, WHICH WE AT SEA-LAND SOMETIMES THINK OF AS THE "LAST FRONTIER", OR LAST LINK, IN WHAT HAS BECOME FOR US A TRANSPORT SERVICE CAPABILITY WHICH CIRCLES THE WORLD. THE ONGOING CHANGES IN THE SOVIET UNION REALLY REPRESENT AN EXTENSION OF THE RAPIDLY EMERGING CARGO MOVEMENT TRENDS THAT, IN FACT, HAVE ENVELOPED THE GLOBE.

THE WORLD OF CONTAINERIZATION IS UNDERGOING RAPID CHANGE -- AND UNPRECEDENTED GROWTH.

IN THE NEXT FEW YEARS, CONTAINERIZED TRADE IS PREDICTED TO ACCELERATE AT A RATE OF EIGHT PERCENT A YEAR. YET, WHERE THE BULK OF CONTAINER TRADE FORMERLY CENTERED ON MOVEMENT TO AND FROM NORTH AMERICA, BY 1994 THESE ROUTES WILL COMPRISE LESS THAN HALF OF THE WORLD'S TOTAL CONTAINER TRAFFIC.

FOR SEA-LAND, AS A U.S.-FLAG COMPANY, THIS SHIFT FROM OUR PREVIOUSLY STRONGEST BASE, NORTH AMERICA, IS A BIG ISSUE. WE HAD TO FACE THE FACT THAT FUTURE GROWTH IN NORTH AMERICAN TRADES, WHERE WE -- AND THE OCEANBORNE TRANSPORTATION INDUSTRY IN GENERAL -- HAVE ENJOYED A LONG HISTORY OF STRENGTH, JUST WOULDN'T BE THERE.

WE NEEDED TO RE-ORIENT OUR MARKETING AND OPERATING STRATEGIES TO TAKE ADVANTAGE OF NEW BUSINESS OPPORTUNITIES IN OTHER AREAS OF THE WORLD.

I DO NOT MEAN TO PAINT A BLEAK PICTURE REGARDING NORTH AMERICA. THIS TRADING BLOCK STILL PRESENTS THE WORLD'S LARGEST RELATIVE GNP -- 5.8 TRILLION DOLLARS. IT JUST DOES NOT REPRESENT THE MAJOR GROWTH AREA IN CONTAINERIZED TRADE.

ALONG WITH THE CHANGES IN NORTH AMERICAN TRADE PATTERNS, EUROPE IS UNDERGOING SWEEPING CHANGES OF ITS OWN. THE NEW, ONE-MARKET EUROPE THAT IS EMERGING AS 1992 APPROACHES WILL PROVIDE THE WORLD WITH ITS LARGEST AND RICHEST CONSUMER BASE -- 324 MILLION PEOPLE, WITH ROUGHLY A FOUR-TRILLION-DOLLAR BUYING POTENTIAL. IF WE ADD TO THIS THE 31.7 MILLION PEOPLE OUTSIDE THE 12 EC MEMBER COUNTRIES AND THE 400 MILLION CONSUMERS THAT MAKE UP CENTRAL EUROPE AND THE SOVIET UNION COMBINED, WE SEE THAT THERE EXISTS A STRONG RESOURCE OF CONSUMERS -- AND POTENTIAL SHIPPERS.

IN THE FAR EAST, IT IS NOTEWORTHY THAT JAPAN ALONE REPRESENTS A 2.8 TRILLION DOLLAR GNP.

THE ASIAN POPULATION IS MANIFESTING AN INCREASING DESIRE TO CONSUME HOME-BASED PRODUCTS. ECONOMISTS THEREFORE ARE PREDICTING A SEVEN TO TEN PERCENT GROWTH IN INTRA-ASIA TRADE OVER THE NEXT FEW YEARS.

SO WE SEE SEVERAL PATTERNS:

- o A DECLINE IN CONTAINERIZED TRADE INVOLVING NORTH AMERICA.
- o A GROWING FAR EAST CONSUMER BASE.
- o A GROWING EUROPEAN CONSUMER BASE.

WE ALSO SEE PREDICTIONS OF A SIGNIFICANT TRADE INCREASE BETWEEN ASIA AND EUROPE. LAST YEAR'S OVERALL CONTAINER MARKET VOLUME IN BOTH DIRECTIONS BETWEEN ASIA AND EUROPE EXCEEDED 1.4 MILLION FORTY-FOOT EQUIVALENT UNITS, OR FEU'S. THIS YEAR, IT WILL SURPASS 1.7 MILLION FEU'S.

