

Presentation to the International Transport Forum – Sydney January 2009

Slide 1

David Bendall – 30 years director of ICC Australia and chairman of its Transport Commission. I have been asked discuss international trade and transport issues in the Asia/Pacific region in the context of the global economic crisis.

This region includes the three largest economies and some of the most dynamic.

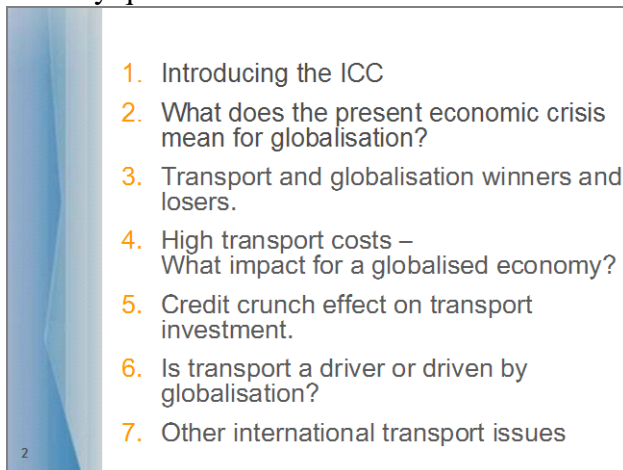
For the structure of this presentation, I will follow the list of “key questions” the Forum is expected to address in May this year.



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The key questions are



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Slide 4, 5 and 6

But first I would like to introduce the ICC ---



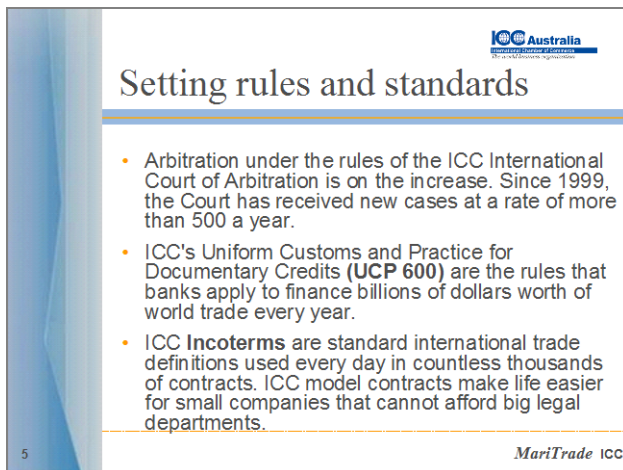
Slide 3 features a blue gradient background on the left side. The main content area is white with the text '1. Introducing the ICC' in a large, bold, orange font. In the bottom left corner, there is a small blue square containing the number '3'.

Slide 3



Slide 4 has a blue gradient background on the left. The top right corner features the ICC Australia logo. The title 'ICC' is in a large, bold, black font. Below it, a bulleted list describes the ICC as the voice of world business, listing its history, global reach, and partnerships. The bottom right corner has the text 'MariTrade ICC'.

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Slide 5 has a blue gradient background on the left. The top right corner features the ICC Australia logo. The title 'Setting rules and standards' is in a large, bold, black font. Below it, a bulleted list details the ICC's role in arbitration, documentary credits (UCP 600), and Incoterms. The bottom right corner has the text 'MariTrade ICC'.

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Slide 6 has a blue gradient background on the left. The top right corner features the ICC Australia logo. The title 'Promoting growth and prosperity' is in a large, bold, black font. Below it, a bulleted list highlights the ICC's support for the Doha trade round, its recommendations to the WTO, its role in government issues, and its annual meeting with the G8 leader. The bottom right corner has the text 'MariTrade ICC'.

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According to UNCTAD, maritime transport accounts for over 80% of the world's merchandise trade. Airfreight is also an important component of international transport, less in volume, of course but an important factor in international transport; more so when we look at the type and value of goods carried by air. However, I will not be talking about passenger transport as it lies outside the scope of international trade.



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I am grateful to the economics department of Nomura Securities for much of the following economic discussion. Nomura, you may recall, took over much of the failed Lehman Brothers and they had the good sense to retain Lehman's first class worldwide team of economists. However, the following commentary is entirely my responsibility.

