Remarks of

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Good afternoon, ladies and gentlemen. Thank you for your hospitality and the opportunity to tell you about what I believe to be a very positive development for the maritime industry - the establishment of the World Shipping Council.

The World Shipping Council was recently formed by the international liner shipping industry in order to establish a permanent and coordinated voice for ocean carriers that can effectively and professionally advocate the industry's position on public policy issues of importance to the country's international transportation future .

We hope to be a respected and constructive voice in transportation policy. We intend to be an organization that government and other transportation interests can work with confidently.

The liner industry is in fact a vital, contributing partner in America's foreign trade and economic growth. The Council intends to discuss that partnership and the demands that will be placed on all of us to successfully serve the forecasted doubling of America's trade by the end of this decade.

And, that is a task that all sectors of the industry have a common interest in thinking about and working on together. Our transportation infrastructure is today feeling the pressures of increasingly significant issues. Congestion and inefficiency in marine terminals. Port and harbor access. Intermodal rail service capabilities. Highway congestion. Land use concerns. Supply chain reliability and speed. Information technology developments that can meet carrier and shipper needs in managing the supply chain. The recent Maritime Transportation System Report that the U.S. Department of Transportation sent to the Congress underscores these major challenges.

These are big issues that provide reasons to unite our efforts, or at least should cause us to consider coordinated efforts.

International liner shipping is perhaps the most international of all industries. There are no governmental barriers to entry in America's international shipping market. There are thirty one members of the World Shipping Council serving the United States' foreign trade. They are from the United States, Canada, Asia, Europe, Latin America and the Middle East.

The Council has shipping lines that trace their roots to the era of sail powered clipper ships, and shipping lines that have just begun service to the United States. The Council has in its membership container ship operators, ro-ro operators, and car carriers, - each with a variety of logistics capabilities.

The investments, efficiencies and services provided by this industry have shrunk the world and made it easy and inexpensive for Americans to trade easily with any city or factory or distribution center in the world. The cost of ocean transportation is a very small component of total cargo value. The low cost and efficient services of the liner industry enable American shippers to ship goods around the world almost as easily as within our own borders. According to 1998 Census data, ocean freight as a percentage of imports' cargo value was estimated to be less than 2%. In U.S. export markets, which consist primarily of lower value commodities, chronic overcapacity has plagued the industry and produced very competitive, backhaul market pricing.

Not only is the liner shipping industry one of the most international of industries, it is one of the most capital intensive industries. Keeping pace with the growth in trade demands enormous, constant capital outlays for new ships, equipment, chassis, containers, marine terminals and IT systems. Too many people do not recognize the high fixed cost nature of liner shipping operations where fixed costs exceed 75% of total costs. The industry has invested over $125 billion in building a remarkable transportation system to handle America's foreign trade. But, not only do carriers have to focus on earning an acceptable return on their existing investment - which they haven't - they have to plan for the investment necessary to service the growth in U.S. foreign liner trade forecast for this decade.

A majority of recent trade projections are forecasting a doubling of containerized shipping volume in that time. In order to service that growth, the required investment in operating assets over the next ten years has been estimated to be an additional $34 billion of new capital. And that investment projection assumes no inflation or cost increases from 2000 prices, and does not include the financial commitments necessary to keep pace in the important area of information technology. That is an exceptional challenge.

It is exceptional not only because it is very large. It is exceptional because liner shipping is also one of the most competitive of industries. As many of you know, a recent analysis of container carriers' profitability highlighted that in 1998 carrier losses in the major international trade lanes were estimated to be $3.4 billion. "All in" ocean revenue (including accessorials and surcharges) per load was estimated to have dropped 29% from 1995 to 1998. While things have improved some for the industry in the last year, it is obvious that if carriers are to earn reasonable returns and the private sector is to invest the $34 billion plus needed to build the infrastructure necessary to handle this decade's projected growth in trade, improved carrier profitability is essential.

Since recently having the privilege of joining the World Shipping Council, I have at times seen the observation - and at times heard the not-so-veiled criticism-that the liner industry is predominantly made up of "foreign" companies, and that somehow this should lead our government's policy makers to take a dim view of their activities or their motives. I'd like to address that sentiment.

First, let's start with the obvious. Foreign capital is a critical component of America's economic growth. Our economy -because of its freedom, relative stability and openness-is fortunately an attractive place to invest and build. We should be grateful for that fact. In 1999 our economy was aided by over $282 billion of net financial inflow from foreign direct investment, creating economic growth and American jobs.

It's more than a little difficult to follow the logic that it's OK for Ford to buy Volvo and Jaguar, but it's a concern when Daimler buys Chrysler.
What's the logic in saying it's OK for Microsoft and AOL/Time Warner become players in other countries' economies, but a concern if foreign companies do so in the United States?

The reality is that the liner shipping industry -- whether backed by U.S. or foreign capital -- is a partner in America's international trade.

