

Present situation on U.S Maritime Transportation

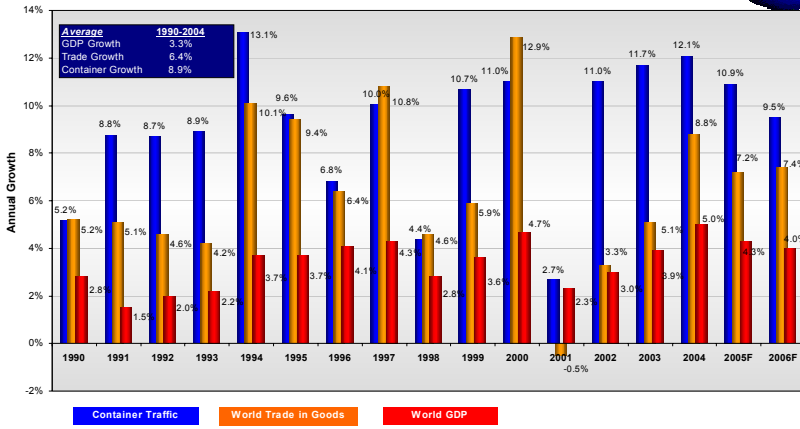
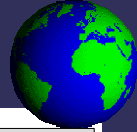
Eric Mensing,
Vice President Government Affairs/Government Trade
APL Limited
Wednesday 1 June, 2005

Content

- Globalization & World Trade
- Challenges
- **Current Environment**
- Medium Term Outlook
- Impacts and Response
- Conclusion



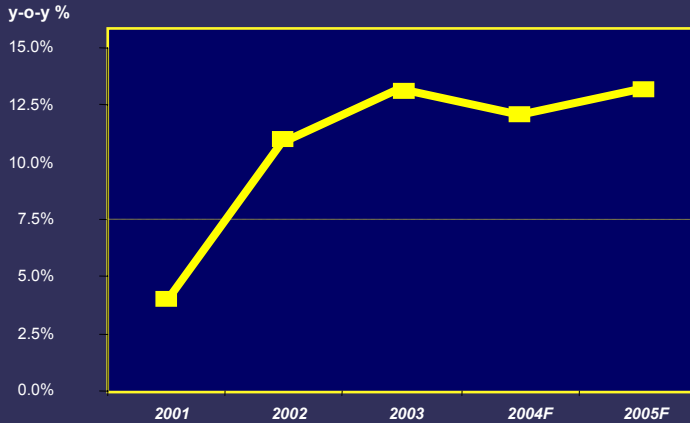
Global Trade - Overview



SOURCE: IMF /EIU/ DREWRY



Global Container Trade Growth



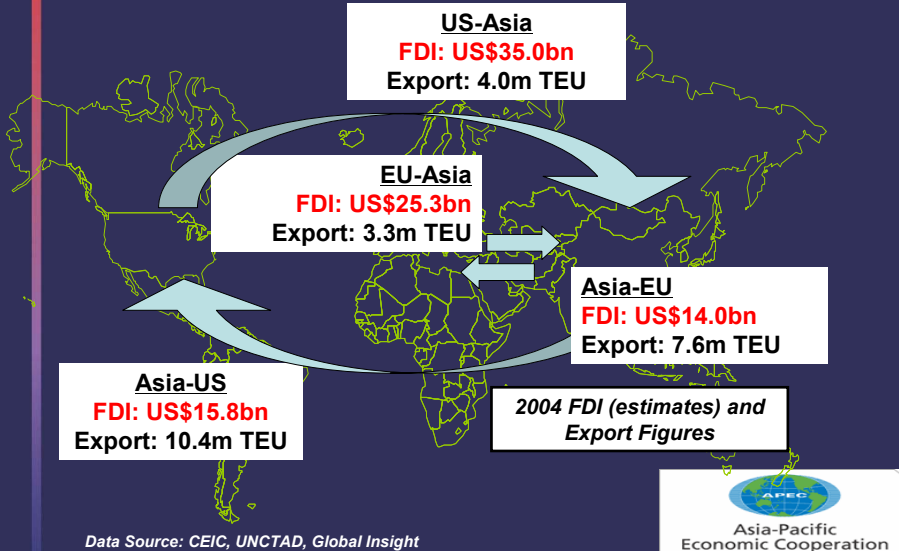
Source: Drewry Shipping Consultants – December '04



