



AAPA Planning for Shifting Trade

January 30, 2019
Howard Finkel

COSCO SHIPPING Lines



- Owns & operates a fleet of 361 container ships
- 1.84 million TEUs capacity
- Top 4 container carrier in the world
- Currently 85 modern container vessels are deployed on 26 direct call services from the Far East to North America
- Capacity deployed in Trans-Pacific:
 - 38,505 TEUs on Eastbound-weekly
 - 44,037 TEUs on Westbound-weekly





COSCO SHIPPING Group



- **World's largest dry bulk fleet**
- **Largest oil tanker fleet**
- **Largest general & specialized cargo fleet**
- **Operates domestic & global cruise service**
- **Comprehensive logistics service**
- **Ship & offshore engineering design & manufacturing**
- **Shipping finance**



COSCO SHIPPING – An Innovator

- **First carrier to establish a service calling Prince Rupert**
 - ✓ **Fastest gateway from Asia to North American continent**
 - ✓ **Fastest direct rail link to US Midwest**
- **First carrier to establish direct service from China to Boston, covering New England market**
- **Direct Gulf service**
 - ✓ **Currently a Trans-Pacific service**
 - ✓ **Looking at expanding to offer a North-South service**

Ocean Alliance

- Four carriers set up a new Alliance that is responsive, proactive, efficient, focused and competitive
- In order to meet the current and future challenges of the container transportation industry, the new Alliance was founded on the integrated cooperation basis to achieve efficiency, effectiveness, and cost competitiveness
- New Alliance will:
 - Develop services that meet the needs of carriers' respective customers
 - Maximize cost savings and operational efficiencies
 - Provide industry leadership in value and choice
 - Place highest priority on service quality and schedule reliability

Alliance Membership



APL membership in Alliance pending completion of CMA CGM/NOL transaction.

Numerous Benefits of New Alliance

- Respond to economic challenges facing liner industry
- Cost savings
- Economies of scale in operation of vessels and utilization of port facilities
- Network benefits
 - Service improvements
 - Additional port calls
 - Increased capacity
- Increased service quality
- Environmental benefits

Geographic Scope

❑ The Alliance operates an enhanced service network covering the below trades (US trades in blue)

- ❑ Asia-North America (USWC, USEC/Gulf)
- ❑ North Europe/Mediterranean-North America
- ❑ Asia-North Europe/Mediterranean (including Red Sea)
- ❑ Asia-Middle East

❑ Members of the Alliance may explore possible extension of geographic scope to additional trades, based on commercial and operational (e.g., Europe and North America-South America)

Service Details



Trade	Number of Ships	Size of Ships (in TEUs)	Services (Loops)
TP PSW	59	4,250-18,000	10
TP PNW	24	5,500-10,000	4
TP USEC	62	8,500	6
TA	21	4,250-6,000	4
Total	166		24

Above figures are based upon existing services that are provided in these trades by the members of the Alliance.

Operational Issues



- ❑ **Duration: Initial term of five (5) years with automatic extensions**

- ❑ **Operation Center**

- ❑ Total employees: Approx. 15 persons. Staffed with a delegate from each Alliance member
- ❑ Main tasks: Manage services to terminals, improve port stay efficiency, optimize fleet development
- ❑ Will only focus on operational issues. No cooperation on pricing, service contracts, or any other commercial issues
- ❑ Rotating chair on a 3-month basis for first year
- ❑ Location: TBD (likely in Asia)

- ❑ **Parties anticipate exploring joint procurement of common assets, services & facilities**

- ❑ **Terminals**

- ❑ Alliance will endeavor to use on terminal at each port of call to the extent possible to maximize efficiency
- ❑ Equity interests and long term arrangements will be considered

- ❑ **Parties to the Alliance anticipate basic authorities that are generally consistent with other existing alliances**

Service Contracting

- Usually 1 year time limit
- Lines have standard boiler plates – Shippers may offer customized ones
- Win-win = Lines get protections, volume & payment guarantees; Shippers get excellent service at a fair price
- Let's put service back in to contracts; not just a rate sheet
- Free time is not free and the longer you hold a Line's equipment, the more damage is done to the overall supply chain

