Paul Windfield

Currently, Paul Windfield holds the position of Director Australia/New Zealand of P&O Nedlloyd with responsibility for the activities in the region and for trade management.

He has also been a Director E-Commerce and has played a key role in the strategic development and implementation of all P&O Nedlloyd initiatives in the E-Business area globally.

Prior to taking up his current role, he was Executive Vice President and Regional General Manager of P&O Nedlloyd North America, responsible for all regional functions including customer service, operations, regional finance and sales/marketing activities. Before joining the North American team, he was Managing Director of P&O Containers New Zealand and a Director of P&O Containers Australia where he was responsible for trades and operations. He also held several marketing and operational positions with the company in London, working extensively in Europe and Asia.

A law graduate of Sydney University, Mr Windfield qualified as a lawyer with the New South Wales Supreme Court before joining Overseas Containers limited Sydney as a graduate trainee in 1979.

"THE NEW GENERATION OF CONTAINER SHIPPING INTO AUSTRALIA"

Address by Mr. Paul Windfield
Regional Director, P&O Nedlloyd

To

THE MARITIME LAW ASSOCIATION
OF AUSTRALIA & NEW ZEALAND
28TH ANNUAL CONFERENCE

SYDNEY, 11 OCTOBER 2001

Distinguished Guests, Ladies and Gentlemen,

Firstly, thanks to the Maritime Law Association for the opportunity to address this star-studded gathering, and particularly in such august company.

I have been asked to discuss the "New Generation of Container Shipping".

Initially I took this to be a personal compliment until I read the programme and realised the "New Generation" was not unique to my particular topic nor to me personally. So I spent a little time thinking about what it is I can bring to the subject that might be of some interest.

There are the **obvious** things:-

- The ships and other technical developments.
  - what's coming next;
  - will we see them here in Australia anytime soon.
- Service patterns, structure, alliances and those kinds of developments.
- The economic climate and what that might mean for us here, and especially the potential for future consolidation in the industry.

And naturally I will touch on each of these in a moment. However, after that I would like to spend some time on developments in the industry taking place everyday in a less obvious way – but developments that increasingly affect the way the industry interacts with our customers and suppliers, and will have huge impact on how **and where** we perform many of the support functions that, in fact, employ the vast majority of carrier personnel. I refer of course to "Systems" – our own core systems, engines and data and the way these are rapidly "globalising". And, just as importantly, the "E" developments – the web, EDI, XML and developing technologies that are making geography less relevant to customer service and support in our industry.

Interesting that in an industry whose fundamental value arose originally from the need to efficiently move goods from origin to point of sale, in other words quite geographically orientated - or as some economists like to say "exploiting the utility of place" – the key **"new generation"** of systems development is evolving in a way that begins to make "geography" or "location" of service delivery support almost irrelevant.

So, a little about the more "obvious" facets of the business – after all it is hard to miss a containership 250 to 300 metres long or a few thousand containers should they happen to be stacked up by the side of the road.

Early next year, the first vessel of a fleet of ten, will be delivered to P&O Nedlloyd for eventual deployment in our Australasian trades. Seven of these are being built for P&O Nedlloyd and three for our partners, CP Ships. These vessels are truly the "New Generation". At 281 metres long with a speed of 25 knots, cargo capacity of 4,100 20' equivalent units and 52,800 tonnes, and with the largest purpose built refrigerated container capacity (1,300) of any vessel on earth, the ships and the thousands of containers purchased to service them, are the most significant single investment in the trading capacity of Australasia ever made.