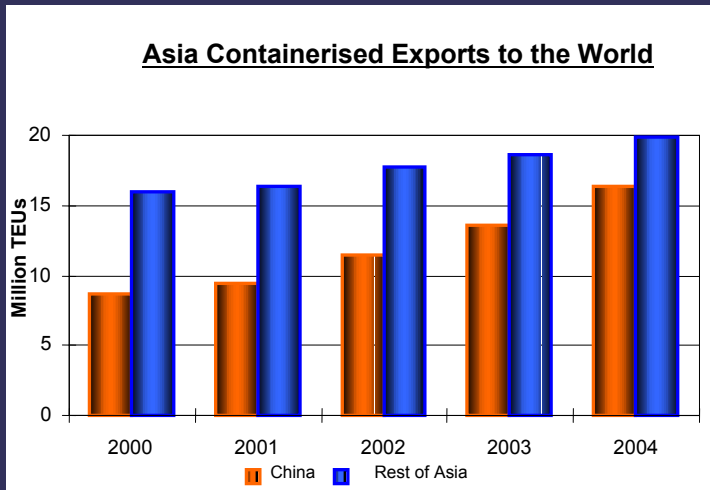


Globalization of National Economies

Economies around the world are interdependent



Asia Export (Origin) Growth

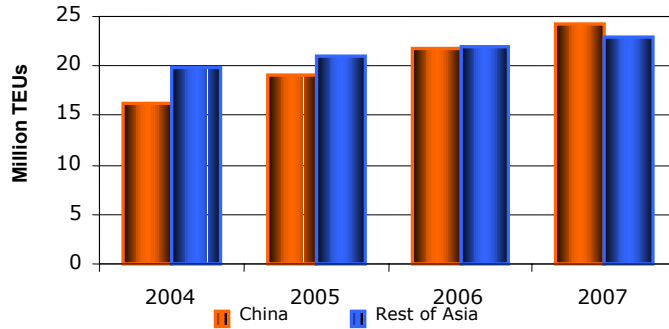




Forecast Origin Growth



Forecast Asia Containerised Exports to the World

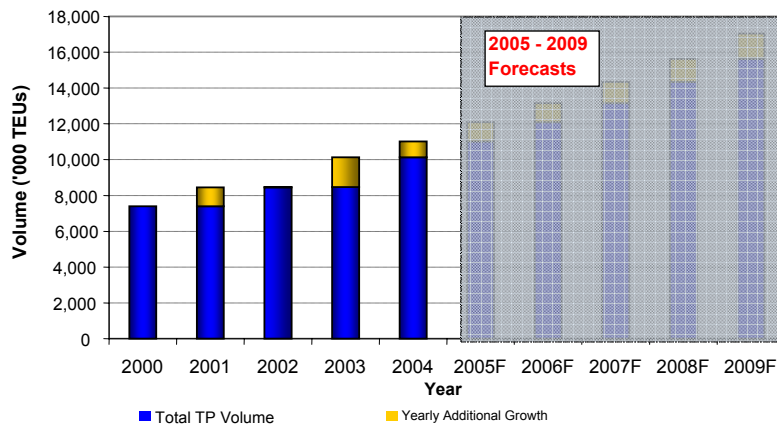


Source: Global Insight



Trans-Pacific Total Market growth trend 2000 to 2009(F)

Asia to US 2004 Volume profile

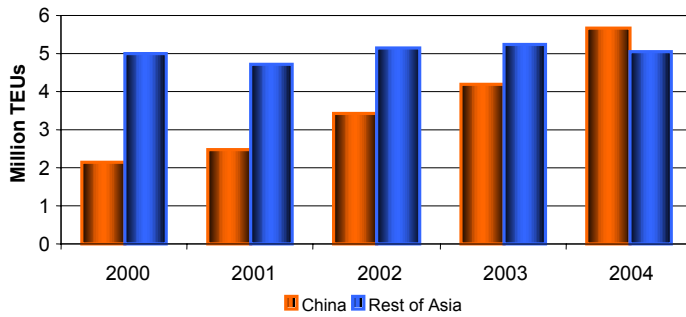




US Destination Growth



US Containerised Imports from Asia



Source: JoC

*note Asia - China, HK, Indonesia, India, Japan, Malaysia, Philippines, Singapore, S. Korea, Taiwan, Thailand, Vietnam



Challenges





Slow pace of development worsens port congestion

Analysts expect the problem to linger as Asian volumes to West may rise 16% in 2004.

By DONALD URQUHART
SINGAPORE — Congestion in the world's main container hubs — a new surge in China exports likely to be a major factor in a worldwide port capacity crunch — is likely to worsen as trade and shipping growth, says an analyst.



Europe View by Bruce Barnard
It's the transport, stupid
LONDON — European Union leaders will summit in Brussels this week to discuss long-held plans to capsize the EU economy about 20%.

Europe View by Bruce Barnard
Ports battle congestion
LONDON — The European Union will hold talks on Friday to discuss how to deal with the world's main container hubs.



Why? The U.S. economy has pulled out of its recession since 1990 and is now the world's largest public market and low cost manufacturing base.

In a jam
Ports scramble to relieve congestion as trade surges
With shipping delays already common, some terminal operators are searching for ways to increase the container terminal capacity.

Imports from China continue to grow faster than the capacity of U.S. ports and intermodal rail networks
BY BILL BONNELLY
SINGAPORE — Imports from China continue to grow faster than the capacity of U.S. ports and intermodal rail networks.

The volumes moving through the supply chains have expanded and while Asian ports continue to expand and improve productivity, the situation at destination is very different.



