

Emerging Global Maritime trade trends and the impact on the Middle East region

5th May, 2015

Here we are – again...

Why it is relevant...

“The global maritime industry is the backbone of globalization and international trade, contributing to human wellbeing through growth and development all around the world.

*But if there is one overriding message from participants at the Forum, it is that there is a **need to raise public awareness of the importance and value of the maritime industry**”*

*From the DANISH MARITIME FORUM,
the Maritime Industry’s equivalent to the
Economic Forum’s Davos meeting,
Copenhagen 8-9 October 2014
(2015 dates 7-8 October)*

The maritime world is ever changing.
Selected Headlines from last week...

**SHIPS BANNED FROM CALLING
YEMEN**

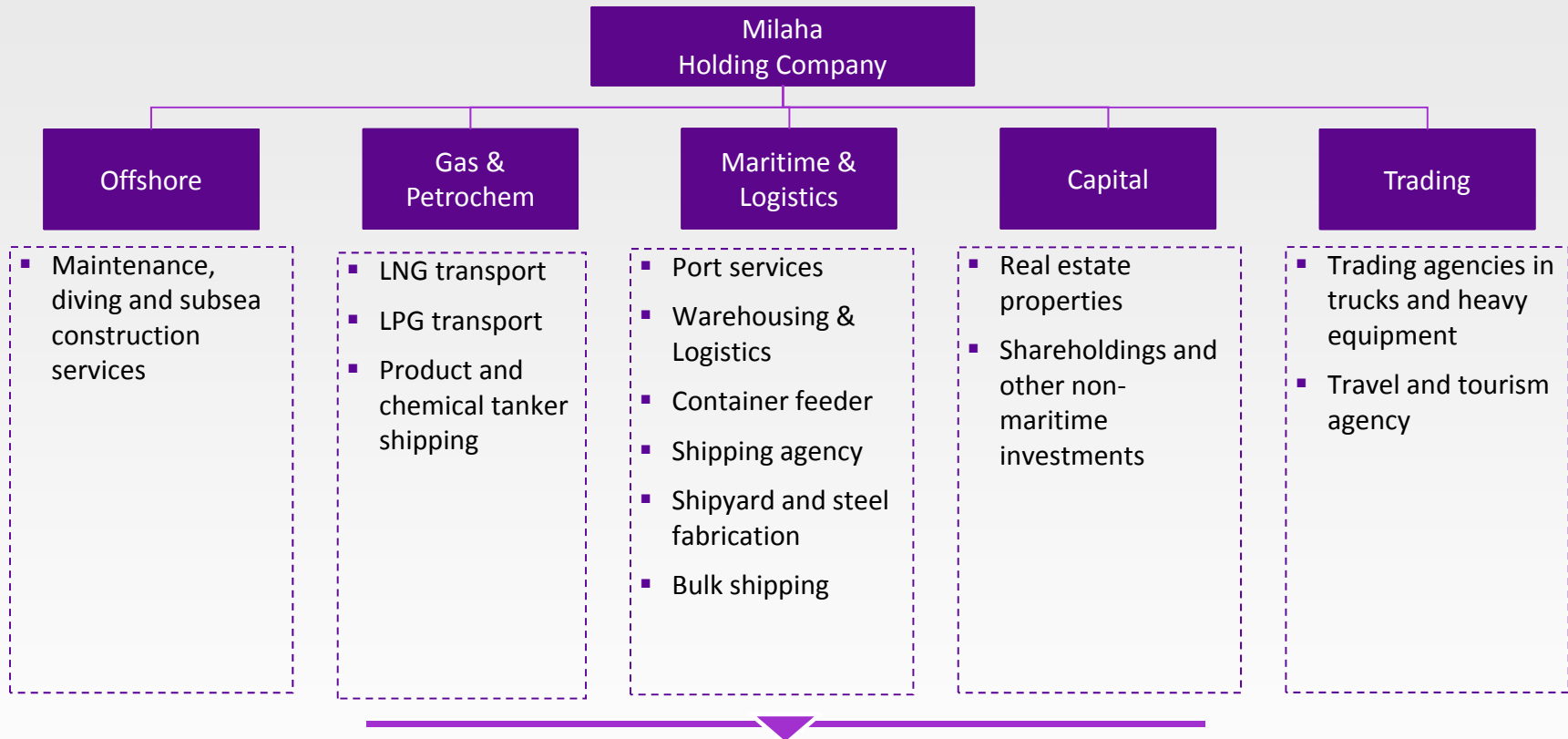
**BAHRI INKING DEAL FOR UP
TO 10 VLCCS WITH HYUNDAI
HEAVY**