Most significantly from a strategic service design perspective, they represent continued investment in **direct** services to and from this country, rather than transhipments using East/West trunk routes. So often we hear partially informed comment that transhipment will be the way of the future – can I say that whilst there - will always be a place for mixtures of service combination in any flexible and changing environment, the economics of serving the long haul routes on which our trade so heavily depends, remains firmly in favour of properly designed efficient **direct** services. I think there is great misunderstanding of the relative costs in this industry of landside, terminal and relay expenses and where they fit in the equation versus the cost of providing the core ships network. There is a misconception that the network cost, or ship provision cost in the whole end to end equation, is the dominant item. Whereas in fact the cost of loading, discharging and otherwise moving a container as part of its journey, usually far outweigh the costs of providing the ship that performs the long haul task! Presumably this is due to the fact that with their size and capital cost people think that the ships are just plain "expensive"! Whereas of course these "expensive" assets perform a huge number of individual transport "tasks" over their lives. Quite conceivably, each of these new ships will move in the order of a million 20' container equivalent units over its lifetime, which is why at a unit level they are so fabulously efficient compared with other modes.

Finally, on this particular subject, the new vessels will, for the first time, serve the major export markets of U.S. East Coast **and** North Europe from Australasia on the same round the world voyage. Another first, and a significant factor in the overall economics of this very significant investment.

What of other trade areas, Asia, the Tasman for example? Current indications are that nothing especially significant is likely to happen to change the basic structure of these trade routes in the short term. Not surprisingly, the economic climate, especially to our North, will dictate caution over expansion and capacity upgrades until things settle down and a clearer economic picture emerges. This picture is fairly universal at present as carriers concentrate on absorbing the newest, very large container ships delivered to the major east/west trade lanes.

Can I talk about industry consolidation for a moment – because over the years there has been much talk that the "New Generation" or "New Millennium" of shipping will see rapid consolidation and if in fact the "industry experts" of the last five years had been remotely correct, there would now be only four or five globally dominant players to take us forward into the "New Generation". The facts are a little different. There have been three significant mergers in the last four years:-

- P&O Containers and Nedlloyd late 1996;
- NOL and APL in 1997; and
- Maersk with Sealand and Safmarine in 1999.

Plus ongoing absorption of smaller "niche" players such as the growth of CP Ships and a variety of smaller acquisitions such as our purchases of Blue Star, Harrison Line and Farrell Line in North America.

But despite this the industry picture still looks like this:

-- Slide --

By some standards still relatively unconsolidated and one wonders where next consolidation will occur.

By any measure though, when one looks at the wide global spread and diversity of the top industry players – at the very least the "New Generation" will be multi-cultural!

Quite seriously, the recent strong financial performance of at least two of the major east/west trades, Europe/Asia and Transpacific, has slowed the moves towards consolidation as profits improved and nominal values of carriers rose. It is widely known that the industry will be under some pressure for the next year or so and the less efficient and financially weaker may be vulnerable. If I was able to accurately predict the outcome, however, I wouldn't be standing here working for a living.

I'd like to turn to the area that I feel will truly be the place the "New Generation" of shipping will have the greatest impact. Information Technology. This hugely overarching term covers so many areas that unless we dig a bit deeper, any discussion on IT tends to blur into generalities and motherhood statements. So what is really going on out there?

For many years, Container Carriers' systems support for the business have been a very mixed bag of competency and quite variable, often disjointed geographically and mostly non-integrated. In some areas, for example ship operations, stowage planning, container tracking at an operational level, we have generally been reasonably good at it. But by and large, systems capabilities have evolved initially at a country or regional level – remember that many smaller or medium carriers still make extensive use of third party agents of variable capability – and these different systems generally communicate by file transfer from point to point and use of various interfaces. In a nutshell, data has been all over the place. But now, at least as far as the major players are concerned, all this is changing rapidly.

Two major drivers are behind all this. Cost and Customers. And when the financial incentive to reduce costs by efficiencies driven by technology are in sync with customer demands for real time accurate and rich data then that is a powerful force for change. Couple these to the mind set changes now being created by the internet, and the disconnect between access and location, and you begin to see why the whole systems area is beginning to redefine the "New Generation" of shipping.

The technology is now readily available to support remote, centralised backroom support operations with single, universally accessible databases that can be accessed by many means: -- internal networks, EDI, Browsers for example, from almost anywhere without the expense of discrete networks and mainframe systems that were once the norm. The cost of moving and accessing data has dropped dramatically of course.

