

Initiatives for Developing Hanshin Port as a “Strategic International Container Port”

1. Introduction

Amid rising international competition with Asian ports such as Busan, the Ministry of Land, Infrastructure, Transport and Tourism decided to select “Strategic International Container Ports” to increase the competitive edge of Japanese container ports through “selection” and “concentration.” The Ministry’s “Strategic International Container Port Review Committee” presented the selection criteria and invited applications from port administrators.

The six entities of Osaka City, Kobe City, Osaka Prefecture, Hyogo Prefecture, Osaka Port Corporation and Kobe Port Terminal Corporation jointly applied for the Strategic International Container Port status of Hanshin Port, submitting a schedule of proposed goal-achieving measures including the following to the committee:

- Attract cargo by improving domestic feeder services (*1) and other functions
- Create cargo by attracting new businesses to the area
- Establish an entity for managing Hanshin port container terminals in an integrated manner and with a private-sector approach

The establishment of a “Comprehensive Special Zone for the Strategic International Container Port of Hanshin” for comprehensively implementing these initiatives was also proposed.

Upon consideration of the proposals from Hanshin Port and other candidates, the committee selected Hanshin Port and Keihin Port as Strategic International Container Ports in August 2010.

We believe Hanshin Port was selected on the merits of its strong international distribution capabilities, rigorous efforts to privatize its operations, and the feasibility of its proposed plans, which include the development of new domestic feeder services. The following pages introduce the initiatives underway at Hanshin Port.

(*1) Domestic feeder services: Coastal transportation services between oceangoing ships’ ports of call and other ports where the ships do not stop.

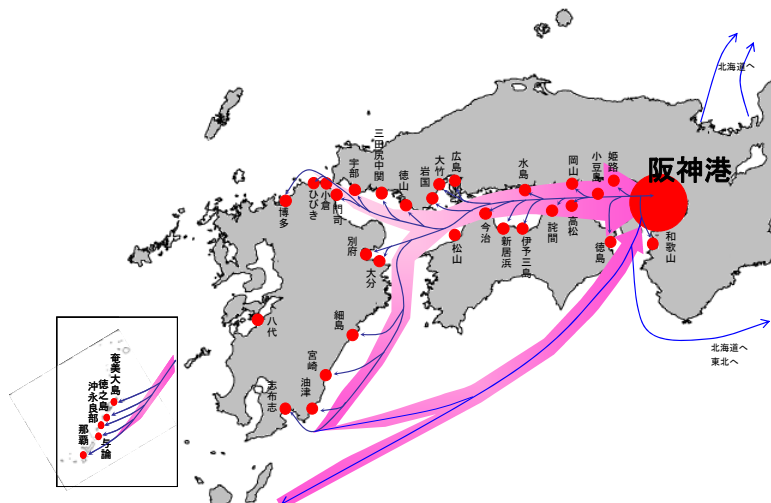


Fig. 1 Coastal service network connecting Hanshin Port and Western Japan

2. Current Situation of Hanshin Port

Hanshin Port comprises trunk-line services, domestic feeder services that connect to these trunk lines, and extensive ferry networks. (Fig. 1) The port functions as a transit hub handling mainly import and export container cargo to and from Europe and North America. As the port is located in a major consumer market it also serves many coastal lines, with large throughputs of import container cargo from China and Southeast Asia.

Hanshin Port supports not only the economy of the Kansai region but also that of Western Japan, and has strong economic ties with Asia. According to the 2009 economic white paper of the Kansai region issued by the Kansai Institute for Social and Economic Research, exports to China and Asia accounted for approximately 60 % of the export value of the Kinki region, where Hanshin Port is located. The share is greater than Chubu region's 30 % (approx.) or Kanto region's 50 % (approx.). The port is therefore well-positioned to bring in further business opportunities from the fast-growing Asian economies.

The Osaka Bay area is also one of Japan's major centers for next-generation and high technology industries. Sometimes called "Panel Bay" or "Green Bay," the rapidly-developing area hosts production facilities for liquid-crystal panels, plasma display panels, solar cells, and lithium-ion batteries. Japanese companies manufacture 60 to 70 % of the world's lithium-ion batteries, 80 % of which comes from the Kansai region. Similarly, Japan produces 25 % of the world's solar cells, of which 70 % are produced in the Kansai region.

