

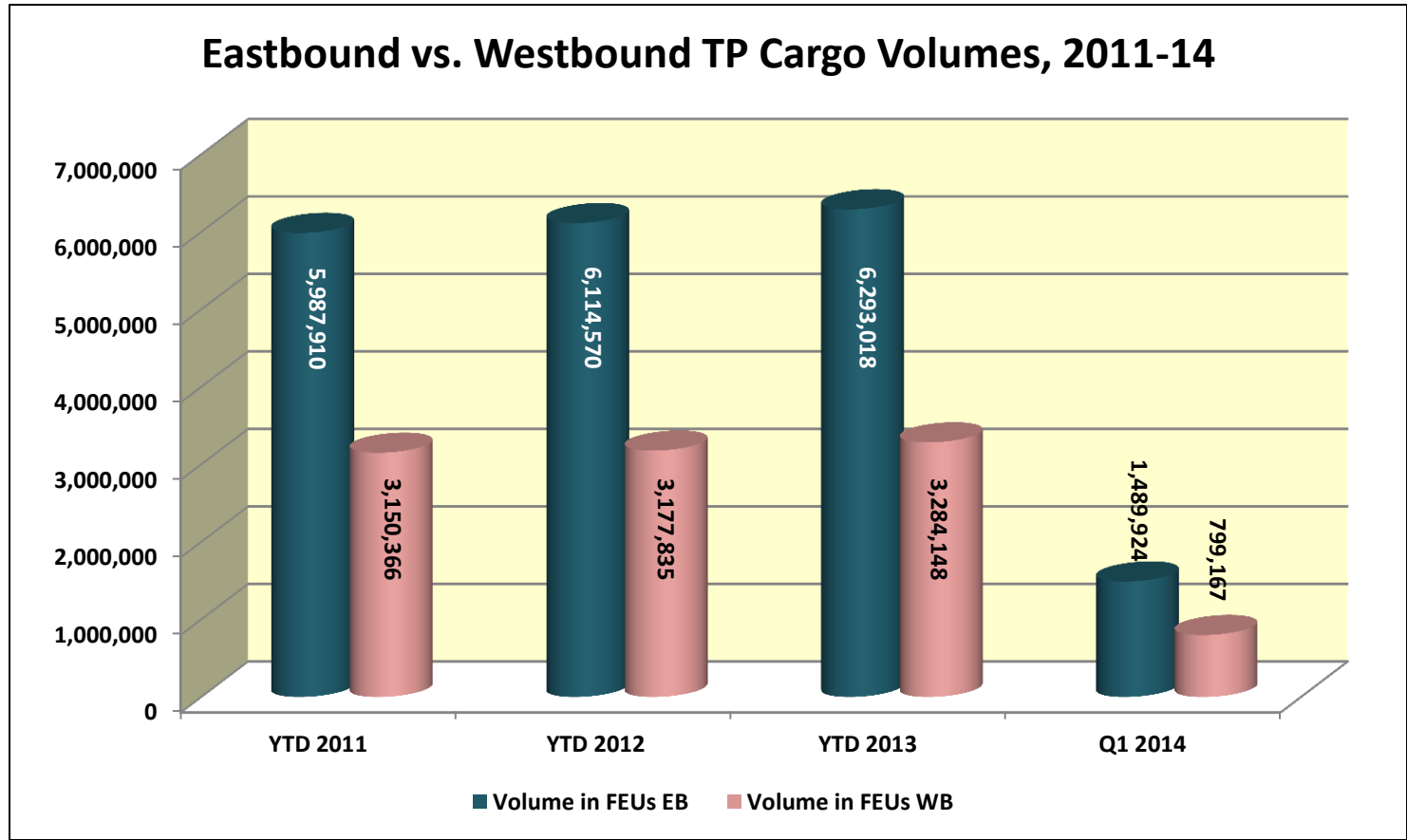
Transpacific Ag Exports: An Ocean Carrier Perspective