OVER THE NEXT FIVE YEARS, IN FACT, OF THE THREE ARTERIAL TRADES, THE ASIA-EUROPE LEG IS FORECAST TO GROW THE MOST, AT AN ANNUAL RATE OF ABOUT SEVEN PERCENT, COMPARED TO FOUR PERCENT FOR TRANS-ATLANTIC AND FIVE PERCENT FOR TRANS-PACIFIC.

UNTIL NOW, ALL WATER TRANSIT BETWEEN ASIA AND EUROPE WOULD TAKE AN AVERAGE OF ABOUT 30 DAYS, MOVING ALONG A 13,000 MILE ROUTE THAT INCLUDES PASSAGE THROUGH THE SUEZ CANAL.

SEA-LAND'S OWN ASIA-MIDDLE EAST-EUROPE -- OR AME -- SERVICE, A COOPERATIVE AGREEMENT WITH THE SWISS CARRIER NORASIA, HAS BEEN CARRYING CARGO ALONG THIS ROUTE FOR THREE YEARS, WITH EMPHASIS ON SERVING MIDDLE EAST COUNTRIES AND THE SUBCONTINENT.

THE AME SERVICE HAS BEEN RUNNING AT CAPACITY AND, IN FACT, IS PREDICTED TO GROW EIGHT TO TEN PERCENT ANNUALLY.

THIS IS WHERE THE SOVIET "LANDBRIDGE", AS IT IS KNOWN IN THE INDUSTRY, ENTERS THE PICTURE. THE IMPLICATIONS OF THE GEOGRAPHIC POSITION OF THE SOVIET UNION FOR EFFECTIVE LANDBRIDGE SERVICES ARE OBVIOUS.

HERE, AN 8,000-MILE-WIDE LANDMASS CONNECTS THE WORLD'S MOST PROMISING TRADE LANE. YET, AS OF 1989, LANDBRIDGE ARRANGEMENTS, INCLUDING TRANS-SIBERIAN RAILWAY BLOCK CONTAINER TRAINS, PROVIDED LESS THAN TWO PERCENT OF TRADE CAPACITY. CARRYING ONLY 40,000 FORTY-FOOT CONTAINER EQUIVALENTS OUT OF A POTENTIAL CAPACITY OF 125,000, THE TRIP COULD TAKE UP TO 40 DAYS.

IT IS NOTEWORTHY THAT THE CURRENT LANDBRIDGE SYSTEM HAS BEEN OPERATING FOR OVER A DECADE. THE STATE-OWNED FORWARDER, SOTRA, TOOK SOLE RESPONSIBILITY FOR SELLING THE SERVICES OF THE TRANS-SIBERIAN RAILWAY. THE RAILWAY ITSELF IS REALLY A COLLECTION OF 32 OPERATING COMPANIES PROVIDING SERVICE AS THE RAIL MOVES THROUGH THE VARIOUS REPUBLICS. HARD CURRENCY EARNINGS, PLACED IN THE SOVIET GENERAL FUND, WERE PAID OUT TO THE SERVICE PROVIDERS ALONG THE ROUTE ON A COST BASIS.

THERE REALLY WAS NO OVERWHELMING INCENTIVE FOR THOSE INVOLVED TO INVEST IN SERVICE IMPROVEMENTS.

NOW, KEY CHANGES ARE TAKING PLACE. PARTICIPANTS HAVE MOVED FROM TOTAL STATE CONTROL TO JOINT STOCK COMPANIES, WITH HARD CURRENCY EARNINGS DIVIDED AMONG THEM, THEREBY INTRODUCING A PROFIT MOTIVE.

A SOVIET RAIL ASSOCIATION HAS BEEN CREATED TO COORDINATE COMMERCIAL RAIL ACTIVITIES OF THE 32 INDIVIDUAL SOVIET RAILROADS. SINCE AUGUST OF THIS YEAR, ROUND-TRIP UNIT TRAINS HAVE BEEN PROVIDING SHUTTLE BLOCK SERVICE BETWEEN EAST AND WEST BORDERS ON AN 11 TO 12 DAY TIMETABLE.

PRIOR TO LAST SUMMER, LOCOMOTIVES WERE CHANGED EVERY 400 MILES BETWEEN FAR EAST AND WESTERN TERMINALS. WITH THE FORMATION OF THE ASSOCIATION, LOCOMOTIVES NOW ARE CHANGED ONLY FOUR TIMES ALONG THE ENTIRE 8,000-MILE ROUTE, SIGNIFICANTLY CUTTING DOWN ON TRANSIT TIME.

