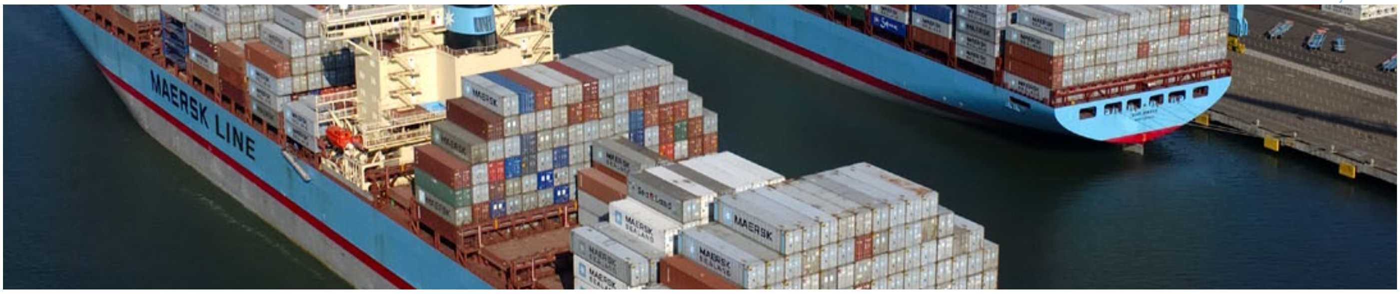
Maersk
Vietnam Trade Report
2013



Vietnam Trade Outlook

As we approach the end of 2013, Vietnam's economic outlook remains broadly positive with the country recovering relatively well after the global economic crisis. In the first nine months of 2013, GDP expanded 5.1% compared to the same period in 2012, making it one of the fastest growing economies in the region.

Top 10 major exported commoditles of Vietnam in September, 2013

	September (USD million)	Compared with previous month (%)	Year to date (USD million)	Compared with previous year (%)
1. Telephones, mobile phones and part thereof	2,123	15.6	15,521	79.8
2. Textiles and garments	1,658	-7.8	13,080	17.3
3. Computers, electrical product, spare-parts & components thereof	930	-6.8	7,700	43.9
4. Fishery products	641	-2.9	4,683	4.7
5. Foot-wears	549	-25.1	6,009	15.1
6. Machine, equipment, tools and instruments	505	-6.2	4,365	5.1
7. Crude oil	463	-27.9	5,354	-14.1
8. Wood and wooden products	451	-5.2	3,868	14.9
9. Other means of transportation, parts & accessories thereof	359	-18.7	3,818	12.2
10. Rubber	265	14.5	1,723	-15.8

Top 10 major imported commoditles of Vietnam in September, 2013

	September (USD million)	Compared with previous month (%)	Year to date (USD million)	Compared with previous year (%)
1. Machine, equipment, tool and instruments	1,733	12.2	13,231	42.5
2. Computers, electrical product, spare-parts & components thereof	1,587	2.7	13,217	9.7
3. Textiles, leather and foot-wears materials & auxiliaries group	1,183	-2.0	10,767	18.6
4. Telephones, mobile phones and parts thereof	954	32.2	6,136	77.9
5. Iron and stell	529	3.1	5,202	11.5
6. Plastics	484	0.8	4,246	19.1
7. Petroleum products	475	-28.6	5,156	-26.8
8. Animal fodders and animal fodders materials	303	-0.5	2,372	36.6
9. Other base metal	257	9.3	2,136	14.8
10. Plastic products	241	5.1	1,853	21.8

Source: Vietnam Customs

Foreign Direct Investment and rising trade volumes drive the Vietnam economy

"The domestic economy may be under-performing as a result of inefficient State-Owned Enterprises, high volume of non-performing loans and limited access to credit, but the GDP is still growing at a healthy rate," said Ms. Nguyen Thi Ngoc Bich, General Director of Maersk Line Vietnam & Cambodia.