Brian Conrad
TSA-Westbound

AgTC Annual Meeting
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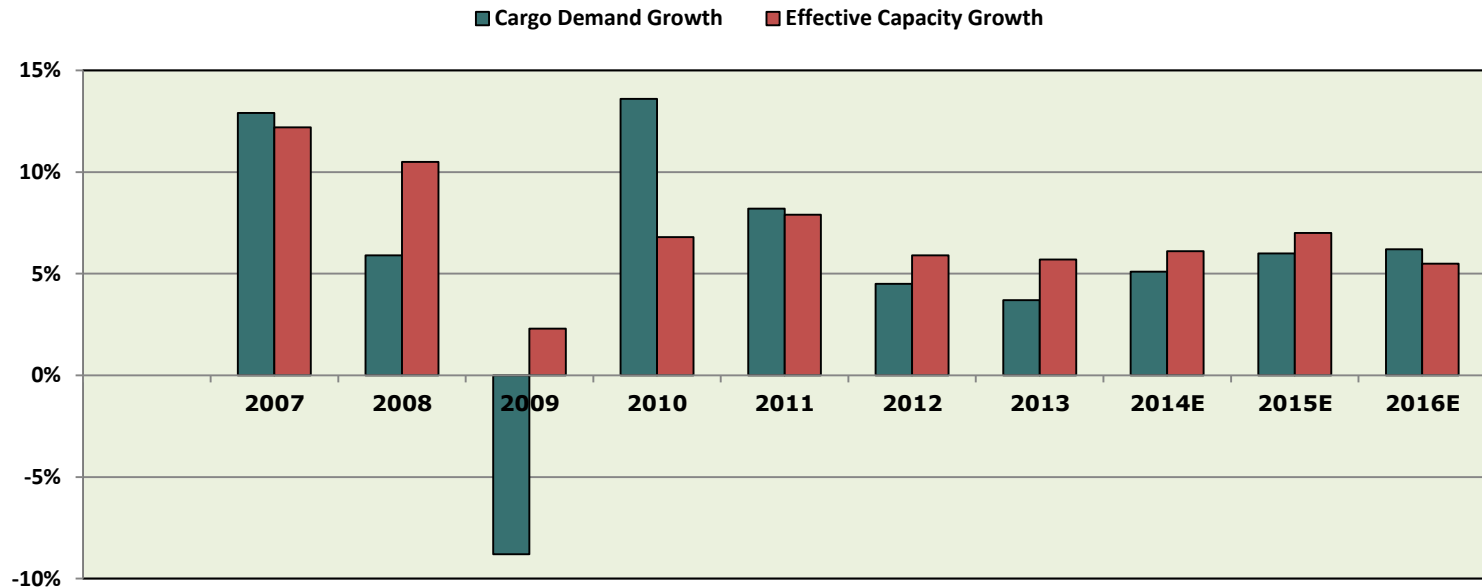


Eastbound vs. Westbound TP Cargo Volumes, 2011-14



- Roundtrip volumes have consistently been ~ 66% EB and 34% WB, a near 2:1 ratio.
- In Q1 2014, EB posted +3.4% cargo growth; WB posted a -5.7% decline.

Container Shipping Supply/Demand Growth, 2007-16(e)



Demand/Supply Balance	0.5%	-4.6%	-11.1%	6.9%	0.3%	-1.4%	-2.0%	-1.1%	-1.0%	0.7%
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Source: Bank of America/Merrill Lynch Global Research

- Overcapacity is common in liner shipping. Carriers build for long-term trade growth, and to achieve economies of scale that lower per-slot operating costs and maintain operating margins.
- Overcapacity is chronic westbound due to cargo weight, empty repositioning, seasonality, effects of weather on crops and other factors.
- Ratecutting during cyclical periods of overcapacity cannot expand the cargo base; it can only grow market share and, over time, diminish service levels.

Vessel Size Distribution in the Asia-US Trade, by TEU Capacity

Drewry estimated average vessel size in the Asia-USWC trade:

2012: 6,000 TEU
Q1 2014: 6,700 TEU

Maximum vessel size through the Panama Canal to the USEC:
 4,600 TEU.

Drewry estimated TP capacity growth, Q3 2014 vs Q3 2013: 1%.