Concerns

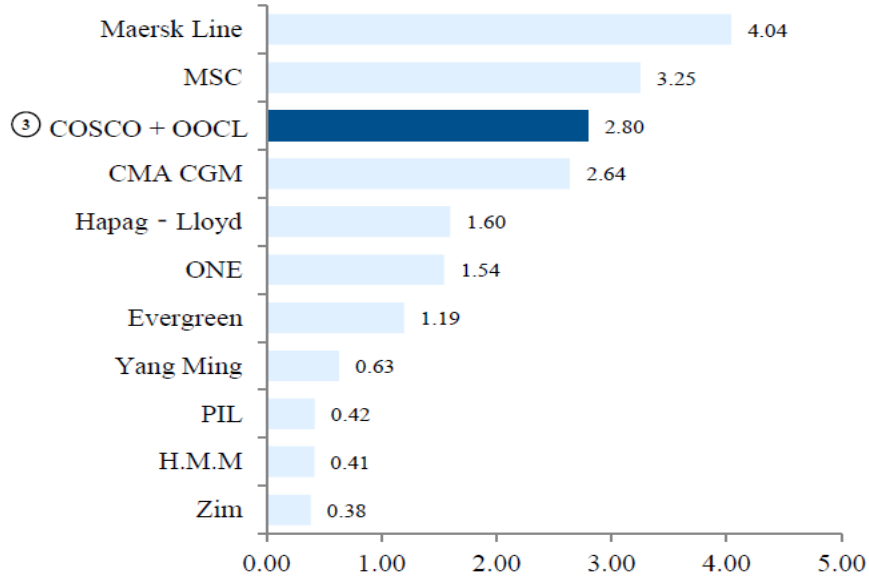


- ❑ **Intermodal service involving a trucking component is increasingly difficult because of a driver shortage and no guarantee of static rates for a year**
- ❑ **Gulf vessels are approaching capacity – at the moment there are no forecasts that show import volume meeting the anticipated explosion of resin exports**
- ❑ **Resin volume increasing could make export the head-haul trade – but current rates won't cover the costs of larger vessels and equipment repositioning**

Global capacity

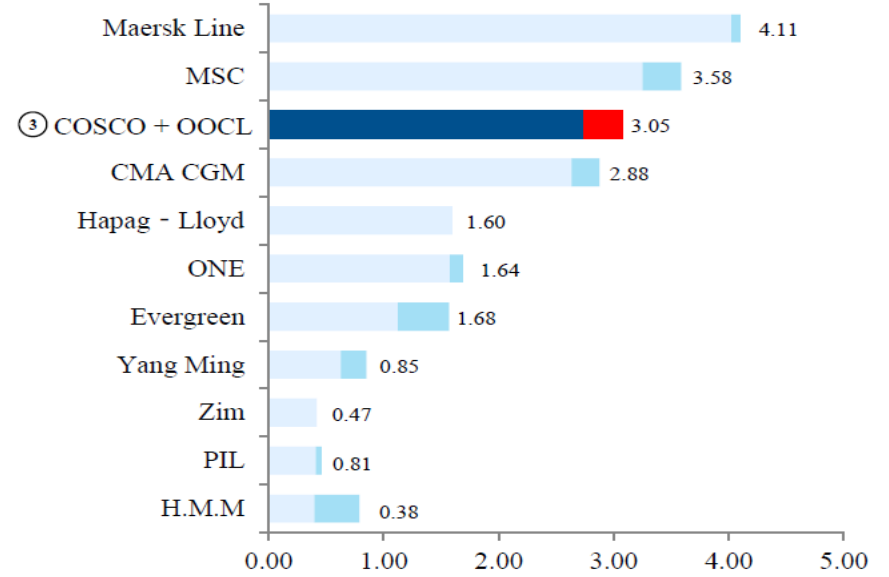
Top liner companies (existing capacity)

(million TEU)