"The true driver of the Vietnamese economy is foreign investment, particularly in the manufacturing sector. As such, Vietnam's import/export trade volumes more accurately depict the country's economic health than other traditional macroeconomic factors," Ms. Bich added.

The steady flow of FDI and increasing trade volumes have been major contributors to Vietnam's recovery and growth. The country attracted over USD 15bn of FDI as of September, a surge of 36.1% year-on-year, with the processing and manufacturing industries topping this list.

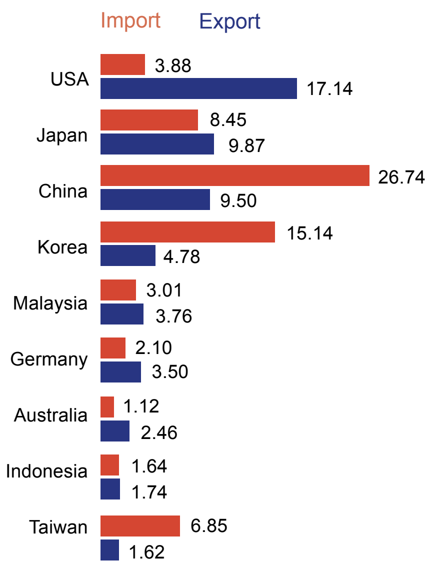
"Vietnam continues to be an attractive sourcing destination with competitive advantages in low labour costs, a strategic geographical location, strong deep water port infrastructure, leading positions within agricultural exports, high GDP growth, long term political stability, and a government committed to enhancing economic stability and development," said Ms. Bich. "We are confident that despite the challenges of the current global economy, there are still great opportunities for Vietnam."

Marco Civardi, Managing Director of Damco, Vietnam & Cambodia, added: "Since Vietnam's accession into the World Trade Organisation (WTO) in 2007, the country has become one of the top manufacturing and FDI destinations in the world. As a result, demand for logistics outsourcing such as supply chain management and freight forwarding services has rapidly increased. Over the past 3 years, Damco has grown its Supply Chain Management business by almost 20%."

Vietnam's macro economy is also improving. For the first time in two decades, Vietnam has posted a trade surplus of USD 12m for the first nine months of the year. Tight monetary policy has helped to rein in inflation over the past year, which is now projected to be 8%.This coupled with the trade surplus, has helped to stabilise the currency.

"Historically, Damco has seen that when inflation is high, trade volumes and investment decrease, the supply chain is hindered and domestic demand falls, causing a reduction in imports," observed Mr. Civardi. "The current low inflation rate and the stabilised dong has helped to boost Damco's business in Vietnam by 10% this year, with optimistic forecasts for 2014."

Vietnam Trade Balance
Major Trade Partners Jan - Sep 2013
*Value in USD billion



For the next phase of Vietnam's economic liberalisation journey – one that began with doi moi, followed by years of normalised trade agreements with various nations, then into the WTO - the country now turns its attention to the 12 country multi-lateral trade agreement that is the Trans Pacific Partner-ship (TPP).

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Trans Pacific Partnership will increase Vietnam's competitiveness

After three years of negotiations, the 12 TPP nations hope to finally seal the deal in the near future. Once signed, this free trade agreement will account for 800 million people, a third of world trade, and nearly 40% of the global economy. Arguably the most ambitious trade pact in recent years, this agreement will offer unprecedented access to domestic markets, eliminate tariffs and tackle a range of non-tariff barriers that restrict trade growth.

In 2012, Vietnam's GDP was USD 142 bn while exports were USD 115 bn. According to the Peterson Institute for International Economics, a bipartisan policy research nonprofit, under the TPP, Vietnam's GDP could increase by USD 37.5 bn, and exports could surge to USD 307 bn by 2025, compared to an estimated USD 239 bn without the TPP.

