ASIAN CONTAINER TRADE: THE NEW BULL MARKET

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THE BACKCLOTH...

China Globalisation

- In 2003/04 it became apparent that global production was progressively moving to China. Globalisation in effect took off.
- This was reflected in China's GDP which in the last quarter of 2004 was as high as 9.5%.
- And there are more practical indicators:
  - 25% of the world's television sets are now made in China.
  - 25% of the world's washing machines.
  - 25% of the world's garments

MARITIME TRADE GROWTH –

The Globalisation Factor

China Trade Growth Volume by Sea:
The Impact on Two Main Arterial Routes (by%)

Year	To Europe	To USA
2000	14.6%	
2001	12%	12.6%
2002	37%	20%
2003	42%	7.5%
2004	20%	15%

Source: MMA

(The China Factor) Demands a System Response – The Asia/Europe Example

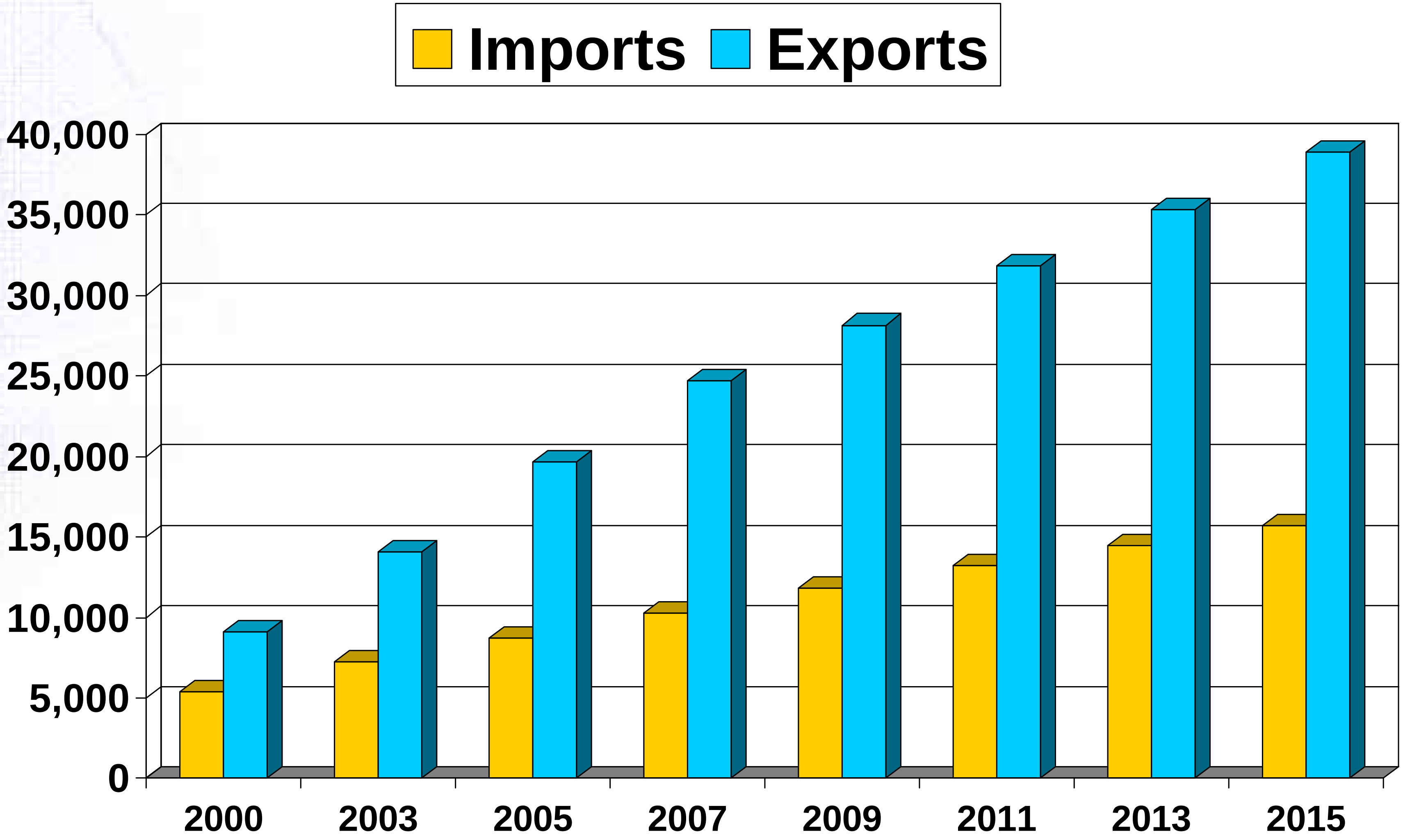
The Asia-Europe Example:

Year	Capacity	Increase
2002/03	14%	
2003/04	22%	

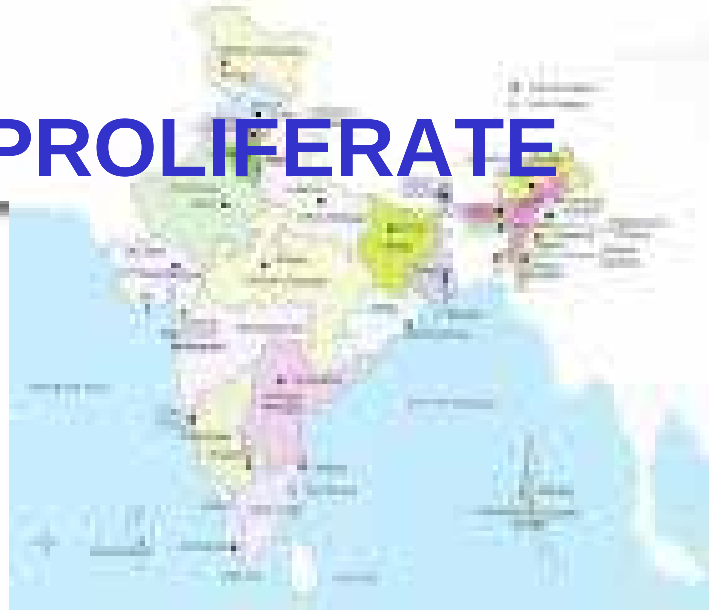
A response that has been mirrored in other key trades

FURTHER EVIDENCE

And the Trend Set to Continue



GLOBALISATION SET TO PROLIFERATE



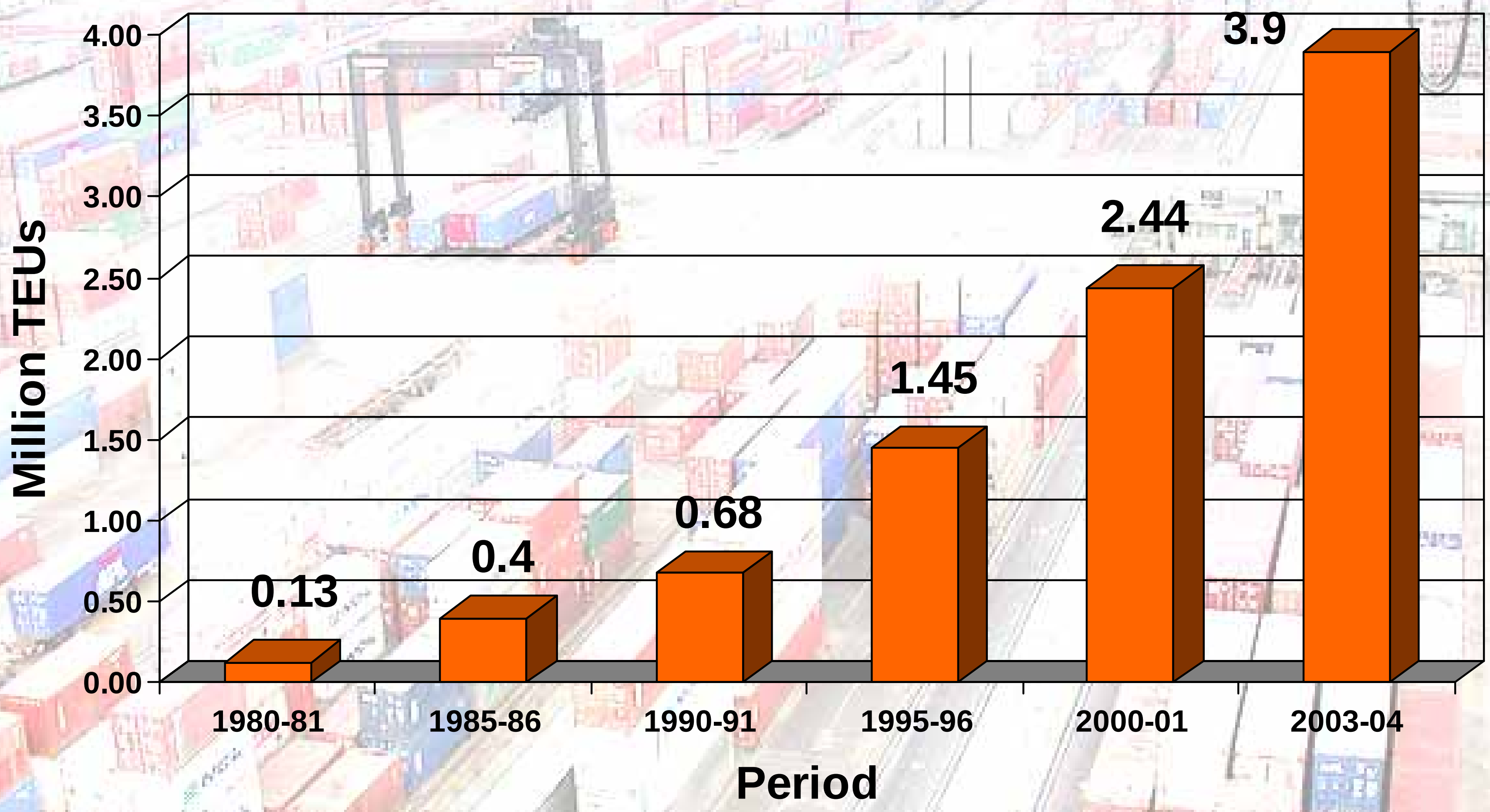
India is cited by many as the next on the agenda as a major production Centre.

The globalisation engine will not stop.

- In September 2005 the UNCTAD Trade & Development Report highlighted the relentless surge of the Chinese and Indian economies.
- India is a country of more than one billion people – offering huge low cost and often skilled labour markets.
- India's GDP in 2004-05 was 6.9% and in 05-06 is forecast to be 8+%.
- India is second only to China in the world economic league – it has a growth rate of nearly eight percent.
- Exports now account for more than 10% of India's $661 billion economy and are climbing fast.

