

**Establishing Cooperative Game Mentality and
Promoting a Sustainable Growth of the International
Liner Transport Industry**

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**Honorable Mayor O'Neill, Chairman Glass, Mr. Steinke,
Distinguished guests, Ladies and Gentlemen,**

Good morning! It is my pleasure to have this opportunity speaking at the 4th Trans-Pacific Maritime Conference at this beautiful seaport place. Today, my topic is - Establishing Cooperative Game Mentality and Promoting a Sustained Growth in the International Liner Transport Industry.

As we have seen, the international liner market, after several years of sluggishness has begun to recover in 2003 and maintained a positive momentum until the end of the year. In terms of demand, growth rate in transported container volumes on major services worldwide exceeded 9%. Growth rates on trans-Pacific eastbound and westbound trades reached 8.4% and 12.6% respectively. In terms of port throughput, Los Angeles and Long Beach ports together handled an all-time high of 11.8 million TEU last year, up 11.3% compared with 2002. At the same time, Shanghai Port and Shenzhen Port in China each handled more than 10 million TEU.

The increased number of containers handled by the ports on each side of Pacific represents the increased traffic on the world's busiest trade lane. In terms of supply, the newbuilding orders have hit all-time highs, but we must remember that the supply of container slots grew a mere 7% in 2003.

When we consider scrapping and the actual deployment of new capacity, we can see that supply clearly expanded more slowly compared with both previous years and most importantly compared with demand. This tightening of supply and demand enabled liner companies to smoothly achieve most of their freight rate-restoring efforts, thus rates on major services worldwide have recovered to a large extent.

It is predicted that in the coming two years, the supply and demand situation at the international liner market will continue to maintain its balanced tendency. The total growth rate of the container volume transported by sea worldwide is anticipated to jump over 8% in 2004. In the Asia-Pacific, thanks to favorable elements of regional economic growth early this year, a shrinking US dollar and improved conditions for Sino-US trade, we are confident that Asia-US trade, particularly Sino-US trade will be able to maintain a steady growth. Therefore, liner transport business on the Pacific will keep a strong growing momentum. This conclusion can be confirmed through increased bookings on Asia-US services for the coming spring.

The total capacity of container ships is likely to increase by a bit over 7% this year, so the average freight rate at this market hopefully will be able to increase by a certain extent, surpassing last year's 9%. Looking further ahead, we are now predicting that in the coming years, the average annual growth rate of container volume transported by sea in Asia will reach 8% to 10%, which is ahead of the pace for capacity growth. As a result, the supply and demand situation in major shipping markets worldwide will maintain a comparative balance and it is fair to say that the international liner transport industry has now entered a stable development stage.

At this point, we need to remember two ancient Chinese sayings. First, "Stay prepared for times of plight when enjoying good times." And; "One who has no long-term planning is destined to face a more immediate predicament." These sayings offer insight for the current liner transport market. With an improved shipping market since the beginning of 2003, there has been an upsurge in the construction of new container ships setting new highs in 2003.

According to Clarkson statistics, new orders for all-container ships across the world reached 499 vessels at the end of 2003, representing 2.04 million TEU, which is 4.8 times the level of the previous year. Most of these new ships will be delivered and put into service from 2006, and at that particular moment, the supply-demand balance is destined to face another round of relentless challenge. The interests of liner companies, investors as

well as shippers will once again be exposed to the risks in the market.

Many factors have contributed to the swirling market. Our analysis suggests that the following four factors have played major roles.

First, the co-existence of excessive regulatory control together with arbitrary attitudes in the shipping policies adopted by various governments have brought a state of confusion and disorder to the market.

Second, carriers have committed their resources to competitions rather than collaborations with each other. Many of them are pre-occupied with a “single-party-win” mentality, seeking only to maximize self-interest, and this behavior often triggers vicious competition and will eventually hurt all the parties involved. This phenomenon has been witnessed over the past years in the international liner transport market, including trans-Pacific routes on numerous occasions.

Third, no entity has been created to represent the collective interests of carrier, shipper and other service providers. These three crucial components of the marine transport chain’s client-oriented guidelines have not been applied in earnest to other parties in the same supply chain. Normally, they focus on creating value for themselves instead of creating value for others, so a mentality of serving-each-other has not been founded.

Forth, uncertainty and risk factors remain inherent in the expansion of the market. Periodic and instable characteristics in economic development, imbalance and conflicts in Sino-US trade and Sino-Japan trade, carriers' over expansion of capacity, military conflict and terrorist attacks and consequently oil price fluctuations all have negative effects on international liner transport market.

Past experience can serve as a guide for the future. The history of international shipping reveals that during the recovery of liner transport market, we must stay vigilant against uncertainties and risks. We must also aim to establish a long term stable development mechanism, so as to avoid dramatic fluctuations in the future market.

Having said that, how could such a mechanism be established? According to the well-known Game Theory, all games can be divided as either a Cooperative Game or a Non-Cooperative Game. In the case of Non-Cooperative Games, the participant focuses on maximized personal interest, but this effort will only lead to the so called Prisoner's Predicament. This turns out as the worst situation for everybody, including the shippers!

