

“The Economics of Infrastructure”

Presented by Maersk Line/Maersk Logistics

Agenda

- ▶ Establishing costs to serve the market
- ▶ How rising costs affect decisions
- ▶ How industry constituents can avoid surprises

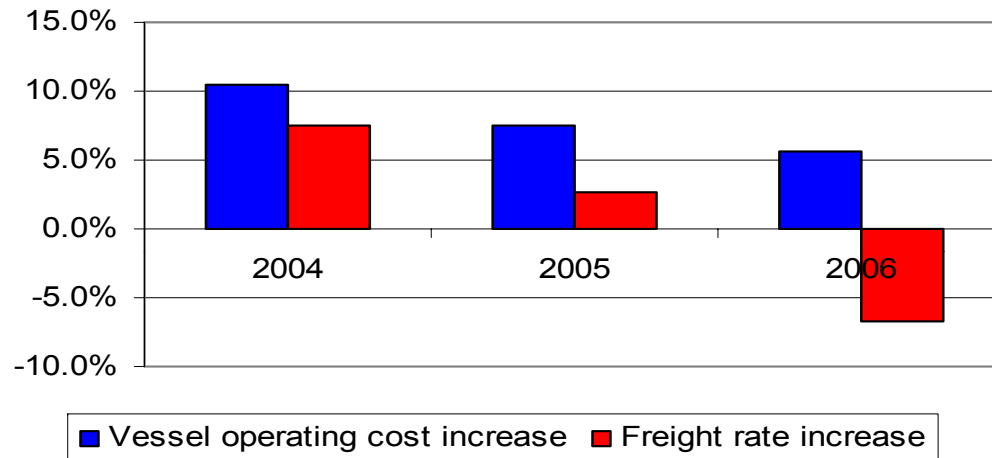


**How Are Carriers Establishing
Cost To Serve The Marketplace?**

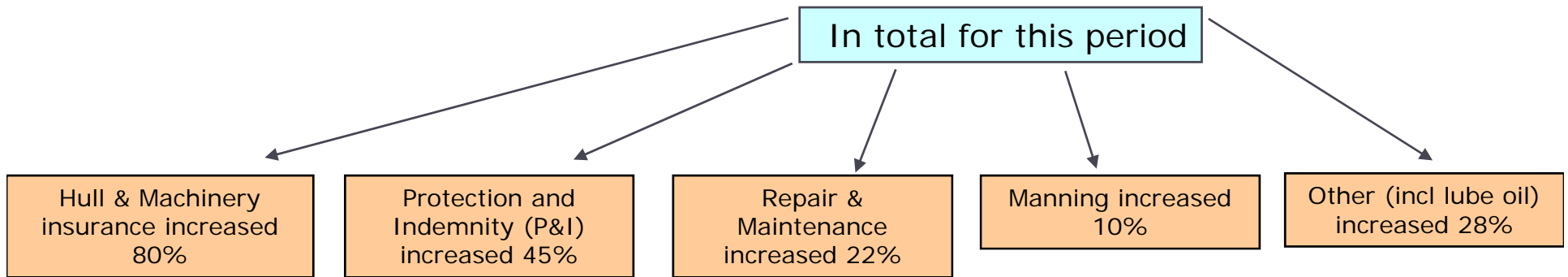
Operating Costs Are Increasing

▶ Driven by factors outside of carriers' control

From 2004 - 2006 freight rates have increased 3% in total



Operating Costs (excluding bunker and port handling vs. freight rate increase

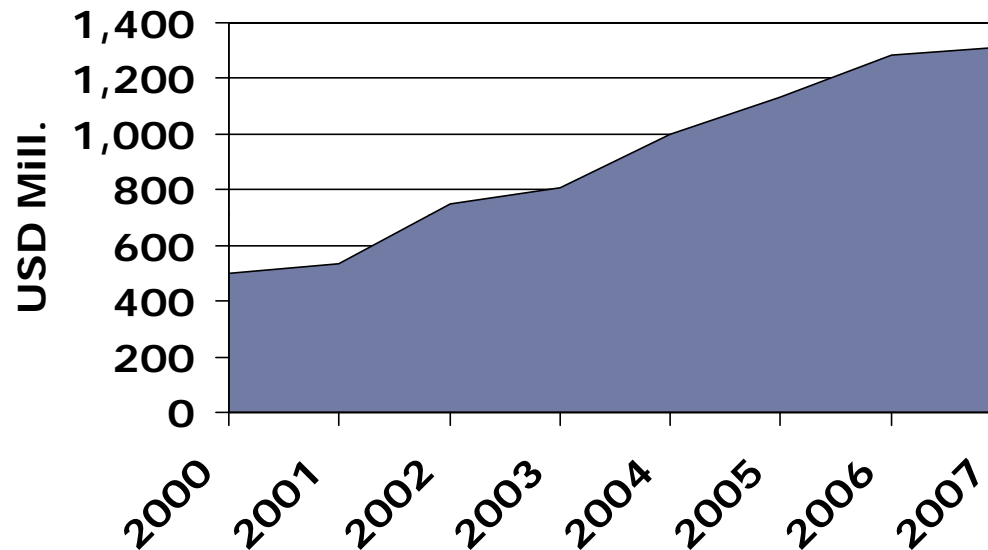


Source : Drewry Shipping Consultants