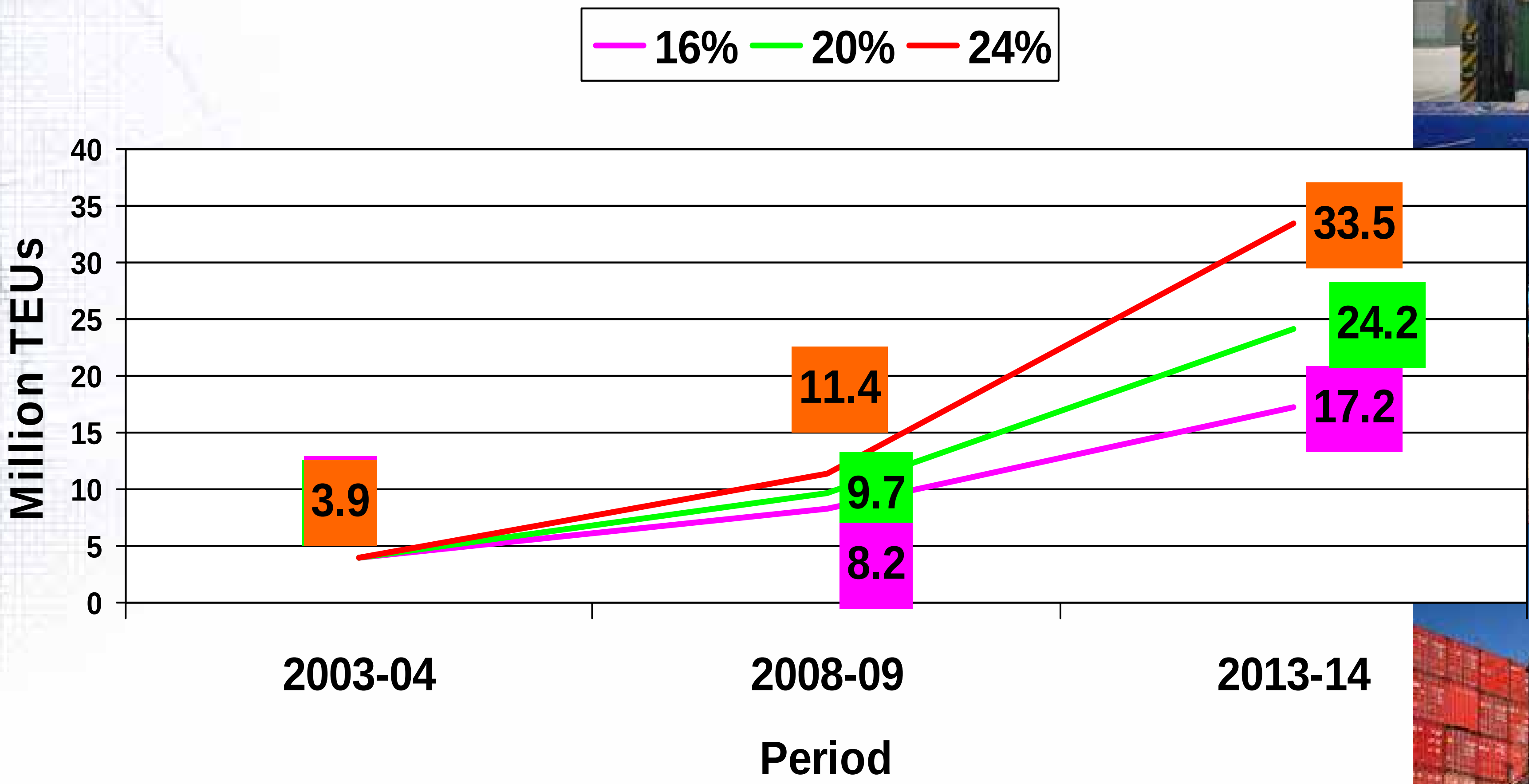
INDIA: THE CONTAINER PICTURE

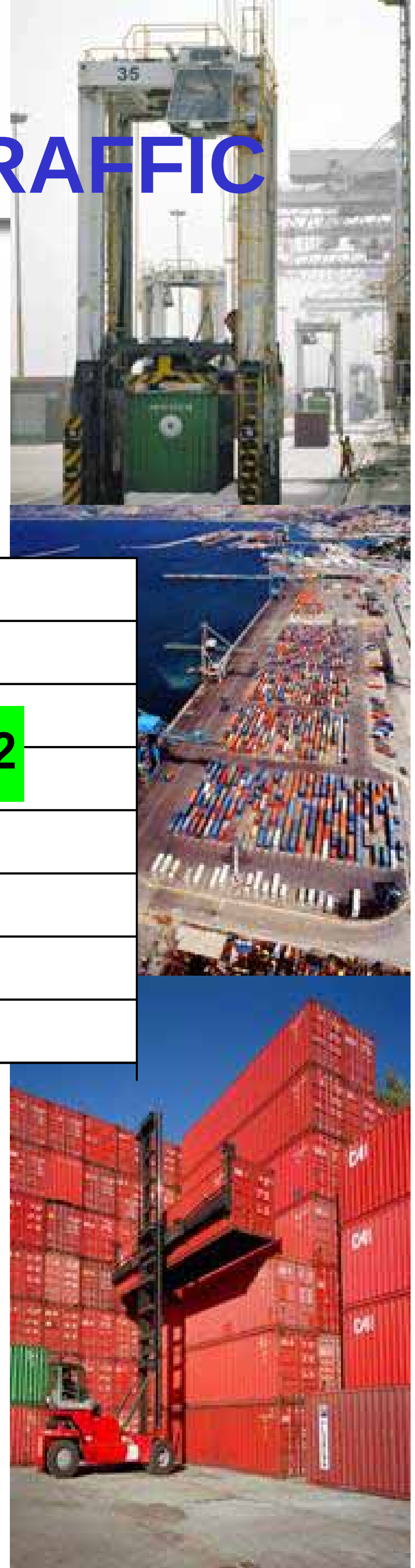
The globalisation factor seen in container terms