A Cooperative Game scenario encourages individuals to pursue personal benefit on the basis of a maximized collective benefit. In order to realize a long-term, sustainable and healthy development of the international liner transport industry, we must transform the traditional non-cooperative game mentality and

mechanism and establish a new mentality and mechanism of modern cooperative game.

To be more specific, I would suggest the international liner businesses should strengthen their common interests in the following respects:

First, we need to enhance communication and coordination with maritime administration agencies in various countries, and urge them to adopt a new policy, which can be characterized as both liberalized regulation plus standardized administration. This approach will work as an important pillar for the stable development of the long term mechanism the industry needs. The spirit of this fundamental principle has been already reflected in a variety of legal documents and conventions. These legal documents include US OSRA, relevant shipping regulations made by EU, the Regulations of the People's Republic of China on International Maritime Transportation, which was issued last year, as well as China-US, China-EU Maritime Agreements.

Governments and international organizations should stick to the consolidation of a liberalized regulation plus standardized administration, seek a balance of reliability, rights and benefit among market participators. There should also be a balance of interest among shippers, carriers and shipping-related service providers and a balance of interest between government and the business community. These should become major principles and basic guidance for government and

international organization to improve macro-policies of competition at the liner market.

Second, liner operators should establish a new mechanism of Coordinated Competition and a new mode of competitive development in compliance with the new mentality of cooperative game, when dealing with others in the industry. We should promote the cooperative and competitive relationship between liner operators and gradually establish a new mutually-beneficial and win-win business mode in this industry. Liner operators should enhance exchanges and cooperation, strengthen mutual trust, safe-guard common interest of our industry under the framework of regional and international maritime organizations and liner conferences.

Third, liner operators should comply with a basic principle of competition as well as cooperation when handling the relationship with shippers, shipping-related service providers and terminal operators. A “serving-each-other” mentality should be established among these four parties and each party should aim at creating value for others. However, the collaboration between liner operators and shippers should not be limited to the maritime shipping sector only, this relationship can be expanded into logistics areas. Liner companies can provide total logistics solutions to cargo interests by expanding logistics services and establishing purchasing centers at different places.

The Pacific route is the most dominant one among all services of liner transport worldwide, with an annual total volume accounting for over 50% of the total volume on the top three services worldwide. The China-US service is particularly playing a significant role in the global liner transportation because of its huge volume and fast growth. According to statistics, the total volume on China-US services both eastbound and westbound reached 5.9 million TEU in 2003, 18% higher than the previous year and accounting for 45% of total volume on the whole Pacific services during the same period of time.

Based on this situation, I believe the Pacific services should become a primary platform for liner operators to establish long term coordinated competition mechanism with each other as well as with shippers, related service providers, terminal operators, logistics businesses and railway companies in compliance with cooperative game mentality. We hope that by establishing this new mechanism, new cooperative patterns will emerge gradually in the industry and will eventually guide and promote the sustainable, healthy and stable development of the liner transport industry.

Next, as the president and CEO of COSCO Group, the largest shipping enterprise in China, I would like to share my views on the development of China container shipping market with all of you.

In recent years, China's container shipping market has witnessed a fast growth and China's liner transport market has become the world's fastest growing market. Statistics show that in 2003, China's seaports handled a total number of 47.66 million TEU, 31.7% up compared with the previous year.

Facing the new century, Chinese government is aiming at a great target that by 2020, the total GDP shall be expanded four times the figure of 2000. In order to hit this target, China's economy and trade need to maintain a fast growth for a long period of time and annual GDP growth rate is expected to maintain at about 8% and annual trade growth rate at over 10% by 2010.

In the shipping field, the Chinese government is taking a series of measures in order to promote a fast development of the liner transport and the shipping industry. These measures include accelerating construction of maritime infrastructure, regulating the shipping market in compliance with laws and actively promoting modern logistics. Particularly, the implementation of newly issued Port Code of PRC will play a key role in promoting terminal constructions and providing higher quality and higher efficiency port service to both domestic and foreign shipping companies.

At the same time, the liner transport business in China is still in a process of gradual opening-up. According to statistics, a total number of 144 international liner

transport companies have registered in China, of which 101 are foreign businesses, accounting for 70%. Of the total number of near-sea and deep-sea ocean-shipping liner sailings from Chinese ports every month, foreign shipping companies have accounted for 47.5% and 70% respectively.

COSCO liner service ranks No. 1 in China and No. 7 worldwide. As always, we will stick to the new mentality of cooperative game, maintain a firm principle to realize a win-win situation between liner operators and their customers and make continued efforts to establish the long term coordinated competition mechanism and promote a sustainable and stable development of the international liner market. Right here, I would also sincerely hope we can further enhance the cooperation with all the friends present today on this conference, join our hands to address the challenges the liner industry faces in the 21st century and work together to create a brighter tomorrow.

In a short conclusion, I thank you all and again wish this conference a complete success. Thank you very much.