It seems to me that we are at a stage in the economic crisis when there are two competing pressures on the global economy. Headwinds still seem to be in the ascendant as the daily financial papers keep reporting depressing news and even more depressing forecasts. Some of these factors are:



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However, looking beyond the immediate doom and gloom, it is possible to be a little optimistic that the world will not end tomorrow. Tailwinds are gradually building up to drive the global economy forward. You ladies and gentlemen, would know better than most the strategies behind the enormous amount of taxpayers' money being thrown at the banking systems, vast amounts more being committed to infrastructure and industry – particularly job promoting/preserving schemes – and so on. All this investment must gather traction eventually and world trade will revive again – possibly next year. Chinese authorities announced that de-stocking of inventories seems to have stopped laying the foundation for a return to economic growth.

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In the meantime, the global recession is having a very visible impact on international transport and particularly the shipping industry which is often seen as a leading indicator of trends in international trade. This is a view of shipping laid up in Singapore Roads, a major entrepot port in the East-West trade. The obverse side of this coin is the shipping scene off the major coal and iron ore export ports where there are almost no ships waiting at anchor.

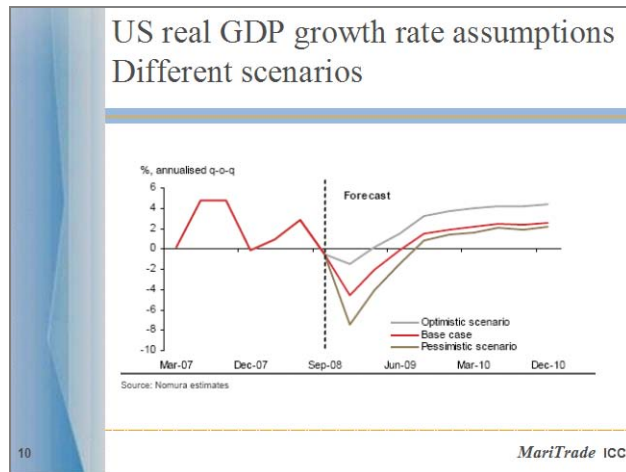


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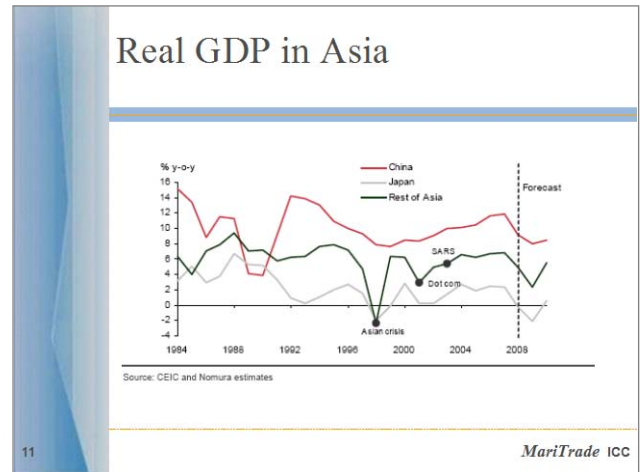
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Many economists believe that there will be a rebound in world trade in 2010 to 2011. This is one forecast for the United States economy showing growth returning to 2% or so in the next couple of years.

In Asia, the outlook is more positive, with the exception of Japan which is still the world's second largest economy, while the Euro Area looks pretty ordinary.



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GDP growth forecasts

Countries	2007	2008	2009*	2010*
China	11.9	9.2	6.5	8.5
Japan	2.4	-0.2	-2.1	0.6
India	9.0	6.8	5.3	7.6
South Korea	5.0	4.0	1.3	5.0
ASIA	6.6	4.1	2.3	4.5
USA	-	-	-1.0	1.9
EURO AREA	-	-	-0.8	1.2