Source: MMA

INDIA: FORECAST CONTAINER TRAFFIC

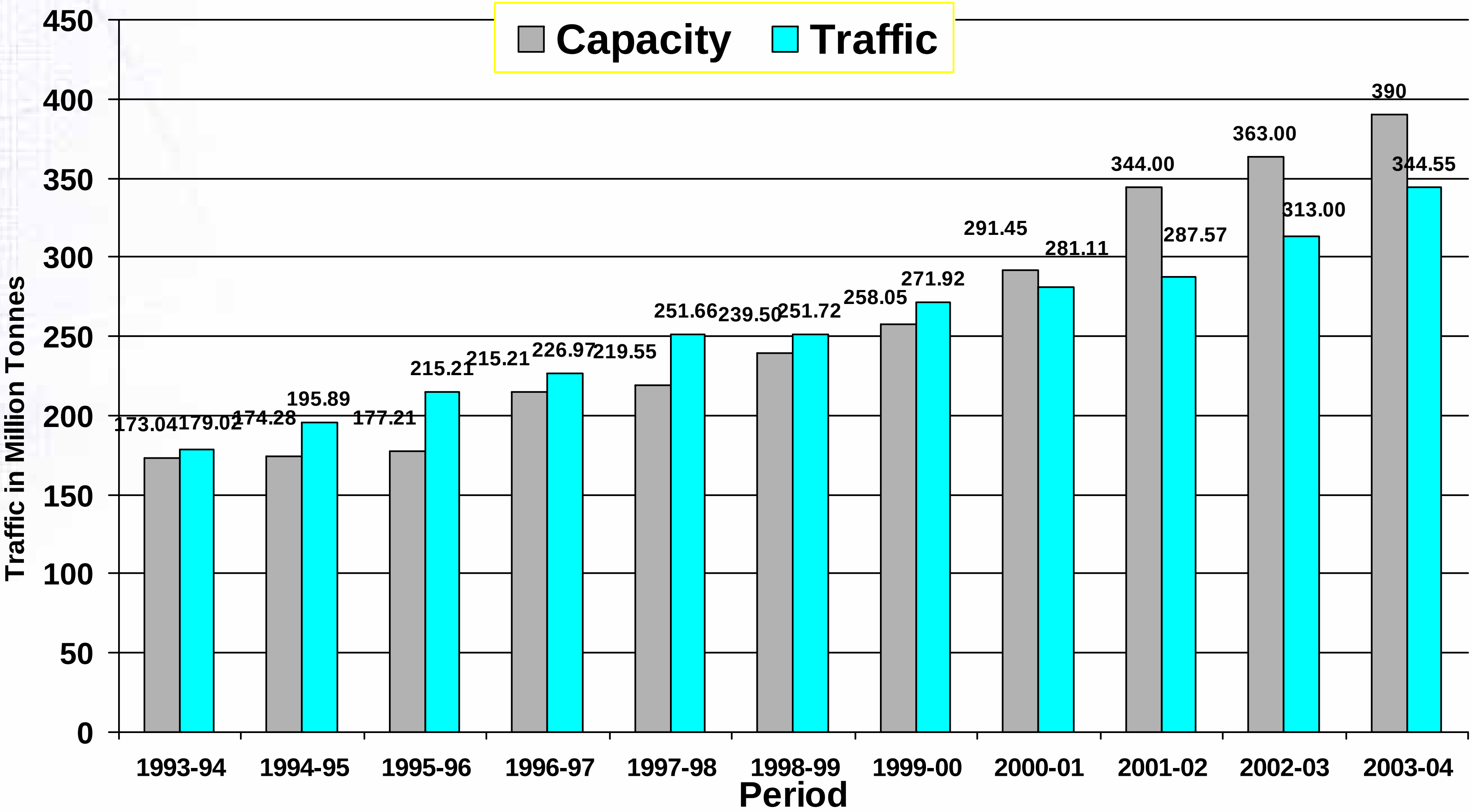




Source: MMA

INDIA: THE CAPACITY EQUATION

Demonstrates how globalisation can place major strains on infrastructure and how basic infrastructure development is essential to facilitate the globalisation trend.



Source: MMA

INDIA: THE CAPACITY EQUATION *(cont.)*

Sr. No	Commodity	Capacity (In MT)	Traffic 2003-04 (In MT)
1	Liquid Cargo	155	122.30
2	Iron Ore	51	59.35
3	Coal	60	48.94
4	Fertilizer	4	7.49
5	Container	50	50.96
6	Other Cargo	70	55.51
	TOTAL	390	344.55
Presuming 30% surplus, capacity should have been about 570 Million Tonnes			

Source: MMA

THE LESSON IS:

- The engine of globalisation has only recently started running.