P&O Nedlloyd performs all of its Australian Customer Service functions, documentation, finance support, operations management and many other functions, in a central service centre in Brisbane. Our Port offices and operations facilities do only what physically needs to be performed in the field. The benefits of this go far beyond simple rationalisation. They extend to standardisation of process, training, data handling and of course allow automation of simple processes. All of these ultimately drive our ability to offer reliable, predictable high standards of customer service. Also standardised and centralised "backroom" functions are an essential component of "on line" customer service capability.

In Asia, similar consolidation has taken place as support tasks involving service delivery crossing physical, cultural and language borders are increasingly able to be performed in low cost centres such as Shenzhen in South China. Although for now it must be said in that case the focus has been more on staff cost reduction rather than technology driven savings. Similar initiatives are taking place in Europe and North America.

Already all of P&O Nedlloyd main computing is performed in just two centres, London and Sydney, and our applications software is designed and written in just two locations, Pune India and, again, Sydney. All very interesting you might say, but of absolutely no relevance. **Not so**. One of, if not the most significant commercial development that will shape the "New Generation" in the coming five years or less is the rapid development of the "Industry Portal". Although the term "Portal" is widely used to describe anything on the web that performs a role facilitating access to a variety of web sites, in this specific context the Container Industry is investing heavily in the development of a highly integrated Internet based access engine that delivers access to multiple carriers, schedules, bookings, track and trace and ultimately the full documentation and invoicing transaction set. Already P&O Nedlloyd and five carrier partners have invested well over 100 million dollars in the development of INTTRA, **The Industry Platform.** The internet is the platform but don't confuse simple browser access, (although that is always available as a simple ready to use option), with the real power of the internet as a system to system communications platform.

Already in live Pilot and going to general release of its first products this month, INTTRA will fundamentally change the way information passes through the industry. The connection between these concepts is that the combined effect of the globalisation of carrier "core" systems and data, the standardisation of processes and the ability to make this information available in real time, is what is beginning to fuel the development of the Carrier portal and standardisation of information exchange. And that is what is going to really change things in the "New Generation" of shipping.

Let me show you a couple of slides that demonstrate some of the issues.