SO WE HAVE A BURGEONING TRADE LANE; A NATURAL GEOGRAPHIC ROUTE FOR THAT LANE; AND LANDBRIDGE RAIL SERVICE THAT HAS BEGUN TO MAKE NEEDED CHANGES EVEN PRIOR TO SEA-LAND INVOLVEMENT.

AND WE HAVE SEA-LAND, A COMPANY DEDICATED TO INTERMODAL CAPABILITY FOR 34 YEARS, WITH ESTABLISHED PRESENCE IN ALL MAJOR AREAS OF GLOBAL COMMERCE.

COMMERCE AND FAVORABLE GEOGRAPHY WOULD MEAN NOTHING, HOWEVER, IF THE POLITICAL ATMOSPHERE WERE NOT JUST AS FAVORABLE.

NOW, FOR THE FIRST TIME IN THE MILLENIUM-PLUS HISTORY OF THE SOVIET UNION, WE HAVE A GOVERNMENT OPEN TO CREATING A FREE-MARKET ECONOMY, ALBEIT WITHIN A SOCIALIST POLITIC.

ENTERING THE SOVIET TRANSPORTATION ARENA REQUIRED SOMEWHAT OF A TURNABOUT IN ATTITUDE. THE UNITED STATES -- AND MOST BUSINESSES HERE -- TRADITIONALLY HAVE NOT CONSIDERED THE SOVIET UNION A POTENTIAL COMMERCIAL ALLY.

IN FACT, IT PROBABLY WOULD BE SAFE TO SAY THAT AGRICULTURAL PRODUCT INTERCHANGE IS ONE OF THE FEW AREAS THAT LED THE WAY FOR OTHERS TO FOLLOW.

EMERGING FROM 40-PLUS YEARS OF COLD WAR CREATES AN ENTIRELY NEW RELATIONSHIP, REQUIRING THE DEVELOPMENT OF A SENSE OF TRUST ON BOTH SIDES.

IN WORKING OUT THE RAIL PROTOCOL, SEA-LAND HAS OBSERVED A NEW WILLINGNESS ON THE PART OF SOVIET AUTHORITIES TO DISCUSS OPENLY THEIR REAL NEEDS AND PRIORITIES, INITIATING THE WORKING DIALOGUE THAT PREVAILS TODAY. ONCE THEY DECIDED THAT SEEKING ASSISTANCE IN SOLVING THESE PROBLEMS WAS ACCEPTABLE, AND EVEN DESIRABLE, WE WERE ABLE TO OFFER OUR EXPERIENCE TO ASSIST IN THE DEVELOPMENT OF A TRULY COMMERCIAL INTERMODAL TRANSPORT SYSTEM.

ALONG WITH THIS MELLOWING TREND IN INTERNATIONAL RELATIONSHIPS, THERE IS A SIGNIFICANT TREND TOWARD ENTREPRENEURISM THROUGHOUT THE SOVIET UNION.

ENTREPRENEURISM IS, ACCORDING TO PATRICIA AUBERDENE AND JOHN NAISBITT, THE AUTHORS OF THE BEST-SELLER "MEGATRENDS", ONE OF THE BIGGEST SOVIET GROWTH INDUSTRIES. SINCE THE SUPREME SOVIET PASSED THE "INDIVIDUAL ENTERPRISE" LAW, ALLOWING SUCH ACTIVITY FOR THE FIRST TIME IN SEVEN DECADES, MORE THAN 1.5 MILLION PRIVATE ENTERPRISES IN 50 SPECIFIED CATEGORIES ARE IN PLACE TODAY. SIGNIFICANT AMONG THESE IS THE SHIFT FROM ENORMOUS STATE FARMS AND COLLECTIVES TO SMALLER LEASEHOLD UNITS. PRESIDENT GORBACHEV, AS MANY OF YOU MAY KNOW, IS PUSHING FOR THIS LEASEHOLD -- OR ARENDA -- SYSTEM TO COVER ALL OF AGRICULTURE.

IN 1989, THE SOVIET CENTRAL COMMITTEE RECOGNIZED THE RIGHT TO LEASE FARMS FOR LIFE AND TO PASS THESE LEASES DOWN TO CHILDREN. NOT UNLIKE WHAT IS HAPPENING WITH THE RAIL SYSTEMS, THE LESSEES WILL SHARE IN PROFIT AND EVEN CHOOSE THEIR OWN CROPS.