The Challenges

- Ports/Marine Terminals
- Inland Transport Infrastructure – Rail & Trucking
 - Rail terminals in the port areas; off dock as well as on-dock
 - Inland terminals (interchange rail terminals & destination ramps)
 - Rail Linehaul infrastructure
- Trucking shortages
- Security initiatives coming





Port Challenges

Trade Growth (head haul)

	2003	2004	2005 (F)
Trans-Pacific E/B	9.9%	14.3%	12.0%
Asia-Europe	17.5%	16.5%	16.3%
Europe-North America	1.2%	3.2%	1.5%
Aggregate	10.8%	13.5%	12.1%



Port Growth (MM TEU)

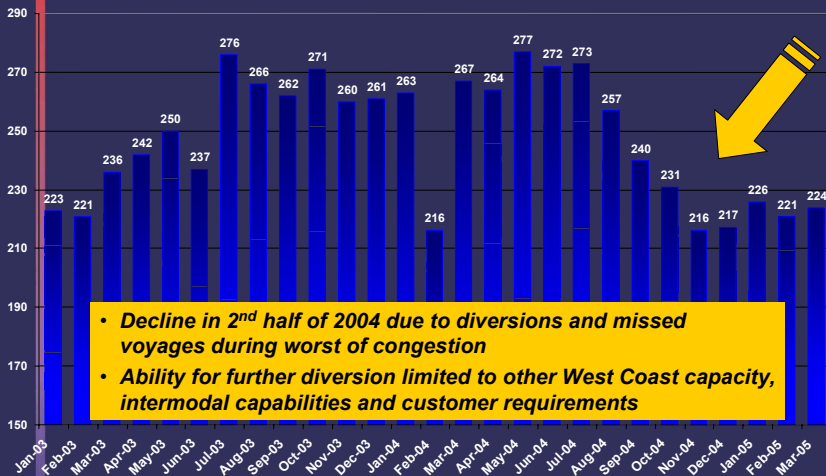
	2002	2003	2004	02-04 Pct
LA/LB	10.64	11.85	13.10	23.1%
NY/NJ	3.75	4.07	4.48	19.5%
OAK	1.71	1.92	2.04	19.3%
SEA	1.44	1.47	1.78	23.6%

Source: Ports



Southern California Vessel Calls

Vessel Arrivals : Los Angeles / Long Beach

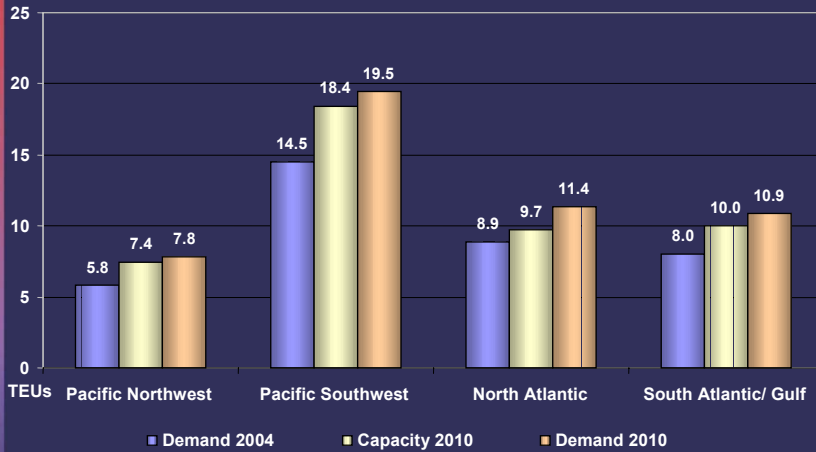


- Decline in 2nd half of 2004 due to diversions and missed voyages during worst of congestion
- Ability for further diversion limited to other West Coast capacity, intermodal capabilities and customer requirements