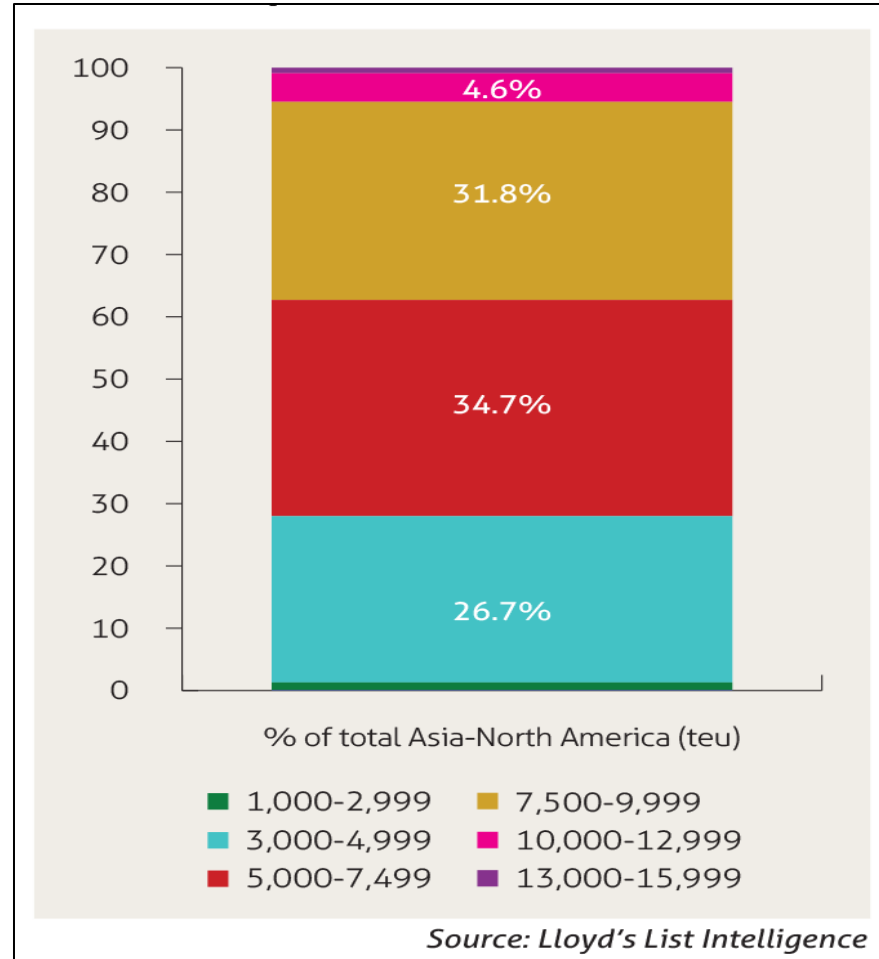
Alphaliner estimated global capacity growth, Q3 2014 vs. Q2:

Overall: 2.5%
G6 Alliance: 1%
P3 Alliance: 4%*
 *Pending PRC approval

Alphaliner estimated rate of vessel scrapping (worldwide):

2014: 500,000 TEU
2013: 463,000 TEU

Age of scrapped vessels is getting younger: 20-21 years in 2014 vs. 28 years in 2011.



More and Bigger Ships are On the Way - We Need to be Prepared

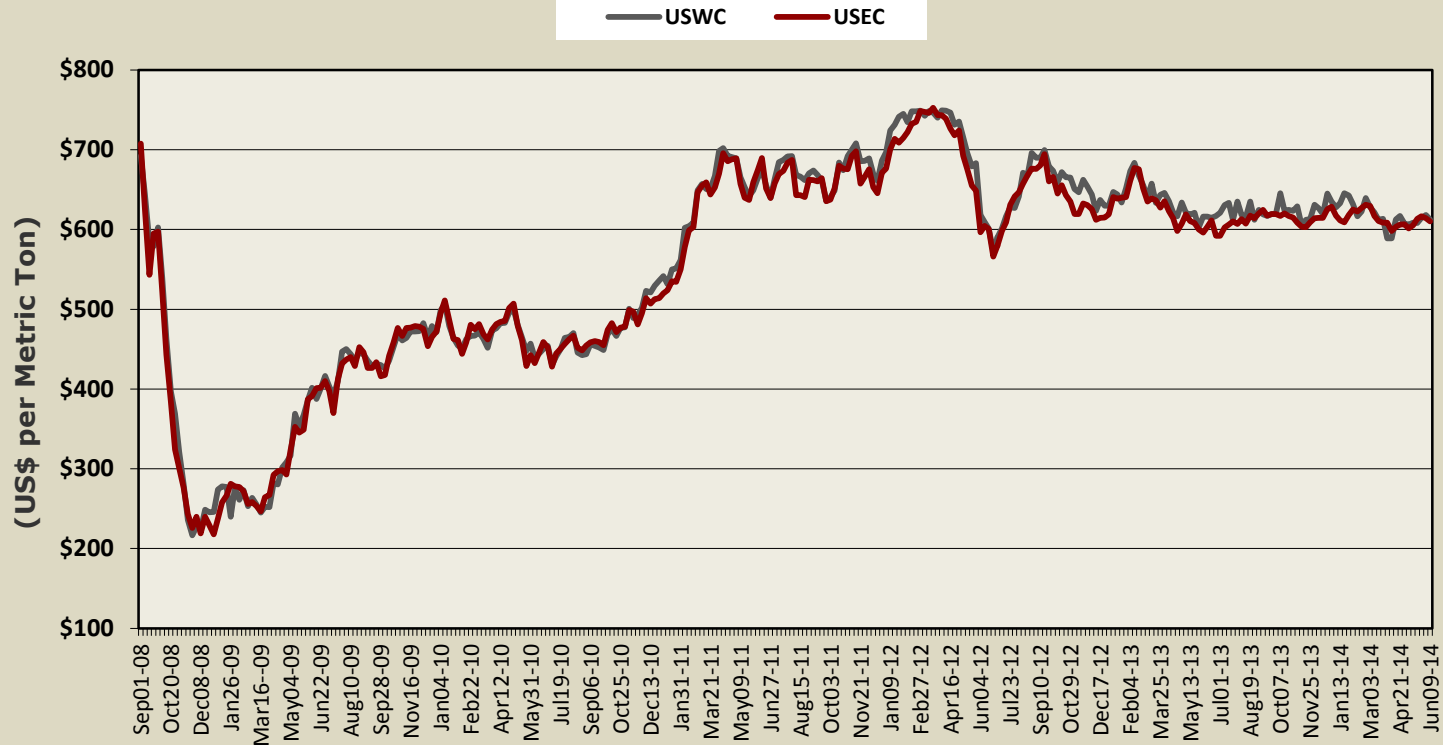
World Cellular Fleet – April 2014 (excluding newbuild postponements and cancellations under negotiation)

