

# CTRF

***“Supply chain strategies in  
volatile times”***

David Watson, President, OOCL Canada



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# **Our Business**

**Supply : Demand = Freight rate**

**Freight rate – Cost = Profit / loss**



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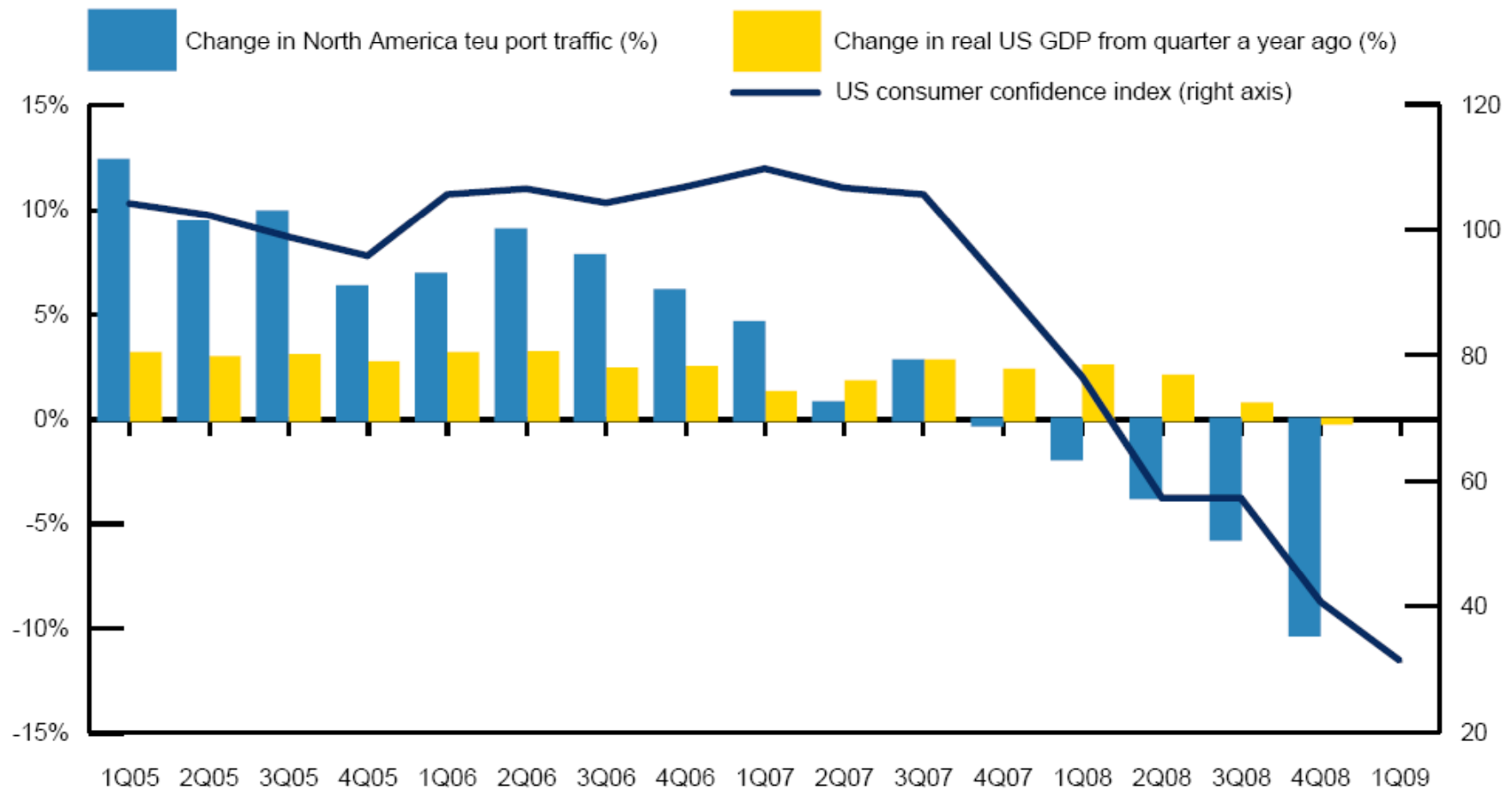
# Global Container Volume – TEUs in 2008

Million TEU

Asia / Others	53.5
North America / Asia	20.5
Europe / Asia	16.9
Europe / North America	6.3
Latin America	7.5
Others	31.2
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Global	135.9

