

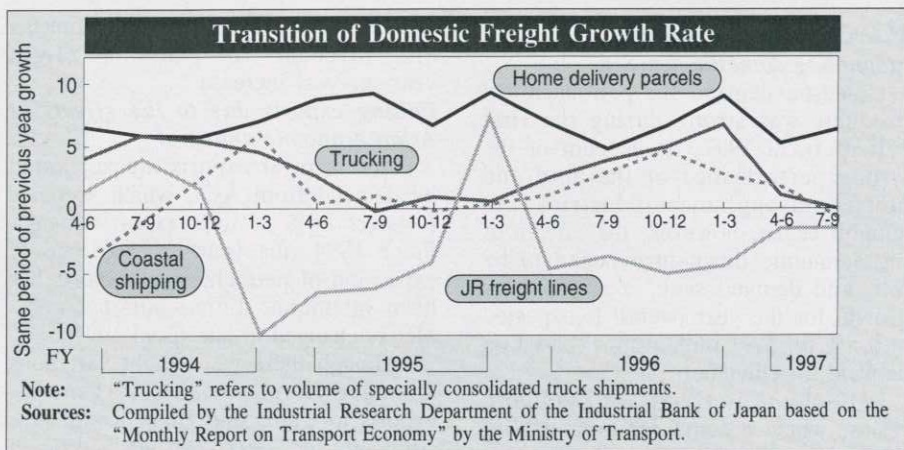
Urgent Need to Reduce Shipping Costs

Trends in domestic freight transportation

Movement of domestic freight has basically been slow since the latter half of fiscal 1997, due to the slump in individual consumption and the decrease in housing and public investment. In fiscal 1998, slow movement of freight is expected to continue for the time being, as economic recovery is unlikely and low economic growth will continue.

It is predicted that the truck transportation business, which is the principal mode of domestic freight transportation, will face harder competition in the current economic environment, because of the increase in new entries into the business as a result of further deregulation, which permits a decrease in the minimum number of trucks owned and the expansion of service areas. Further, the business environment is becoming harsher due to increased labor costs as a result of shorter working hours, and increases in such costs as highway tolls and for light oil. In September 1997, the interim settlements of eight major listed truck companies showed an 8.1% decrease in operating profits, reflecting the severe business environment, even though sales earnings increased by 2.8% compared with the same period in 1996.

On the other hand, there is a great need on the part of freight owners to improve the efficiency of physical distribution, since their profits are decreasing as a result of lower prices and the economic recession. One way to improve efficiency would be to try to reduce stocks and lead times by increasing cooperation among all elements of the supply chain, including production, storage, distribution and sales. Responding to the needs of freight owners, physical distribution companies have begun to provide services with higher added value that go beyond the existing range of business. They are now helping owners improve efficiency by suggesting the setting up of a more efficient distribution system, utilizing physical distribution management and information system know-how, and also by contracting a very wide variety of businesses such as stock management and dis-



tribution processing that accompany physical distribution.

Trends in overseas shipping industry

The interim settlements of three major shipping companies (Nihon Yusen K.K., O.S.K. Lines, and Kawasaki Kisen Kaisha, Ltd.) for September 1997 showed an increase in both sales and profits (sales increased by 7.6%, ordinary profits by 12.8% compared with those of the same month in 1996), and thus it could be said that profits are in a recovery trend.

The reasons for such good figures are the weaker yen, with the consequent increase in shipping charge revenues, most of which are contracted in dollars, the substantial increase in completed car shipments because of increased car exports, and the good performance of the energy shipping sector due to a strong tanker market and larger fleets. Further, progress in reducing costs, which has been underway in the past few years through improvements in ship assignment efficiency, and reductions in seamen's wages and general management costs have also contributed to increased profits.

Conditions for profit making, however, will now be harder due to the economic disorder in Asia. Iron ore, coal and grain are the major freight items transported by tramp steamers, and 20-30% of total freight movement in the world is shipped to the Asian region. Tramp steamer freight capacity is expected to increase

after the construction of new high-technology ships. With freight movement in Asia now stagnant, shipping charges may decline due to freight over-capacity. Inevitably, the economic disorder in Asia will affect the freight movement of regular steamers (container vessels), particularly on the North American route (Asia/North America), which constitutes the main service route of Japanese shipping companies.

Under such increasingly severe circumstances, the major problem facing Japanese shipping companies is how to increase the profitability of regular steamer divisions that have accumulated deficits. It is said that not only Japanese companies but also Asian shipping companies, which used to compete with foreign companies by taking advantage of lower costs, are suffering from the unprofitable level of regular steamer freight charges. Although shipping companies are attempting to increase freight charges, it is uncertain whether an increase will actually go through, since freight owners are strongly opposed to it. In spring 1998, Alliance, which is an international group of shipping companies, made a fresh start after reorganization. It is an urgent task for shipping companies to steadily rationalize expenses, mainly by reducing fixed costs, as in the case of Alliance, by sharing containers and container terminals, jointly allocating vessels, etc.

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