- There is much more to come.

- And the future for Australasia is to progressively face East and complete a structural shift.

- It naturally follows on from this that Australasia's ocean transportation system has to be developed with the Asian Bull market uppermost in mind.

AUSTRALIA FOCUS: CURRENT POSITION

In broad terms, there are three major services groups between Australia and Asia

- Australia – North Asia
- Australia – East Asia
- Australia - South East Asia

AUSTRALIA FOCUS: CURRENT POSITION (cont)

Australia – North and East Asia Trade:
A Case Study

- A short time ago the issue was what would the impact be of Maersk’s purchase of P&O Nedlloyd? As it transpired common sense prevailed, the status quo was more or less maintained and it seemed the trade was stable

- But apparently not!

AUSTRALIA FOCUS: CURRENT POSITION (cont)

Australia – North and East Asia Trade: A Case Study (Cont)

- Just recently we have witnessed a major consolidation in this trade which clearly tells us all is not well.
- Two notable events occurred:

  (a) Hamburg Sud, Hapag Lloyd, Hyundai Merchant Marine and Shandong Yantai International Marine Service joined forces

  (b) COSCO, the ACX group of APL, PIL and Gold Star Line/Zim similarly joined together.

- This, in turn indicates the presence of the thorny problem of capacity being out of sync with demand.

AUSTRALIA FOCUS: CURRENT POSITION (cont)

Australia – North and East Asia Trade: A Case Study (Cont)

- ***Southbound:*** The problem is that it is a year of two halves, second half ships full, positive rate rises and so on (there have been 3 increases this year) and first half falling volumes and sliding freight rates.

- From a country perspective feedback is Japan, Korea and Taiwan are steady but China is volatile (some think it will end up below last year's southbound volume of 415,000TEU) but conversely there are forecasts of 3-10%! Who do we believe?

AUSTRALIA FOCUS: CURRENT POSITION (cont)

Australia – North and East Asia Trade: A Case Study (Cont)

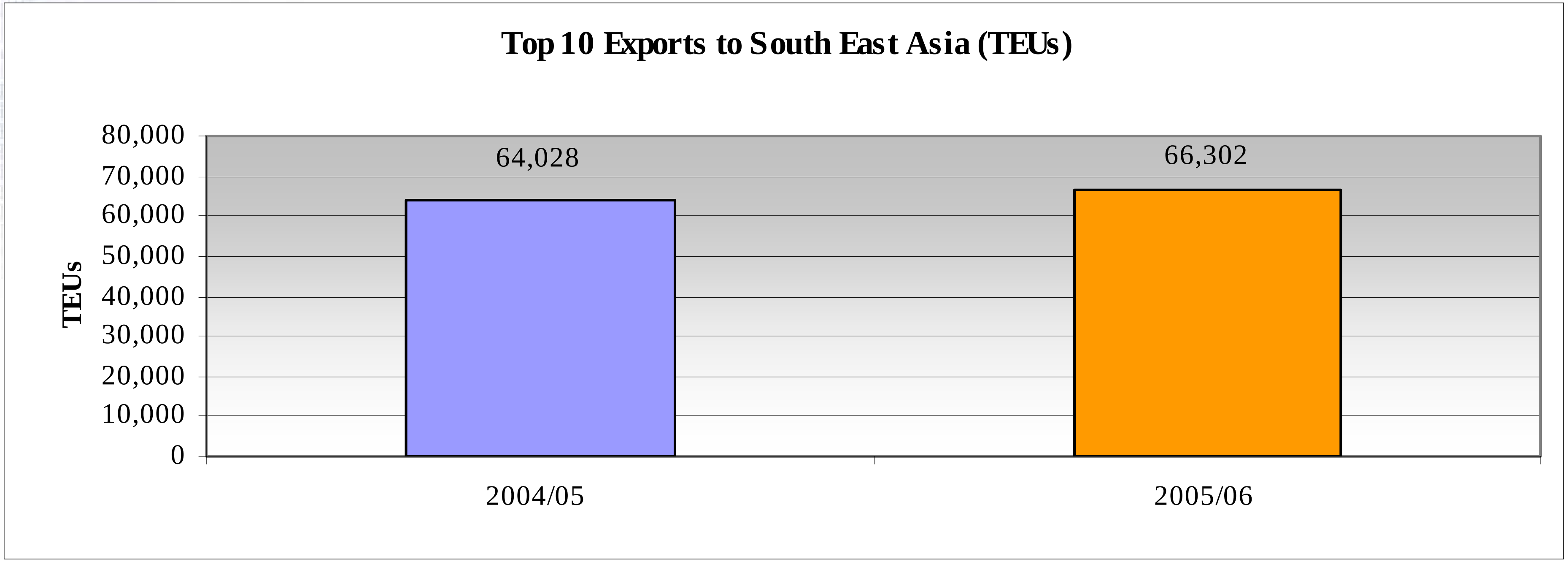
- ***Northbound:*** The media here in Australia have used the word "bloodbath" to describe this trade! The news is that the Japanese market is continuing to decline, Korea is softening and China too is viewed as difficult.