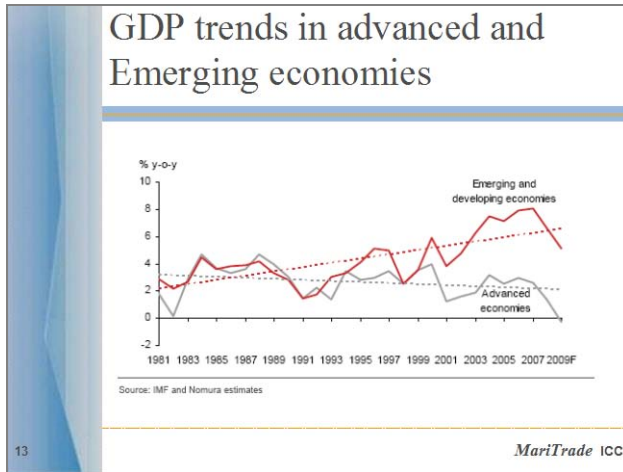
Source: Nomura Securities Dec08 revised Jan09

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The interesting and dominant trend is the growing disparity between the growth in developed and developing economies. Some of the more dynamic developing economies are in the Asia-Pacific region so this is a trend which is highly relevant to international transport, particularly the East-West Asia-Europe and Asia-USA trades which dominate international trade in manufactures and container shipping.



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While international trade has grown rapidly in the past thirty years; there has been a five-fold increase in the volume of dry bulk cargoes – coal, iron ore, grains etc which are the raw materials of expanding economies.

International seaborne trade mt

Year	Tanker	Dry Cargo	* Main Bunks	Total (All Cargoes)
1970	1442	1124	448	2566
1980	1871	1833	796	3704
1990	1755	2253	968	4008
2000	2163	3821	1288	5983
2006	2595	3181	1876	7652
2007	2681	3344	1997	8022

* Main Bunks subset of Dry Cargo – iron ore, grain, coal, bauxite, alumina, phosphate

Source: UNCTAD 2008

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The trend has continued in the past four years when gas carriers (particularly LNG) have suddenly emerged as significant components of the international energy industry. Given the recent energy crises in Eastern Europe, investment in LNG shipping terminals may move up the priority list of some transport ministers. My own company is involved with planning the port infrastructure for a new LNG export facility but much of the recent investment in importing terminals is in Asia. Perhaps that trend will move to other OECD countries now.

International seaborne trade World fleet				
	2005	2006	2007	2008
Tanker <i>m Dwt</i>	345.6	364.7	384.7	408.0
Bulk Carrier <i>m Dwt</i>	349.0	373.1	398.7	422.4
LNG Carrier '000m ³	23 048	27 046	31 815	40 772
Containership'000TEU	8 126.3	9 470.4	10 763.4	12 125.8

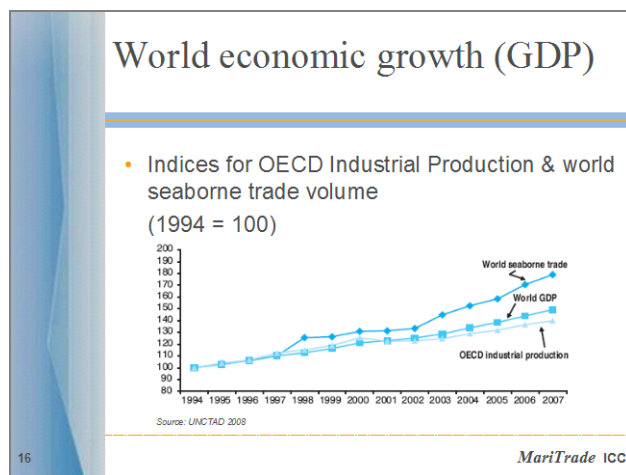
Source: CLARKSON Shipping Intelligence Weekly

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The final word on international transport trends I have drawn from the UNCTAD which shows that transport volumes grow approximately twice as fast as OECD industrial production, a trend to bear in mind when planning future investment in transport infrastructure.