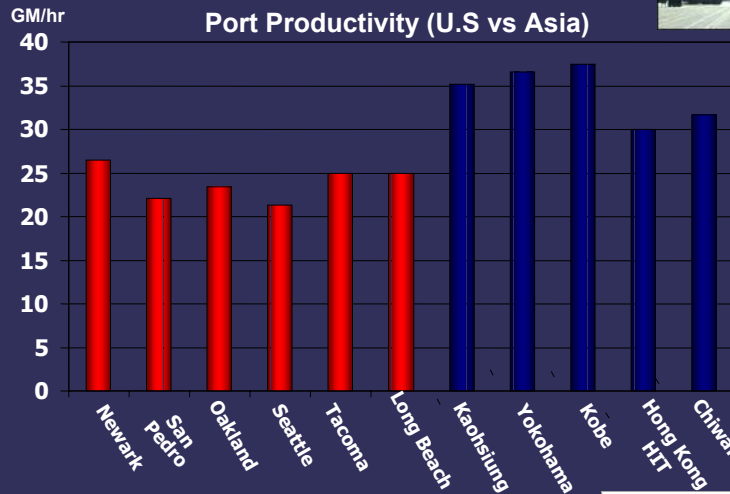
Forecast Port Capacity/Demand



Modern Terminals Limited



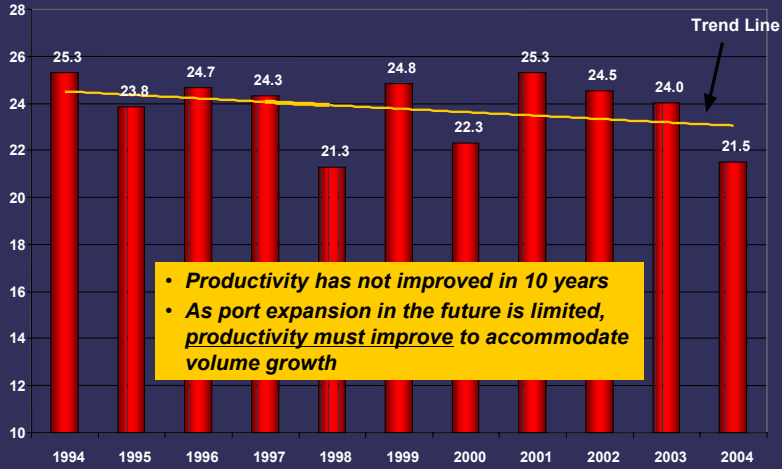
Port Productivity Is An Issue





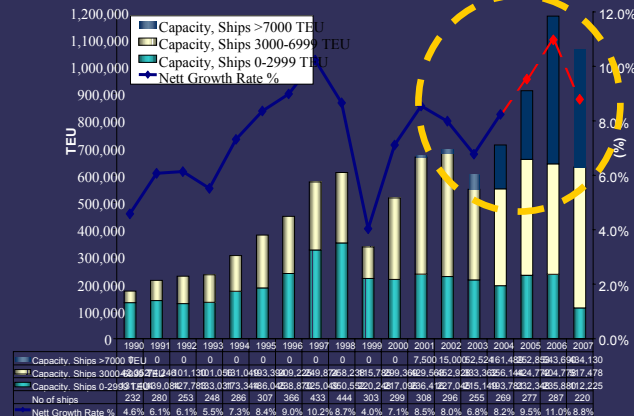
Port Productivity

San Pedro Productivity (lifts/gang hr)



Impact of Larger Vessels

Newbuilding Deliveries and Net Capacity Growth Rate (1990 ~ 2006)



Source: MDS /NOL SPD Nov 2004





Rail Challenges



Rail Network Is Struggling

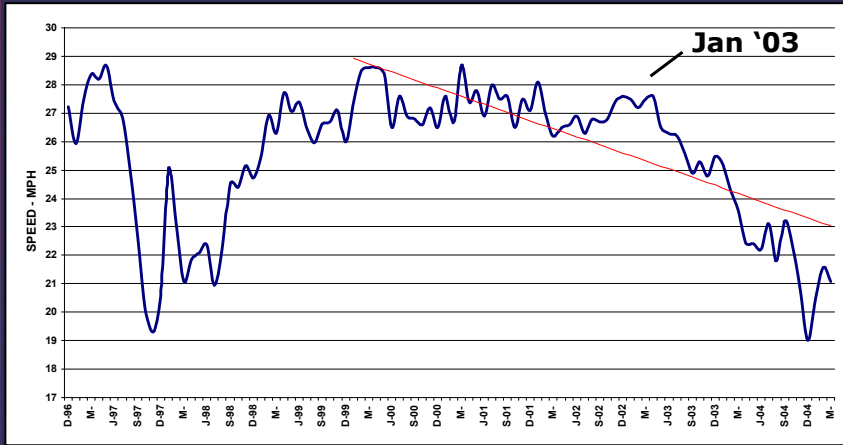


- Internal rail commodity markets (eg. grain/coal) competing for scarce resources
- 2-3 day transit delay the 'norm' even in "slack"; 4-6 days common, worse at the peak of congestion in 04'
- Wide swings in volume and asset velocity
- Any improvement in port transfer facilities pushes problems to next choke point
- Inland terminals suffer from insufficient capacity and bunching/surges of cargo
- Shortages of locomotives as they are trapped in a less fluid rail network





Loss in Rail Velocity: '97 - '05



Trucking Challenges



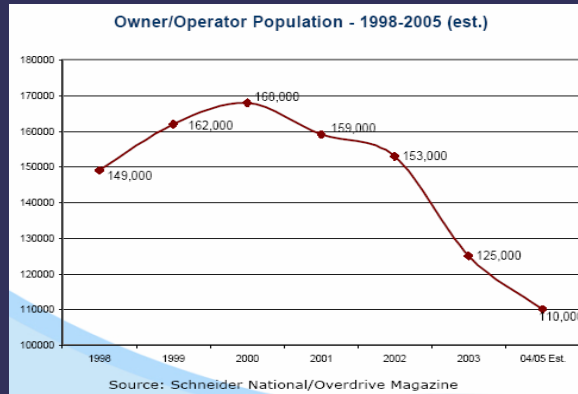


Trucking Challenges



➤ Driver shortages

Estimated 200,000 drivers have left the business since 2001



Asia-Pacific
Economic Cooperation



Trucking Challenges

➤ Increased operating costs

➤ 2004 federal and state laws

✓ Reduce daily and weekly driving hours. Up to 12% revenue reduction annually to drivers

➤ Fuel prices rising

✓ \$2.24 a gallon March 2005 compared with \$1.40 in 2002



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Current Environment



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Major Ports/Hubs in North America



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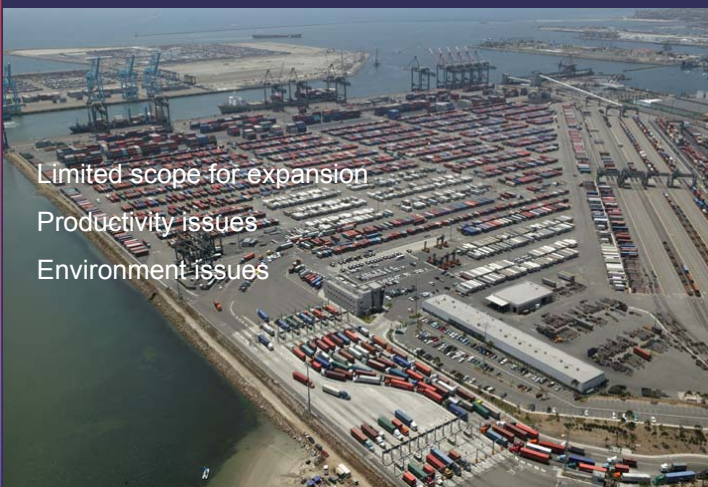
Port of LA April 2005