- Rates are described as "rock bottom" and as you may have deduced there is now a big imbalance problem – another headache factor!

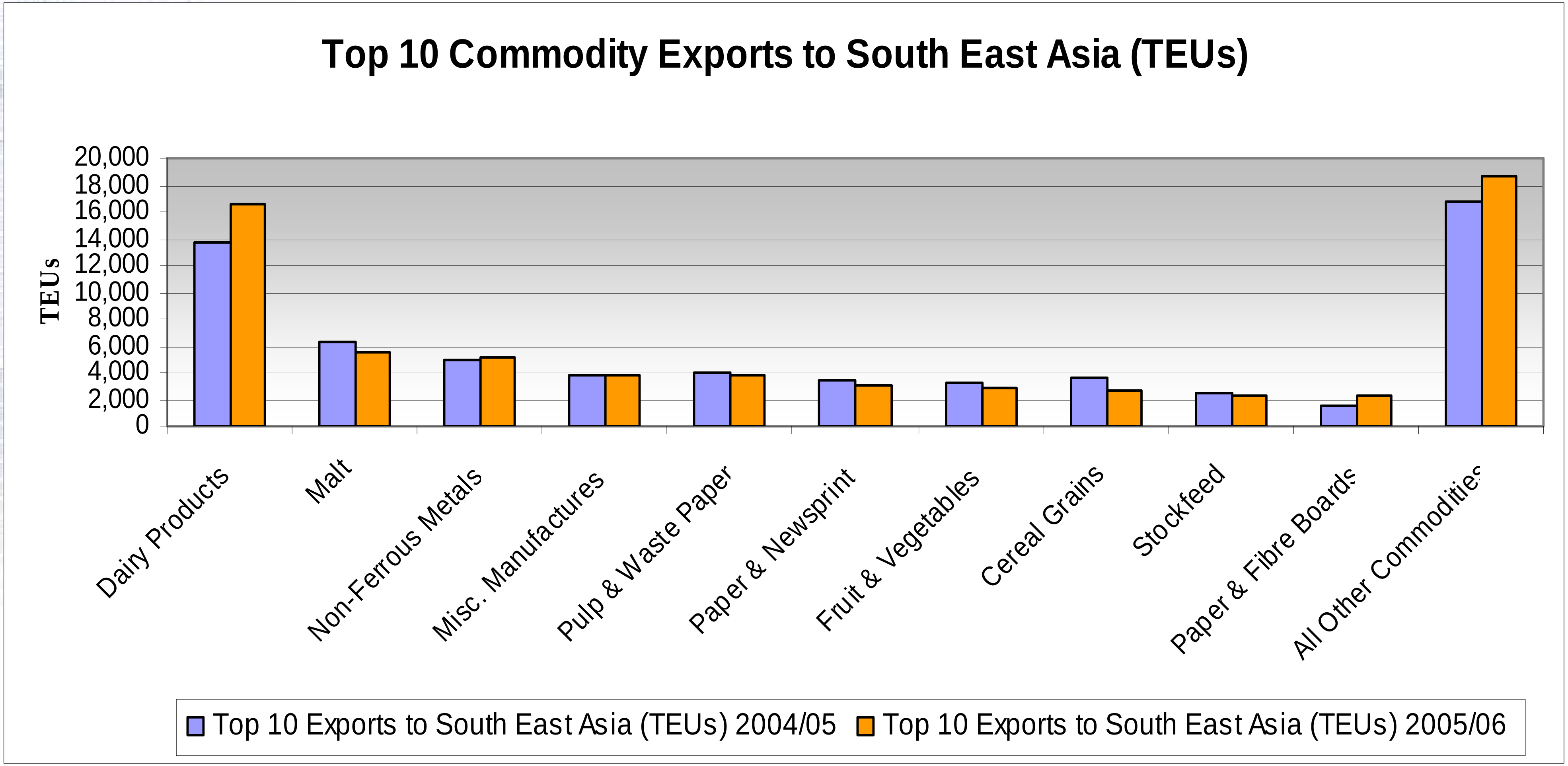
- Northbound volume this year could be up to 180,000TEU less than southbound trade.

A QUICK SNAPSHOT OF SOUTH EAST ASIA EXPORTS (BY TEU) …

Top 10 Exports to South East Asia (TEUs)		
Commodity	**2004/05**	**2005/06**
Dairy Products	13,708	16,561
Malt	6,370	5,471
Non-Ferrous Metals	4,867	5,102
Misc. Manufactures	3,756	3,858
Pulp & Waste Paper	4,076	3,721
Paper & Newsprint	3,510	3,046
Fruit & Vegetables	3,176	2,771
Cereal Grains	3,672	2,722
Stockfeed	2,556	2,221
Paper & Fibre Boards	1,582	2,213
All Other Commodities	16,755	18,616
Total Commodities	**64,028**	**66,302**