It moves two-thirds of the value of America's international commerce. It is an essential link in the efficient delivery of that trade. It is an essential innovator in linking American businesses efficiently with their customers around the world on a door-to-door basis. It is an essential investor in the transportation infrastructure that carries our country's international commerce, with hundred of thousands of containers, hundreds of ships, numerous marine terminals, and the plethora of IT systems and equipment necessary to serve U.S. importers and exporters. Liner shipping was characterized by <u>American Heritage</u> magazine as one of the ten most important developments of the 20th century by facilitating and lowering the cost of America's international trade. The foreign capital that contributes to that is something we should encourage and embrace, not discourage and demean.

That foreign capital is what today supports the U.S. flag container ship fleet engaged in international ocean common carriage. The member companies of the World

Shipping Council utilize 56 U.S. flag vessels in America's foreign trade. And, if the liner industry is to grow in the future -- whether with U.S. registered vessels or other registries' -- the vast majority of the necessary capital for any such growth is likely to come from these companies.

I am at times bemused by those who would criticize the existing regulatory system as being un-competitive or anti-competitive. The truth is that the liner industry is so competitive that the publicly traded U.S. liner companies sold their interests in the business -- because the intensity of the competition resulted in their not being able to earn even the cost of capital for their shareholders. There are still active wholly American-owned companies in the liner business providing excellent service (such as Crowley, Waterman, Central Gulf, and Tropical). They are companies that are rich with family commitment to the business and are not publicly traded. But, to those who say that the existing regulatory system isn't competitive, I ask you to step around the bodies still warm on the competitive battleground.

The regulatory structure for the U.S. international liner trades is the most competitive in the history of this country. It offers shippers an exceptionally large array of carriers from which to choose at very competitive rates. It has no restrictions to entry, and as we see some exit the business, we also see new entrants serving American commerce. Shippers have more international ocean carrier choices than air carrier choices. They have more choices than in the rail industry. They have more choices than in the domestic shipping industry.

And those choices continue to exist and develop despite the growing demand for capital investment and marginal profitability. Why? Because the industry believes that, with the three year struggle and compromise that successfully produced the Ocean Shipping Reform Act, they can look forward to a period of regulatory stability and predictability in the United States. If that stability and predictability is shattered, it can only produce less investment, fewer carriers and fewer choices.

The maritime industry - in its broadest sense-is often better known by government policy makers for its intramural quarrels than for coming together in cooperative efforts to be effective partners in America's growing international trade.

Carriers. Shippers. Ports. Labor. Transportation intermediaries. Terminal operators. We fight with each other. We fight amongst ourselves. And as a result, government policy rarely changes.

There are exceptions. When carriers, shippers, ports and labor finally came together and cooperated and compromised, the Ocean Shipping Reform Act was passed and the international liner shipping regulatory structure was improved and stabilized.

In Washington, we all know that the odds are pretty good that each sector of the industry has at least a fairly decent chance of obstructing the other sectors' agenda if it wants to.

But the World Shipping Council begins its mission with the hope of moving beyond that kind of approach. While we expect everyone to look after their own self-interest, we hope that the challenges are big enough and important enough, that dialogue and cooperation can bear fruit.

We want efforts borne from that kind of cooperative process to be encouraged and successful, and thus we believe the long struggle that ended in the good-faith compromise that is the Ocean Shipping Reform Act should be honored and respected by those who made it, and should be allowed to work.

We want to work with interested shippers, insurers, terminal operators and others to develop a cargo liability regime that is internationally consistent, uniform and viable.

We want to work with shippers, ports, labor and affected government agencies to make sure that U.S. harbor dredging policy is developed soundly, without dislocations or disproportionate burdens on any particular interest, and with a recognition of the substantial contribution that maritime transportation makes to the U.S. economy.

We want to work with ports, shippers, labor, terminal operators and government to address concerns about port security - in a way that does not impede the flow of commerce or disrupt a system already congested in many places.

We want to participate in the planning that will be required to invest intelligently in infrastructure development that will be necessary if the efficiencies gained for today's international commerce are to be extended for tomorrow's. .

The liner industry realizes that it must do its part in these kinds of efforts, which is one of the reasons behind the formation of the World Shipping Council - to try to create a coordinated voice for ocean carriers that can participate meaningfully in such efforts. We would appreciate any support or luck you may wish us in such endeavors.

We can certainly continue business as usual. Many people, including a fair number of lobbyists in Washington, make a good living from it. But there are limits to the satisfaction one gets from being in that rat race where the objective is to try to keep the other guy from getting ahead. And, the trouble with being in a rat race is that, even if you win, you're still a rat.

Changing that dynamic won't be easy, and it won't happen overnight. The Bible says that the lion and the lamb can lie down together. It's just that the lamb won't get much sleep.

So, the World Shipping Council has been created to provide a coordinated voice for the liner industry, and we look forward to working with all segments of the shipping and trade community.

And, I am very optimistic for several reasons. First, the Council is off to a good start. We have well over 90% of the liner industry serving America's trade in our membership, with excellent representation of small, medium, large, regional and global carriers. Second, we have begun an enterprise consciously founded on the proposition that the liner industry needs to do a better job in providing a coordinated **and** strategic approach to public policy advocacy. Third, the executives, who will serve on the Council from the member lines, include some of the most respected names in international shipping, and they have pledged their involvement and support. And finally, the time is right for the industry to do this.

The members of the World Shipping Council are partners in America's global trade. We look forward to working with you in building an even stronger partnership.