The Growing Trade Imbalance Drives Equipment Positioning Costs

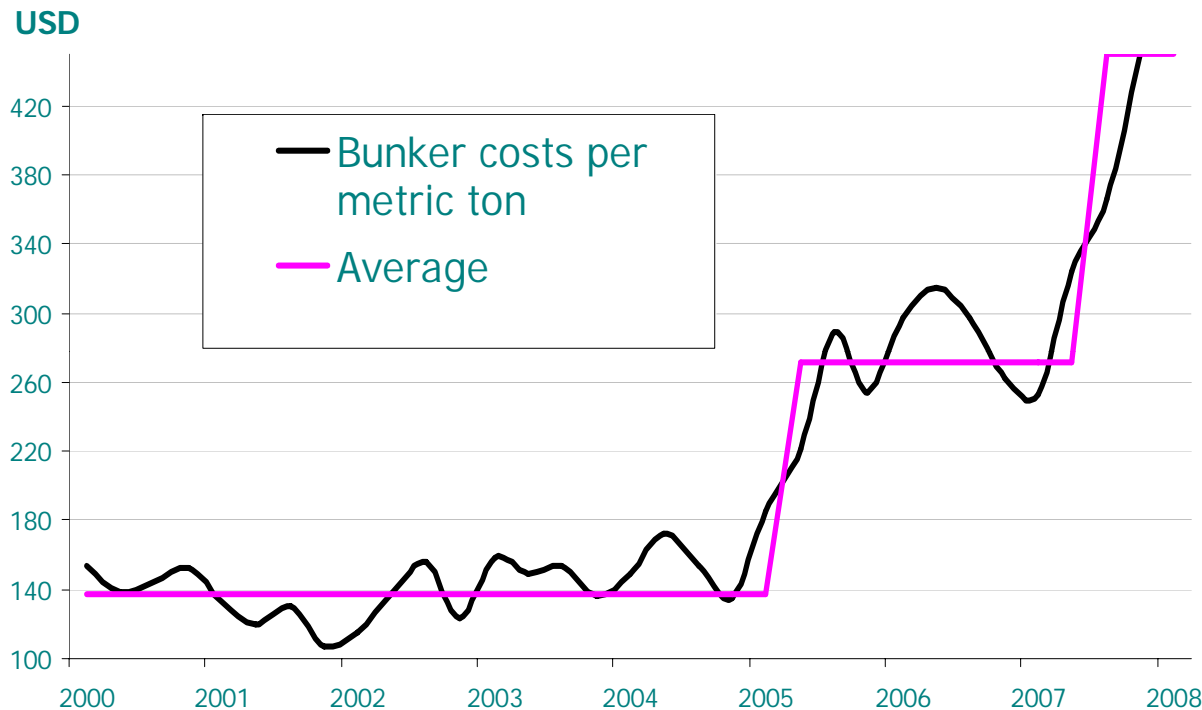
Industry Cost of Positioning
Empties in the Pacific Trade



- > Imbalance in the Pacific Trade grew from 1.7 in 2000 to 2.5 in 2007
- > Additional industry costs related to the trade imbalance in the Pacific trade increased by an estimated 141% from 2000 to 2007 to approximately USD 1.3 Bill.

Note: Cost estimates based on actual market volume per The Journal of Commerce statistics

In The Last Two Years, Bunker Costs Have Increased To Historically High Levels



> Bunker cost has risen by 230% since 2004

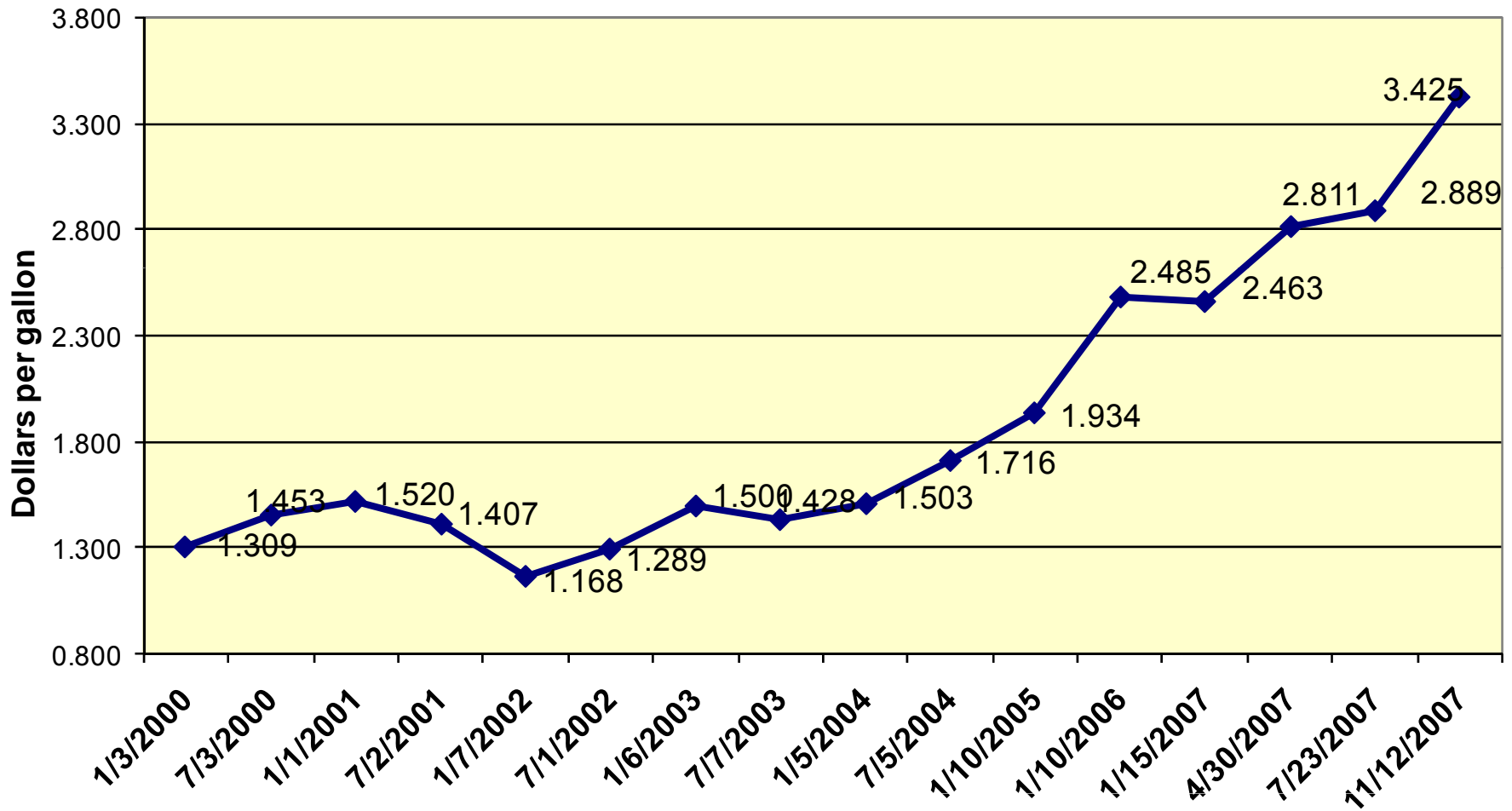
> Bunker makes up an estimated 35% of operating costs for carriers