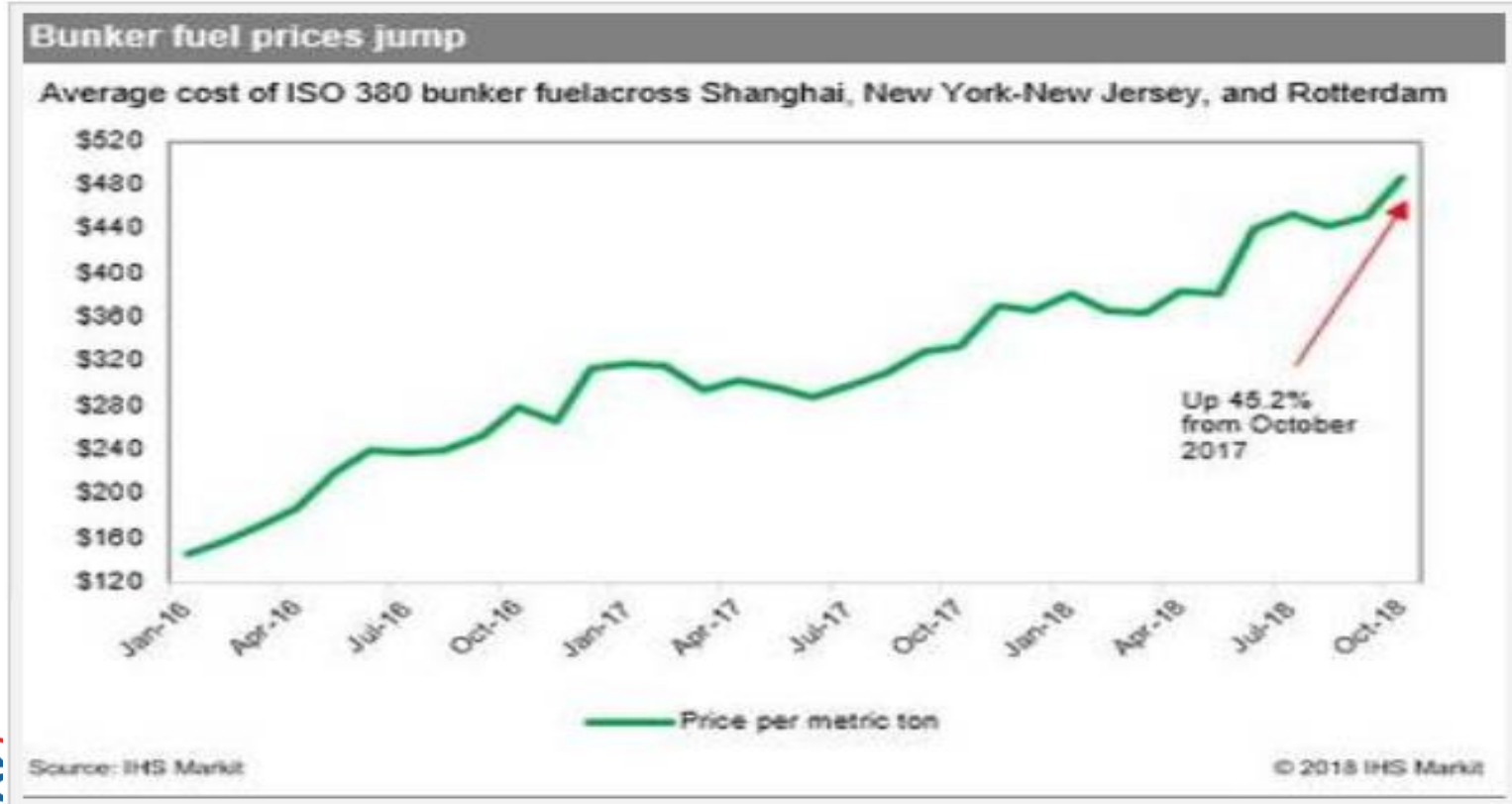


Top liner companies (existing capacity + order book)

(million TEU)



Bunker Trend 16'-18'



- 1) Effective May 1st, 2019, COSCO Shipping intends to reform the bunker schedule and formula as follows:
 - a) The new Bunker Charge amount will be adjusted monthly by tracking last 5 weeks' average 0.1% low-sulphur fuel and IFO 380 fuel prices.
 - b) With the logic of “voyage fuel consumption/loaded container volume=fuel cost per Feu”, calculation of the new Bunker Charge will be based on updated factors of weighted average vessel size, fuel consumption, etc., to address the unit fuel cost within the Emission Control Areas and at Sea, burning 0.1% low-sulphur fuel and 3.5% sulphur fuel (IFO 380) separately.
- 2) Effective Jan 1st, 2020, as with the implementation of 0.5% sulphur content limit, adjust the Bunker Charge formula with the fuel price and consumption of 0.5% sulphur fuel instead of 3.5% sulphur fuel to re-calculate the cost at sea.