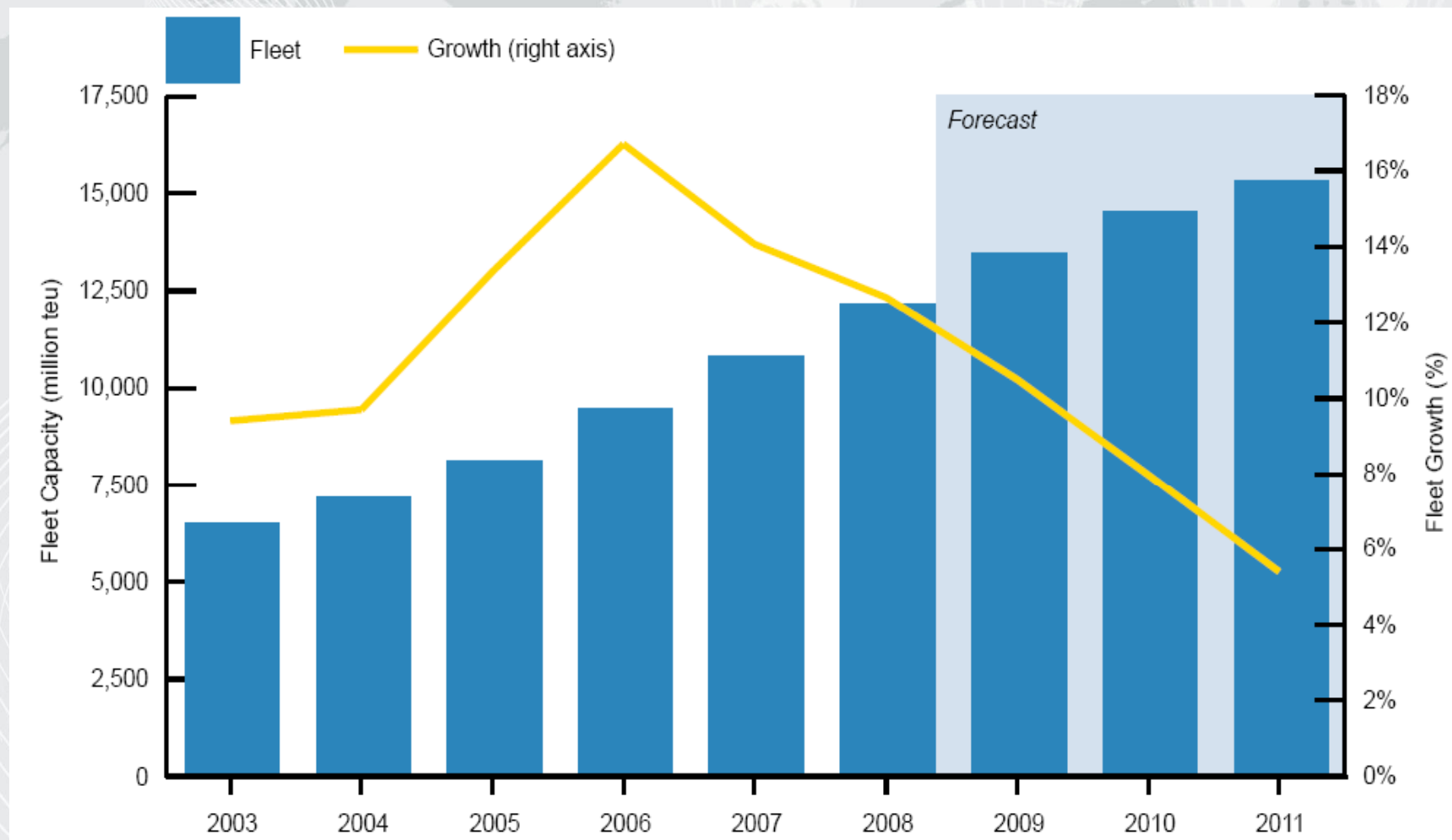
# Container Traffic in US

Relationship between GDP, consumer confidence and port container traffic in the US (2005-2008)



Source: Drewry  
Updated May 6, 2009

# Containership Fleet Growth



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Source: Drewry  
Updated May 6, 2009