3. Two Strategic Ports

As "Strategic International Container Ports," Hanshin Port, supporting the Western Japan economic area, which – with a population of 60 million and a GDP of 234 trillion yen – accounts for roughly half the Japanese economy, and Keihin Port, which likewise supports the Eastern Japan economic area, are expected to play significant roles in strengthening the Japanese economy's international competitiveness. (Fig. 2)

4. Future Goals of Hanshin Port

As Western Japan's gateway port, Hanshin Port will provide services rivaling that of the major Asian ports and by doing so concentrate the international transshipment cargo currently handled by other Western Japanese regional ports, increase throughput, and expand trunk-line services.

Specific throughput goals are 4.9 million TEU by 2015 and 5.9 million TEU by 2020, of which domestic feeder cargo goals are 1.1 million TEU by 2015, and 1.3 million TEU by 2020.

At the same time, in response to the diversifying logistics needs of shippers, Hanshin Port will offer diverse, frequent and inexpensive international logistics services that will help attract environment-related industries to the Green Bay, and address shippers' supply chain management needs. Hanshin Port's main strategies are as follows:

Prefectures that produce or consume cargo handled at each port (foreign trade container throughput of 80,000 t or above)
 *Except Hyogo and Osaka for Keihin Port, and Tokyo and Saitama for Hanshin Port
 *Compiled from the survey report of the movement of Japan's exported and imported container freight in FY2008 (issued March 2009)