**NEPTUNE BUYS VROON CAR
CARRIER DUO**

**IRAN SHIPPING SANCTIONS
COULD GO BY YEAR-END**

**SCANDAL OVER NEW CONTAINER
TERMINAL AT HAMBANTOTA**

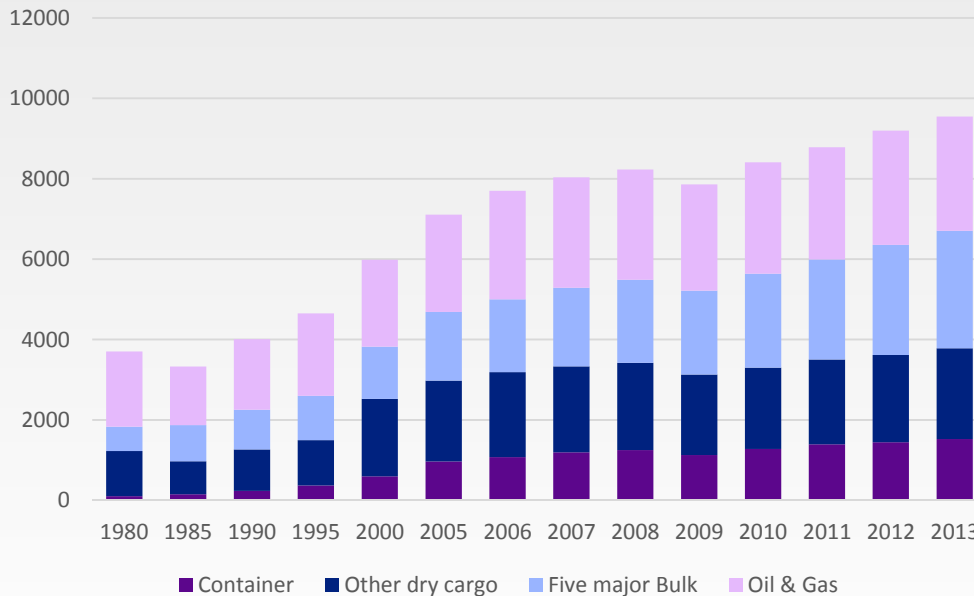
Milaha: From first registered Qatari company to a regional leader



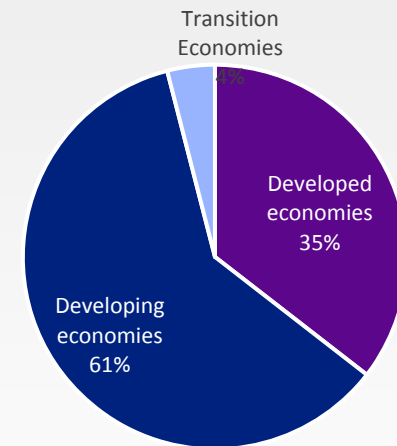
- Qatar's first commercial license holder and Qatar's oldest national shareholding company with the vast majority being Qatari private investors
- Formed from the merger of **Qatar Navigation, Qatar Shipping and Halul Offshore**
- Strong financial performance: FY 2014 net Income QAR 1.05 billion over revenue QAR 2.6 billion

Container and dry cargo volumes continue to support steady maritime trade growth

International Sea-borne trade (million-tonnes)



World Seaborne trade by country group



Source: UNCTAD Maritime Review 2014

Broad levers impacting maritime trade

Demography



- Global population is likely to be 8 billion by 2030, with 96% of growth coming from developing countries
- India will overtake China with the largest population and the largest labor force in the world

Resources



Asian majors to lead consumption in oil & steel consumption respectively by 2030

Disruptive Events



- Middle East unrest
- Drastic policy shifts
- Disruptive Technology
- Economic collapse