While a number of nations among the bloc are vying to fill the role of manufacturing center, Vietnam offers the lowest labour costs, making it among the most competitive, particularly in the textiles and garment industries. The restructuring of this sourcing landscape will give Vietnam a significant advantage over China and has the potential to increase Vietnam's share of the apparel import market in the US from 10% today to 35% after the TPP.

Currently, without the benefits of the TPP, Vietnam's cotton import tax is 17%, which is already lower than China's 40%. With the TPP, not only will textile and garment manufacturers benefit from the preferential tariff of 0%, they will also achieve greater value-addition due to the lower production costs in Vietnam.

"The TPP is a great opportunity for Vietnam to increase its global competitiveness, especially in the textile and garment industry which will enjoy zero preferential tariffs compared to today's high 17-35% tax levels," said Ms. Bich. "We have already seen an increase in foreign investment – specifically from China, Japan, South Korea, and Taiwan – from textile manufacturers eager to take advantage of anticipated TPP provisions."

That said, there are numerous challenges and limitations that accompany the agreement, namely around managing growth, the lack of support industries and certain restrictions such as the "yarn forward rule of origin". Under this rule, all processes from the yarn forward for the production and manufacturing of garments and textiles must originate from TPP member nations in order to qualify for preferential tariffs.

"Vietnam is heavily dependent on imported materials to produce its exported goods, and currently close to 90% of its raw materials and machinery are imported from other countries, including China and other non-TPP partners," said Mr. Civardi. "The 'yarn forward rule' will be a significant challenge for Vietnam and has the potential to mitigate most TPP benefits to the textile industry – the industry that has the most to gain from the agreement. The country's dependence on imported materials for production not only reduces the end product's added value, limiting the benefits of trade, but also highlights one of the weaknesses Vietnam has to overcome for the next stage of the country's development."

However, Mr. Civardi pointed out this is an opportunity for Vietnam's domestic small and medium enterprises (SMEs) to innovate and stay competitive in the global market. The TPP is allowing for a three-year grace period where members can continue to source from non-partner countries while building their domestic industries. He added, "If Vietnam can utilise this time wisely to develop its support industries and reinforce its infrastructure, this will help the country reap the full benefits of the TPP."

The establishment of sufficient infrastructure networks to deal with a spike in trade volumes is another hurdle that Vietnam will need to overcome in order to fully take advantage of the TPP.

However, ports are one aspect of Vietnam's infrastructure that is expected to gain from the TPP. Robert Hambleton, Managing Director of the Cai Mep International Terminal (CMIT), explained, "One area in which infrastructure is not lacking is in the deep-water port industry. Our port currently serves the US, and any partnership that increases trade between Vietnam and North America is very likely to see a need for larger vessels to service those routes.

"Vietnam has the capacity at CMIT, which is the deepest, closest operational terminal for the southern manufacturing areas to access the advantages of TPP. Ultimately, CMIT also stands to benefit from the TPP."

Ms. Bich concluded, "Quality logistics services are central to trade efficiency and crucial to sustain long term high economic growth. Across all of our business units in Vietnam, the Maersk Group is ready and keyed up to welcome the TPP and the opportunity to help Vietnam change the sourcing landscape for the Pacific Rim."

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Changing Trade Patterns and Asia's Rising Importance

With Asia's rising importance, logistics businesses are also shifting their focus increasingly towards the East. Trade patterns are changing due to the expansion of manufacturing and increased domestic consumption from the growing middle class in Asia.

According to Damco, there has been an increase in cross-border trucking between Vietnam and neighbouring countries as a consequence of growing trade within and outside of ASEAN. For example, Damco has experienced 37% growth in trucking volumes between Vietnam and Cambodia over the past 2 years. These volumes are expected to only increase as the intra-Asia economy continues to integrate.

On the shipping front, intra-Asian routes represent the fastest growing container trade market in the world and within that, Vietnam has one of the highest growth rates for the intra-Asia export trade. MCC Transport is a significant player in the Vietnam-Intra-Asia market.