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Port of LA



Limited scope for expansion
Productivity issues
Environment issues



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Economic Cooperation



Major Ports/Hubs in North America



Asia-Pacific
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Chicago April 2005



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Major Ports/Hubs in North America



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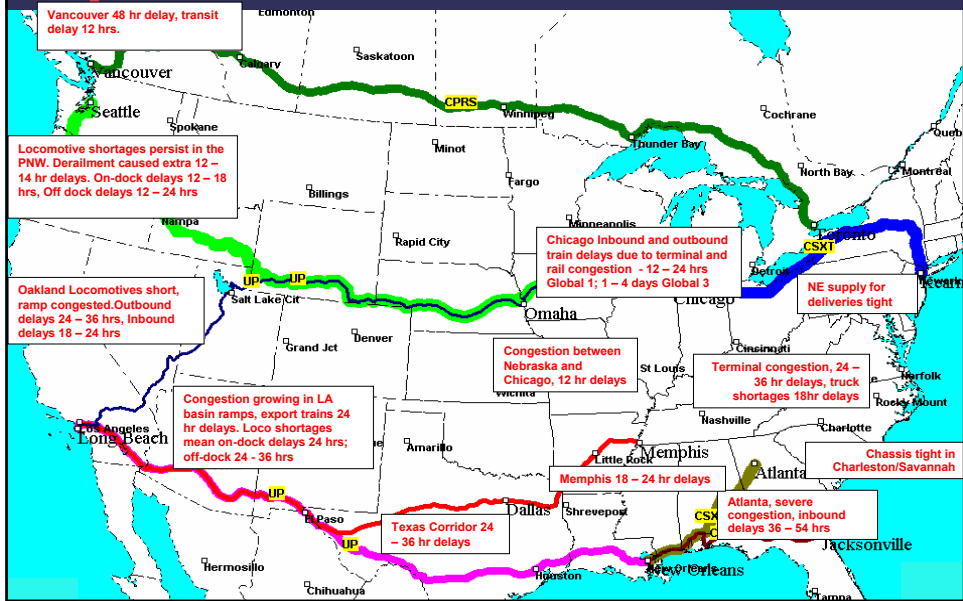
PNCT April 2005



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Intermodal Network – April 2005



Medium Term Outlook





Medium-term Outlook

- Continued growth in demand (around 10% pa)
- New vessel capacity as carriers respond to demand which will eventually lead to over-supply at some point
- Worsening port and intermodal congestion
- Diversion to other ports but LA/Long Beach will remain primary gateway in terms of volume
- Intermodal network will continue to suffer from lack of capacity and erratic service reliability
- Recovery from adverse events will be slower
- The Panama Canal will become a limiting factor in maintaining throughput reliability



Medium-term Outlook

- Supply chain velocity will continue to slow
- Shippers/importers will rethink and adjust their supply chains, but much of the investment has been made and resources already committed...not necessarily where it needs to be going forward
- Cost will escalate for all parties in the chain
- Higher costs will begin to flow through to consumers
- There are actions that could be taken to mitigate the impact





Impacts and How We Should Respond

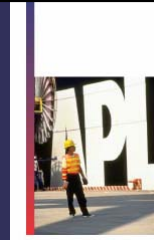


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Impact on Customers

- Deterioration of service reliability -- more in some tradelanes than in others
- Supply-chain impacts:
 - ✓ Purchasing and shipping patterns
 - ✓ Distribution and warehousing
 - ✓ Inventory
- Increased costs
- Critical need for flexibility/options in supply chain design and support of service providers



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Industry Response Required



Ports/Labor

- Faster growth in terminal capacity expansion
- Increase productivity
- Attitude toward embracing new technology has to change
- Improve labor-management relationship
- Better forward planning
- Coordination with Railroads to improve flow from terminal to rail



Industry Response Required



Intermodal

- Faster growth in linehaul and terminal capacity expansion
- Consistent investment in locomotives, crews, and equipment
- Greater cooperation between railroads
- Run a more disciplined, scheduled operation
- Better forward planning to accommodate growth





What Carriers Can Do



- Change our networks:
 - ✓ Continue to develop service options to provide capacity to other than the LA/LB basin, e.g., PNW, USEC All-Water until those options exhausted
 - ✓ Make adjustments to port coverage and service design
 - ✓ Shippers and carrier work together to improve forecasting of demand; move some cargo off-peak to the extent possible
- Continue to seek the very best that the U.S. rail carriers can provide in service and ongoing capital investment



What Carriers Can Do

- Continue to engage with Government
- Work to bring about change in the relationship between the industry and labor on the U.S. West Coast





Hurdles

- Poor understanding of the magnitude of the problem
- Downstream effects yet to be felt by U.S. consumers
- Public v Private agendas – no guarantees that what money is available will be directed to high-priority needs
- Private sector struggling, with industry returns below the cost of capital and investment levels at risk
- A labor environment of limited productivity and unconstructive labor/management relations



Hurdles

- Environmental constraints that inhibit or significantly delay critically needed development
- Realities of competing priorities and limited Federal/State funds
- Translating an understanding of the problem by DOT officials into timely action by Congress
- The doing.....the scale of the undertaking is enormous!