COLLECTIVE FARMS SHOWED PER-ACRE PRODUCTIVITY AT ABOUT A NINTH OF THAT ON A SIMILAR AMERICAN FARM.

AND NOW, THE SOVIET PEOPLE ARE LOOKING TOWARD PERSONAL INVOLVEMENT, PERSONAL PROFIT MOTIVATION, AND EVENTUAL INCREASED PRODUCTIVITY. FAMILY FARMING FOR FAMILY GAIN.

OF COURSE, WE CANNOT WAX TOO IDEALISTIC ABOUT THESE CHANGES. ACCORDING TO MOST EXPERTS, ULTIMATE GAINS WILL BE A LONG TIME COMING. WE READ THAT, DESPITE RECORD CROPS IN SOME COMMODITIES, ESPECIALLY GRAIN, DOMESTIC DISTRIBUTION IS HAMPERED BY STORAGE AND TRANSPORTATION INFRASTRUCTURES THAT CANNOT SUPPORT IT. LABOR SHORTAGES, MACHINERY BREAKDOWNS, SPILLAGE AND SPOILAGE HAVE RESULTED IN LOSSES OF ALMOST ONE THIRD OF THE PRESENT HARVEST. AND EVEN THOUGH THE FARMERS ARE ALLOWED, BY LAW, TO SIGN CONTRACTS WITH PRODUCE BUYERS, THESE CONTRACTS DO NOT DEAL DIRECTLY WITH TRANSPORT AND STORAGE. EQUIPMENT NEEDS REPAIR. STORAGE SPACE NEEDS TO BE FOUND.

AND, INEVITABLY, INFRASTRUCTURE MUST BE REFINED TO MAKE THE TRANSITION FROM COLLECTIVISM TO LEASEHOLD.

IN THE FACE OF THESE CHALLENGES, THE RAIL ASSOCIATION CONTINUES TO UPGRADE LANDBRIDGE LINKS BETWEEN EAST AND WEST AND TO REMOTE INLAND POINTS. IN ADDITION, A 1989 DECREE MANDATED SUBSTANTIAL INCREASES IN AGRICULTURAL INVESTMENT FOR THE 1991-1995 PERIOD, WITH PARTICULAR EMPHASIS ON ROAD BUILDING. COUPLED WITH A MORE EFFICIENT RAIL SYSTEM, IMPROVED ROADS WILL EFFECTIVELY CONNECT AGRICULTURAL PRODUCTS -- BOTH IMPORTED AND DOMESTIC WITH SOVIET CONSUMERS IN ALL REGIONS OF THE COUNTRY.

THIS GOAL OF SMOOTH TRANSIT AND EFFICIENT DISTRIBUTION REQUIRES TREMENDOUS EFFORT ON THE PART OF ALL THOSE INVOLVED.

EARLIER, I MENTIONED A NEW OPENNESS ON THE PART OF THE SOVIETS, A WILLINGNESS TO SHARE PROBLEMS AND TO EXPLORE SOLUTIONS WITH NEW PARTNERS.

A CRITICAL PART OF THIS SHARING HAS INVOLVED BILATERAL VISITS BETWEEN SOVIET TRANSPORTATION OFFICIALS AND REPRESENTATIVES OF SEA-LAND. LAST SPRING, A JOINT STUDY TEAM OF SEA-LAND AND SOVIET TRANSPORTATION PERSONNEL BEGAN DEVELOPING THE RECOMMENDATIONS FOR RAIL IMPROVEMENT. WE VISITED THERE AND A SOVIET RAIL DELEGATION CAME TO THE UNITED STATES TO OBSERVE OUR COMPANY'S GLOBAL NETWORK CAPABILITIES, TRANSPORTATION OPERATIONS AND THE INTERMODAL FACILITIES OFFERED BY OUR AFFILIATED CSX CORPORATION COMPANIES. OUR OWN CEO, ALEX MANDL, JOINED 14 OTHER U.S. COMPANY LEADERS WHO MADE UP A PRESIDENTIAL BUSINESS DEVELOPMENT MISSION TO THE USSR.

THROUGHOUT THESE MEETINGS, WE HAVE WORKED OUT THE RAIL AGREEMENTS.

WE HAVE ALSO SIGNED A PROTOCOL TO CREATE A SEA-AIR SERVICE, UTILIZING THE SOVIET AIRLINE AEROFLOT, TO MOVE TIME-SENSITIVE CARGO BETWEEN ASIA AND EUROPE IN ONLY A WEEK, SIGNIFICANTLY IMPROVING ON THE PRESENT 15-DAY SPAN WITH COMPETING SEA-AIR ARRANGEMENTS VIA NORTH AMERICA.

