

A Carrier's Perspective on Food Aid Transportation

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Thank you for the warm introduction.

It's a great privilege to speak to you today. I am here at the International Food Aid conference because of the critical roles you play in helping feed those around the world who go hungry. The organizations represented here each contribute tremendous energy and resources to bring food aid to those in need. You are doing what it takes to save lives and serve humanity.

Maersk Line, Limited is honored to provide efficient and reliable transportation and logistics in support of your food aid mission. We are dedicated to the mission and will remain so. We appreciate the opportunity to work with you.

As a U.S. flag carrier, we devote our ships afloat and intermodal networks on land to U.S. Government transportation and logistics needs, but exactly how and why we do this, I surmise, is not always apparent – especially to those who are not directly engaged in the industry.

Today I would like to discuss the global nature of ocean shipping, explain the role of U.S. flag carriers and highlight some of the challenges in delivering food aid around the world.

Before I move into my prepared remarks, I would like to share a little about Maersk Line, Limited and our parent company, A.P. Moller – Maersk. I recently sat down with Mr. Maersk McKinney Moller, the chairman emeritus of A.P. Moller – Maersk, and son of the founder. Mr. Moller, at 94, continues to travel the world to meet with operating companies in the Group and world leaders.

I met with him in Washington DC at the beginning of the month, and as he has in the past, he directed the conversation to two issues, our customers and our people. He wanted to know if we are doing the right things for our customers, and if we are empowering, enabling and entrusting our people. He wanted to know that we are following the company's tradition of "Constant Care".

"Constant Care" is the central value of A.P. Moller – Maersk and the ideal permeates all that we do. The term originated in a letter from A.P. Moller to Maersk McKinney Moller, from father to son, in 1946. He wrote, "No loss should hit us which can be avoided with constant care." Overtime, we have interpreted this saying broadly. We think of "Constant Care" as persistence, forethought, and respect.

I mention this aspect of our company today because the food aid mission is about Constant Care. World hunger and malnutrition are complex problems, and they require multiple solutions, with food aid being one of them. Solutions to fight poverty and hunger must be done, I believe, with Constant Care – with diligence, perseverance and in ways that empowers, enables and entrusts people.

The Global Market

The global shipping market is fascinating and diverse. It's the foundation of world trade. The value of world trade is reaching \$12 trillion dollars, according to the WTO, and global growth in the volume of traded merchandise has grown at over 6 percent annually from 2000 to 2006.¹ Ocean transportation moves over 90% of world trade.² It's astounding when you think of the economic activity that relies on sea trade.

¹ WTO, International Trade Statistics 2007, http://www.wto.org/english/res_e/statis_e/its2007_e/its07_world_trade_dev_e.pdf; \$11.8 trillion in 2006.

² Talley, Wayne K. "Review of Network Economics", vol. 3, issue 2, June 2004. www.rnejournal.com/articles/talley_RNE_1_june_04.pdf

Container shipping is the most ubiquitous form of shipping. From containers being pulled behind semi-trucks on highways to cranes creating a port's skyline, container shipping is a highly visible form of trade. Today more than 90 percent of general cargo is containerized³, and world container traffic continues to grow. Volume has been increasing at roughly 11% per year – which means, by 2010, the number of container moves will have more than doubled since 2003.

The innovation and global acceptance of containerized shipping was a major feat of the 20th century. The efficiency of containerization has helped to reduce the cost of transportation and bolster international trade.

Efficiency is the imperative, and Maersk has been seeking ways to create greater efficiencies by notably building gigantic ships, like the EMMA MAERSK, which is almost 1,300 feet long (equal to four football fields) and can carry 11,000 twenty-foot containers. It's an amazing sight to see, and it runs on the best available marine technology.

New and innovative ships improve reliability and can help reduce CO2 emissions. In comparison to other means of transportation, container shipping is much friendlier on the environment than trucking and, especially, airfreight. A large container ship produces only one-and-a-half percent of the CO2 that a 747 does to carry the same amount of freight, the same distance. That's efficiency and it's a good starting point from an environmental perspective, but the shipping industry can - and will - continue to reduce its environmental footprint.