-- Slides --

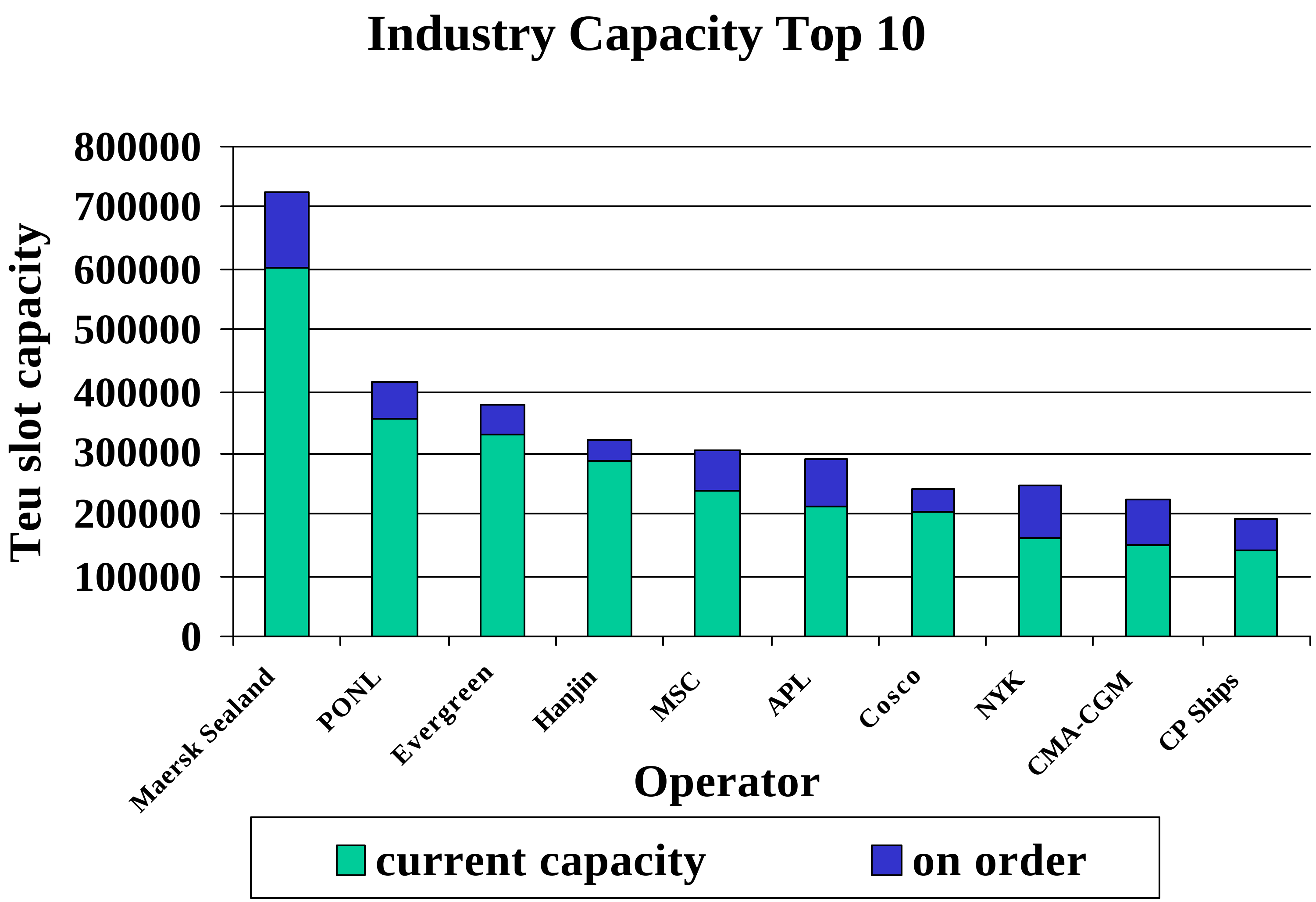
It would be remiss of me to close without at least one reference to legal issues. As I have been extolling the virtues of multi-carrier joint collaboration and investment in technology and service delivery, I'm sure that more than a few of you have been wondering about the legal ramifications of some of this stuff.

What about if they start quoting prices on a joint site? Just for example.

What about Part IV and Part X? or Brussels? Or the FMC? All I can say is that for now, everything we have done or planned in this area has passed muster with the regulators – but without a doubt as the fields of business that become impacted by Portals and related technology developments; for example trade finance, securities, documents, then more and more potential legal issues will arise and will require that the law keeps up with the changing commercial environment.

Thank you for listening so patiently – I hope what I've had to say has been of some interest.

Industry Position

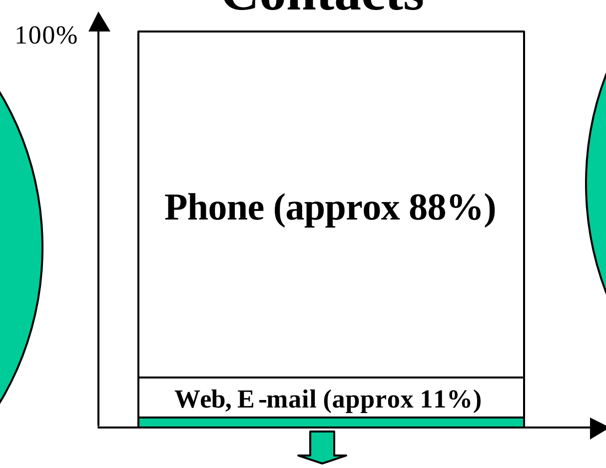


The Cost of the Problem

Carrier Inefficiencies

- Substantial Reliance on Manual Processes
- Numerous Individual Customer Specific Processes

