

David Harrison

3rd Intermodal Asia 2006 Launch

26 October 2006

The Honourable Paul Lucas, Minister of Transport and Main Roads, Queensland Government.

Our conference moderators – Mike Mundy of Mike Mundy Associates, London and Ben Hackett of Global Insight, Washington DC.

Distinguished guests - Siyabonga Gama of Spoornet, Johannesburg and Dr. Juergen Sorgenfrei of the Port of Hamburg.

The event organisers - Rory Doyle of Transport Events Management, Kuala Lumpur.

Members of the press, ladies and gentlemen.

Welcome everyone and thank you for joining us to celebrate the opening of 3rd Intermodal Asia 2006, proudly hosted by Port of Brisbane Corporation.

It was over a year ago when we first began discussions with Rory and his team at Transport Events, to draw such an event to our Queensland here at sunny Gold Coast. Being Australia's fastest growing container port we felt it was a perfect synergy.

International container shipping is one of the most dynamic economic sectors of the last few years. Between 1990 and 2005 container trade at the world's ports expanded by 10% p.a. on average, with over 11% in 2005 alone. In 2005 the volume of trade reached about 114 million TEU. This sector greatly surpassed seaborne trade overall and even the growth in international air transport.

Like this convention, international container trade bodies are continually conducting research studies, seminars and debates to endeavour to keep up-to-date and forecast the growing changes affecting intermodal trade. For example, according to a recent study conducted by Deutsche Bank Research, the outlook for container shipping is that overcapacity is inevitable.

Some of the major reasons for this growth in container shipping are, on the demand side, increasing international division of labour in the course of liberalisation and resulting trade movements; and the rise in importance of goods eminently suited to transport by container. On the supply side, considerable expansion of the container ship fleets and faster loading and unloading of container ships are playing an important part; they allow short turnaround times in port.

This growth in international container shipping will continue for the next 10 years, with only a slightly reduced impetus. Forecasts show an annual growth of about 9% in container handling up to 2015. The main routes that are likely to achieve the greatest expansion include intra-Asian transport as well as the routes from North America and Europe to Asia. In contrast, transport between North America and Europe will increase less strongly.

Despite increasing demand for container transport, until 2008 freight charges will probably stay below the level of the last two exceptional years. The main reason is the anticipated massive expansion of global container ship capacity. Between 2006 and 2008 available container capacity worldwide will expand by about 50%. The shipyards' long order books for container ships, argue against a rapid redress of excess supply, however freight rates are still above the levels of 2001/2002.

Compared with the other types of maritime transport, container shipping is still a young sector, but interestingly Container handling is growing faster than container trade. The main reasons for the increasing proportion of transshipment are the mounting importance of larger container ships and the associated economies of scale; as well as the increasing degree of containerisation even at smaller ports. The proportion of transshipment traffic rose from 11% of total container handling in 1980 to over 27% last year.

There are a large number of reasons for this growth, including outsourcing and off shoring being a main driver for container shipping. From an economic point of view the sector is benefiting from further advances in international division of labour and decentralisation of production processes.

The transport of temperature-sensitive goods is also no longer a problem, as reefer containers have been developed. This freight structure effect, which will continue in the future, has given a lasting boost to the demand for container transport.

Considerable expansion of capacity is in sight, with a focus on large ships. According to BRS Alphaliner, at the start of 2006 shipyards worldwide had orders for close to 1,230 container ships, with container capacity of 4.45 million TEU. More than half of the capacity is in ships with a size of 5,000 TEU and over. The total order books are equivalent to 54% of the size of the fleet currently in service. As deliveries will take place in 2006 and the following two to three years, the expansion of capacity will meet demand that, although still strong, is expanding more slowly than in the last few years. An excess of capacity is therefore inevitable.

Consolidation of shipping companies is also expected. In the last few years the sector has been characterised by a few spectacular takeovers. First and foremost was the purchase of P&O Nedlloyd by Maersk, by which Maersk improved its leading position in global container shipping. An important reason for the takeover was to be able to quickly respond to increased demand with its own capacity. In the coming years further consolidation is likely.

The catalyst could be the coming overcapacity in container shipping (particularly in large tonnage), as this will put pressure on charter and freight rates and will therefore negatively influence the economic prospects of the shipping companies. However, increasing overcapacity clearly also reduces the incentive to expand a fleet by purchasing competitors.

Port capacity is therefore a key reason for bottlenecks in the logistics chain. Most market watchers expect that charter- and freight rates will suffer only moderate decreases in the next two to three years. In fact, there are several reasons why they will fall much less sharply than they did in 2001 and 2002. For instance, in the next two to three years, part of the overcapacity will be absorbed in capacity bottlenecks at major ports. As some harbours, for example on the west coast of America, are already almost chronically overloaded, in many cases in the past ships have had to wait outside harbour for several days before they could be unloaded and then take on a further cargo. These

long waiting times tied up shipping capacity, which was not then available for other transport. In addition, in future some ports will not be able to satisfy the requirements that result from the use of large container ships. These concern for example the maximum draught; the capacity of the terminal and storage; and sufficiently good and fast connections to the hinterland.