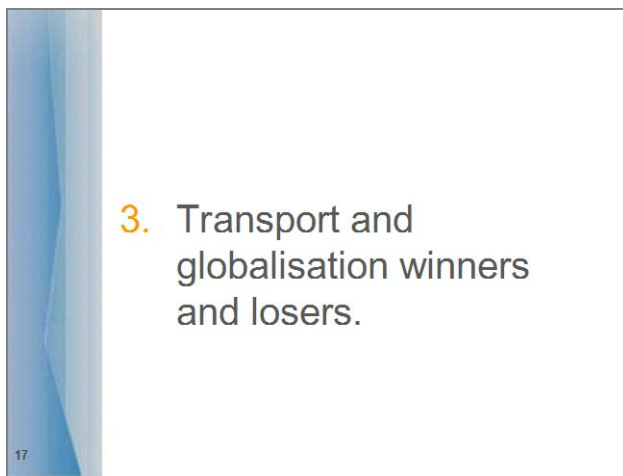


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My personal opinion is that globalisation overall has brought enormous economic benefit to the world. I read recently that the UN estimates that about 70 million people a year move up from current classifications of poverty to a vast and growing middle class with aspirations to life styles, health and standards of living that have been taken for granted for at least two generations in the west.

There are obviously tragic stories of inequality and personal exploitation in the globalisation story but that was a fact in Europe's industrialisation too. I am well aware that this is a highly evocative subject and one which can provoke endless discussion but this is my personal view.



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The fourth dot point in the list of key questions for the Forum addresses high transport costs. I can understand that transport in the context of road, rail and inland waterways is a major cost. But the concept and importance of transport costs in the context of international trade varies enormously with the commodity. For base commodities such as coal, various ores and grains, the cost of transport can be higher than the cost of the product. That means the cost to the importer can be double the exporter's selling price. For perishables such as fruit & vegetables, airfreight and seafreight are high costs but for most manufactures, electronics, consumer goods and other relatively high value products the cost of shipping in containers is negligible. A survey of manufacturing exporters in this country found that sea freight costs were only a few percentage points of their sales price and the main variable was the exchange rate. Much the same argument would apply to airfreight – with high value products the cost of freight is almost irrelevant.



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International transport costs have been relatively high in recent years but worries about costs eased abruptly during 2008.

And this is why – charter rates: the daily cost of leasing a ship, have collapsed as trade demand dropped. Remember shipping is a leading indicator of international trade demand. As the rates dropped, ships were laid up or withdrawn from service and the huge order book held by hundreds of shipbuilders came under severe pressure.

International transport costs, at record levels in 2007, have dropped to below cost in dry bulk trades and in container shipping. Rates have remained reasonably firm in the energy industry although even there ships are being laid up, waiting for new contracts and employment.

In summary, international shipping costs, accounting for 80% of world merchandise trade, are no longer high. In many cases freight rates are below cost and will stay there for a year or more, or until the recession ends. In the meantime, very low international freight rates will do their bit to increase the tail winds of incentives governments are providing to invest our way out of the current economic crisis.

Impact of recession and freight rates				
		Charter rate per day \$000s		
		2007	2008	Jan 2009
•Iron Ore	WA → China			
Capesize 165 K DWT		112	99	16
•Coal	QLD → Japan			
Capesize 150 K DWT		94	93	14
	NSW → Japan			
Panamax 70 K DWT		53	99	3
•Grain	US Gulf → Japan			
49 K DWT		55	57	7
•Containership				
3500 TEU		30	26	11

Source: CLARKSON Shipping Intelligence Weekly

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High international transport costs?	
Shipping = 80% of world merchandise trade	
• Dry bulk commodity freight rates collapsed	
– Substantial reduction in landed cost of raw materials	
– Deflationary impact on pricing	
– Stimulus to demand and production	

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High international transport costs?

Shipping = 80% of world merchandise trade

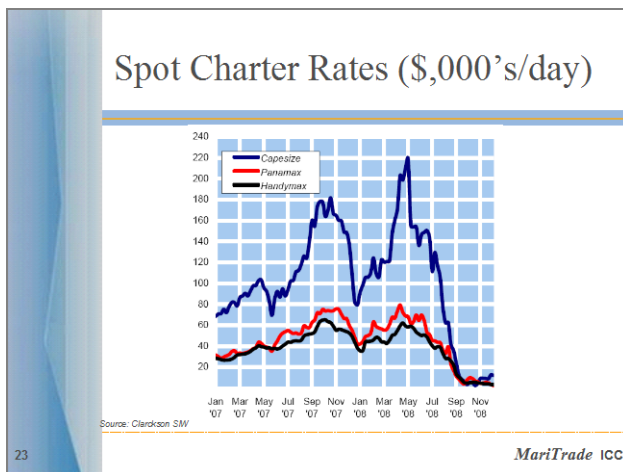
- Manufactures – containerised trades
 - Asia – Europe rates collapsed
 - Very low rates to 2010
 - Asia – USA rates and volume very low
 - North - South trades similar