Where Can Government Help?

- Ensure collaborative long-term planning across entities (public, private) and modes
- Ensure public entities are organized and encouraged to co-operate across modes
- Balance private/public expansion requirements with environmental issues
- Prioritize infrastructure spending and reduce bureaucracy/barriers
- Increase funding/methods, incentives and access for infrastructure improvements
- Engage with industry and labor to stimulate a means of improving productivity



Where Can Government Help?

- Pursue legislative action to provide the private sector with incentives (e.g., investment tax credits) to accelerate infrastructure investments
- Work with State Government to minimize conflicting legislative agendas





Process of Engagement with the U.S. Government (DOT)

- APL embarked on a effort to engage with the DOT to assist their understanding of the challenge our industry and our customers face
- The process has progressed to a joint undertaking including APL, our customers and the DOT
- Recognizing that the effort must be broader-based, Chris Koch and the World Shipping Council (WSC) have taken the lead for our industry in a focused effort to work with the DOT and others here in Washington
- APL facilitated a meeting with the DOT including; Dell, Target Stores, Nike, Newell Rubbermaid, Toys-r-Us and representatives of the NITL, RILA and the WSC to advance discussions further



Process of Engagement with the U.S. Government (DOT)

- Secretary Mineta toured the Hongkong Harbor aboard the APL's Junk along with a group of our customers including; Sears/Kmart, Federated Stores, The Limited, Dell, JCPenny's, and others
- The visit provided the Secretary with an opportunity to hear directly from some of the largest importers into the U.S. of the challenges they face
- APL will continue to support the collaborative effort with Government, business and industry aimed at bringing about improvements to throughput in the U.S.



Conclusion



Conclusion

- Market growth is currently far outpacing infrastructure development and will continue to do so
- Infrastructure congestion will be with us for years
- Similar challenges outside the U.S. will exacerbate the problems in the U.S.
- Transport and supply chain costs will continue to increase and flow through to U.S. consumers
- The U.S. is exposed to the risk of a major breakdown in the flow of commerce that will have a significant impact on the U.S. economy



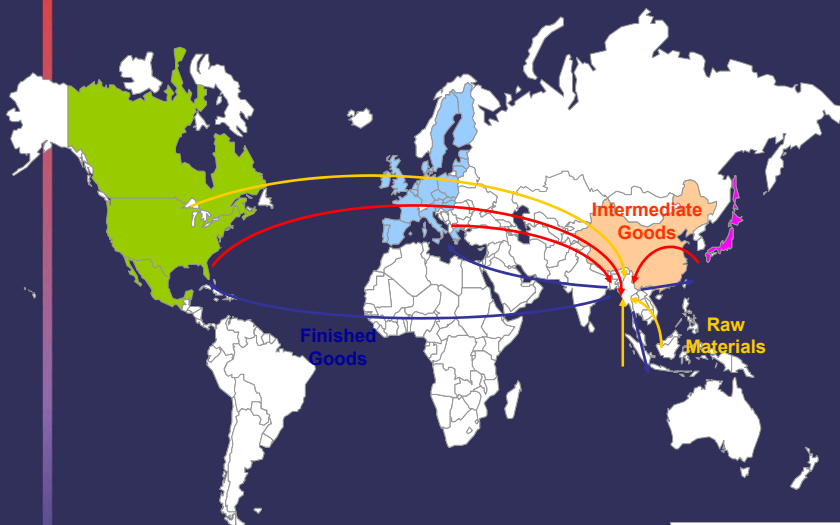
Conclusion



These problems cannot be solved by the private sector alone...and addressing in a more robust manner the problems that put the flow of commerce between APEC countries at risk and needs to be a priority



Complex Supply Chains

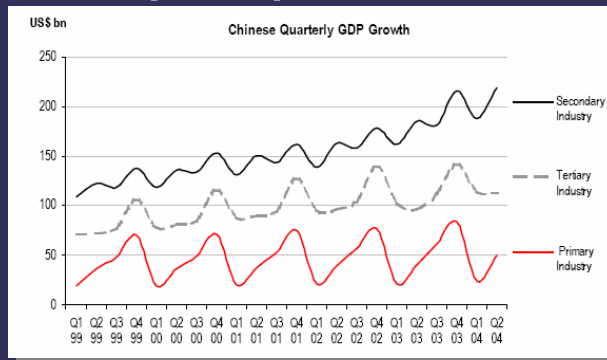


Globalized Manufacturing





Commentary/Analysis: HSBC



"The fastest-growing sector of the Chinese economy has been the secondary industry - energy, process industries, textiles, steel, automotive - all heavy users of imported raw materials and semi-finished goods. The boom in commodity imports and rising energy demand are in part the product of FDI and 'outsourced' manufacturing from developed economies."

Moving Business Forward



Commentary/Analysis: Deloitte

Deloitte Research study of nearly 800 companies Globally, combined revenues of close to US\$1 trillion:



- Over the next three years, 55% of NAM manufacturers and 39% of W European manufacturers plan to enter or expand their sourcing in China."
- "Road, air and rail transportation systems have trouble keeping up with the requirements for a 21st century supply chain."
- "Manufacturers that underestimate the strain on the global network and have limited insight into the true cost of products sold can jeopardise their investments and growth plans."
- Global expansion is inevitable. Vast new markets await most manufacturers in areas such as China, India, Eastern Europe, and South America

Moving Business Forward



The All-Water Option?