# Vessel Capacity Update

## ❑ AXS-Alphaliner estimates:

❑ 506 vessels laid up → Total: 1,340,000 TEUs

❑ Represent 10.6% of Existing Fleet

❑ 425,000 TEU or 274 vessels → Non-operating Owners

❑ 10 X 7,500-10,000,

❑ 55 X 5,000-7,499,

❑ 89 X 3,000-4999,

❑ 114 X 2,000-2999,

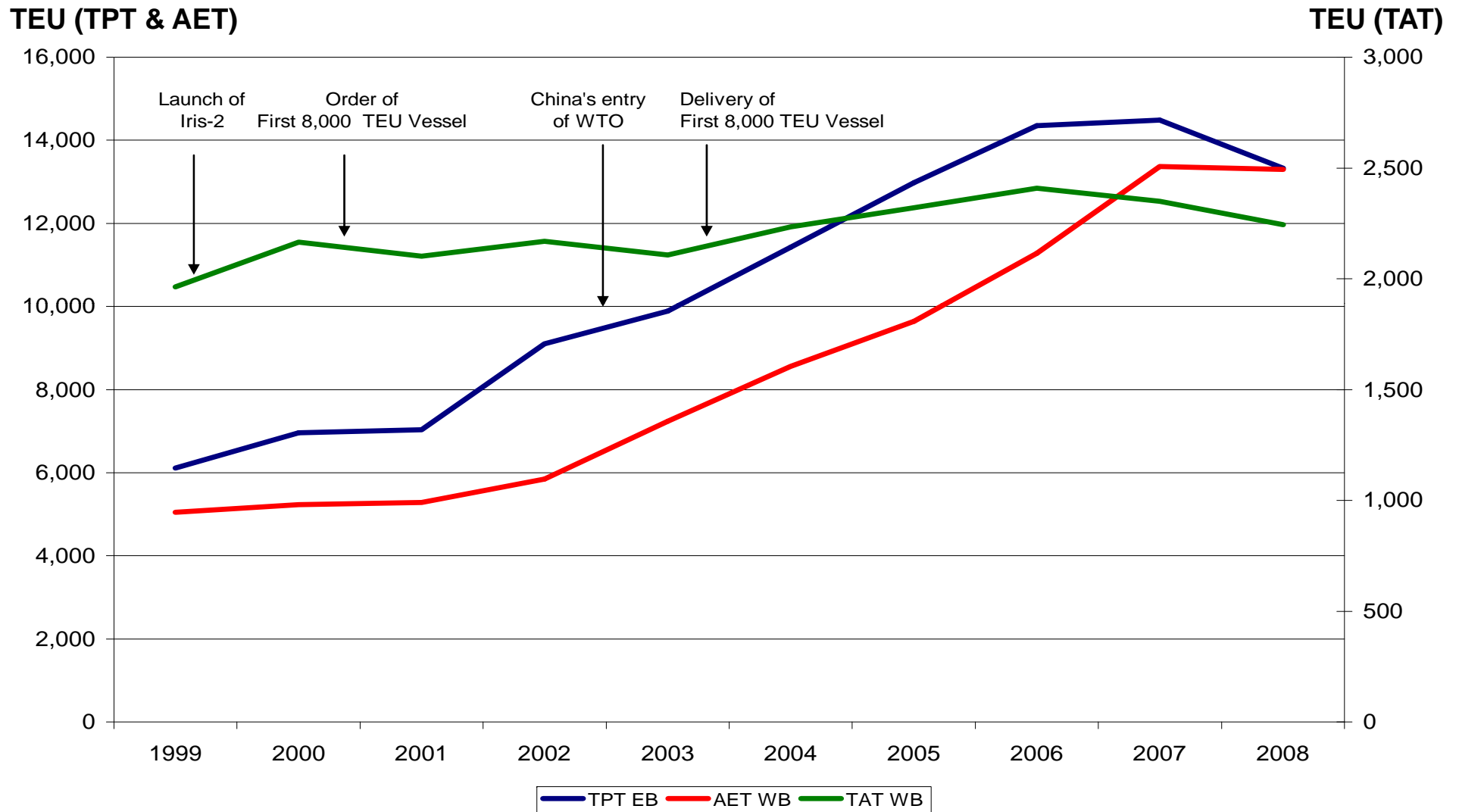
❑ 140 X 1,000-1999,

❑ 98 X less than 1,000



Source: AXS-Alphaliner  
Updated Apr 27, 2009

# Global Trade 10-Year Volumes





# Operating cost components

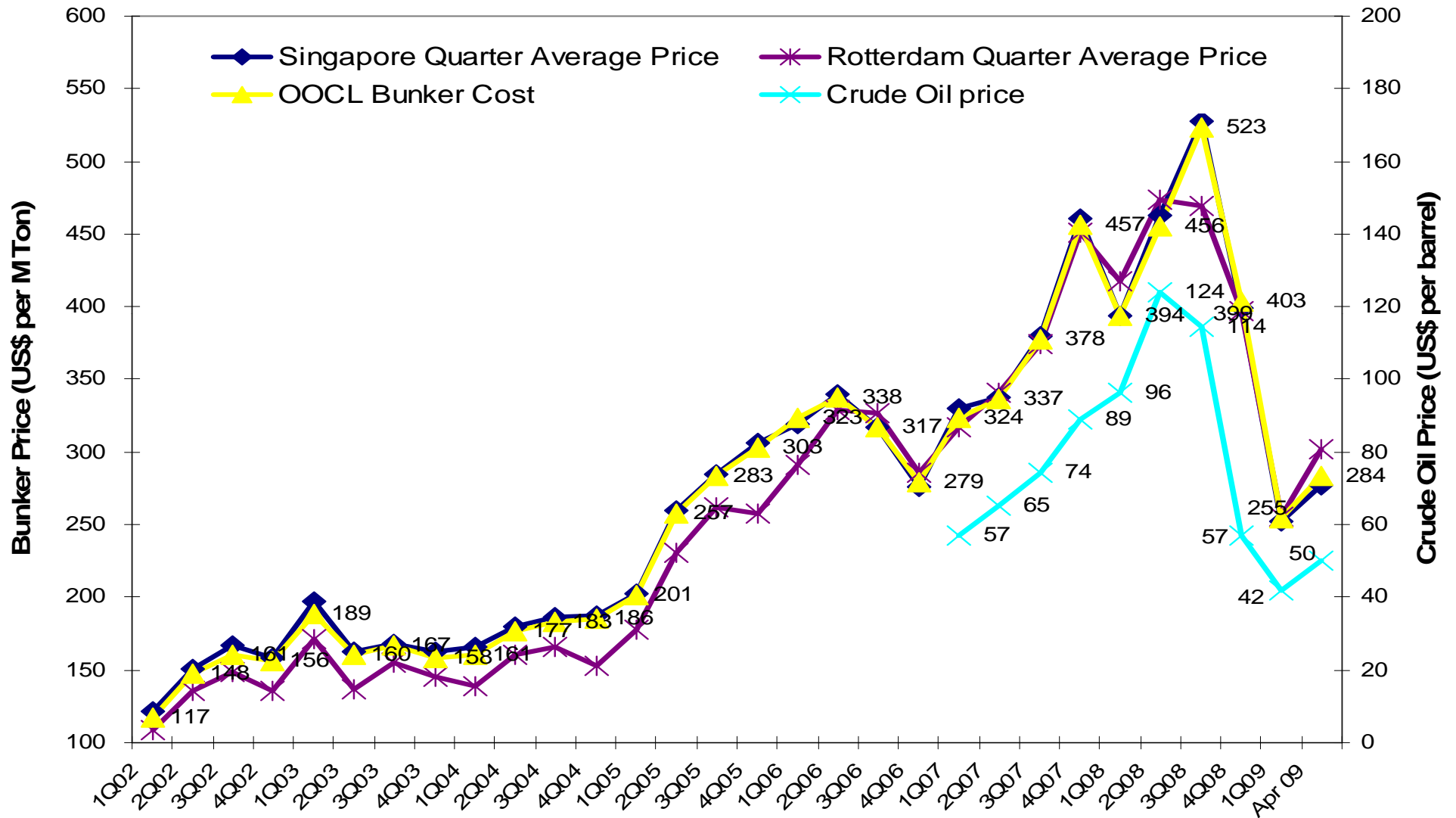
- Cargo Costs
  - Terminal handling cost
  - Intermodal costs
- Vessel and Voyage Costs
  - Crew, Lubricants, Spare parts
  - Bunker, Port and Canal dues
  - Charter hire
- Equipment & Repositioning Costs
- B&A Expenses