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These are the daily costs for chartering various types of bulk carrier. The larger ships – capesize and panamax are used for carrying basic commodities such as iron ore and coal while the smaller ships, the handymax size is used for carrying grains. For all these standard ships, the costs of chartering dropped heavily last year, reducing the landed cost to the consumer of many of these basic commodities.

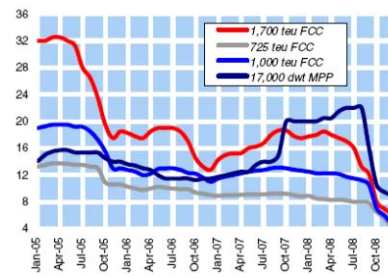


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Similarly the drop in the cost of chartering container ships, which carry most of the world's consumer goods, machinery, electronics and the like, dropped suddenly and heavily, again reducing the cost pressures on imports to most OECD countries.

Liner Market Rates (\$,000's/day)



Source: Clarkson SW

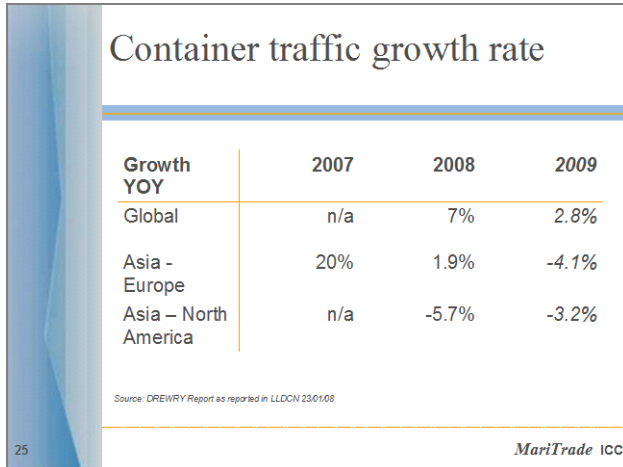
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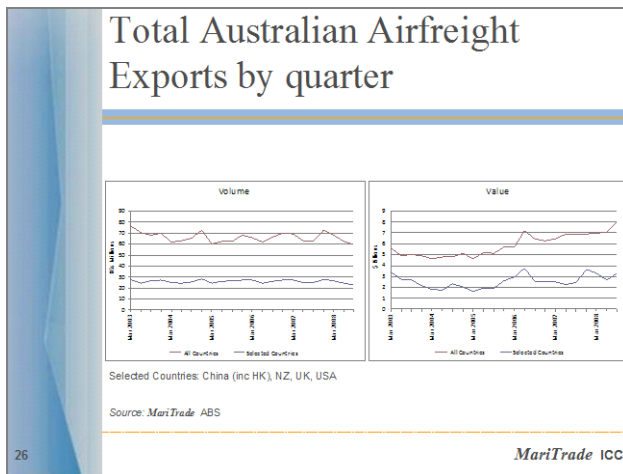
The drop in forecast container trade growth rates this year illustrates impact of the global recession on demand for manufactures and consequently for transport, despite the very low freight rates now available.



