

Market Needs Confidence

Capt. Wei Jiafu

President & CEO of COSCO Group

Distinguished guests, Ladies and gentlemen:

Good Morning.

Since second half of 2003, we have experienced a 5-year long booming cycle. However, with the wide spreading financial tsunami, like other industries, shipping now is in a tough time with more pressures than ever. In such turmoil timing, I would like to remind all the industry players that we need confidence to overcome the existing difficulties.

Almost all the front-page stories in the media are bad news. That booms a great panic which is driving markets into turmoil. The financial markets are experiencing the darkest days since 1930s. Stock markets are triggered by the investors' panic selling and dived. Commodity prices are going down by a straight line, for example, crude oil prices is back to 60 US Dollars while the peak price was 147.27 US Dollars in Mid-July. So does the shipping. BDI, the indicator of dry bulk, climbed to 11,793 points on May 20th, hitting the historical high level, whereas fell to only 982 points on Oct 28th with more than 90 percent off. Ship prices also plummet. Price for a five-year-old Capesize carrier has declined by US\$71 million since the beginning of September. Some brokers even had to stop the pricing information.

Financial tsunami brings panics to the market, panics drive traders escape from the market, market is falling due to these panics. Just like the situation in earthquakes, when the disaster happens, the only thing people know is to escape, but few know how to escape correctly, further, they do not have a sensible sentiment to the situation. Now the market is in Panic. But after this panic period, people would know the real situation and

make their right decisions. So I would claim that the panic would be over in months. Market would recover to its normal Supply/Demand balance.

However, we realize that worries are still there for shipping.

The finance crisis is starting to hit economy, both industrial production and trade. The latest IMF report shows a slowing down of world economy in terms of GDP growth, only 3.9 percent 2008, and 3 percent next year. World trade volume growth also goes down after the peaks in 2004 and 2006. That hurts the demand of shipping.

With box business, transpacific trade gains no substantial growth even in the peak season. Container traffic volume for 2008 as a whole is now projected to be 5.5% growth, less than that in 2007, with no turnaround expected in the next six months.

For dry bulk, we see the shrinking of real estate, auto selling and other industries. Steel end users reduced purchasing leads to the slump of steel demand. Steel mills are cutting their output with the declining of steel prices. The largest steel maker, China, does the same; some even argue that Chinese steel mills, suffering from falling domestic prices and high raw material costs, are temporarily cutting production by 20 percent in Q4. Liquid business seems fine, but worrying the reduction of oil demand, the bad news comes from OPEC. Effective from November 1st, it will cut the oil production by 1.5 million barrels a day.

Besides, we have to face the fact, due to a crazy investment in the past years, the orderbook is thick. Pressure also comes from supply side in the coming 3 years.

Then the question would be, will the market collapse? Will the shipping industry be destroyed? I believe nobody in this conference room would say YES. Let's look at the good things. Good things would help us rebuild market confidence.

The first one is the economy and international trade situation. We would

argue the globalization, which is the basics of international economy and trade, is not reversed at all. With the process of further globalization, manufacturing would move to cheaper areas, followed by the movements of raw materials, energy and finished products. Investments will still follow such trends.

Although emerging economies are affected by financial tsunami, they are still expected to provide a source of resilience, benefiting from strong productivity growth and improved policy frameworks. The growth of emerging markets is expected to be above 6 percent in next 2 years.

Especially in China, the economy foundation is still sound and strong. We can see that in the first 3 quarters this year, China's employment is good with another 9 million new jobs; inflation eases quickly; foreign reserves continue to rise; the GDP growth rate of 9.9% is still the fastest one around the world.

The process of industrialization and urbanization would go further. For example, China has got only 33 cars every thousand population in 2007, while 814 in USA and 586 in Japan in 2005. China's railway mileage per million heads is only 60 kilometer while that is 500 and 200 kilometers respectively in USA and Japan. That shows china's large potential demands which would not change under financial crisis in the long term.

The new policy to develop rural areas would contribute more demand for shipping. In 1978, China started the reform from rural areas. 30 years later, we once again put focus on rural areas where 900 million populations are living. The improvement of the infrastructure and their living standard would encourage the consumption of steel, cement, household's appliances.