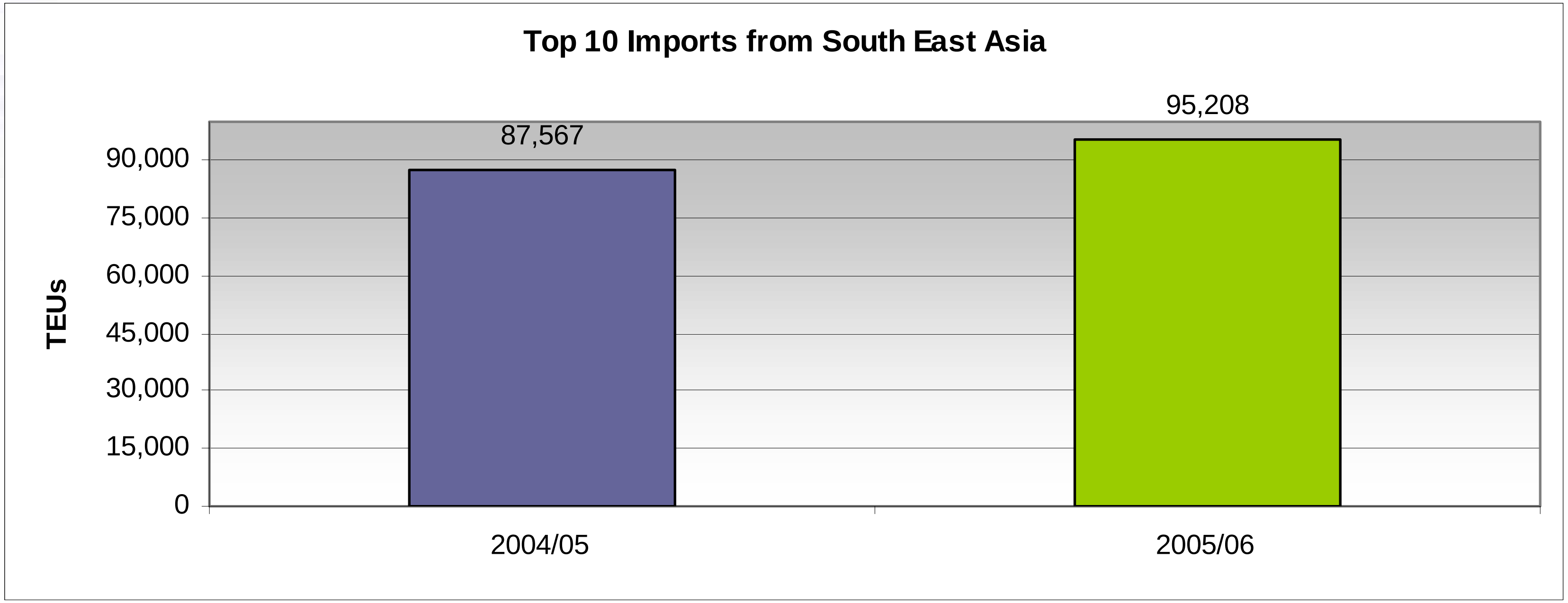


A QUICK SNAPSHOT OF SOUTH EAST ASIA EXPORTS (BY TEU)… (Cont)

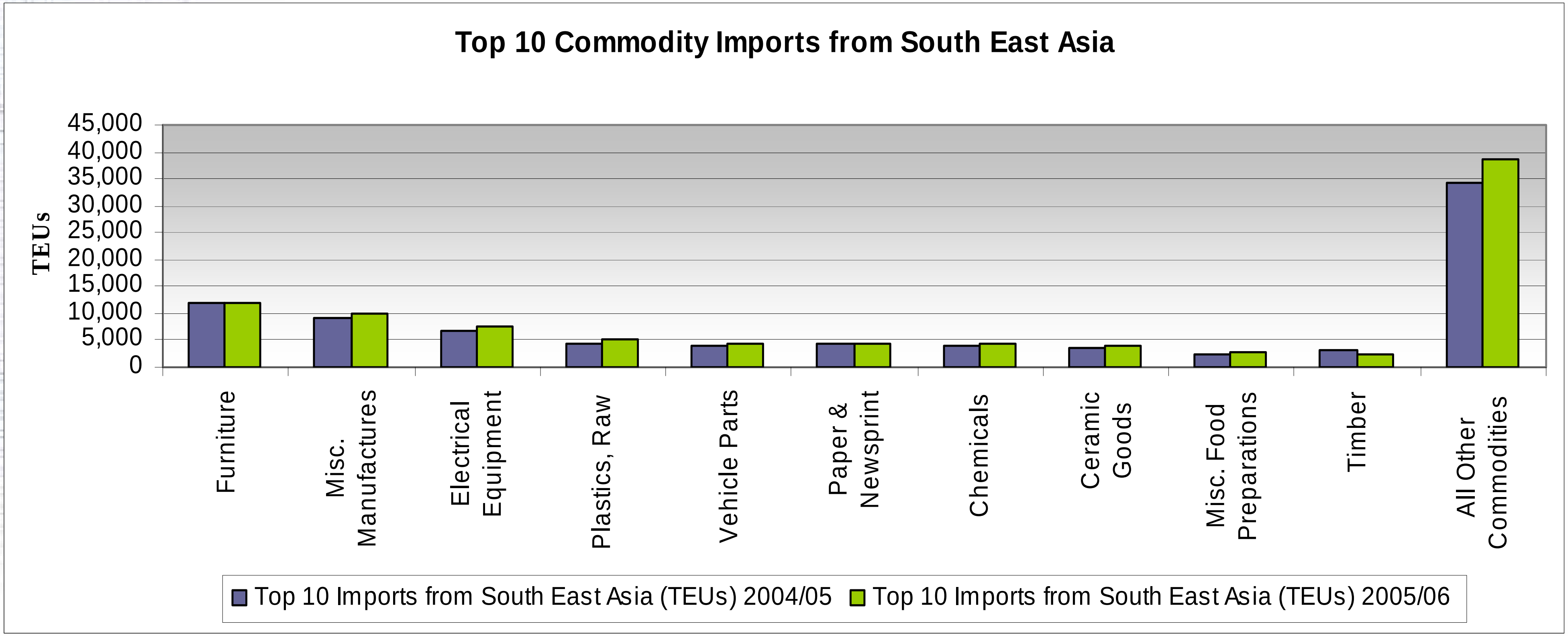


… AND IMPORTS (BY TEU)