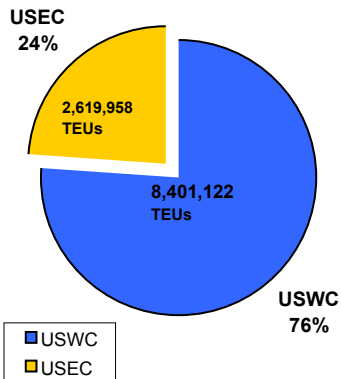


Moving Business Forward

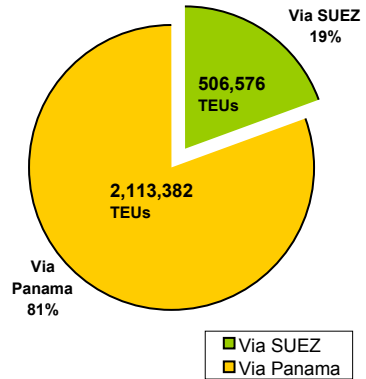


Trans-Pacific All Carriers profile – 2004 (Total volumes & East Coast)

Asia to USA Total Volumes



Asia to US East Coast Volumes

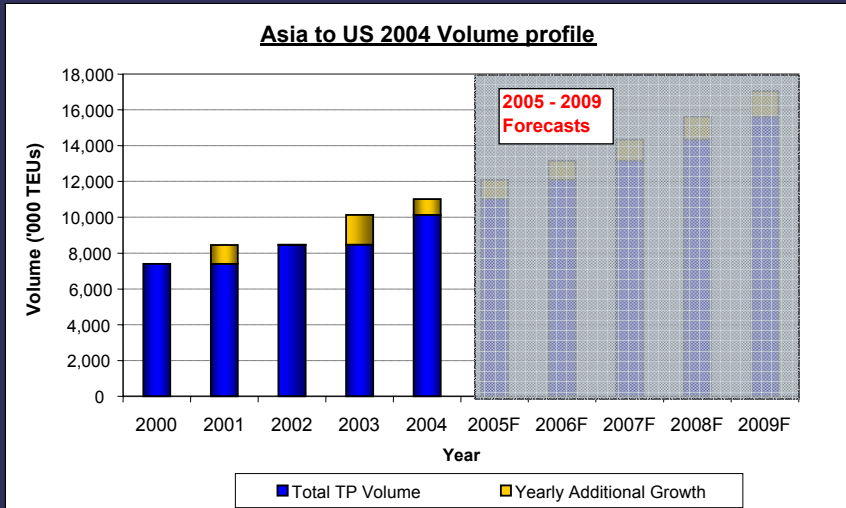


- US East Coast (via Panama) 2004 volume growth 19%

Moving Business Forward



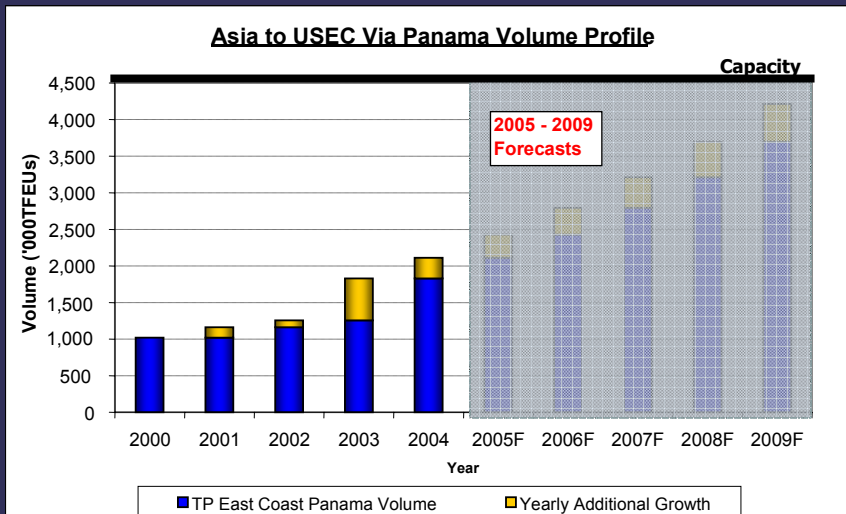
Trans-Pacific Total Market growth trend 2000 to 2009(F)



Moving Business Forward



Trans-Pacific US East coast growth trend 2000 to 2009(F)