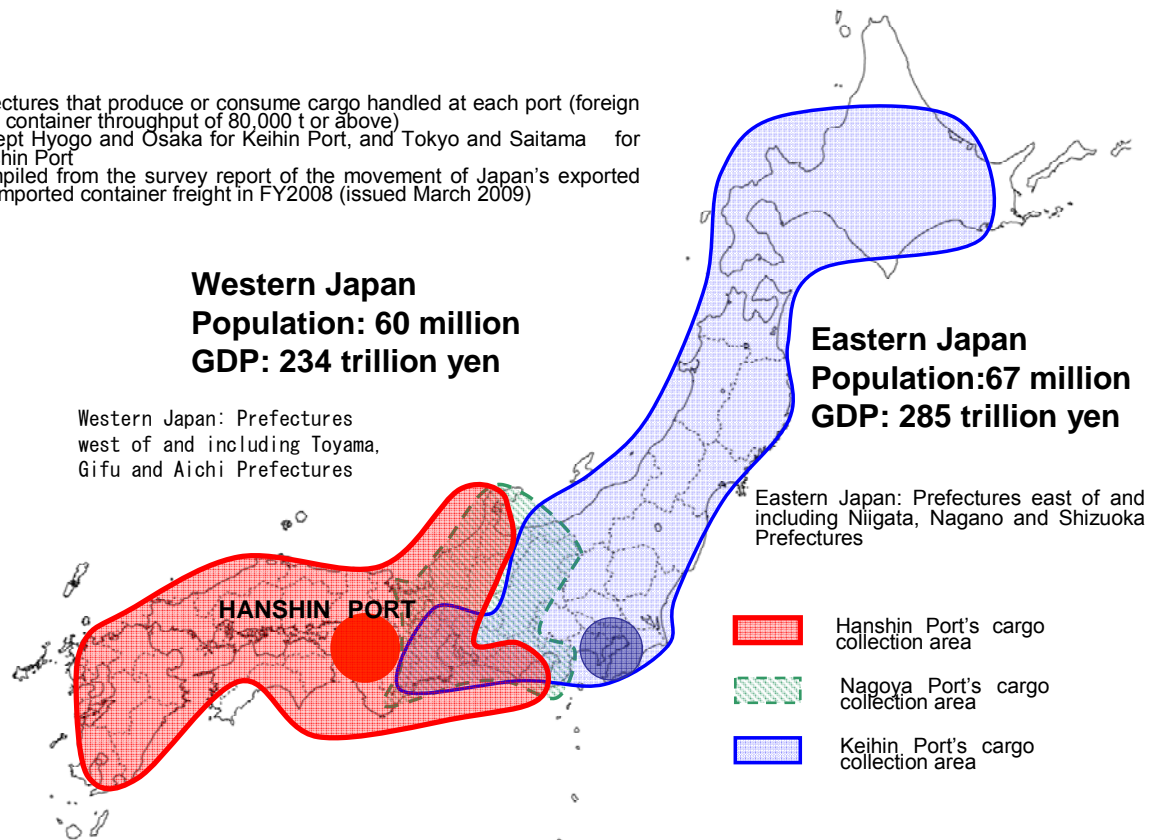


Fig. 2 Two strategic international ports supporting the Japanese economy

- To establish itself as a domestic hub, Hanshin Port will regain the freight currently shifting to Busan and other major Asian ports, improve cargo collection capabilities such as domestic feeder services, and concentrate Western Japan's cargo, including those in the Hokuriku region and the Japan Sea side of Chugoku region. Hanshin Port will also aim to gain transshipment cargo from East Asia to Europe and North America, which it currently handles very infrequently. Taking full advantage of Hanshin Port's geographical proximity to East Asia (Thai, Vietnam, Indonesia, etc.) and strong economic ties, efforts will be made to increase freight from these regions by coastal services.
- In 2011, to realize strategic and flexible terminal operations, the two public corporations of Osaka Port Corporation and Kobe Port Terminal Corporation will be made into joint-stock corporations, and the two will then be merged, ideally by 2015, pending improvement of their balance sheets. The established entity will manage Hanshin Port's container terminals in an integrated manner and with a private-sector approach, including financing through private-company equity participation, and the sharing of management responsibilities through recruiting personnel from the private sector.
- General measures to attract and create cargo include encouraging advanced and growing industries such as panels and batteries to establish facilities in the Osaka Bay area, and improving and expanding expressway networks to create a comprehensive logistics network in Western Japan.

- For Japan's two international hubs to coexist and co-prosper, and to maintain and expand trunk-line services that call at Japanese ports, Hanshin Port will in the future seek collaboration with the management of Keihin Port.

5. Cost Reduction for Maintaining and Strengthening Trunk-Line Services

1) Reduction of terminal costs

Port corporations have made independent efforts to reduce terminal the terminal management costs. But to lower terminal costs to Busan's level, it is necessary to make terminal lease fees internationally competitive through development by the public sector - especially state ownership like other Asian ports – and operation by the private sector.

80% or 14 of the berths at Hanshin Port are terminals built through what is called the “*kosha* system,” where a port development corporation undertakes the entire development from land filling and site preparation to construction of quays and buildings. As terminal lease fees are determined using the cost recovery system, they inevitably become inflexible and expensive compared to state-developed ports elsewhere in Asia.

Hanshin Port therefore seeks to achieve terminal cost reductions to rival Busan New Port by turning quays and wharf sites into public ownership, by selling off the port corporation's idle assets, and by promoting measures to attract cargo.

2) Support toward trunk-line services (harbor charges)

Since increasingly large vessels are serving trunk lines, Hanshin Port will reduce harbor charges by 2015 for large container vessels (40,000 GT or above) to support their operation. Specifically, by setting the upper limit of port charges at 40,000 GT, the port will encourage entrants to trunk-line services.

6. Attracting Cargo from Wide Areas for Maintaining and Expanding Trunk-Line Services

1) Improving domestic feeder and ferry services

Hanshin Port has been quick to adopt measures to improve domestic feeder services, such as the 50 % reduction of feeder crantage, and the implementation of a modal-shift support program. There have also been significant successes, such as Kobe Port regaining Western Japanese freight from Busan feeders as a result of a model project to strengthen domestic feeder service networks, undertaken as part of a government program to comprehensively reform container logistics through focus on “super hub ports.”

In the future, the port aims to reduce transportation costs and lead time by introducing larger domestic feeder vessels and more regular services. To do so, the port will work toward abolishing coastal shipping interim measures, will offer support to larger vessels, offer business launch support for converting to Hanshin Port, and waive harbor charges for domestic feeder vessels.