"Asia is a hotbed of opportunity with GDP growth out-pacing the rest of the world and FDI increasing year-over-year," said Albert Van Rensburg, Country Manager of MCC Transport, Vietnam & Cambodia. "Over the past two years, MCC Transport has doubled its market share in Vietnam, and grew its volumes by more than 60% in 2012. We achieved this by offering a wide service network and maintaining our focus on reliability.

"The ever increasing competition and service offerings in the Intra-Asia trade has seen freight rates plummeting; hence our main challenge is how to run our shipping services profitably. Our aim is to build our future growth and success on the foundation of being a reliable partner to our customers."

Ms. Bich pointed out, "Although the majority of Vietnam's exports go to Europe, US and other Asian countries, due to the global crisis, Europe and US trade is facing slowed growth between 0-5 %. With this, the Vietnamese exporters are forced to divert more of their products to other markets such as Japan, Korea, China, Latin America and Africa."

Maersk Line's key commodities are aligned with Vietnam's key export commodities such as garments, footwear, furniture, seafood, coffee and electronics. Meanwhile, top imports are raw materials, mainly from within Asia, for the production of footwear and textiles, along with electronic components, computers and machinery.

In terms of Maersk Line's long-term growth opportunities, Ms. Bich feels that trade between the Asia-Pacific bloc will increase with the preferential tax scheme for TPP members.

Total Value of Exports & Imports and Growth Rate of Vietnam by Continent/Market in the first 9 months of 2013

	Export			Import		
Continent/ Market	**Value (Mil. USD)**	**Annual Change (%)**	**Share (%)**	**Value (Mil. USD)**	**Annual Change (%)**	**Share (%)**
Asia	**50,162**	**11.3**	**52.1**	**78,754**	**17.1**	**81.8**
ASEAN	*13,718*	*11.1*	*14.2*	*15,849*	*2.6*	*16.5*
China	*9,498*	*2.5*	*9.9*	*26,748*	*28.9*	*27.8*
Korea	*4,782*	*18.4*	*5.0*	*15,138*	*35.0*	*15.7*
Japan	*9,865*	*1.4*	*10.2*	*8,449*	*-2.1*	*8.8*
Europe	**20,608**	**24.4**	**21.4**	**8,484**	**9.7**	**8.8**
EU(27)	*17,805*	*24.7*	*18.5*	*7,001*	*10.6*	*7.3*
Oceania	**2,655**	**9.6**	**2.8**	**1,468**	**-13.1**	**1.5**
America	**20,660**	**18.8**	**21.5**	**6,539**	**6.9**	**6.8**
USA	*17,141*	*17.7*	*17.8*	*3,883*	*6.2*	*4.0*
Africa	**2,118**	**12.4**	**2.3**	**1,016**	**24.8**	**1.1**
Total	**96,273**	**15.5**	**100**	**96,260**	**15.1**	**100**

Source: Vietnam Customs

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Vietnam's Port Challenges

Deep water ports face over-capacity, but terminal operator CMIT remains optimistic of a pick-up with the TPP agreement, the cascading of larger vessels, and Vietnam's organic growth.

Vietnam's deep-water port industry has been grappling with the challenge of overcapacity due to the significant flooding of investment into the sector in the mid-2000s.

The Cai Mep International Terminal (CMIT), the closest deep-water port to the manufacturing zones of southern Vietnam and the open seas, presently finds itself in a market that is operating at around 30% utilisation (two million TEU [twenty foot equivalent unit] moves a year), well below its six million TEU capacity. This compares poorly to terminals in Europe and North America where such utilisation rates are typically well into the 80% and 90% figures.

The market is currently plagued by an imbalance in supply and demand. Within the Government's Port Master Plan, the intention was and remains to close some of the inner city terminals of HCMC, and move the shipping services from these, to the newly constructed deep-water coastal ports.