A perspective on the impact of bunker to carriers:

555 vessels X 100 MT per day X \$480 per MT = \$25 Million per Day

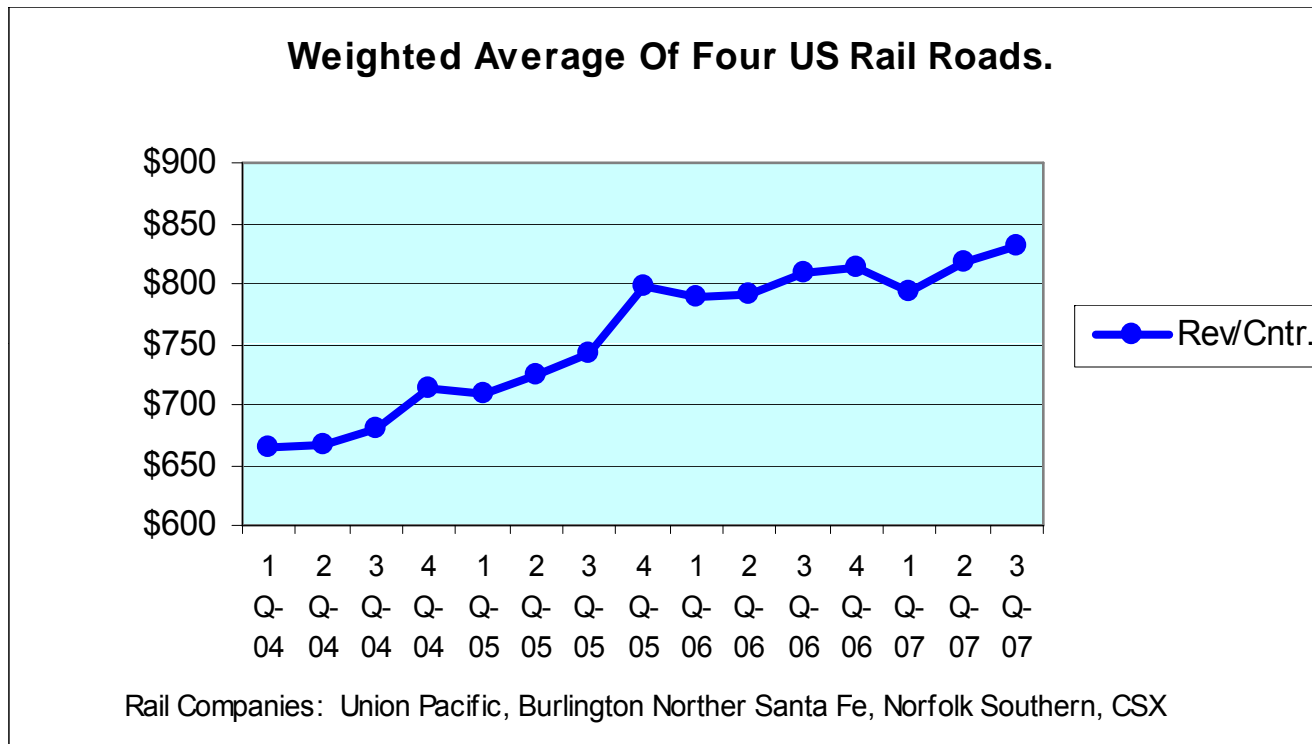
Landside Fuel Cost Increases

EIA Retail Diesel Prices
National Average, 2000-2007



Source: Energy Information Association (National Average 2000 -2007)

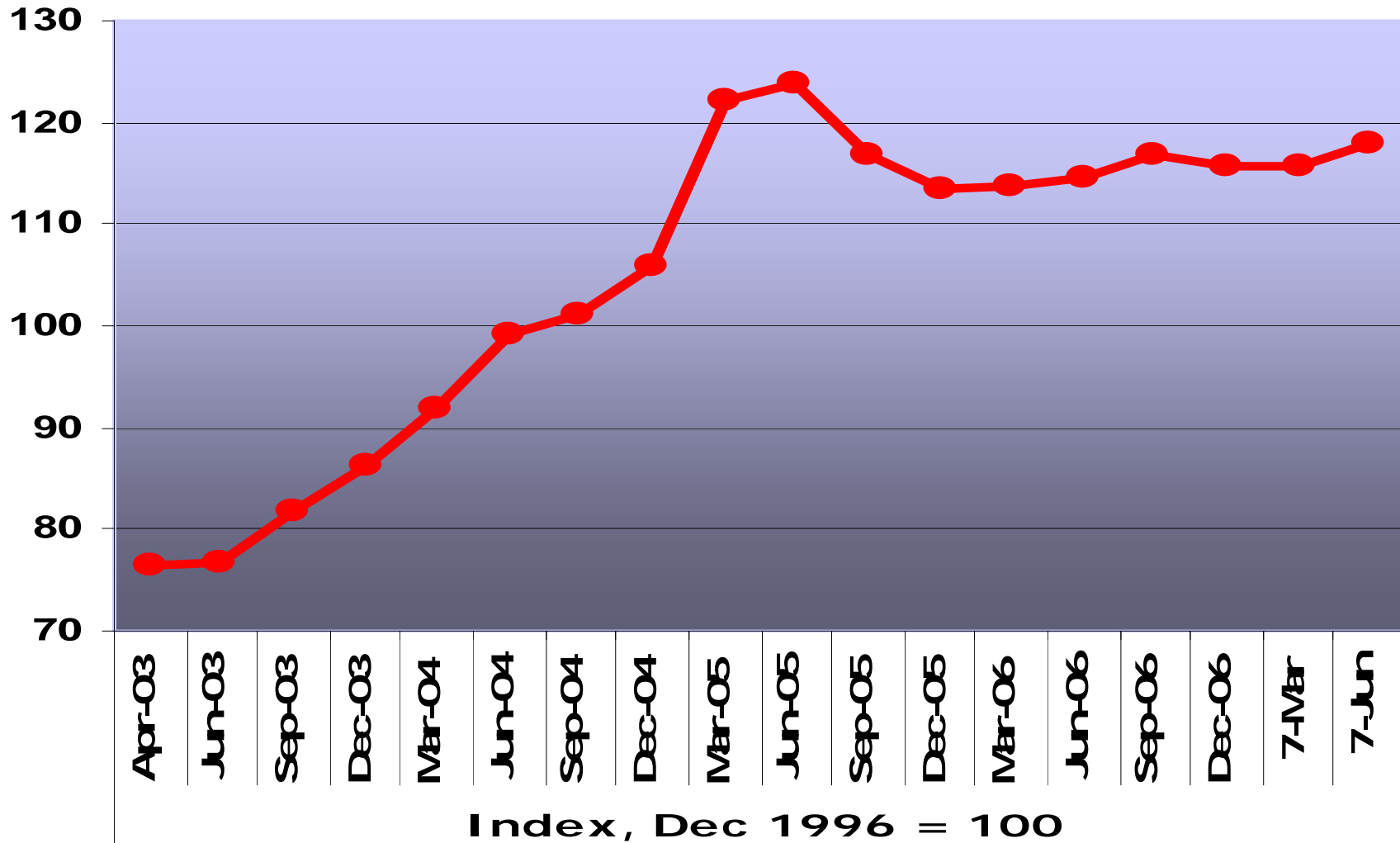
Development Of Wholesale Intermodal Prices: U.S. Railroads