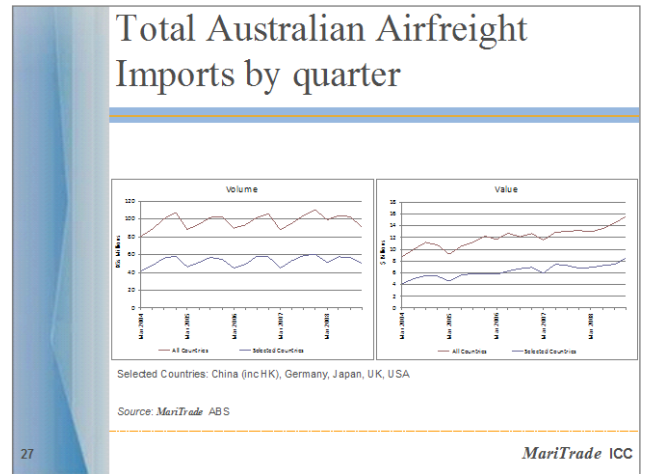
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Airfreight volumes in the latter half of last year are reported to have dropped alarmingly in the Asia/Pacific region. This is an alternative view showing airfreight imports and exports for Australia.



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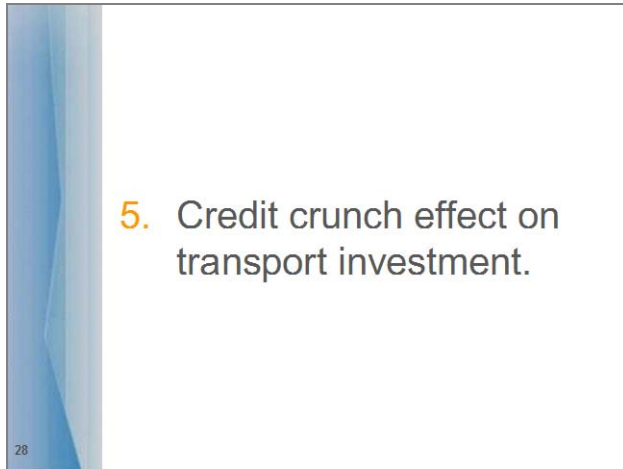


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The credit crunch and transport investment.

In November I attended a conference on shipping finance organised by The Shipping Economist in London. Bankers were quite explicit, there were far too many ships on order, existing shipowners were in financial trouble and many were expected to fail and, most importantly, for the foreseeable future there would be no capital for new investment. Well established shipowners are renegotiating existing financing commitments to spread repayment terms. The effect of this is to reduce the availability of capital for new investments.



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The inevitable result will be a large number of ships laid up or scrapped in Asian yards; older, less efficient ships will be replaced by newer, more fuel efficient and often larger ships. In the airfreight industry a similar pattern will emerge as older less efficient aircraft are replaced by dedicated freighters. The Asian shipbuilding industry is a disaster, particularly in China where more than 100 yards are expected to close despite full order books. Shipowners are walking away from building commitments by forfeiting deposits. For port authorities and terminal operators, the effects are not all bad. Investment in infrastructure for raw materials, bulk commodities and container terminals, strained to excess by the recent surge in volumes, will have a breathing space to upgrade capacity, if they can find finance.

Container terminal operators will have time to develop higher capacity cranes and handling equipment, if they can finance them out of cash flow or equity. Port authorities will have a window for expansion of capacity to cope with the larger ships which will appear off their ports as the recession eases.

In my view ladies & gentlemen, you have two years to prepare transport infrastructure for the next stage of the globalisation story!

The credit crunch and international Transport investment programmes

- Older ships and aircraft scrapped or laid up
- Fewer, larger ships and aircraft
 - More port development, dredging, port expansion, larger terminals
 - Expansion of all freighter air capacity
- Increased focus on intermodal investment
 - Air/Sea – Road/Rail/Inland waterways connectivity

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The final dot point in the list of key questions for the Forum seems to address the basic function of transport. Is transport a driver of globalisation or driven by it?

This is an intriguing question. In my view, transport is a service industry. In a global context, transport provides the infrastructure to facilitate international trade. To me this is obvious.

I suspect an economic historian might point to the influence of pioneers who created new markets which in turn led to the derived demand for two-way trade in all sorts of places around the world. In more recent times it could be argued that the evolution of containerisation so dramatically reduced the cost of transport for manufactures that the “workshop of the world” moved from the developed economies to developing world which brings us back to the impact of transport costs on the globalised economy.

A similar argument could be developed for the impact of specialisation in bulk shipping. The evolution of the tanker and dry bulk carrier dramatically reduced transport costs for oil and base commodities.