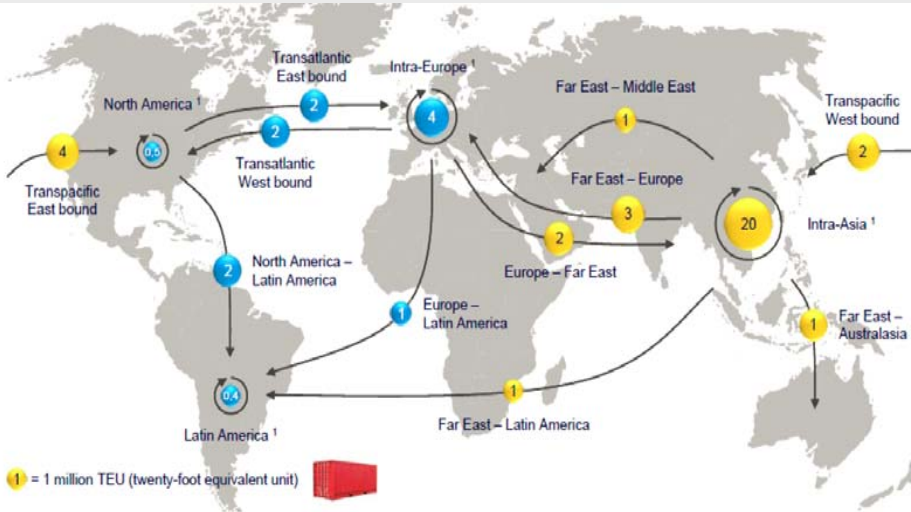
Economy



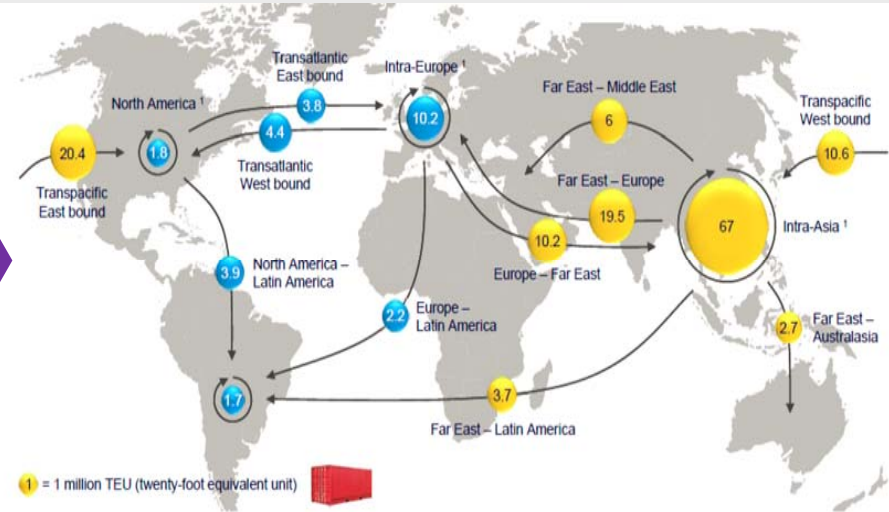
- Global GDP could grow three times within 20 years
- In 2030, the largest economies will be China, USA and India
- Countries with the largest growth in per capita GDP will be China, Vietnam, India and Indonesia
- Purchasing power in developing Asia will rise 8 times between 2010 and 2030

Shifting patterns of container trade

1995



2015



Source: Kuehne & Nagel

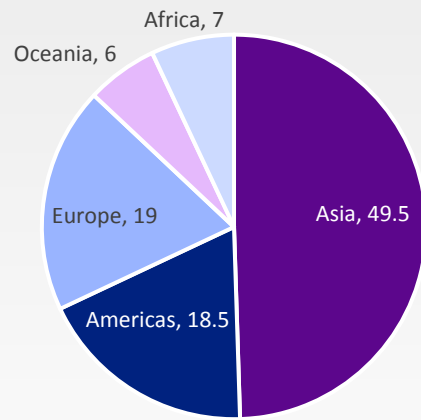
- Intra-region trade has increased by 6.6% in 2013, and has grown by more than 10% in 2014
- Highest intra-regional growth expected in Far East with strong Chinese demand for products from rapidly developing Asian economies such as Malaysia, Thailand and the Philippines
- Middle East and Far-East have continued to register steady growth over the last 5 years with a CAGR above 8% compared to long haul East- West routes which have grown at rates below 5% over the same period