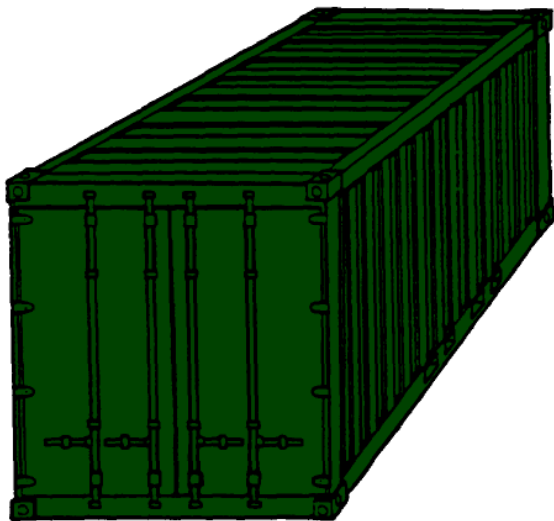


> US railroads are still raising prices for Intermodal rail transport due to the combination of tight capacity, growing demand and higher fuel surcharges.

Source: Container Shipper Insight 1Q/2007

New build prices have risen in the last three years





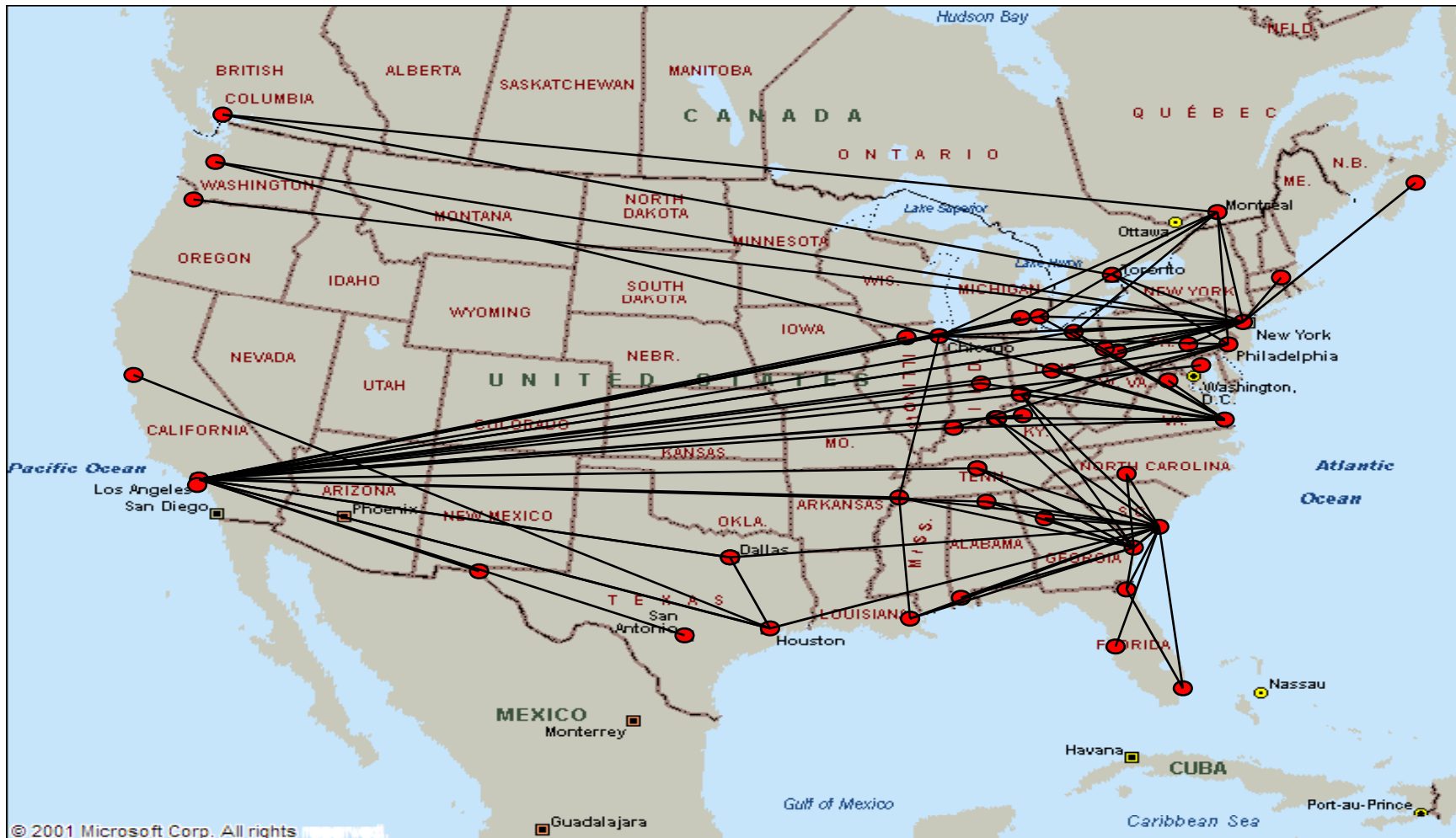
How The Rising Costs Affect Carrier Decisions