The Bunker Charge amount will be adjusted monthly by tracking last 5 weeks' average 0.1% sulphur fuel and 0.5% sulphur fuel prices instead.



PSW Port Rotation

Total 11 Loops (OCEAN Alliance 8 & COS/PIL/WHL 2 & THE JP 1 Service)

OA PSW								Non-OA PSW		
PSW1	PSW2	PSW3	PSW5	PSW6	PSW7	PSW8	PSW9	AAC3	SEA	JPSW
AAS2	CEN	SEA2	AAC2	AAS	AAS3	AAS4	AAC4			
12,600	10,500	8,450	8,000	8,000	5,800	8,000	7,200	9,500	9,714	7,800
Fuqing	Tianjin	Port Kelang	Qingdao	Kaohsiung	Taipei	Yantian	Ningbo	Lianyungang	Haiphong	Kobe
Nansha	Qingdao	Singapore	Shanghai	Cai Mep	Xiamen	Hong Kong	Shanghai	Shanghai	Nansha	Nagoya
Hong Kong	Shanghai	Jakarta	Ningbo	Hong Kong	Shekou	Kaohsiung	Pusan	Ningbo	Hong Kong	Tokyo
Yantian	Ningbo	Laem Chabang		Yantian	Yantian	Taipei			Yantian	
Xiamen		Cai Mep		Kaohsiung						
Los Angeles	Prince Rupert	Los Angeles	Los Angeles	Long Beach	Los Angeles	Los Angeles	Long Beach	Long Beach	Long Beach	Los Angeles
Oakland	Los Angeles	Oakland	Oakland		Oakland	Oakland	Pusan	Seattle	Oakland	Oakland
	Oakland		Tokyo			Tacoma				Tokyo
									Xiamen	Shimizu
Fuqing	Tianjin	Hong Kong (USEC 3)	Qingdao	Kaohsiung	Taipei	Kaohsiung	Ningbo	Lianyungang	Haiphong	Kobe
						Yantian				Nagoya

PNW Port Rotation

OCEAN Alliance Total 4 Loops

OA PNW			
PNW1	PNW2	PNW3	PNW4
9,200	8,800	6,300	5,400
Yantian	Hong Kong	Yantian	Shekou
Xiamen	Yantian	Kaohsiung	Hong Kong
Shanghai	Ningbo	Shanghai	Yantian
Pusan	Shanghai	Ningbo	Kaohsiung
Seattle	Prince Rupert	Tacoma	Vancouver
Vancouver	Vancouver	Vancouver	Seattle
Yantian	Yokohama	Tokyo	Pusan
	Shanghai	Osaka	Kaohsiung
	Hong Kong	Qingdao	-
		Yantian	Shekou

Atlantic/Gulf Port Rotations

OCEAN Alliance Total 7 Loops

OA USEC						
USEC1	USEC2	USEC3	USEC4	USEC5	USEC6	USEC7
AWE2	AWE4	AWE5	AWE1	AWE3	GME2	GMX
11,000	11,500	8,250	7,800	8,000	7,500	3,500
Qingdao	Cai Mep*	Hong Kong	Qingdao	Xiamen	Singapore	Shanghai
Ningbo	Hong Kong	Cai Mep	Ningbo	Hong Kong	Hong Kong	Ningbo
Shanghai	Yantian	Singapore	Shanghai	Yantian	Shekou	Xiamen
Pusan	Xiamen	Port Kelang	Pusan	Kaohsiung	Shanghai	Yantian
	Shanghai	Colombo			Ningbo	
					Busan	
New York	Colon	Halifax	Colon	Colon	Houston	Houston
Norfolk	New York	New York	Savannah	Savannah	Mobile	Mobile
Savannah	Savannah	Norfolk	Charleston	Baltimore	New Orleans	Tampa*
	Charleston	Savannah	Boston	Norfolk	Miami	
-		Charleston	New York	New York	Tampa	
-		Port Kelang	Colon			
Qingdao	Cai Mep*	(PSW3)	Qingdao	Xiamen	Singapore	Shanghai

Thank you!

We Deliver Value