Top 10 Imports from South East Asia (TEUs)		
Commodity	**2004/05**	**2005/06**
Furniture	11,889	11,799
Misc. Manufactures	9,203	10,034
Electrical Equipment	6,695	7,751
Plastics, Raw	4,543	5,048
Vehicle Parts	3,957	4,271
Paper & Newsprint	4,540	4,270
Chemicals	3,838	4,189
Ceramic Goods	3,391	3,920
Misc. Food Preparations	2,412	2,649
Timber	3,042	2,587
All Other Commodities	34,057	38,690
Total Commodities	**87,567**	**95,208**



… AND IMPORTS (BY TEU) (Cont)



AUSTRALIA FOCUS: WHAT NEXT?

Australia – North and East Asia Trade: What does the future hold?

- Looked at sympathetically, it could be said that the current situation is a natural rationalization following the enthusiasm of carriers to pile into this trade in 2004.

- Viewed somewhat more critically, the phrases "will they ever learn," and "when will we learn to manage our way out of the old boom and bust cycle" spring to mind. There is certainly a management issue here of some sort.

AUSTRALIA FOCUS: WHAT NEXT? (cont)

Australia – North and East Asia Trade: What does the future hold? (Cont)

- There is also more capacity in the pipeline:

  (a) In November, the Ace Group – China Shipping and OOCL will begin to replace two 2762TEU and three 2672TEU vessels with five 4250TEU vessels.
  (b) Over 2007/2008 ANL will be boosting capacity with the introduction of five 4250TEU vessels two of which are being built in China.
  (c) LLDCN also reports Maersk and MSC are revisiting earlier shelved plans to introduce 4300TEU class vessels into the North and East Asia trade.

AUSTRALIA FOCUS: WHAT NEXT? (cont)

Australia – North and East Asia Trade: What does the future hold? (Cont)

- It is safe to say the boom part of the shipping cycle is fast disappearing.
- Like other key trades worldwide, this trade lane – Asia trade lanes are undergoing a readjustment. It is up to liner operators to factor this in and act responsibly to maintain trade health…

AUSTRALIA FOCUS: WHAT NEXT? (cont)

Australia – North and East Asia Trade: What does the future hold? (Cont)

- ***How? Discussion Agreements?*** Some parties feel these instruments perpetuate the lifetime of certain lines that would not otherwise be able to stay "in the game"

- ***Market forces?*** There has never been much logic to these in the container shipping business until it comes to the "hit the wall stage".

AUSTRALIA FOCUS: WHAT NEXT? (cont)

Australia – North and East Asia Trade: What does the future hold? (Cont)

- There are also industry forces at work that aggravate the problem – e.g. the cascading down to this and other Australia – Asia trades of higher capacity tonnage.

- The base assumption is, therefore, that it will get worse before it gets better and ultimately it will only be escalating costs and falling freight rates that bring about rationalisation – maybe through further broad-based consolidation. For example, Hapag Lloyd and Hamburg Sud "joining forces"?

AUSTRALIA FOCUS: WHAT NEXT? (cont)

Australia – North and East Asia Trade: What does the future hold? (Cont)

- There also promises to be a knock-on effect – with the liner shipping sector tightening its belt others will have to follow suit.

- And, ironically, this lean period may prove the catalyst to some significant seeds of change already sown in the Australian container and logistics business.

AUSTRALIA – SEEDS AND CATALYSTS TO CHANGE

- We will see an increasing focus on the supply chain mentality – control along the cargo pipeline.
- Maritime Regulatory Reform – an acceleration of the process underway to provide a new regulatory framework designed to enhance benefits to system users and promote industry confidence in future investment
- Ports – the roll out of the new Competition and Infrastructure Reform Agreement is progressively expected to have an impact including in the arenas of port and terminal activities.
- A Third Force on the waterfront – why not if there are commercial entities prepared to take the risk?

AUSTRALIA – SEEDS AND CATALYSTS TO CHANGE (cont)

- AusLink – the transport plan that adopts a national approach to infrastructure investment. A real focus on developing a planning framework that extends from one end of the supply chain to the other.

- In short, with some "heavy weather" ahead, in what up until recently was a dynamic Bull Market, industry will, as it has done before in such cycles, have to get "leaner, keener and more efficient".

AUSTRALIA –
SEEDS AND CATALYSTS TO CHANGE (cont)

- Nothing new here perhaps in terms of the cycle of things but isn't it amazing how bad we are at seeing the barometer falling?

- Only by being proactive will the current negative factors be mitigated and acceptable rates of return be achieved from a trade outlook that ultimately has many positive characteristics.

AND FINALLY

The best of luck in meeting these interesting new challenges.
Thank you for your attention.

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