Network Overhauls and Cost Reductions

- ▶ Trans-pacific tonnage has been removed
- ▶ Assets are being redeployed to profitable trades
 - ▶ Asia Europe
- ▶ Slow steaming
- ▶ Reductions to Intermodal network in North America



Example: Re-Evaluating North America Inland Service Network (after)



How Industry Constituents Can Avoid Surprises

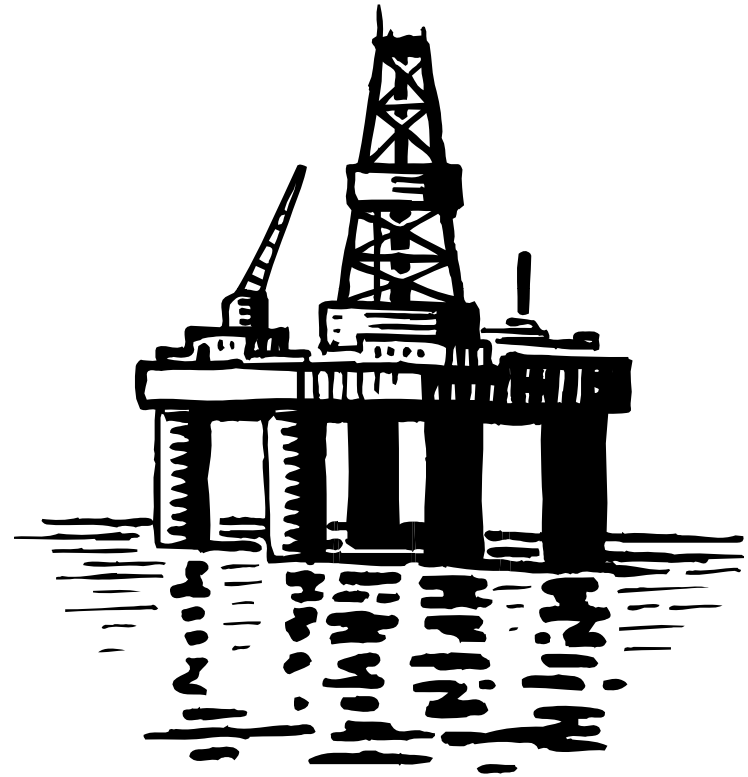
What Needs To Be Done (short & long term)

- > Establish a mutual understanding of the “Cost Drivers” and infrastructural issues impacting the industry
 - > Transparency from carriers as to cost base
 - > Addressing uncontrollable costs collaboratively
 - > Example: Floating Bunker; Free-time Reduction
- > Collaborate to find solutions to challenges that result in sustainability for the industry as whole
 - > Leverage all transport solutions
 - > All water East Coast entry; Trans-loading
- > Industry engagement with Governmental bodies



An Example Of Sharing The Risk - Fuel

- ▶ Maersk Line BAF formula
 - ▶ Floating BAF concept
- ▶ Benefits include:
 - ▶ Consistency - all trades
 - ▶ Transparency – indexed based on publicly available sources
 - ▶ Online BAF Calculator
 - ▶ Fair – rises & falls with bunker prices
- ▶ A new approach which could be adopted industry-wide



The Formula And Mechanics

$$\text{Bunker Price Change} \times \text{Constant} = \text{BAF}$$

$$\text{Consumption} \times \text{Transit time} \times \text{Imbalance factor}$$

- ▶ **Bunker price change** = Change in bunker price per trade (*new price less base bunker element*)
- ▶ **Consumption** = average bunker consumed per vessel type deployed
- ▶ **Transit time** = one-way sailing days
- ▶ **Imbalance factor** = ratio of head haul to back haul

**Thank You For
Your Attention!**



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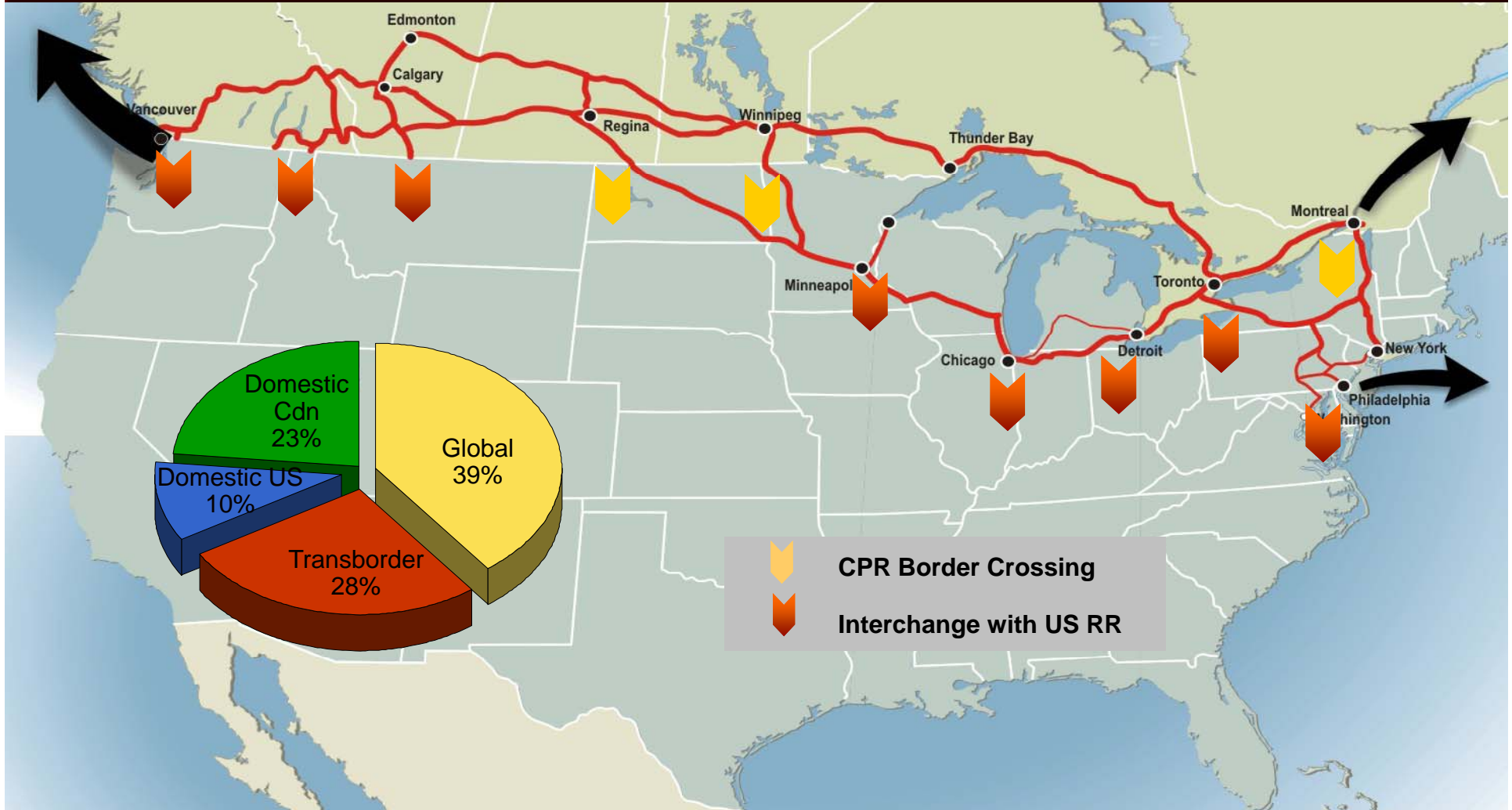
Intermodal Ingenuity