Inefficient Contacts



Today less than 1% of Customers use EDI direct with carriers

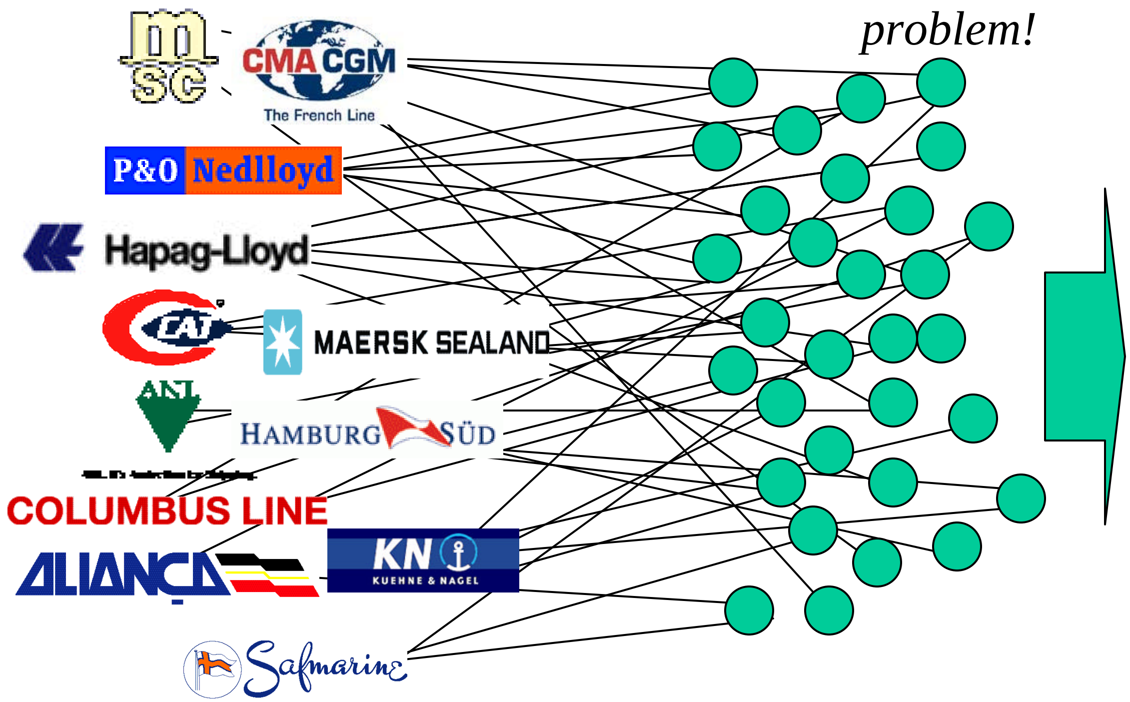
Customer Inefficiencies

- Interaction with Carriers is Generally a Manual Process and Carrier Specific
- Logistics Execution Data is not Integrated with Enterprise Systems

For 50 Million Containers, Total Industry Inefficiency is Estimated to be at Least $ 5 Billion per Year

Individual Carrier Websites

Moving from the phone to individual carrier web sites will NOT solve the industry problem!