Teu Size range	In service April 2014		On Order 2014		On Order 2015		On Order 2016+		Total vessels on order	Total teu on order
	No	Teu	No	Teu	No	Teu	No	Teu		
0-499	335	92,625	2	251	2	210	-	-	4	510
500-999	724	546,408	7	5,597	1	606	1	540	9	6,743
1,000-2,999	1,855	3,362,251	51	87,064	64	125,950	22	44,032	137	257,046
3,000-4,999	924	3,824,433	28	118,023	10	38,200	9	34,600	47	190,823
5,000-7,499	616	3,715,879	26	145,400	10	62,200	-	-	36	207,600
7,500-9,999	347	2,979,832	33	292,788	61	552,100	27	249,648	121	1,094,536
10,000-12,999	68	758,432	15	157,686	13	134,362	9	90,000	37	382,048
13,000-15,999	138	1,869,856	13	175,408	23	323,850	25	352,500	61	851,758
16,000+	10	175,950	11	197,220	31	556,910	1	18,800	43	772,930
Total	5,017	17,325,666	186	1,179,437	215	1,794,388	94	790,120	495	3,763,994

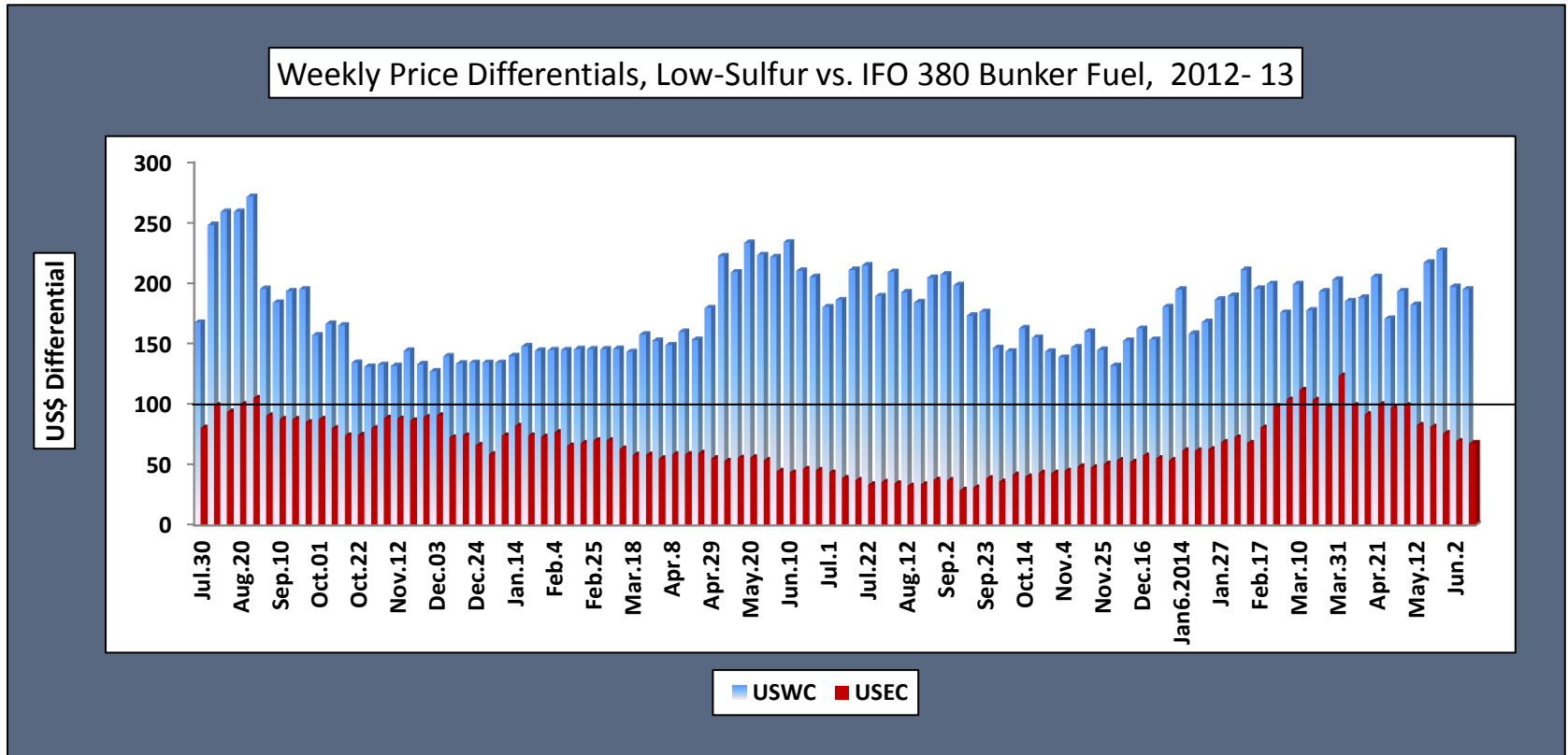
Source: Lloyd's List Intelligence

Fuel Prices Have Stabilized – At Above \$600 per MT

Weekly Average Bunker Fuel Prices, 2008-14



Low-sulfur fuel adds \$60-210/MT within the North America Coastal Zone... and costs are due to rise sharply next year.



- In 2015 SOx limits will tighten, from 1% of emissions to 0.1%.
- At current levels, use of low-sulfur fuel within coastal zones adds a 15-20% premium to operating costs.
- Low-sulfur marine gas oil (MGO) meeting the new standard raises the premium to \$380/MT, or 60%.
- MGO demand growth and tight supply in 2015 could raise prices by another 20%.

TSA-Westbound Update

- TSA & WTSA merged into a single agreement in 2013; all 15 TSA members now belong to the westbound section. No plans for further changes to TSA structure.
- Basic westbound challenges remain: Rate erosion, difficulty sustaining increases as a group.
- More instances of individual carriers taking their own actions on selected commodities and port pairs.