IN MOSCOW, WE HAVE FORMED AN AGENCY AGREEMENT WITH SOVMORTRANS, A SOVIET-BASED JOINT VENTURE COMPANY, TO MAINTAIN COMMUNICATIONS WITH PROPER CHANNELS AND TO HANDLE CUSTOMER NEEDS RELATING TO OUR LINER SERVICE.

OUR REPRESENTATIVE THERE, RICH NICHOLSON, SPEAKS FLUENT RUSSIAN. WE ALSO ARE ADDING PERSONNEL IN MOSCOW, BREST AND THE SOVIET FAR EAST TO OVERSEE TRANS-SIBERIAN EXPRESS RAIL SERVICE FOR SEA-LAND AND OTHER CUSTOMERS.

WE ARE DESIGNING BOOKING AND TRACKING SOFTWARE SPECIFICALLY FOR THIS RAIL SERVICE, MAKING IT POSSIBLE TO TRANSMIT TRACKING INFORMATION, VIA SATELLITE, BETWEEN MOSCOW AND OUR NEW JERSEY COMPUTER CENTER. BY ENHANCING THE DATA AND SENDING IT TO CUSTOMERS IN ASIA AND EUROPE -- AND THROUGHOUT THE SEA-LAND SYSTEM -- THEY WILL BE ABLE TO RESERVE SPACE, TRACE CARGO AND CONFIRM DELIVERY.

WE RECENTLY ANNOUNCED A CONNECTING CARRIER AGREEMENT WITH BALTIC SHIPPING, BASED IN LENINGRAD, FOR USE OF SPACE ABOARD VESSELS BETWEEN THAT PORT AND NORTH EUROPE. AND OUR AGREEMENT WITH BLACK SEA SHIPPING OF ODESSA PROVIDES SPACE BETWEEN THAT PORT AND FOS-SUR-MER, FRANCE.

WITH THOSE AGREEMENTS IN PLACE, SEA-LAND NOW OFFERS A WEEKLY SERVICE FOR CARGO SHIPMENTS BETWEEN THE UNITED STATES AND THE SOVIET UNION.

WE ARE EXPLORING JOINT VENTURES FOR SOVIET CONTAINER MANUFACTURE FOR EXPORT AND DOMESTIC USE.

AND WE ARE LOOKING INTO ARRANGEMENTS THAT WILL CALL UPON OUR GLOBAL DISTRIBUTION CAPABILITIES TO HELP SOVIET UNION FARMERS, MANUFACTURERS AND OTHER ENTREPRENEURS MOVE PRODUCTS FROM ORIGIN TO DESTINATION -- ALONG DOMESTIC ROUTES -- IN A COST-EFFICIENT AND TIME-EFFICIENT MANNER.

IT IS NOT UNLIKELY THAT, IN THE FUTURE, WE COULD INTRODUCE DIRECT SEA-LAND LINER SERVICE TO THE SOVIET UNION.

SO WE SEE A COUNTRY FORMERLY SEPARATED FROM THE REST OF THE COMMERCIAL WORLD BY POLITICAL BARRIERS. IT IS A COUNTRY TRYING TO MELD ITS EMERGING ENTREPRENEURISM INTO A FAST-MOVING GLOBAL MARKETPLACE.

IT IS A COUNTRY WITH ADMITTED GAPS IN TRANSPORTATION AND DISTRIBUTION.

BUT THE POTENTIAL IS THERE TO CREATE ONE OF THE MOST EXCITING SYSTEMS OF INTERNATIONAL, INTERMODAL TRANSIT. AND, IN REFINING THE HARDWARE, THE ROUTING, THE ELECTRONIC DATA INTERCHANGE AND THE GENERAL SYSTEM OF CARGO MOVEMENT THROUGHOUT THE SOVIET UNION, THAT COUNTRY CAN'T HELP BUT RECEIVE A CORRESPONDING BOOST TO ALL OTHER ENTERPRISES THAT RELY ON THIS INFRASTRUCTURE.

SEA-LAND IS COMMITTED TO HELPING THE SOVIET UNION DEVELOP A WORLD-CLASS TRANSPORT SYSTEM -- ONE THAT WILL BRING TO THEM -- AND TO US -- A ROSTER OF CUSTOMERS WHO RECOGNIZE THE VALUE OF THAT SYSTEM.

AGAIN, THANK YOU FOR INVITING ME TO SPEAK TO YOU HERE TODAY.