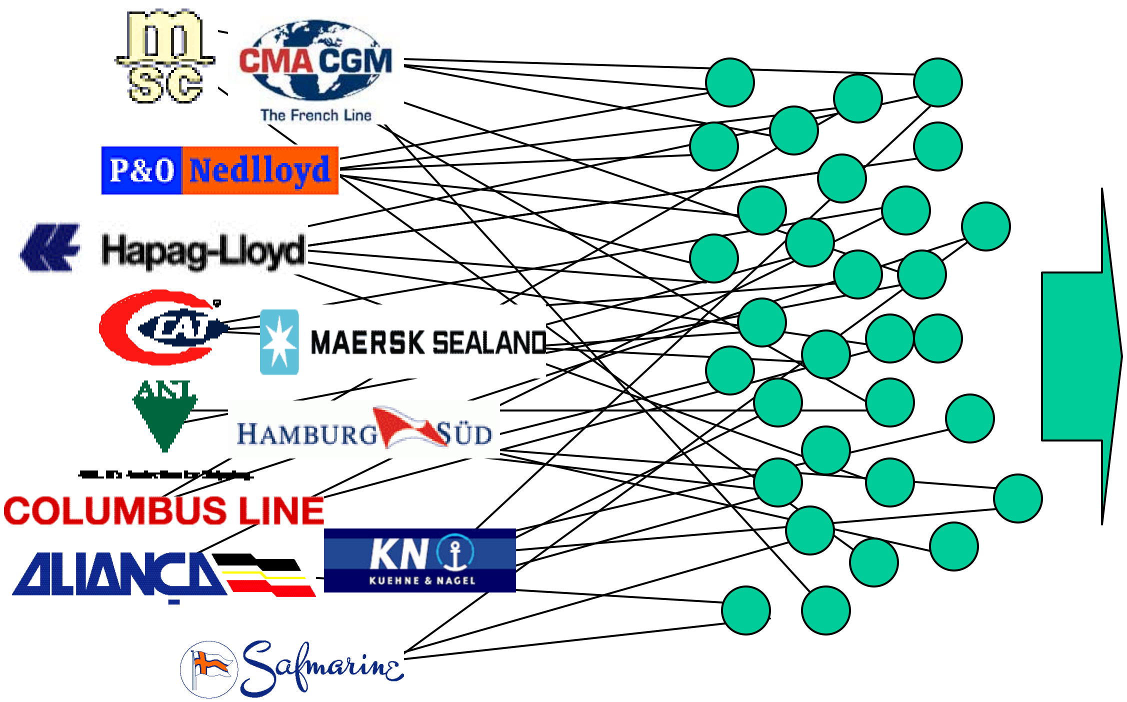
Carriers **Customers**

Inefficiencies of Individual Web Sites

- More than 90% of large shippers use more than 1 carrier*
- The cost for each carrier of building and maintaining its own website is estimated to be between 5-7 Million USD annually

Direct EDI Links

Moving from the phone to EDI links is an Expensive Solution!



Carriers **Customers**

Inefficiencies of EDI Links

- The annual cost of establish and maintaining one EDI link is estimated to $ 50,000 USD
- Total industry costs for capturing 60% of the worlds transactions with EDI is estimated to $ 3 Billion

INTTRA Business Model

INTTRA

CUSTOMER DRIVEN. CARRIER SPONSORED.

Customer Driven

INTTRA is responding to the needs of the customers:

- "…I want end-to-end visibility and functionality from one source…"
- "…I do not need another system, after what I have been through with [SAP]..."
- "... logistics never get their proper budget for new systems..."
- "...I do not want another new sales person knocking on my door..."

Carrier Sponsored

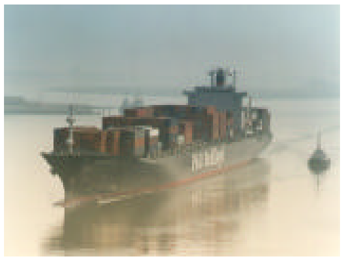
One common platform for all industry participants which:

- Provides end-to-end supply chain visibility
- Does not sell a product, but makes one universally available
- Does NOT charge shippers for access to the INTTRA network
- Uses participating carrier sales force to promote INTTRA services together with INTTRA sales force

INTTRA Participating Carriers and Logistics Providers

- INTTRA was initially founded by 6 carriers:
- INTTRA currently has eleven carriers and four Logistics Providers:
- INTTRA currently covers almost 40% of global capacity
- 2 million containers already committed by customers on annual basis
- INTTRA's unique governance model guaranty autonomy and confidentiality:
  - Industry ownership - no venture capital, long term investment
  - Neutrality - all owners have one vote, no veto rights
  - Comprehensive confidentiality model - integrates business ethics and IT security

Current E Strategy
Doing what we do better



SCHEDULE INFORMATION

ONLINE BOOKINGS

ONLINE SHIPPING INSTRUCTIONS

REMOTE B/L PRINTING

SHIPMENT TRACKING

ONLINE INVOICING & PAYMENTS