Tim Boyce
General Manager, Domestic Intermodal
Presentation to RILA Logistics Conference

February 11th, 2008

CANADIAN PACIFIC Ingenuity.

- Canadian Pacific – Franchise Overview
- NA Transportation Landscape:
 - How things were
 - What's changing
- Investing:
 - Network/rail/terminals
 - Mobile assets
 - Shippers ability to influence
- Integrated view (eg)
 - Pacific Gateway
 - Opportunity Going Forward



Over 13,000 mile network with prime connections to other railroads and global reach through ports of Vancouver, Montreal and New York

- The transportation landscape has changed
- CP has led or participated in these changes

Competitive Landscape - before

- NA economy and \$US strong
- Manufacturing/exports driving good E-W flows
- Short-haul lanes more prevalent
- Competition but entry more difficult
- Asset ownership key
- Customers in-house transportation decision-making
- Technology there but not being fully leveraged

Flows - before

- Long-haul transcon
- East – West primary headhaul
- Railroads strong influence in location of distribution hubs
- Transload but smaller off West Coast

- The transportation landscape has changed
- CP is realigning to meet future requirements

Competitive Landscape - now

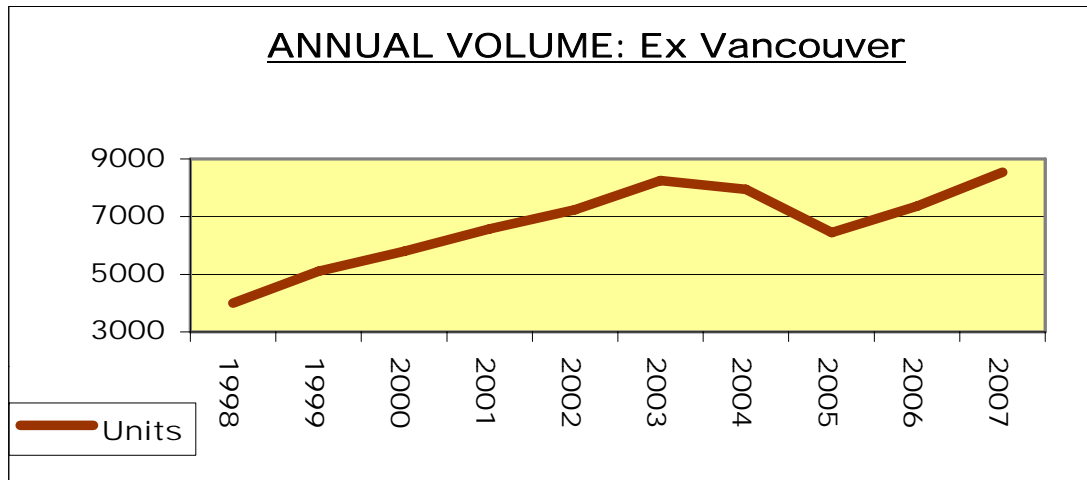
- Growth in Asian sourcing
- Strength of CDN \$ and cost of fuel
- Distribution hubs in smaller markets
- Non-asset based players competing in market (3PL, 4PL)
- Ocean Carrier boxes flooding NA
- JIT concept reshaping itself
- Technology – access to information

Flows - now

- Transcon W-E growing – Pacific Gateway
- West – East shifting to headhaul lane
- Growing imbalance of railcars and containers
- Transload growing significantly off West Coast

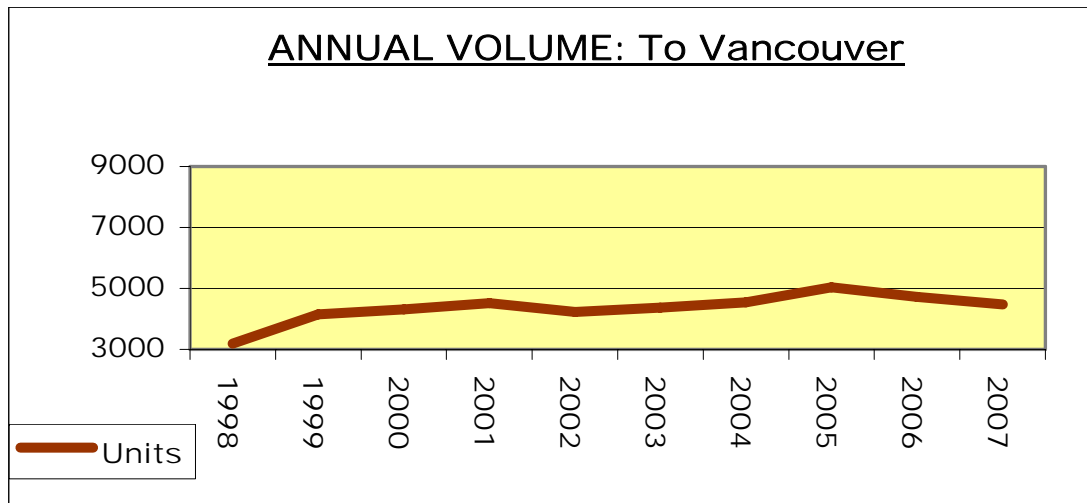
Retail Sample – Vancouver Gateway Growth Pattern