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# Bunker Price



Updated May 14, 2009

# Low rates threaten the whole industry

- ☐ Unsustainably low rates are a “lose-lose” situation for everyone in the industry
- ☐ There comes a point when capacity withdrawal due to unprofitable services becomes inevitable
- ☐ Shippers will suffer as more services are withdrawn and they face disruptions to their supply chain
- ☐ Shippers should be prepared to accept higher rate levels
- ☐ This will ensure that liners can continue to offer a high quality, sustainable service.
- ☐ Meanwhile, liners must change their mindset and set new strategies to survive



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# 2009 Macro Environment

- ❑ Deepening global economic downturn and increasing capacity has led to a protracted downturn in the container shipping industry.
- ❑ Unprecedented level of government intervention has helped alleviate some of the financial uncertainty
- ❑ Total recovery is still a long way off
- ❑ Increasing unemployment world wide
- ❑ Weak currencies are slowing imports in certain key countries



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# Trading Environment Summary

- ❑ Long delivery cycle and over ordering of vessels lead to oversupply of tonnage
- ❑ Economic down turn lead to massive drop in demand
- ❑ Drastic erosion of freight rates
- ❑ Increase in oil prices in 07-08
- ❑ Greatly reduce the profit margin of all carriers



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# Future Outlook

- ❑ Anticipate world economy and demand to recover in 1 to 2 years time
- ❑ We expect oversupply of tonnage to be absorbed in 3 to 4 years time
- ❑ Freight rate recovery will follow in 1 to 2 years times
  - ❑ *A prolonged period before recovery is anticipated*



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# **What are the opportunities?**

- ☐ **Tighter supply chain management and better supply chain optimization**
- ☐ **Need for survival means suppliers and vendors will give better cost and service!**
- ☐ **Increased cooperation and competition along the supply chain**
- ☐ **Shifting trade patterns opening up new “bright spots” eg. Vietnam, India**
- ☐ **Is China reviving?**



# Bright spots: Is China reviving?

- ❑ Less than 3% growth in 2H 08
- ❑ In 1 Q 09, Actual implied quarterly growth probably doubled to 6-8% at annual rates
- ❑ Fiscal stimulus having a huge effect (13.3% of GDP)
- ❑ Big spending on infrastructure
- ❑ Limited hurdles to implementing spending on a large scale



# Bright spots: Is China reviving?

□ “Bamboo shoots of recovery” *The Economist*, Apr 16 2009





**Case study: How is OOCL weathering the storm?**

# Well-placed to weather the downturn

- ❑ Financial Strength
- ❑ Organizational stability
- ❑ OOCL's own Integrated System (IRIS-2) increases productivity, improves cost efficiency, and enhances customer service quality
- ❑ *My OOCL Center* (launched in March 2009) helps customers lower their business costs
- ❑ Alliance membership facilitates efficient rationalization of routes whilst maintaining network coverage of key markets
- ❑ Committed to helping our customers maintain and develop their business



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# Cost-saving measures

- ☐ Reduction of capacity
  - ☐ Re-delivery of charters
  - ☐ Suspension of services
  - ☐ Joint service with other Alliances to provide same service but with reduction in capacity
- ☐ Bunker cost saving
- ☐ Other cost savings in
  - ☐ Terminal
  - ☐ Rail & Trucking
  - ☐ Equipment Leasing



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“Fragile cargo”  
OOCL’s story. Maximum fuel efficiency  
for a cleaner environment.