- Lines see value in greater round-trip visibility, with separate discussions to address two distinct market segments.
- Continued support for the OSCAR program; 6 carrier volunteers have submitted over 115 weekly reports to USDA (over 2 years' worth of data).
- Shipper board remains in place; TSA plans to broaden shipper engagement, expand 2-way communication regarding equipment and space needs.

Key Issues Facing the Trade

Slower overall growth: 3-4% forecast for 2014

China DDG Ban:

- Is it short-term, due to strong wheat and corn crops in China?
- Is it longer-term import substitution?
- Ripple effects on soybean prices? On all GMO exports?

Waste Paper and the China 'Green Fence' Policy:

- Waste paper volumes dropped by initial 30% in early 2013.
- As rules were clarified and shippers adjusted the market began to recover.
- The 10-month program ended last November, but high inventory levels remain.

Port Issues:

- Winter weather impacts on the East Coast.
- U.S. infrastructure constraints, some related to Washington budget gridlock.
- Productivity concerns as larger ships enter the trade.
- Panama Canal expansion delays and the emergence of Suez services.

The Bottom Line for Ocean Carriers

- The Transpacific trade has been unprofitable for most lines since 2011.
- Gains reported by publicly-traded carriers have come from cost-cutting, asset sales, etc.
- Alliances and larger ships can only lower per-slot costs so far, given service integration and U.S. infrastructure challenges.
- Overcapacity in the Transpacific is not as bad as many feared in 2014, but supply-demand is unlikely to reach equilibrium before 2016.
- Carriers will look to stabilize and raise rates where possible, but their primary focus will be on managing both operating and capital costs.

Labor Negotiations and Congestion Charges