

EXPO OPENING KEYNOTE REMARKS
AT INTERNATIONAL INTERMODAL EXPO

**"Container Operators of the Future:
a Profile for Success"**

presented jointly by

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(NOL)

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REMARKS BY MR. LUA

Professor Neuschel, Distinguished Colleagues and Friends --

I want to tell you how happy I am to have been invited to address the opening of this important North American gathering.

I am very pleased Mr. Youngbeck has granted my request to share this keynote platform today with Mr. Tim Rhein, President and CEO of APL Limited, which, as you know, has recently become a major part of our NOL group. While Tim is a new colleague to us at NOL, he is an old friend. Until last Nov. 12, when NOL and APL became one, Tim was also a formidable competitor! I would rather have him and APL on my side! So here we are, on the same side!

Tim and I are very pleased that Expo's organizers have called upon two other of our colleagues as panelists -- Stan Stricklen will be talking about logistics for the automotive industry, and Bob Papworth -- head of our very successful stacktrain services unit, will be talking about challenges to the port sector.

I know the "dual structure" of this keynote is somewhat unusual, so allow me to offer a road map. I will describe conditions in our industry that have led to the APL-NOL merger and then I would like to tell you what I believe will be the requirements for container-transport companies that wish to survive and prosper in the next 5-10 years, and beyond.

Tim Rhein will share his views about the next frontier, developing effective information and logistics capabilities to serve our customers, the shippers.

Why the Merger that Shook the Industry?

I would like to start by offering a few comments about trends and conditions in the container-shipping industry that have led to the most recent round of consolidations, and will lead to more of them.

First is the fast-paced globalization of the world economy. Our customers, the shippers, see the world as one vast market, and the bottom line for us, as their carrier, is that we have to support them in multiple trade lanes, including access to the most remote interior reaches.

We have responded by globalizing our transportation services internally through organic growth, and externally through cooperating with competitors. Because of competition and over-capacity in the industry, carriers have pushed costs down by using a variety of methods. But carriers have reached the limits of cost-savings.

So the conditions were created for a significant round of consolidations in the industry. While we had seen consolidation in earlier periods, they typically involved carriers from the same country. But in the last 18 months or so, no fewer than 14 of the top container operators have been involved in some sort of merger activity, and most of these mergers and acquisitions have been trans-national in character. While the P&O Nedlloyd combination was the first of these second-wave M&As, it was the combination of NOL with APL that shook the industry. The P&O Nedlloyd was a European combination, the NOL-APL was an Asian-American one. It can also be described as an Asia-Pacific or a trans Pacific combination.

The APL-NOL merger should not have shaken the industry. Trade and shipping are among the earliest of international industries. The market place in which we all operate is a global one. Companies in manufacturing and in services pursue efficiencies and economies, and maximise profits, and they compete in a world that is increasingly border-less.

So shippers understood the cost-related reasons why carriers have placed vessels under flags of convenience, why carriers are in consortia and in global alliances, which are mega-consortia. Indeed, shippers tell me they also clearly see the benefits of today's trans-national consolidations. Shippers benefit from, amongst other things, increased sailing frequency, global coverage, and generally higher service standards. And because

merged partners are able to select the best practices and personnel from their constituent companies, they are stronger companies and tend to operate more efficiently. If I were a shipper, I would value the benefits that they can bring to my business.

Shippers have encountered mergers and acquisitions in other industries with which they had had also to deal. Fortune magazine (27 April 1998) informs us that in 1997 a "record number of mergers and acquisitions took place, almost US\$1 trillion in deals in the U.S. alone". Among the reasons: "strategic imperatives of globalization".

If I may use a term from another arena, "the mother of all M&As" is the deal that will marry Citicorp to Travelers' Group. It is a deal that will be illegal, under today's US legislation! But, as Business Week (20 April 1998) observed of the US banking system: [But] any combination seems possible as the realization sinks in that there are too many players to make the financial market of the future work'.

If I were a Shipper

I shall try this morning to look at carriers through the eyes of a shipper. I believe that the relationship between shipper and carrier is not at all an adversarial one, but a symbiotic one, one that is more in the nature of a partnership which is healthy, enduring and mutually beneficial.

If I were a shipper, I would want my carrier:

First, to provide me with a global service. My business involves global sourcing and global markets, so that I need global transportation coverage. I would rather deal with one carrier for all my needs than with a multiplicity of carriers that I would need to constantly monitor.

Second, I would want my carrier to provide me with a service that is value-for-money. Mind you, I am not looking for the cheapest-possible freight. Freight rates are already at bargain-basement levels, and are at about half the levels that they were 20 years ago. The Box Club also very kindly produced a list of freight charges for a number of items, for the edification of shippers! At these rates, freight is not a barrier to trade expansion!

