

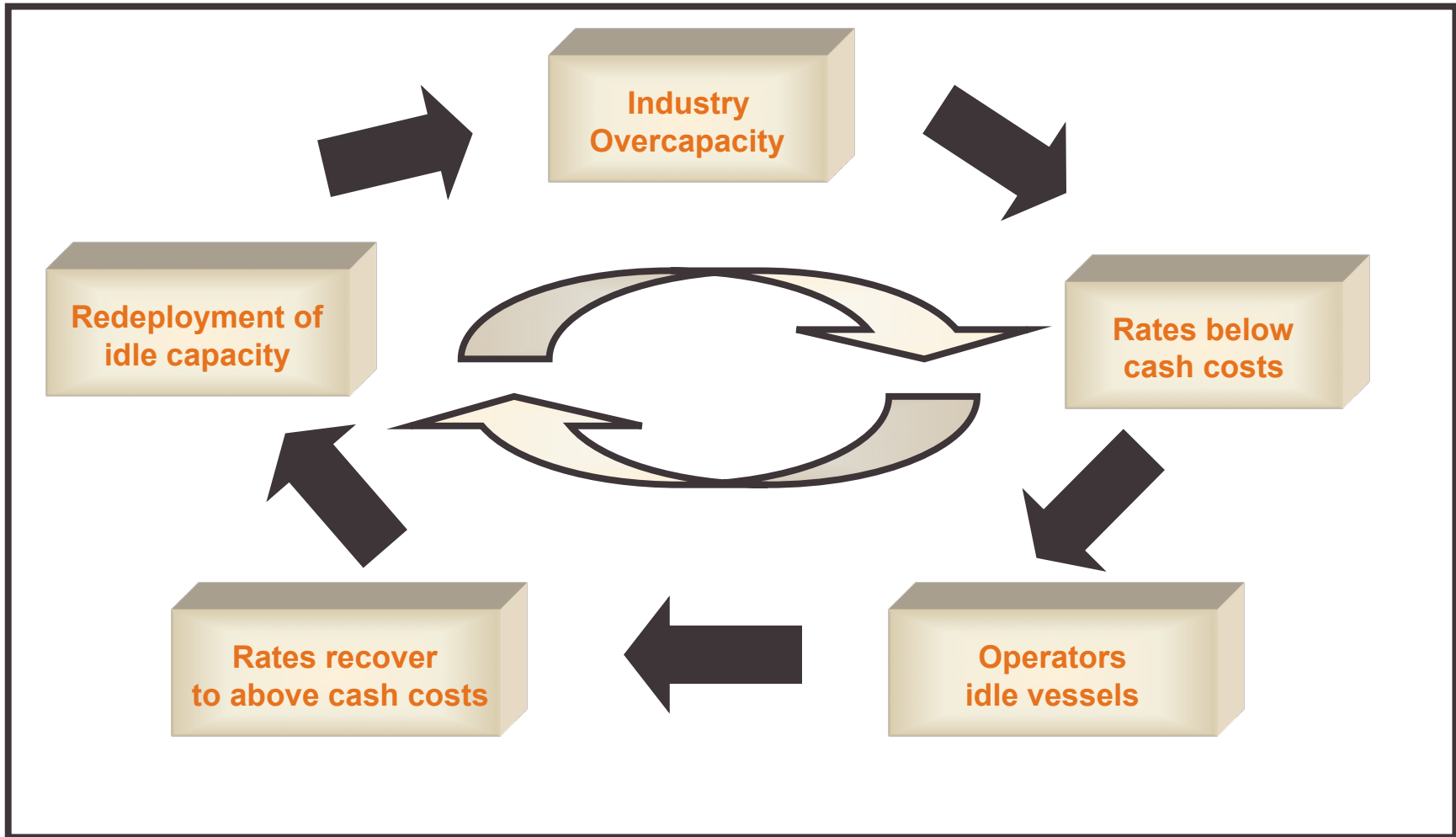


HPCLC

Planning For Capacity In A Recovering World Economy

Presented by: Michael Gargaro
SVP, Sea Freight Services
Americas Region
April 14, 2010
Philadelphia, PA

Future of Container Shipping until 2015 ?



Trans Pacific Update

ERC & GRI & PSS

- USA to Asia: From 9/01/09 thru 03/31/10, rates increased \$400/40 (3 GRIs)
 - \$240/20 \$300/40 \$300/HQ < April 1 GRI for All USEC, USGC, and USWC cargo
- Asia to USA: ERC effective 1/15/10, this Emergency Revenue Charge to expire on 4/30/10
 - \$320/20 \$400/40 \$450/HQ < for All Eastbound cargo
 - From 8/01/09 thru 04/30/10, rates increased \$1100/40 (GRI, PSS, & ERC)
- Asia to USA: GRI projected to become effective 5/1/10
 - \$640/20 \$800/40 \$900/HQ < for All USWC cargo
 - \$800/20 \$1000/40 \$1125/HQ < for All other destinations in the USA
- Asia to USA: PSS (Peak Season Surcharge) scheduled for 8/1/10
 - \$320/20 \$400/40 \$450/HQ < for All cargo moving to the USA

Trans Pacific Update

Fuel Surcharges

- USA to Asia BAF Increase Effective 4/1/10 = 4.5% increase over Q1
 - \$420/20 \$525/40 \$525/HQ < for USWC / IPI Cargo
 - \$834/20 \$1042/40 \$1042/HQ < for USEC / Reverse IPI Cargo
- Asia to USA BAF Increase Effective 4/1/10 = 5.5% increase over Q1
 - \$294/20 \$368/40 \$414/HQ < for USWC / IPI Cargo
 - \$582/20 \$727/40 \$818/HQ < for USEC / Reverse IPI Cargo
- Slow Steaming is here to stay because it reduces operating expense
- And it enables carriers to deploy more, though smaller, vessels
- Transit times have increased by several days or more