Trade imbalances between important maritime countries and an increasing proportion of longer transport routes also tie up capacity and could therefore partially offset surplus capacity. For example, demand for containers to be transported eastwards across the Pacific outstrips the demand for container capacity in the other direction by 2.5 times. This inevitably results in a high proportion of empty containers that are not available for other transport. On balance, it is clear that, until 2008, overcapacity in global container shipping is inevitable.

When looking at international ports, China dominates international container shipping. The importance that China now has in container shipping can be shown by looking at statistics for container ports. Of the 25 largest container ports in the world, 16 are in Asia and seven of those are in China. In North America, however, there are only three of these ports; in Europe six. Three of the four largest container ports in the world are in China. It is not just the size of these ports that is phenomenal but also their level of activity. Container handling in Shanghai, for example, increased by just under 820% between 1996 and 2005, while in Shenzhen, the “shooting star” of container ports, the increase was 2,650%.

The growth alone of these two ports in the last three years is more than the total annual number of containers handled in Hamburg, Europe’s second-largest container port. This growth was made possible by an enormous expansion of capacity in these ports.

Asia is also dominant in transshipment traffic: the six ports with the highest volumes of transshipment are located there. Singapore is, by a large margin, the largest hub.

Over 80% of the containers handled there are in the transshipment category; this high proportion is clearly due to the relatively small home market. In 2005 the city state took over from Hong Kong,

whose port is suffering from increasing congestion, as the largest container port in the world. Even some Mediterranean ports have an unusually high proportion of transshipment. This is also and especially true of the port of Tanjung Pelepas in Malaysia, which has a transshipment level of 96%.

Looking at this growth, international ports have to ask themselves, can we keep up not only now but well into the future? Being Australia's fastest growing port, located in Australia's fastest growing region, the Port of Brisbane can certainly relate to the ongoing challenges international ports face when addressing industry and external demands for; additional port capacity and storage facilities; channel deepening; innovative crane and straddle carrier upgrades, and balancing environmental constraints and urban encroachments.

I hope the sessions over the next two days give you all a further insight into these intermodal trends, contributing to what is one of the most dynamic international sectors.

On behalf of the Corporation, I would like to thank all delegates attending this conference as well as our exhibitors for contributing to the success it is.

Thank you and enjoy.

Briefing for Session 1

Welcome everyone to the first session

Rory will introduce you as the Conference Chairman for the morning session of the programme

Speaker introduction

Welcome to the first session for the conference. Thank you Australian International Container Terminals for sponsoring today's conference refreshment breaks.

We are fortunate to have four speakers this morning using their extensive industry experience and knowledge, to discuss and address different issues and opportunities relating this mornings session - *The Impact of New Dynamics on Globalisation and Port Development*

(Introduce speakers)

If you have any questions for the speakers please leave them until the end of the session where we have allocated time for Questions and Answers.

Speaker 1 (10:40 – 11:05am)

Guy Reynolds, Senior Consultant

Meyrick & Associates Pty Ltd., Australia

Reshaping a Port's Strategic Role - Providing an Overview of Port Development - Adapting to Challenges and Changing Trends

Speaker 2 (11:10 – 11:35am)

David Bayne, Associate

Drewry Shipping Consultants Limited, Australia

Port Economics - The Business Case- Current Best Practice

- *Differential Returns for the Port Authority and the Operators*
- *Restricted Pricing Practices*
- *Comparative Port Practices - Benchmarks*

Speaker 3 (11:40 – 12:05pm)

Graham Hooper, Director, Transportation

Maunsell, Australia

Port and Intermodal Infrastructure Development

- *Constraints*
- *Current Major Challenges*
- *Lessons Learned*
- *Commercial Drivers*

Speaker 1 (12:10 – 12:40pm)

Ben G. Hackett, Executive Managing Director, International Trade and Transportation Service

Global Insight, Inc., USA

An Overview of the Economic, Financial and Industrial Status Quo and Forecast in Australasia

Session Overview and Closing (12:40 – 1:00pm)

Thank you Guy, David, Graham and Ben again for speaking today. Does anyone have any questions?

Today's conference delegates' lunch is kindly sponsored by Pacific National and Nolan Fernandez from Pacific National would like to say a few words.

Nolan says a few words...

Thank you Nolan. Before I close this first session, I understand Rory would also like to say a few words.

I will present you with a commemorative conference chairman's gift.

Thank you for the gift everyone and we look forward to seeing everyone back here at 2pm!