Hanshin Port handles cargo from the Setouchi region such as Chugoku and Shikoku, as well as from Kyushu, using domestic feeder services on the Seto Inland Sea. Since the inland sea is more placid than the open sea, with little interference from the weather, on-time operation is easier

to achieve even with small vessels. As such, Hanshin is the only port capable of developing a highly reliable scheduled domestic feeder network.

Specific developments include the launch of a preliminary company by Nishi Nippon Naiko Feeder Godo Gaisha, funded by Hanshin Port’s port transport companies and port transport companies in other regions. The company proper will be established shortly, and a business plan is currently being prepared to launch two domestic feeder vessels as early as next fiscal year to shift the cargo currently shipped to Busan from Setouchi, to Hanshin Port.

At Sakai-Senboku Port and Himeji Port, administered by Osaka and Hyogo Prefectures respectively, two prefectures that took part in Hanshin Port’s application for the “Strategic International Container Port” status, developments are also underway to promote the concentration of cargo to Hanshin Port using domestic feeders, etc.

2) Improvement of truck feeder services (inland port)

Hanshin Port will review the land transportation systems for international container cargo and work in partnership with private sector companies to build an inland port for collecting container cargo to the Hanshin area, whereby reducing shippers’ logistics costs and improving logistics efficiency.

Since the inland port will serve freight to and from the Kinki and Hokuriku regions, the Koto region of Shiga Prefecture such as the Ritto area is currently considered for its site based on its good transportation access.

The project launch will be helped by support offered toward development of the inland port and support toward land transportation costs between the inland port and Hanshin Port. If throughput grows in the future and achieves a good balance of exports and imports, it would become possible to transport containers both ways. This would reduce land transportation costs, leading to further concentration of cargo to Hanshin Port.