Trans Pacific Update

A Marketplace in Transition

- Shippers are frustrated by their inability to get required space
 - Booking lead times are currently 4 to 6 weeks out and even then...
- Old methods of shaping carrier behavior are not as effective
 - Some Shippers continue to demand “fixed” annual rates in their RFQs
 - Some Shippers still talking about their own BAF formulas in their RFQs
 - Some Shippers continue to demand the lowest possible rate level in each lane
- Ocean Carriers are unlikely to continue honoring these demands
- Shippers are realizing Carriers will not play according to the old rules...
- Carriers are determined to return to profitability

Trans Pacific Update

Space Allocations

- Carriers seeking shippers who can accurately forecast container demand
 - Maximize utilization of current vessel capacity deployed in the trade
 - Chartered vessels first to be withdrawn / off hired
 - Afraid of the Circle of Death (aka Central Bankers & Board Members)
 - New capacity unlikely to be introduced / Probably some extra loaders
- Carrier dilemma: Phantom Bookings that lead to No Shows
 - Last minute No Shows undermine carrier revenue recovery efforts
 - Expect to see Penalties for No Show Bookings
- Allocation or Space Management will be the priority in 2010

Container Demand Forecasting

CONTAINER DEMAND FORECAST														
WK	Supplier Name	Supplier Location	Postal Code	Origin Branch	POL	POD	Final Delivery	Postal Code	Number of Container each size				Carrier	String
									20	40	40HC	45		

- Update every 4 weeks
- Consider Seasonality
- Consider new product launches
- Consider M & A impact

Carrier _____ Allocation Management

5000 TEU ANNUAL			Breakdown per Service				
ORIGIN	ANNUAL	WEEKLY	PSW	PNW	EC	TOTAL	TEU / WEEK
Shanghai	1320	26	257	601	462	1320	25
Yantian	780	15	152	355	273	780	15
Ningbo	480	10	94	218	168	480	9
Hong Kong	420	8	82	191	147	420	8
Taiwan	420	8	82	191	147	420	8
Qingdao	360	7	234	0	126	360	7
Busan	568	5	52	122	94	268	5
Bangkok	240	5	47	109	84	240	5
Manila	117	3	23	53	41	117	2
Xingang	120	3	78	0	42	120	2
Dalian	120	3	78	0	42	120	2
Guangzhou	120	3	23	55	42	120	2
Singapore	91	2	59	0	32	91	2
Other	144	3				144	3
	5000	101	1261	1895	1700	4856	93

Trans Pacific Update:

Challenges Facing Shippers

PRICING

- Will carriers increase rates according to their “announced” strategies ?
- What about these new “emergency recovery” surcharges and BAFs ?
- Will carriers continue to “mitigate” increases for largest shippers ?

FORECASTING

- Accurate container demand forecasting will drive carrier behavior in 2010
- Most accurate demand forecasts will get the best rates and most space
- Gathering updates and adjusting allocations will be the key to success

Trans Pacific Update

A Marketplace in Transition

- Shipper tactics & strategies determined by individual Supply Chain requirements
 - Customer Service Driven.....Order Fulfillment Rates of 99.9% !
 - Supply Chain Driven.....Just in Time / In DC Dates / No Stock Outs
 - Cost Driven.....Lowest Transport Cost vs. Dependable & Reliable ?
- Shippers paid more to get on ships sailing before 1/15/10 ERC Implementation
 - When space is tight carriers load highest paying cargo first
 - Carriers want shippers with steady year round support or volume
 - Carriers want shippers who are reliable and supportive
 - Carriers are always looking to upgrade revenue per voyage

Managing Carrier Relationships

TRADE ROUTE MANAGEMENT

- Establish & Maintain Competitive Pricing and Defined Service Offerings
- Responsible for Carrier Relations, Buying Smart, and Contract Amendments
- Monitor Trade Lane developments & Challenge carrier Rate and Service actions
- Coordinate Container Demand Forecasts & Manage Carrier Allocations
- Develop Market Based Solutions in Response to Demands of the Organization
- Maintain overview of pricing & space conditions
- Anticipate carrier actions & reactions to market shifts

Trans Pacific Update

Possible 3PL Strategies

- NVOs have service contracts with multiple carriers in every lane
- Supply Chain Dependability & Reliability replaces Price as Driver
- Develop multiple carrier options & solutions in each lane segment
 - Primary Carrier: Good Transit / Best Price
 - Secondary Carrier: Better Transit / Higher Price
 - Third Option Carrier: Fastest Transit / Highest Price
- Shippers use 3PLs to help manage their Supply Chains in various ways
 - Provide Door to Door Coordination of all Transactions
 - Contract Volume: Majority with Carriers / Minority with NVOs
 - Transportation Management: Oversee Contract Fulfillment / Track Performance

Ocean Freight: NVO Service Agreements

- NVO Service Agreement is similar to a Carrier Service Contract
 - Shipper Volume Commitment – MQC
 - Shipper Demand Forecast Requirement with Updates
 - NVO Provides Rates & Surcharge Schedule
 - NVO provides Service Feature Guarantees
 - NVO offers more options than Carrier-Direct option
 - Shipper & NVO agree to service failure methodology / cures
 - Shipper & NVO agree to liquidated damages for non-performance
 - Valid for a fixed period of time