What's Yours?

[www.whatsyourstory.com.hk](http://www.whatsyourstory.com.hk)



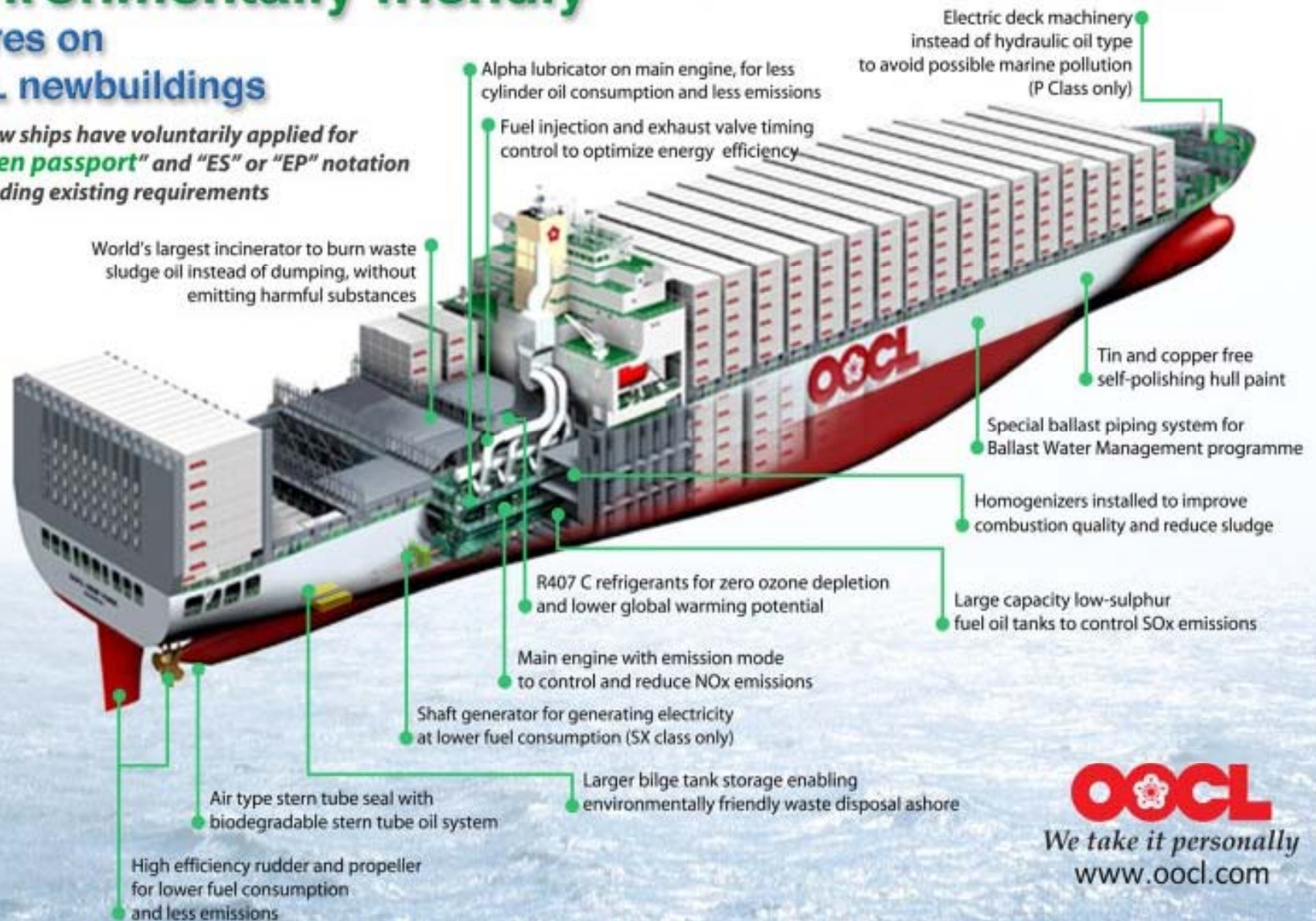
Despite the recession, caring for the environment and reducing harmful emissions remains a top priority

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# Environmentally friendly features on OOCL newbuildings

All new ships have voluntarily applied for  
"Green passport" and "ES" or "EP" notation  
exceeding existing requirements