Moving Business Forward



Panama Canal Demand vs Capacity

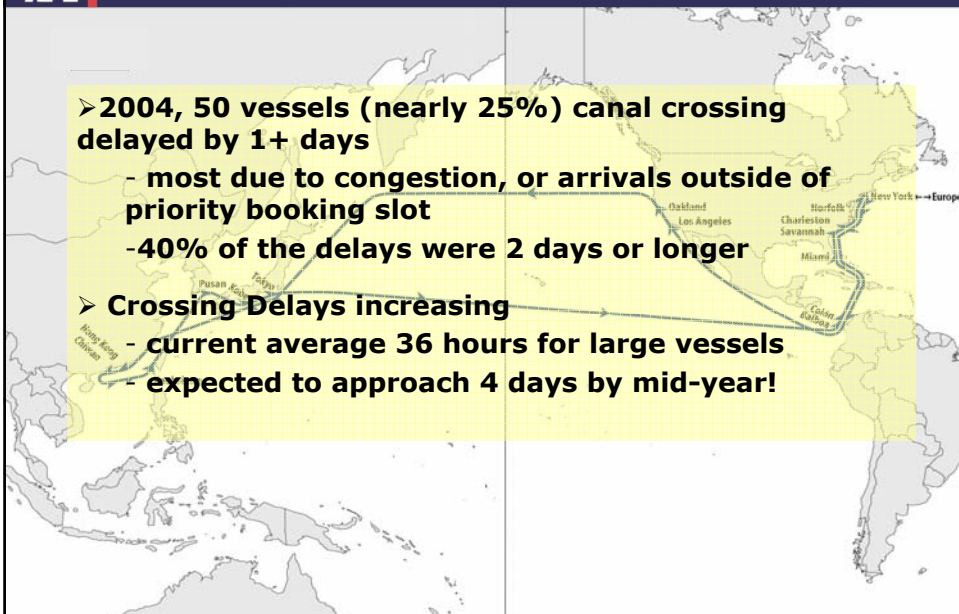


- TP USEC (via Panama) grown
 - **20%** per year 2000 – 2004
 - **27%** 2003 to 2004
- Forecast to be saturated by 2007-2008 timeframe – will occur earlier by our experience
 - Not “ **If** ”, but “ **When** ”
- No material increase in Panama Canal capacity expected until 2012-2015
- Currently about 50% of all container vessels are Panamax size, however as of today there is insufficient tonnage available to meet the demands
- The Priority system that has worked in Panama for many years must be adjusted to support weekly liner services to operate reliably

Moving Business Forward



Transpacific USEC Service Structure

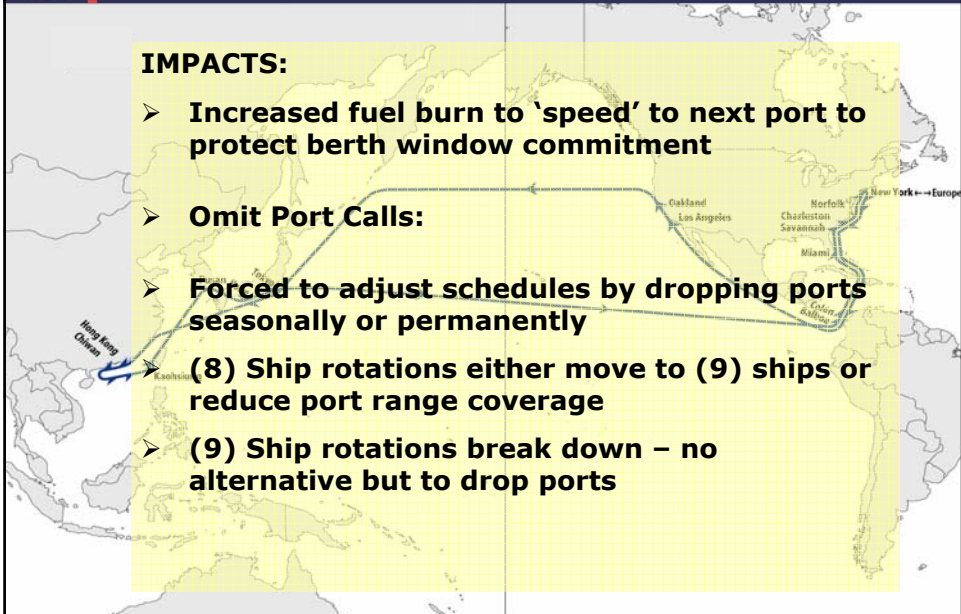




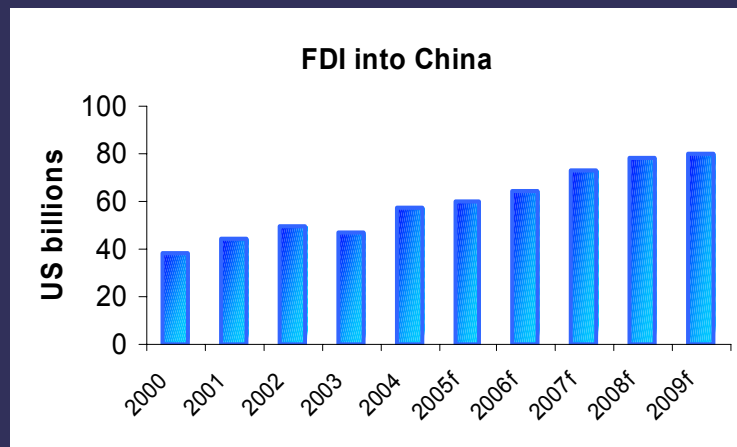
Transpacific USEC Service Structure

IMPACTS:

- Increased fuel burn to 'speed' to next port to protect berth window commitment
- Omit Port Calls:
- Forced to adjust schedules by dropping ports seasonally or permanently
- (8) Ship rotations either move to (9) ships or reduce port range coverage
- (9) Ship rotations break down – no alternative but to drop ports



Foreign Direct Investment Growth



Source: EIU