However, in my opinion, ships still provide a transport service facilitating trade, they do not generate trade in itself.

6. Is transport a driver or driven by globalisation?

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Driver or driven?

- International transport, air and sea, is a service to international trade.
- International transport facilitates globalisation.

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Ladies & gentlemen, while I have your attention, there are a few important issues of international transport which I would like to bring to your attention.

Piracy is now a high-profile issue in international trade and transport. However, it is not new. In the early nineties my wife Helen and I were invited to the establishment of an office of the International Maritime Bureau, the IMB – a branch of the ICC, in Kuala Lumpur, Malaysia. The IMB was so concerned about piracy in the Malacca Straits at that time that a regional office was considered necessary. It is still necessary as you can see from the map. Piracy is a modern scourge of the shipping industry which has a direct impact on the costs of shipping as the insurance costs of ships travelling through pirate-infested waters is considerable and is reflected in the freight costs.

Pollution from ships is an evocative subject. The exhaust from ships' funnels is highly visible in busy ports and is therefore a target for environmentalists. However, this chart puts the environmental impact of shipping in a saner perspective than some of the inflammatory headlines in newspapers would give you.

Fuel Efficiency is particularly relevant in a short sea or coastal context. The European Union is actively encouraging transport operators to use sea freight wherever possible to draw freight away from road and rail. This is why – shipping is far more fuel efficient than any other transport mode.

Professional skills and training. This may seem an odd subject to raise in the big picture view of globalisation and international transport but the fact is that the increase in demand for shipping and the disinterest in most OECD countries in shipping as a form of transport have led to an alarming drop in the numbers and standard of education of people entering the industry. This is not an abstract point – it has implications for safety, human life and the environment. The Nautical Institute is the world body concerned with maintaining professional skills and personal development of those seafarers responsible for transporting the world's merchandise trade around the world. The number of accidents (read pollution from oil tankers: collisions and sinkings of fully loaded ships) due to human failure is rising steadily and faster than the number of ships. You should be concerned at who is in control of these enormous ships, they are bigger and faster every year and the accident rate is rising. Nearly all transport ministers in OECD countries are fairly complacent about this problem until the television screens show the effect of oil pollution spreading from a collision, sinking, whatever, night after night when all eyes are on the responsible minister.

In Australia some years ago we watched politicians, senior business men and officials squirming in embarrassment in front of the cameras as the "Ships of Shame" enquiries explored in detail the consequences of ignoring the risks inherent in chartering foreign-owned, sub-standard ships and inadequately trained or qualified crews; the unnecessary deaths, the pollution, the loss of cargoes.

7. Other international transport issues

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Other transport issues

- Piracy
- Pollution
- Fuel efficiency by transport mode
- Professional skills

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Piracy



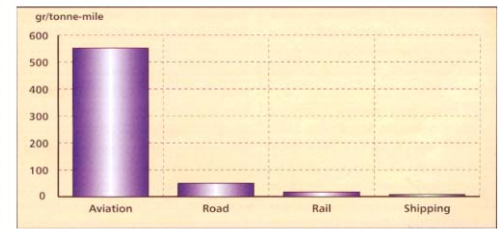
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Pollution – CO₂ emissions

- By transport mode

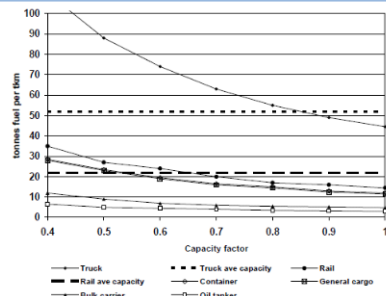


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Fuel efficiency by transport mode



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Professional skills and accidents



- More and larger ships
- Fewer skilled and qualified seafarers from OECD countries
- Crews from developing countries
- Language and cultural problem
- In an emergency, people panic in their own language

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The message is – when industry asks for support in lifting standards in the maritime industry in your country – listen to them.

Ladies and gentlemen – I was asked to give you a view of issues for transport in a globalised economy with an Asia-Pacific and business perspective. My views are my own of course but they are based on fifty years experience in international trade and transport.

Thank you

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