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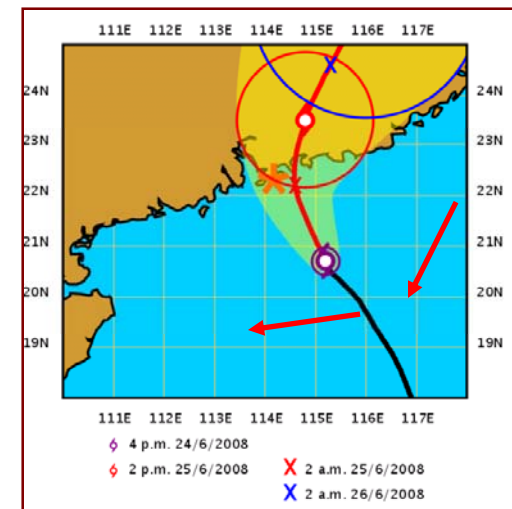
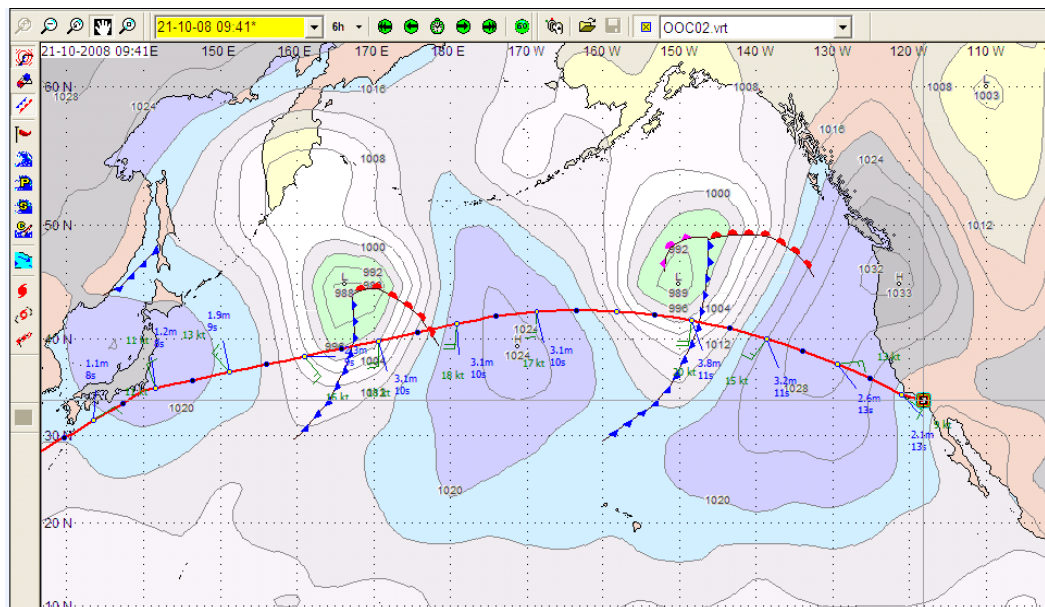
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# Strategies to reduce emissions at sea