As it stands, the deep water ports are operating with unsustainably low container volumes. Yet at the same time, the shallow inner city ports continue to operate, only adding to the challenge of an over-supplied market.

Due to this over-supply and low utilisation, unsustainable pressure was exerted on the pricing for all terminal operators. The Vietnamese government therefore stepped in to impose a price floor rate of US$46 per 20 foot container move.

"The price intervention from the Government was necessary in order to safeguard the whole terminal industry, since the low charges were reaching dangerous levels. Naturally, shipping line customers voiced concerns as their costs have increased compared to the past, but we are working with them to ensure they understand the rationale for this decision," said Mr. Robert Hambleton.

Vietnam's need for ports will grow accordingly with the country's organic growth and trade pacts such as the TPP will serve to accelerate the process. Within the shipping industry, larger vessels are entering the market, causing a cascading effect throughout all trade lanes. This means that the size of ships calling in Vietnam is likely to increase, allowing the deep-water port of CMIT to benefit, since it is not only already operational and in place, but it is also well positioned to cater for these larger vessels.

"CMIT is a long term investor in Vietnam, and most importantly, it is a long term believer in the growth potential of Vietnam. We expect that the over-capacity challenge will improve over a period of time, along with the country's growth and the cascading of larger vessels," concluded Mr. Hambleton.

About A.P. Moller-Maersk Group:

The Denmark-based Group consists of a collection of companies operating within two main industries of shipping and energy. The group generated USD 59bn in revenue in 2012, and currently employs 121,000 employees worldwide, with 2,950 in Southeast Asia, of which about 500 are in Vietnam. The A.P. Moller - Maersk Group established its first representative office in Ho Chi Minh City in 1991. There are now four different business units under Maersk Vietnam Ltd: Maersk Line is the world's largest container carrier, Damco is one of the world's leading logistics provider, MCC Transport is an intra-Asia container carrier, and Safmarine is a container carrier specialised in African trades.

Latest global financial results - Third Quarter Earnings for 2013

The A.P. Moller - Maersk Group delivered a USD 1.2bn profit for Q3 2013 versus USD 934m profit during the same period a year earlier. ROIC for Q3 2013 was 9.5% versus 8.4%. Increased profits were achieved across all businesses except Maersk Oil and Damco. Improvements were seen in particular in Maersk Line, APM Terminals and Maersk Drilling. The Group revises its expected result for 2013 to around USD 3.5bn from previously around USD 3.3bn. Excluding impairment losses and divestment gains, the net result is now expected to be around USD 3.7bn from previously around USD 3.5bn.

About Maersk Line

Maersk Line is the leading liner shipping company in the world with employees in 325 offices across 125 countries, and a fleet of around 600 vessels along with 3.4 million TEU containers. Maersk Line offers the most reliable feeder and mother vessel network between Vietnam, Cambodia and the world, including direct service from Vung Tau to Los Angeles within 18 days.

About Damco

Damco is one of the world's leading providers of freight forwarding and supply chain management services. It employs 11,300 people in more than 300 offices around the world, managing more than 2.7 million TEU of ocean freight and supply chain management volumes, and more than 210,000 tonnes of air freight worldwide. Damco is also the leading logistics provider in Vietnam.

About MCC Transport

MCC Transport is an intra–Asia carrier handling all containerised cargo movements in the region for the A.P. Moller – Maersk Group. Operating around 60 vessels, ranging from 600 TEU to 3,000 TEU, MCC Transport offers an extensive feeder network in 14 countries throughout Asia, and has doubled its market share in Vietnam over the past two years.

About CMIT

Cai Mep International Terminal Co. Ltd. (CMIT) was established on January 26, 2007 as a joint venture between the Vietnam-based Saigon Port, Vietnam National Shipping Lines and APM Terminals BV. CMIT is located strategically in Ba Ria-Vung Tau province. The container terminal facility offers shipping lines and their clients fast and direct access to and from the main shipping markets in Asia, Europe and the Americas.

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