Now Chinese government is taking measures to keep the economy growth including lowering interest rates and encouraging business. Also encouraging exports by again increasing tax rebates and encouraging domestic consumption by arousing real estate property purchase. Further, national investment into Mid and West part of the country is still going on

and more projects, like railway infrastructure, said to be 2 trillion RMB, will be invested. These macro-control measures are effective or will be effective, which could secure China's economic growth.

I believe China's economy promising with potential consumption markets, healthy financial condition, enterprises' innovations and government's macro-control capability.

Outside China, in Thailand, 1.5 billion US Dollars loan from World Bank would be put into its national infrastructure. Huge investments in Gulf areas would encourage demand.

More good news comes from authorities. The administrations have realized the danger of the financial tsunami and immediately take necessary steps to rescue the economy, including injecting liquidity, lowering rates, economic stimulus plan. Moreover, international cooperation, like Asia/Europe summit, is widely recognized between governments. We believe these efforts would produce positive effects to the economy.

Shipping demand is still there. We are happy to see the intra-Asia market and U.S./Europe outbound maintain its growth. In dry bulk, growth is projected to be 5.2% in 2008 and 3.5% in 2009, boosted by iron ore and steaming coal. The recent diving of BDI is caused by an imbalanced monthly demand from China, to be more specific, caused by unreasonable pricing of iron ore by Brazilians. With oil demand, China's demand is still growing. In first 9 months this year, China's crude oil import is 8.8% up on a year on year basis. Because of structural change of coal trade, coal business would step in and become another driving force to dry bulk. Multi-purpose business grows steadily. In the semi-submersible vessels market, with heavy investments in offshore market, the demand for transporting drilling rigs and floating production units is very strong. Besides, with the on-going process of globalization, the enthusiasm of upgrading infrastructure facilities is still on a high level. Meanwhile, more and more multinationals are choosing to relocate their plants from developed countries to developing countries. Relocating

projects includes transporting super heavy or large equipments will undoubtedly promote the shipping demand of heavy lifts.

Another reason can give us more confidence. Because of financial crisis, ship financing is not easy. Difficult financing arrangements happen to newbuilding orders, to shipyards, to terminal operators. There are huge order delivery problems. Banks are closing their doors to ship finance. It's estimated that about US\$100 billion of shipping loans are cut out this year. There will be far less capacity delivered in the coming years than expected.

Also ship speed. Slow-down campaign merged some capacity. Almost all major players join the initiatives. More benefits, reducing bunker cost and CO₂ emission are expected.

And with higher costs plus unsatisfying freight rate, considerable phase-out of old capacity would be resulted. Moreover, IMO's regulation on single-hull tanker will also contribute to a considerable capacity phase-out in the future. All of the factors will lead to a supply-demand balance much better than what was forecasted before.

One more point is good balance sheets with all shipping operators. In the past five years, I believe every shipping company smiles at their balance sheet and cash flow. This will help us go through the difficult timing.

There are more to be mentioned. 11,793 is not the result of Supply/Demand, nor is 1102, which means there are speculations and burbles. I believe speculations, especially those done by financial institutions, will walk away from the market, and let the market back to its Supply/Demand balance. This would be good to the whole industry.

Before I finish my presentation, I would like to propose to all the players, try to be more reasonable, try to be more sensible. And also I would like to remind all to take a strict control of the risks, namely fleet expansion, non-performance of contracts, financial risks both currency and cash flow, cost control. And I call on all the market players, ship owners, bankers,

traders, terminal operators, shipyards and shippers to be more cooperative in order to go through the tough time. The market needs us, and we need more confidence.

Risk in Chinese means danger and opportunities. Wherever there is risk, there is opportunity. As Sir Winston Churchill said, the pessimist sees difficulty in every opportunity; the optimist sees opportunity in every difficulty. I believe opportunities are always for those who are well prepared in advance.

Finally, I would like to say:

We are here.

We would be here.

I wish everyone would be here.

Thank you!