**The best way to reduce emissions is to save fuel. Fuel-saving initiatives to reduce CO<sub>2</sub> include:**

## Weather-routing systems for the shortest route (bad weather avoidance)

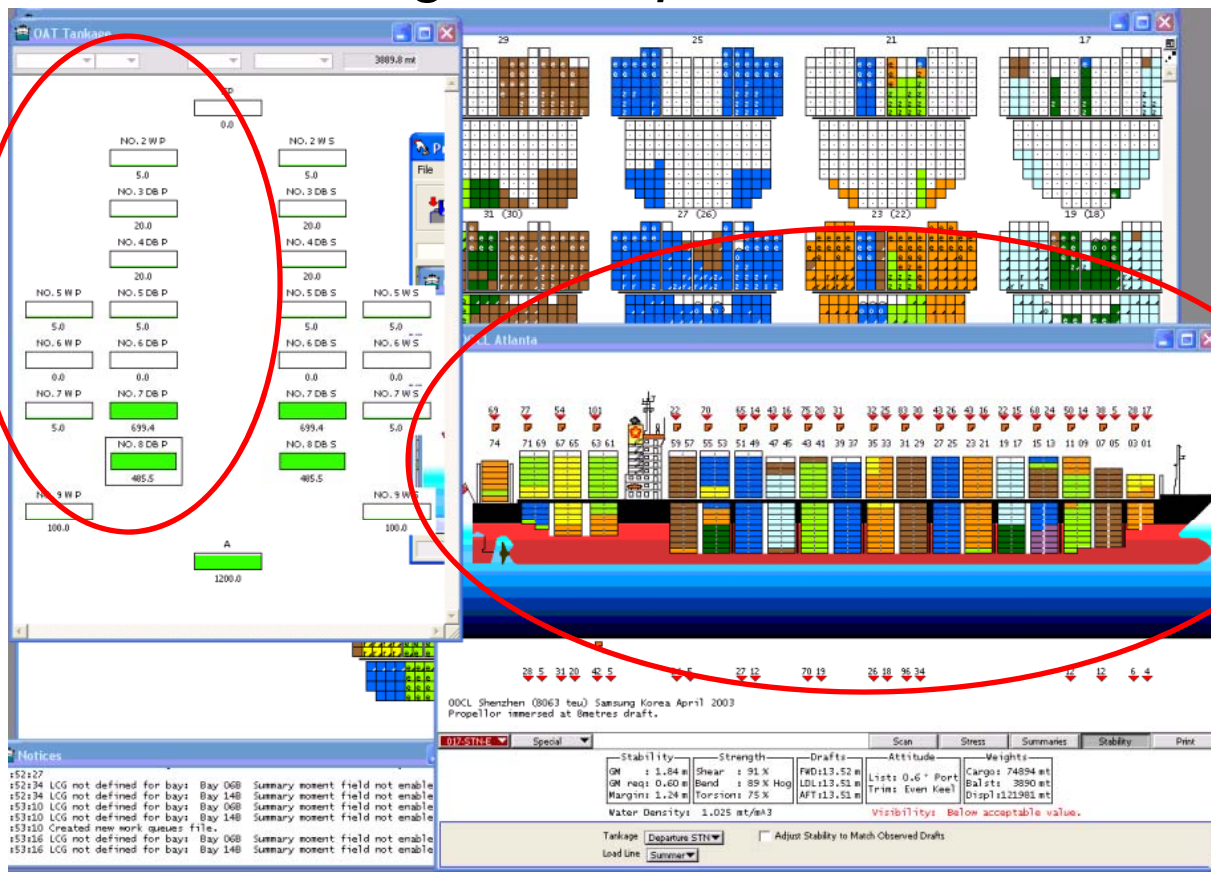


# Strategies to reduce emissions at sea

**Optimum trim (balance of cargo) and minimum ballast (water intake to weigh/ balance the ship)**

*An even keel and lighter ship = less fuel burned*

Ballast water planning  
(OOCL China has sailed with zero ballast)



Cargo load plan to achieve "even keel"



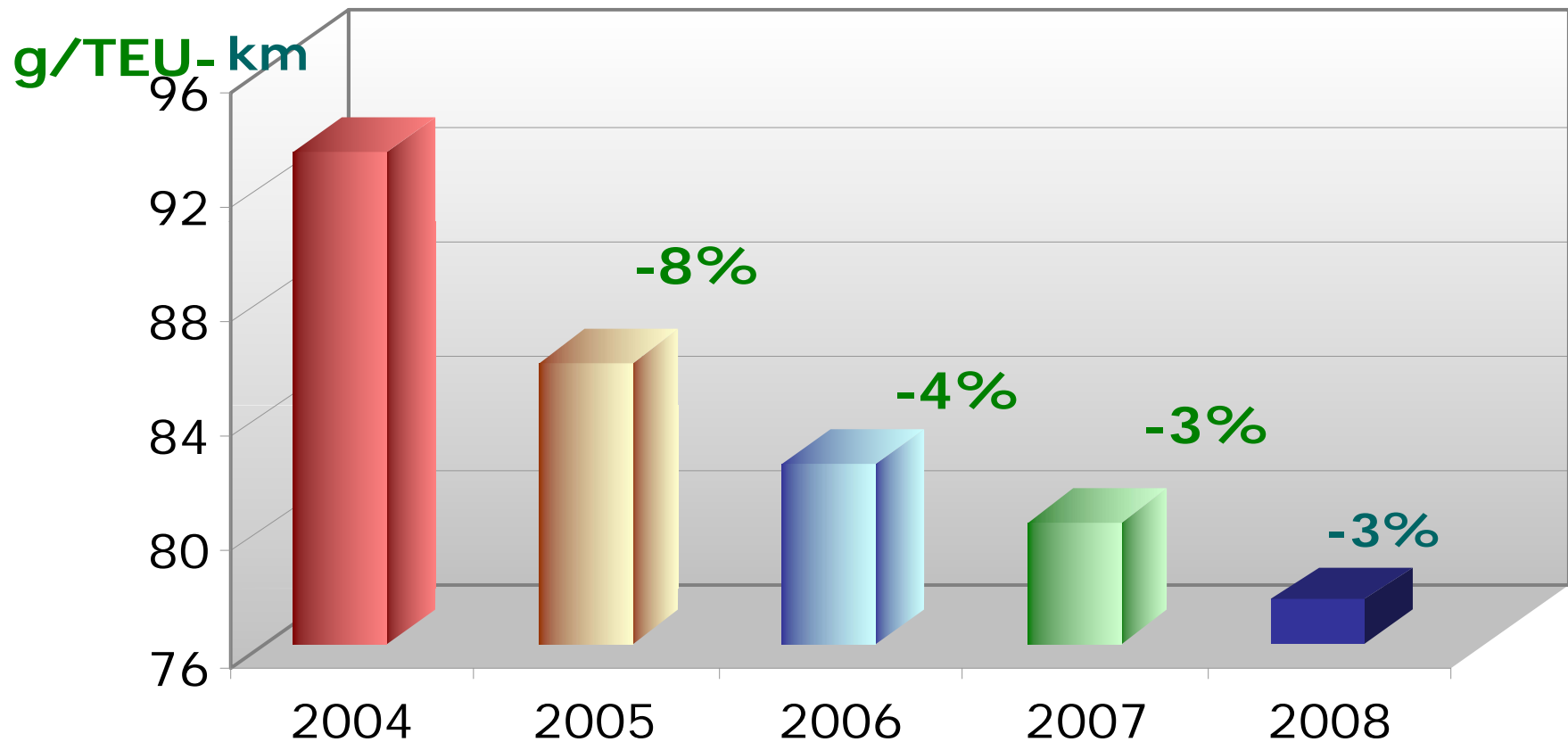
# Strategies to reduce Emissions at Sea

- ❑ **Slow steaming** (by 2-5 knots) on a round trip from Asia to Europe allows a reduction in CO2 emissions of 3,000 metric tonnes.
- ❑ We voluntarily slow steam near “Areas to be Avoided” such as the North Atlantic where Right Whales are migrating.
- ❑ 100% Compliant with Port of Long Beach and Port of LA Green Flag Voluntary Speed Reduction Program