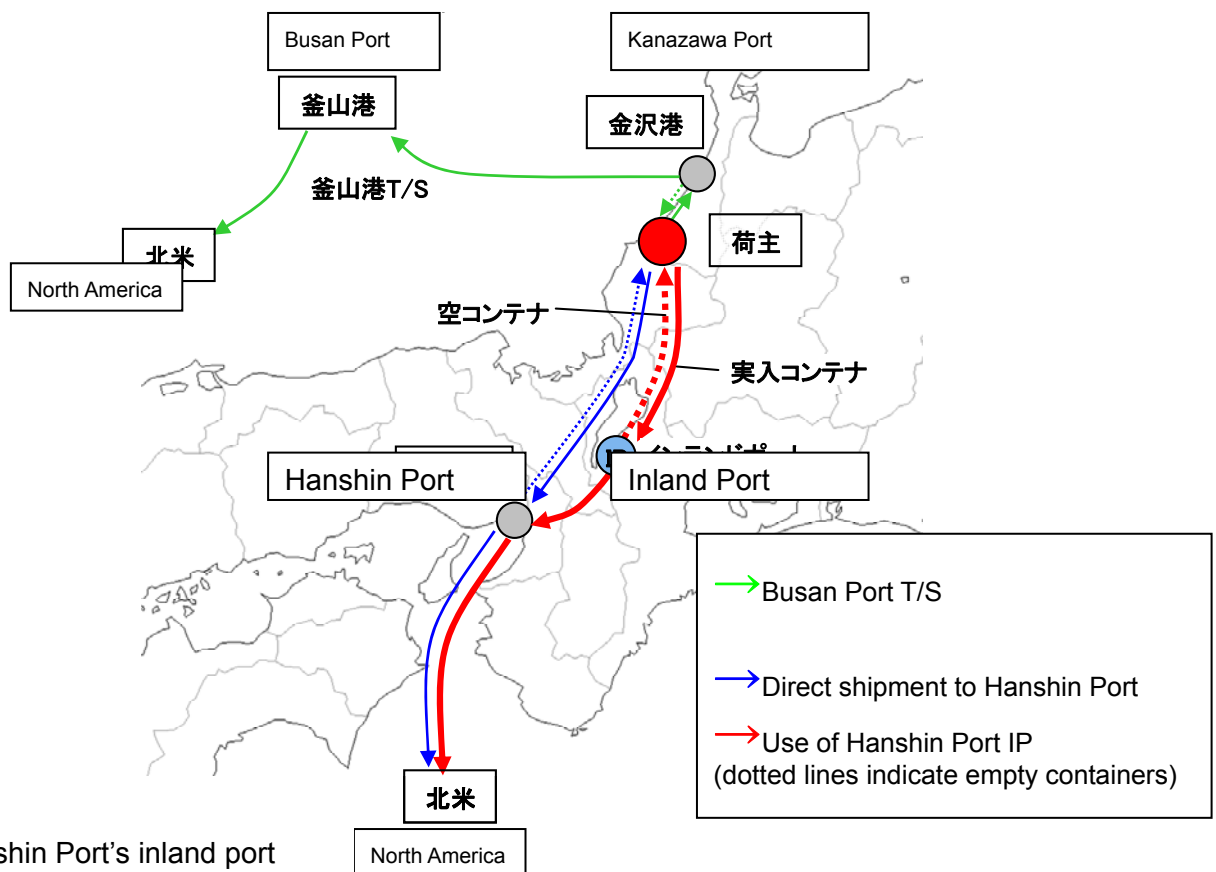


Fig. 3 Hanshin Port’s inland port

3) Improvement of rail feeder services

As another means of winning cargo over to Hanshin Port, plans are underway for a rail feeder serving the Hokuriku region. If not cheaper, rail emits the least CO2 compared to truck and sea, which makes it a valid option for the shipper.

A "Committee for Studying Measures to Promote Osaka Port's Sea and Rail Transport" was established, which implemented a model project involving the shipment of industrial products manufactured in the Tohoku region to Korea, using Japan Freight Railway services to transport the goods to Osaka Nanko Terminal.

4) Gaining transshipment cargo

Hanshin Port will work to gain transshipment freight from fast-growing economies such as Thailand and Vietnam, as well as Korea. Specific developments to realize this plan include a port seminar in August 2010, held jointly with Incheon Port in Incheon City, Korea, with which Hanshin Port has a sister port relationship.

7. Improvement of Shipper Services

Developments toward 24-hour operation (extended gate-open hours) include an extended gate-open hour model project, begun as early as 2007 at Kobe Port, and also implemented at Osaka Port since the end of 2009.

To extend gate-open hours permanently it is essential for users to share the cost appropriately. The port will aim, based on shippers sharing the usage charges, to continue the extended gate-open hours beyond the model project's conclusion in fiscal 2011. If concentration of cargo to Hanshin Port is accelerated through various efforts, 24-hour operation of the terminals would become necessary. Therefore, the port will aim for permanent implementation of extended gate-open hours by 2015, when the port is anticipated to achieve concentration of cargo to a certain degree. The port will also study possible incentives to terminals opening 24 hours.

8. Strategic Port Management

To effectively utilize private-sector know-how and capital, and to pursue flexible and efficient management, Hanshin Port will entrust the port management role to the joint-stock port corporations which will qualify as port management entities after the two public port corporations become joint-stock corporations in 2011. Looking to merge the two joint-stock port corporations by the goal date of 2015, Hanshin Port will work toward the integrated management of Hanshin Port's foreign trade container terminals.

9. Setup for Realizing Strategic Port Management

1) Organization

To build an organization capable of taking full advantage of private-sector perspectives, private-sector personnel will be recruited not only for top management but also for major posts in port sales (port promotion) that play important roles in achieving Hanshin Port's goal as a Strategic International Container Port. To learn know-how from foreign ports, Hanshin Port will recruit

personnel widely from Japan and abroad. The port will also actively recruit distinguished people who have valuable experiences in the private sector, to departments other than port sales where private-sector know-how can be advantageous.

2) Capital

In conjunction with the merger, the port will phase in private-sector investment to realize funding that is low cost and does not require reimbursement, and to realize efficient management. The port is looking to start accepting private-sector investment to the joint-stock port corporations prior to their anticipated merger in 2015. To pursue its intended privatized operations, the port is looking to raise the private-sector investment ratio as early as seen fit, rather than commit rigidly to the 50 % public-sector investment ratio, although appropriate capital requirements will be necessary.