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10 Years: 1998 to 2007
Total volume growth 113%

**CUBE IMBALANCE
IS GROWING!**

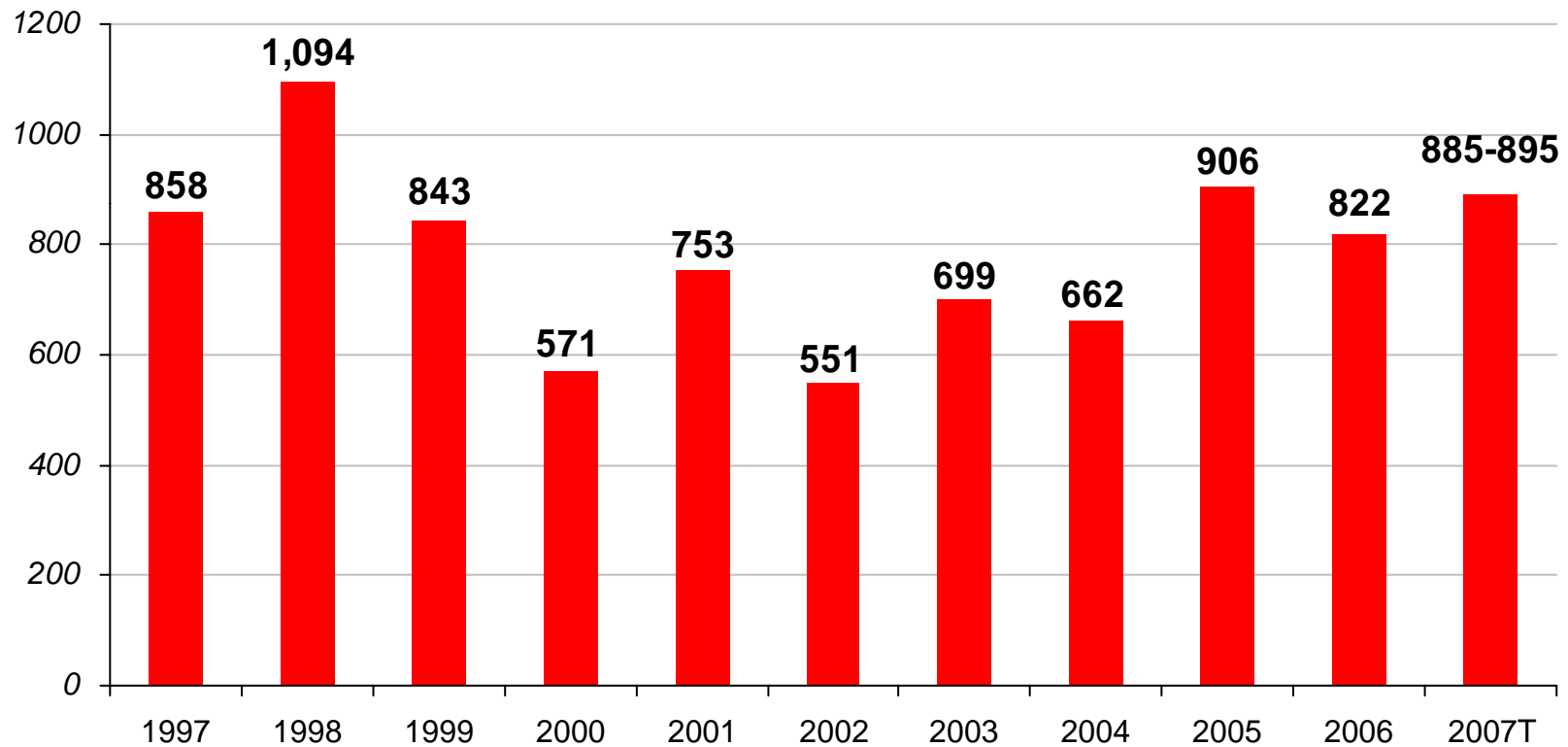


10 Years: 1998 to 2007
Total volume growth 8%

Capital Expenditures

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Capital Expenditures
(C\$ million)



Approx 18% of Gross Rev was re-invested in 2007...

Only in recent years are RR making ROCE

- Customer Needs
- Fit with overall network strategy long-term
- Growth potential, market longevity and environment
- Is this best solution to increase capacity
- Benefits investment will deliver – other bottlenecks in supply chain
- Positive impact to overall service/fluidity
- Customized need or larger application
- Contract commitments
- Can we make money – loss leaders don't work anymore

- What kind of return do the assets deliver
- Competitive advantage from ownership
- Competition and ability to drive profitable revenue
- Type of fleet and maintenance costs
- Container balance – one way movements or return trips
- Alternative uses
- Customer dwell and utilization

- Visibility into your strategy/pipeline early for planning
- Investment opportunities that support growth and/or cost improvements
- Joint investment and/or support in securing public funding
- Growth in core network long-haul volume
- Balanced flows
- Smooth flows – reduce spiking (ie day of week)
- Quick asset turns – load/unload with minimal dwell

Pacific Gateway – Integrated view

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- Gateway model ensures collaborative approach:
 - Railways
 - Customers
 - Ports and terminals
- All partners, working together, play a critical role in POV's success
 - Integrated planning
 - Supply chain perspective
 - Pipeline management



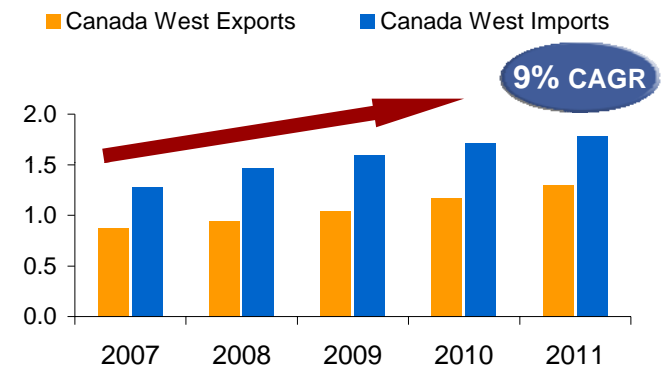
Pacific Gateway: Port Investments

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Recent and planned expansions at Port of Vancouver (POV) represent an opportunity to diversify sourcing

