

**Presentation of David M. Sablan
To the 5th Pacific Region Investment Conference
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Thank you,

I want to share with you my understanding and independent assessment of the economic reality that faces us here in the CNMI. We have heard about our two major industries, Tourism and Apparel.

A. APPAREL INDUSTRY:

Let's briefly discuss the Apparel Industry. Let's categorize them into "A" and "B". Category "A" are those factories that receive order directly from the buyers, such as Polo Ralph Loren, Limited, Liz Clairborne, etc. Category "B", are those factories that are sub-contracted to Category "A". Most of the Category "B" factories are either closed or at the verge of closing their factories. There are some Category "A" factories that have essentially decided to relocate elsewhere and have shut down their local operations. I believe that we have less than 15 factories operating here in the CNMI. At one point in time, the CNMI government issued close to 30 licenses. We can therefore assume that we are experiencing a reduction in production by about 25% to 30%. Some of the Category "A" factories are not subletting their orders to the smaller factories any more. Instead, they are handling all their orders.

The net result of this activity may be construed that the economy has dropped to a degree of obscurity. Obviously the Apparel Industry has reflected a reduction in their direct and indirect contribution to the government coffer. We all know that the cause of the "shift" in the movements within the apparel industry is influenced by the World Trade Organization wherein among other things, United States lifted the quotas for the importation of apparel into the U.S. This puts the apparel industry in the CNMI at a competitive disadvantage.

I just learned that the U.S. Congress has introduced a Bill in the House to revise the ratio from 50 to 30 percent "added value" to the production of apparel in the CNMI. The reduction to 30% will enable the apparel industry to make a modest profit on their production.

B. The Tourism Industry:

In FY-1997, the CNMI enjoyed the highest number of arrivals into the CNMI. Of the 762,000 arrivals, approximately 80% came from Japan. Continental Airlines had 11 flights into Saipan daily. Northwest Airlines and United Airlines used to fly into Saipan also. Soon thereafter the "Bubble Busted" and the economy in Japan turned for the worse and the arrivals gradually dropped to about 400,000 overall

annually and slowly and gradually increased. Annually thereafter, Japan contributed about 70% per annum of the total arrivals. In FY 2005, (year just ended), we received a total of 529,557 visitors of which 71% or 376,263 came from Japan.

The withdrawal of Japan Air Lines in October of this year came as a big blow to the tourism industry. The total number of visitor arrivals from Japan during FY-2005 was 376,263. 175,465 passengers or 46.6% were brought in by JAL. 129,718 passengers, or 34.5% were brought in by Northwest Airlines. After the we learned that JAL was pulling out in October, Governor Babauta organized a delegation to call on Japan Air Lines to persuade JAL to continue flying their daily flights. On two different occasions, we pleaded with the top management of JAL to continue their service to the CNMI but with no avail. Governor Babauta lead the delegation on our second trip. I wish to mention that MVA, CPA Board members joined the Governor as well as Congressmen Joe Guerrero and Arnold Palacios. While in Japan, the delegation met with executives of Northwest Airlines and reached an agreement in principal, for NWA to substantially fill vacuum caused by JAL's withdrawal.

Beginning October 1, 2005, Northwest Airlines increased their seat capacity by using 747 aircraft with 430 seat configuration ex-Narita and 767 aircraft with 182 seat configuration ex-Osaka and one out of Narita-Nagoya. I am projecting that in FY-2006, NWA will have:--

- 90% load factor from Narita;
- 80% load factor from Nagoya, and
- 85% load factor from Osaka.

During FY-2004, NWA brought to the CNMI 129,718. For FY-2006 I am projecting that NWA will reach 225,562 arrivals. This will be an increase of 95,844 more passengers.

From August 2004 to July 2005, JAL and NWA combined brought in a total of 305,183 passengers. We are still short by 79,621 annually, or daily, 218 passengers. To make up for the deficiency in number of arrivals, we must find ways to increase their stay from 3.1 nights to 4 nights.

In addition to the three daily flights by Northwest Airlines, I noticed that PMT and R&C have positioned charters beginning from October to February of 2006. This will have about 4,400 passengers net increase.

The CNMI presently enjoys four flights weekly from China using 767 and Airbus. First 10 months of this year flights from Guangzhou, Shanghai and to a lesser extent Beijing, we welcomed 15,116 visitors from these gateways. These are all chartered flights flying back to back. I am confident that with an accelerated promotional effort, we will be able to see an increase in arrivals from China this fiscal year.

We continue to promote our destination in Japan, China, Korea and Taiwan. We have spent countless hours working with media visits from all the gateways and we are very optimistic that we will in due course see the fruit of our hard work.

I would be remiss if I didn't mention the splendid cooperation we are receiving from Asiana Airlines. The local Manager, Mr. Kim is a very aggressive should be given an increase in pay as I feel that he deserve a recognition with the way he has come up with ideas in routing their Japanese customers from 4 of their 17 Japan cities to bring them to Saipan via Seoul. We are presently studying the technical side of this endeavor and hope that we can truly make this project come true. They are also helping us in promoting the CNMI in many of the cities they serve in Mainland China.