In many ways, ocean shipping is an excellent case study for students of economics. The commercial issues challenging the industry – commoditization, network efficiencies – are about supply and demand, and managing their shifts. Many of you have probably felt the

³ http://www.worldtradeexpress.com/Guide_Ocean_Freight_Containers.html

effect of higher dry bulk rates, and while at risk of oversimplifying the situation, the phenomenon that has driven rates to historic highs has been demand outpacing supply.

The obvious question is “why?”

The dry bulk market includes bulk food commodities, such as corn, rice soybeans and wheat as well as coal and steel. In fact, steel and coal (in various forms) make up about 65% of all global dry bulk cargo⁴. In particular, the need for steel in China, to support its rapid industrialization and urbanization, has created demand for dry bulk space well beyond available supply in the world’s fleet. And, new ships take time to plan, finance and build; the supply curve doesn’t shift quickly. Supply has not been able to keep up with demand, and the effect has been increased dry bulk rates, leading to the spike in the fall of last year.

Compounding the effect of high demand have been fuel prices. Bunker fuel, the product ocean vessels use for power, is about 170% more expensive today than it was three years ago.⁵ Fuel represents about half of a ships total operating cost, which includes the cost of crewing (wages, benefits, food), depreciation of the ship, and maintenance and repairs – to name the largest cost categories. This metric, fuel as a percentage of total operating cost, has been rising for sometime, and now record prices for oil has created challenges for which we must solutions and risk-sharing due to volatility.

Future rates in the global dry bulk market are expected to decrease over the next several years as new ships are added to the market. However, the recent volatility in financial markets and energy could impact future ship deliveries and rates.

In other words, problems in the credit markets – which began with subprime housing loans – could affect dry bulk freight rates. Obviously, a myriad of factors influences

⁴ Shipping 2008, Presentation by Justine B. Fisher, Vice President, High Yield Research, Goldman, Sachs & Co. March 18, 2008. <http://www.shipping2008.com/Webupload/tuesday.htm>

⁵ Maersk Inc, presentation on industry outlook challenges, Dec 2007 (Feb 8, 2008 update)

pricing, and how the credit crunch and other global economic factors will affect the market is to-be-seen. But the intersection of these issues highlights how the shipping industry is integrated into the global economy and adjusts to fluctuations in supply and demand.

U.S. Flag

U.S. flag vessels, too, are integrated into the global economy and are affected by its shifts. Indeed, the global economy has had a great influence on the composition of the U.S. ocean carriers. On a fundamental level, the ability to do business less expensively under a foreign flag – meaning, by registering the company and/or its ships outside the United States – has been a cost advantage for sometime. But, there is more to U.S. flag shipping than cost alone.

Without U.S. flag carriers, we risk losing our ability as a nation to transport goods, commodities and other necessities as we need them, and especially in times of crisis. We jeopardize our tradition as a seafaring nation, shrinking the need for U.S. Merchant Mariners that have steadfastly served our country throughout its history. The U.S. Merchant Marine is an intrinsic element of our national security and it must be preserved.

This is not only my view but the historic view of our government. It's important to our economy and our way of life, and sometimes its importance, the big picture, is lost as we deal with our daily affairs.

We, like other U.S. carriers – including Philip's company – take great pride in our tradition of service to our country.

When we discuss the U.S. flag, the term tends to conjure visions of ships, with the U.S. flag flying off their stern. Ships, however, are just one piece of the supply chain. The shore-side services necessary to complete end-to-end distribution of food aid come with

the U.S. flag, too. By denoting U.S. flag cargo as “preference cargo” and giving priority for carriage to U.S. flag companies, we can bring to bear all of the assets on land that we have world-wide.

The capability that U.S. flag carriers provide to the U.S. Government and U.S. flag shippers is tremendous. Government cargo depends on commercial transportation networks and it should. The preference structure brings access, capacity and resources to support our country in peace, emergencies and war.