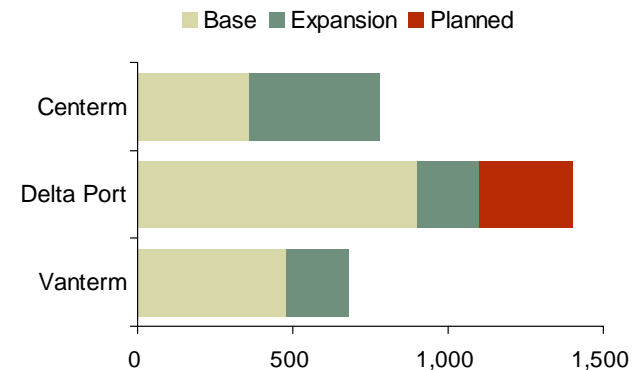


Pacific Trade Forecast (million TEUs)



Source: TTX Forecast

Vancouver Port Expansions ('000 TEUs)



Pacific Gateway: Western Corridor Expansion

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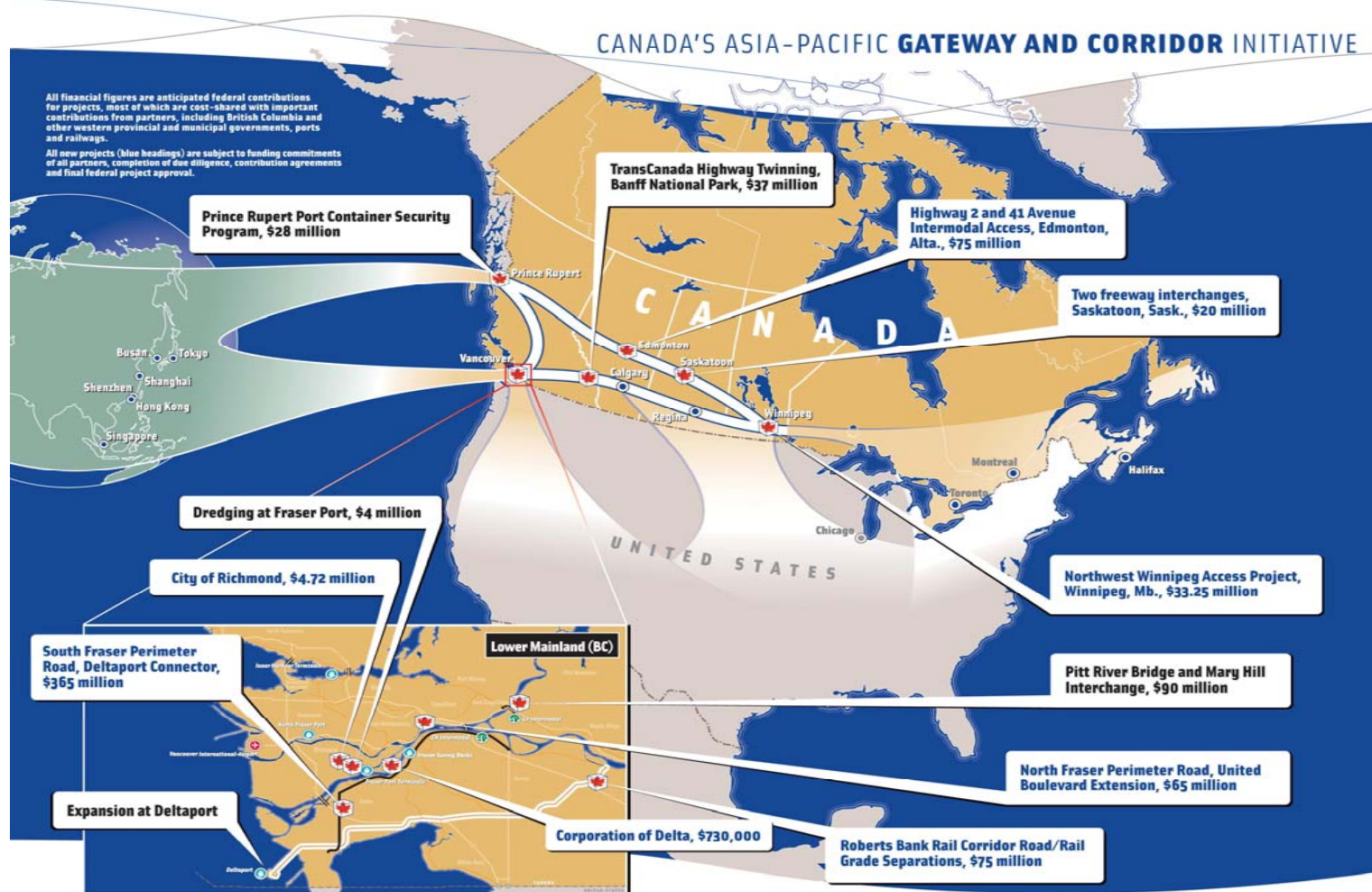
- Major capacity expansion
 - 25 main line projects
 - Capital cost \$160M
- 12% capacity increase for this corridor
- Future expansion plans tied to volume projections



Capacity expansion positions CP for further growth in this key Asia-Pacific corridor

Pacific Gateway Initiative: Government Investment

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- Governments of Canada and the Western Provinces highly supportive of growing Pacific Gateway

- Government(s) fiscal situation very strong
 - More than \$2.2 bil in projects announced under Pacific Gateway Initiative
 - Over \$33 bil allocated to Building Canada infrastructure plan by federal government

- Government(s) recognize the need to revitalize infrastructure and the economic importance of fluid, expanded Gateways

- We need to optimize TOTAL supply chain
- Communicate early – advise/inform/consult
- View us as an extension of your network – same considerations need to be made
- Consider how your decisions impact other parties
- Lobby with us for public funding and regulatory changes that help us both
- True partnership and strategic decision making wins in the end