However, I expect my carrier to have developed internal financial controls and systems so that he is pricing his services on the basis of their intrinsic value and not on the basis of some printed tariff or the boiler-plate contract of the past.

Third, beyond value-for-money, I want my carrier to deliver a quality-service, by which I mean, one that adds value to my business. Because the nature of my business involves a long supply chain, I shall expect my carrier to come to me with transportation and logistics proposals to add value to my business.

Fourth, I want my carrier to have competition. I would want a choice of carriers! I am told that one American manufacturer once said that his customers could have their cars in any colour they wanted as long as it was black! I don't want to be dependent on only one carrier. I guess that my carrier would not want to be one of many carriers, with me as the only shipper!

It is true that the number of carriers has shrunk dramatically: in the trans-Pacific alone, from more than 40 in the 1980s to fewer than 20 a decade later. But I have never heard a shipper argue that there are too few choices although I have heard many carriers complain that there are too many carriers around! As a shipper, I would not be too concerned about the declining numbers - To support my point, the Department of Justice relies on the Herfindal-Hirschmann Index or the HHI to measure market concentration in all industries. An industry with a HHI of 1,800 or higher would be deemed as "highly concentrated." I have read in some media reports about strong concerns being raised recently over the proposed merger of two airlines because it would raise the HHI for the trans Atlantic from 2,670 to 4,260. In contrast, the HHI for container shipping in the same trans Atlantic sector is only 667! And in the trans Pacific sector, the container shipping HHI is only marginally higher at 749.

Fifth, I want my carrier to be viable. I expect my carrier to be investing in his company in the same way that I am investing in my own. The world of business is dynamic, and as I invest to keep competitive, I expect him to do likewise.

Sixth, beyond investing in his company, I want my carrier to invest in his industry as well. By this I mean he must be willing to take some time out to

provide policy leadership in his industry. My global carrier must be prepared to play a role in policy and regulatory issues in each market in which I operate and he operates. If my markets are America, Europe, Asia, and elsewhere, my carrier must profile himself to help develop the economic regime and the supporting infrastructure that will enable trade to grow.

A Profile for Success in our Industry

While it was fun pretending to be a shipper, and not having to worry about things like empty containers, please allow me to put back my container operator hat. The view is not too different.

As a container operator, I am not a futurologist, so I cannot divine the changing needs of my customers with certainty.

So how do I , as a carrier, prepare for the future, a future partnership with my customers? It is a considerable help to understand what my customers, the shippers, expect of their carriers! Which is what I tried to do earlier.

- **We must offer logistics support to help customers remain competitive.**

I have earlier referred to a shipper's preference to deal with one carrier rather than a multiplicity of carriers.

In a recent study, some 80 percent of respondents said they are aiming for improved integration of their supply-chain activities as a key to their success in the next decade. And the payoff for those that do can be substantial.

According to the Center for Transportation Studies at MIT, one group of companies engaged in supply-chain management programs achieved a 50 percent reduction in inventories, a 40 percent increase in on-time deliveries, a 27 percent decrease in cumulative cycle time, a doubling of inventory turns, a 9-fold reduction in out-of-stock rates, and a 17 percent increase in revenues!

Many of these capabilities will be outsourced, because the manufacturers and retailers say they want to be able to focus on their core business. Tim Rhein is raring to go to tell you how our Company fares in this area.

I will content myself with telling you of one result of APL's efforts that I personally witnessed in Singapore. APL and our consolidation units managed the extremely complex logistics for DisneyFest, the largest entertainment event ever to tour Asia. For each Asian opening, we are handling literally tons of theatrical equipment, costumes and climate-controlled superstructures, and we are even helping DisneyFest get Mickey and Minnie Mouse through Customs! Well, Singaporeans enjoyed the show, as did Asians elsewhere.

- **We must hire the best employees, and train them to be customer advocates.**

I believe that we must ensure that our people are trained in the necessary disciplines, and are motivated to become staunch advocates for our customers' interests -- including absolute service reliability. We will need quality-analysis and quality-assurance specialists, logistics analysts, information specialists, and people who seek bold solutions to distribution problems and are unafraid to take risks.

It may interest you to know that our philosophy at NOL has been to place high priority on staff and management training and even on advanced education. We typically send people to pursue specialized studies at such institutions as Harvard, Northwestern, MIT and Stanford. Last year, we spent about 5 percent of our total payroll on training. (This compares with about 2.6 percent for all Singapore-based companies in aggregate.) We will continue to invest in our people and ensure a continuous supply of talent in the organization. It is they who will determine our success or failure.

With this note, I would like to conclude my remarks and to thank you.