10. Comprehensive Special Zone for the Strategic International Container Port of Hanshin

To comprehensively implement Hanshin Port’s strategies, to strategically increase international competitiveness in international logistics, and to strategically achieve economic growth, we are proposing to the government the designation of a “Comprehensive Special Zone for the Strategic International Container Port of Hanshin.” (Fig. 4)

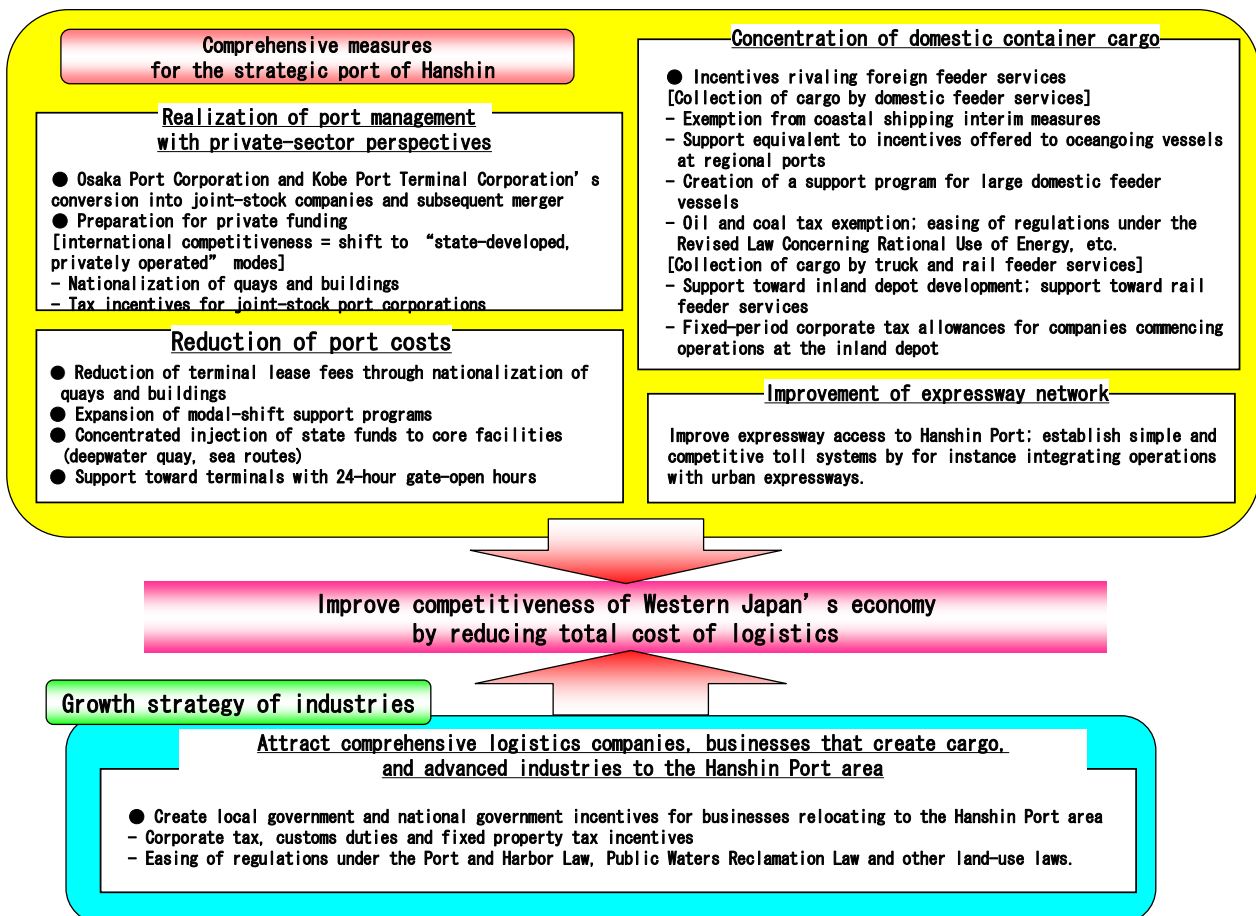


Fig. 4 Comprehensive Special Zone for the Strategic International Container Port of Hanshin