Replicating the capability we provide – as commercial transporters – would be difficult if not impossible. The branch of the U.S. military responsible for transportation and distribution, the Transportation Command, has estimated that it would cost \$52 billion dollars to reproduce the “global intermodal system” made available through commercial providers in the Voluntary Intermodal Sealift Agreement (VISA).⁶

VISA is a sealift readiness program established in 1997 that assures access to commercial intermodal capacity to move cargo in times of national emergencies. VISA – and the mutual commitment between commercial operators and the government – is the founding agreement that ensures U.S. flag capacity and services when called upon. It’s the promise we make to our country.

Challenges in Food Aid Distribution

U.S. flag carriers, despite our best intentions to serve our country and its humanitarian missions well, are far from perfect. We work diligently, everyday, to try to be a seamless – nearly invisible – conveyor of food aid, and of any other cargo we carry.

⁶ TRANSCOM study

Customer service is central to our objective. You, as our customer, are most pleased when your goods arrive on time, at the right place and in perfect condition. When your supply chain works well, we are working well together.

Successful delivery is unfortunately not as easy as the mantra “right product, right place, right time.” Carriers and logistics providers are challenged by innumerable hurdles. The challenges can be especially acute when we are delivering food aid. We commonly encounter poor infrastructure; inconsistent availability and dependability of inland services; unstable security environments; and the increased potential for civil unrest.

The recent post-election turmoil in Kenya created an adverse effect on the ability to move aid and other goods into East Africa. Unrest across the country made the movement of containers from the port very risky, compounded by all of the factors I just cited.

During the crisis, ships continued to discharge their cargo in Mombasa, but without consistent and secure means to move freight inland, the port soon was crammed with containers. At one point, the port had a backlog equal to 136% of its capacity.⁷ Ships had to be re-routed.

Ocean carriers decided to sail south to Dar es Salaam, Tanzania – one of the few options available to them for cargo destined for East Africa. Dar’s port infrastructure was not capable of managing the influx of cargo, and the build-up created so much congestion that ships waited for up to 12 days to enter the port. The effect on the economy and people is still being felt.

The violence in Kenya was a sad and extraordinary situation, but it serves to show how intermodal transportation networks operate and cause-and-effect across a region.

⁷ East African (Kenya) Apr 6, 2008, “KPA finally decongests Mombasa port”; backlog of 19K on 14K capacity

Afghanistan is another example where Maersk Line, Limited has encountered tough challenges.

We move food aid and other cargo to Afghanistan, and the trip is dangerous. Over the past two years, U.S. flag carriers have delivered 28,770 metric tons of aid, equal to about 1,650 20-foot containers, to Afghanistan.⁸

The complicated journey snakes through rugged terrain and multiple jurisdictions, and the one-way trip from the port in Karachi, Pakistan to either Kabul or Herat is a nine- to fourteen-day trip, covering about 1,000 miles.

We try to mitigate delays by working closely with local operators and government bodies to ensure even, if not free, flowing freight. Political instability, the need to deal with regional factions, and ever changing rules, regulations and documentation requirements can result in waiting days at the border. The seemingly simple process of getting cargo from point A to point B becomes a daily test of ingenuity, persistence and patience.

Security is a major issue as you are well aware, and we have lost cargo and personnel to attacks. Having a safe and secure supply line is most important, and while we keep a low profile in transit, this approach has not always been successful.

In the transformation of Afghanistan, the delivery of aid and humanitarian support is significant. The immediacy of aid, of course, is critical, as is the longer term process of rebuilding confidence in a democratic, open and free society. Through food aid, tackling malnutrition, and contributing to better health care and education systems, you all provide real proof that the United States is committed to restoring peace and freedom. Your efforts around the world show countless millions that our country remains a force for good, and I personally want to thank you for your steadfast efforts.

⁸ Per Jim Dorrian. Maersk handled over 50% with APL/H-L/CGM all participating

Conclusion

To conclude, the delivery challenges are great, and resolving them and bringing nutrition to those ravaged by famine, war or political indifference requires a dedicated transportation network. U.S. flag carriers bring that network to support the food aid mission. We bring dedicated people who are empowered, enabled and entrusted with doing what's right, and we are so honored to partner with you in the mission to deliver aid to those in greatest need. Thank you.