REMARKS BY MR. RHEIN

Thank you, ladies and gentlemen --

It is just six months since we consummated this merger. I want to tell you that Mr. Lua and his colleagues at NOL are contributing new perspectives and experiences to APL, as well as fusing their extensive resources and capabilities together with ours. They are enthusiastically supporting our activities -- even in disciplines that are not as familiar to them, such as intermodalism, U.S. domestic transportation, third-party logistics, terminal operations, and U.S.-flag operations -- and all that goes with it.

We are also busy learning more about each other's cultures and styles. I was struck by what one observer recently said, and I quote: "APL is a new species, one that fuses the freewheeling, innovative character of its California roots with the austere workmanlike culture of its Singaporean owner." Even this cultural fusion is going to make us stronger.

Some people say -- because APL is still a U.S. company, operates U.S.-flag ships, and remains committed to innovation -- that not much has changed. My life has certainly changed! And really, we as a company have changed in so many ways.

Since the merger, we have become global, and we are becoming a major player in all principal trades, including Asia-Europe, trans-Atlantic, Latin America and Australia, in addition to our trans-Pacific, intra-Asia and domestic North America markets. We are in a stronger alliance that increases our scope and frequency and uses fast-track decision-making so we can respond faster to the market. We have more tools: since the merger, NOL has invested more than US\$120 million in additional refrigerated and dry containers, terminal space, computers, ships, etc., for APL.

Mr. Lua talked about the importance to our industry of providing logistical support to our customers, so I would like to focus on their future needs in that area, as we see them, and the direction we at APL will take. I see logistics and technology as the "next frontier" for our industry.

The Next Frontier: Logistics and Info Technology

People sometimes lament that the era of significant innovation in transportation assets is behind us, and that further innovation in hardware will not dramatically impact service and cost. I don't accept that premise, because enormous volumes will demand new solutions.

Just think back 15 years, when we thought the same thing. Then came double-stack; domestic containerization, including 53- and 48-foot containers; post-Panamax ships, on-dock rail! History shows that we have not been -- and must not become-- complacent. I challenge the industry to continue to pursue significant design improvements and innovations.

At the same time, I think it is clear that the most dramatic innovations in the next 10 years -- those of "breakthrough caliber," the ones that will change the direction of the industry, such as stacktrain and containerization did -- will likely be in the area of information technology.

I think there are two important areas in which we must make information technology work for us. The first, which is internal, is to harness new technologies for the *elimination of hand-offs* in our business. Just as we have begun to use the on-dock rail capability at Los Angeles or Seattle to eliminate the trucking "hand-off" between ship and rail, we must apply our computer technologies to the elimination of hand-offs between parties.

And from the customer's perspective, we must continue to apply information technology in a way that gives customers greater control over their supply-chain activities. Mr. Lua has described the importance of developing logistics-management capabilities to support customers in the coming years, and he told you of some of the work we are doing for Disney.

In fact, our logistics clientele now includes companies in various sectors, including retail, chemicals, pharmaceuticals, high technology, and automotive -- in addition to entertainment. APL's latest contract, for example, is a multi-year agreement to provide third-party logistics services to DuPont. In previous work for DuPont, our business logistics unit helped that company's chemicals and specialties business units reduce transportation costs and in-transit damage, and maintain a 99.37 percent on-time delivery record for shipments within the U.S.

To support client needs, our industry has helped pioneer advanced systems that provide tracking of containers, and we have refined this to the point that the customer can track right down to the purchase-order or SKU level, even using the Internet.

But despite these strides, there are important constraints to what we can do for the customer. To demonstrate my hypothesis that we are entering a "New Frontier," join me in imagining some creative Star-Wars-type solutions to very real customer issues:

PROBLEM: The customer's purchase order, financing arrangements, customs documentation and other pertinent data are handled using diverse systems and functions, rather than integrated. In many cases, the details are not available in a single place until the bill of lading is created, and payment to the seller is not authorized until all the documents have been reconciled by a bank. What we are talking about is the cumbersome, 400-year-old letter-of-credit system. It is costly, time-consuming and paperwork-intensive.

FUTURE: All pertinent financial information will be captured electronically at inception -- at the moment the purchase order is released. Available information can then feed and support each subsequent step, without the need for reentry of any data. We have the technology to do this already, and are working with the banking community and trade associations to try to reroute our electronic information in ways that can reduce the costs of settlement for our customers and increase the speed by which settlement can be made.

PROBLEM: Today, we can track on land and at sea, but if customers need to make a change, they don't feel empowered to do so. Of course, they can call, fax or email us and we can try to deal with it as an exception and make limited adjustments -- at the expense of heavy management involvement and operating overruns.