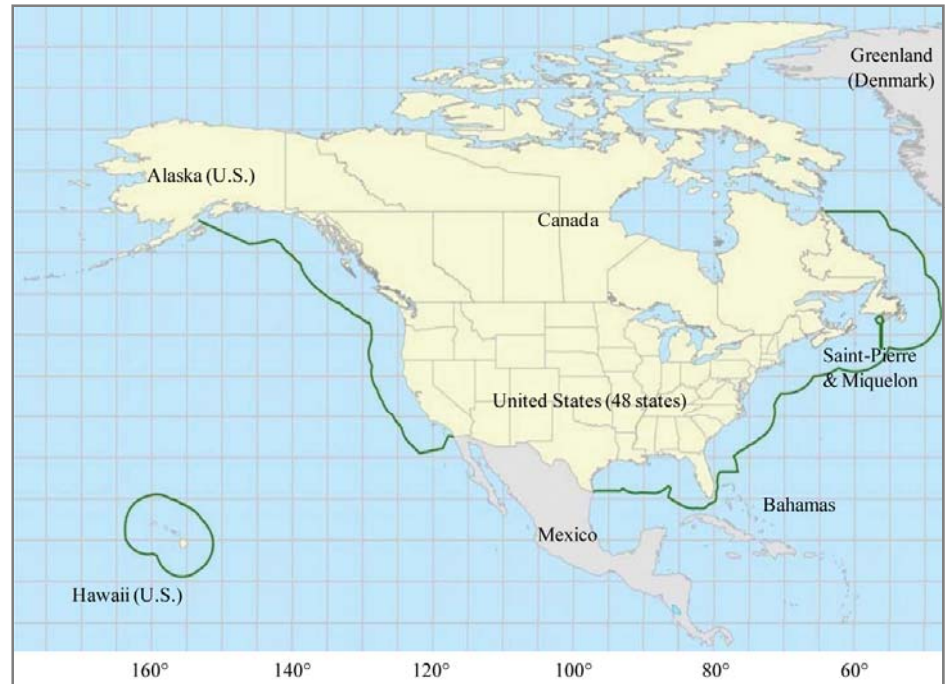
# Carbon Dioxide Emissions Reduction

Average CO<sub>2</sub> emissions from OOCL owned vessels



# N America to become largest ECA

- ❑ Joint Canada- US proposal to establish a consolidated emission control area (ECA)
- ❑ 200 nautical miles off the coasts of Canada and US
- ❑ Aims to reduce sulphur in fuel by 96%, NOX emissions by 80% and particulate emissions by 85% from the present global requirements
- ❑ IMO to review in July 2009 with formal adoption expected by Mar 2010 – for implementation 2012





# Future Eco Technologies

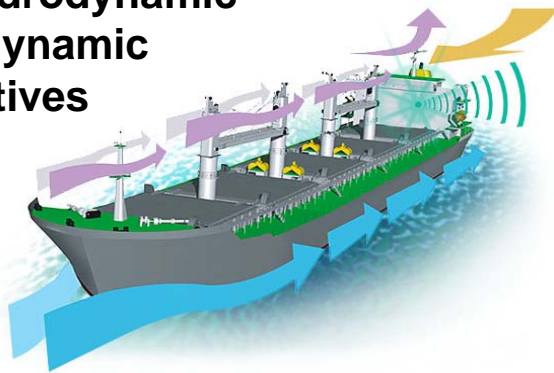
**“Skysails” - wind-powered cargo ships**



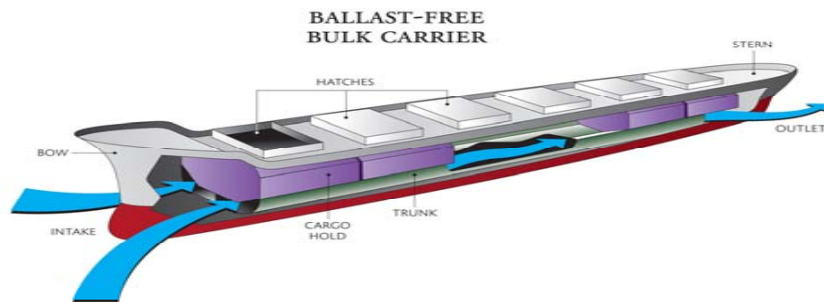
**Container ships powered by sun, wind, fuel cells  
= zero emissions!**



**Greenwave (UK firm)  
developing Hydrodynamic  
and Aerodynamic  
alternatives**



**Ballast free ships (ballast = water intake to  
weigh/ balance) to avoid pollution caused  
by foreign creatures and algae**





# THANK YOU

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