FUTURE: Here's a "Star-Wars" goal that I like! Let's go beyond the current state-of-the-art. Let's give customers a new level of decision-support capability so they can respond deftly to unexpected delays, shifts in production requirements, changes in customer preferences or other competitive or market conditions. I think customers should be able to so closely control the individual units within a shipment that they can literally:

- speed shipments up, or slow them down!
- divert or change the routing, the mode or the equipment!
- pull some of the units at Point A that were destined for Point B!
- and conduct all the related financial transactions in a paperless environment!

How easy should we make it for customers to make these adjustments? I think our customers should literally be able to go into the Internet at various points along the way and literally "manipulate" the routing and handling of their freight at will, using only a mouse!

Another concept our industry needs to plan for is that of "mass customization," in which consumers themselves are involved in customizing the product to suit size or taste preferences. This is already happening in wearing apparel, with lines beginning to blur between manufacturer and retailer. Obviously this trend will have a major impact on the retail sector. What will be the impact on transportation and distribution? Will we need to prepare for direct doorstep delivery from manufacturer to consumer, bypassing distribution centers and retail outlets? How are our own customers, the retailers, preparing for this distribution alternative, and how can we support them?

The Next Steps

We have a lot of work to do! First, it seems to me that we need to focus on understanding and developing expertise in every step of the supply-chain. We have to view that supply chain as a series of interlinked activities -- from the moment the product designer or consumer gets the idea for a new product, to final delivery, regardless of the domestic and global distribution challenges that complicate the process.

Second, transportation companies will need to develop a new and higher level of operating and management flexibility. If the shipper is really going to divert shipments with the click of a mouse, service providers are going to suddenly discover a whole new set of headaches -- unless they anticipate and prepare for them!

For example, for our industry to accommodate such sudden routing diversions, or mass customization, will stretch the management capabilities

of most companies, and will also be too costly under today's operating parameters.

I think we are moving in the right direction; let me give a limited example of this type of flexibility. During the peak of the railroad service disruptions, APL had the ability to mitigate problems for customers by quickly diverting ships from the congested Los Angeles port to Oakland. Another example is our rapid redeployment of an entire trans-Pacific vessel string to Seattle to alleviate congested corridors.

For providers to achieve a sufficient level of flexibility to modify operations -- when needed by customers or for internal purposes -- will require that we have in place the necessary internal culture (accommodation to abrupt change); pricing capabilities; equipment and facilities; not to mention human expertise, systems and technology!

Another step is for us to recognize the need to customize logistics services. This discipline is unlike the traditional field of basic port-to-port or even point-to-point transport. We must recognize that the logistical needs of each shipper/customer are different. Once we unleash the sorts of futuristic logistical capabilities I have suggested, no two corporate problems or objectives will ever be the same; no two shipments will look alike! I caution against the one-package-fits-all logistics approach, even today. Bearing this in mind, you will see APL begin to integrate our logistics capabilities with our transportation capabilities, so that customers can easily benefit from a total product.

We also need to work as an industry to advance the practice of logistics management so it can benefit a broad cross-section of our customers, just as the benefits of stacktrain and domestic containerization are now being maximized in the marketplace. For its part, APL will continue to play a proactive role in the global forum dedicated to standardizing the protocols and data exchange that support the logistics discipline. We also need to challenge shippers, carriers, customs agencies, financial institutions and the various providers of software, underlying transportation, etc., to recognize that we must step-up our collaboration if we are to close the gaps between our systems and processes and if we are to help our customers realize the benefits of the next frontier.

Before I close, I want to identify even more clearly the direction in which the new APL is headed. We are a transportation and logistics service provider whose business is world trade. In other words, we will anticipate and meet the domestic and global distribution needs of our customers, without being limited to our traditional services or functions. The new APL vision is:

"We are committed to advance APL as a world-class company and a leader in global logistics service. The NOL group, as parent company, is committed to global container transportation and logistics on a long-term basis, and is committed to invest in our people, systems, processes and assets to achieve this vision. We will:

- develop our people and create equal advancement opportunities for all;
- continue to recognize and reward innovative teams and individuals who are committed and passionate in advancing APL's goals;
- invest aggressively to create leading-edge information systems;
- unite our core asset-based business with complementary non-asset businesses to provide an integrated, total logistics product for our customers;
- adopt a zero-defect tolerance in all aspects of our service delivery; and
- work as a team towards becoming the best global container carrier and logistics service provider."

I want to emphasize that each company must determine its business direction based on the particular needs of its customers and its own strategic goals. But, if I were to summarize into one statement the views that Mr. Lua and I have shared this morning, it would be that all participants in our industry who wish to survive and prosper must stop thinking of ourselves as modal or intermodal "carriers." We must become transportation companies that make an effort to put on a shipper's hat -- as Mr. Lua did a few minutes ago -- and understand a shipper's needs.

Thank you very much!

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