But,

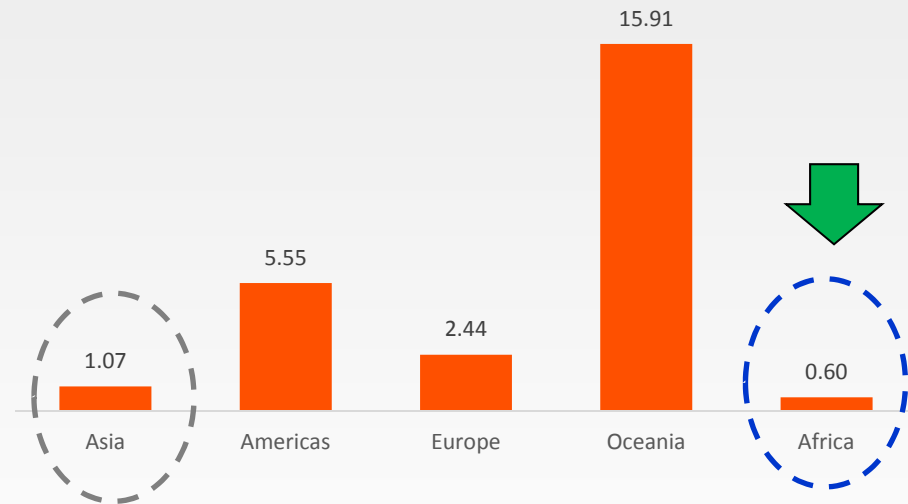
- Spending in logistics infrastructure for GCC is only around 2% of GDP compared to 8% for the US

While opportunities abound for Asian trade, growth of African trade can support growth of ME maritime hubs

Seaborne trade (% tons)



Seaborne trade (tons) per capita



Source: World Bank, UNCTAD

- Both Asian and African trade has huge upside potential
- Investments in robust supply-chain channels to Africa need to be optimized to cover the huge spread of consumption areas
- Middle East likely to be leveraged for transshipment of Asian and European boxes to Africa

Just one other example of positive changes for ME. Impact of the Suez Canal widening project



- A wider bunkering hub in middle east
- New regional mega logistics hub centering around Suez
- Reduced transit time posing a potential problem of adding to over-capacity woes?
- Impact of Instability brewing in Yemen?

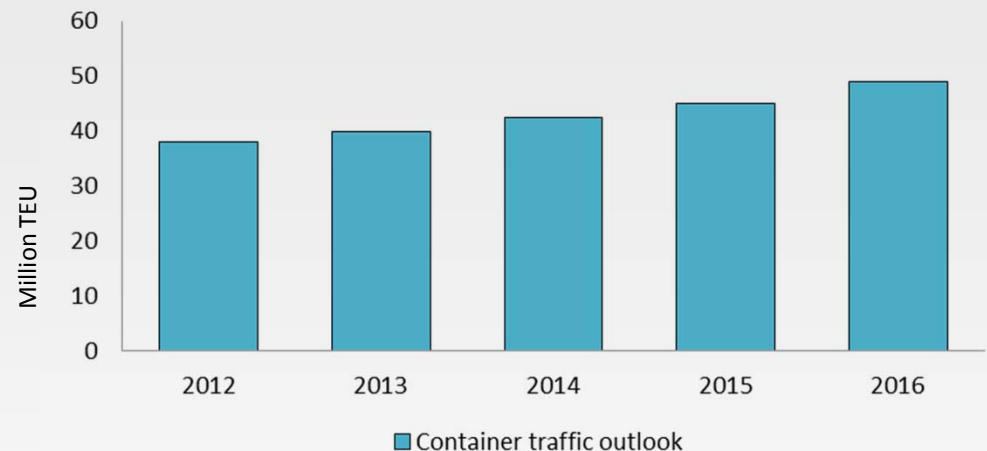
'It may prove – I think ultimately it will prove – that all Egyptian interests will profit immensely by the new channel between the Mediterranean and the Red Sea,'

*The Telegraph's special correspondent,
November 18, 1869*

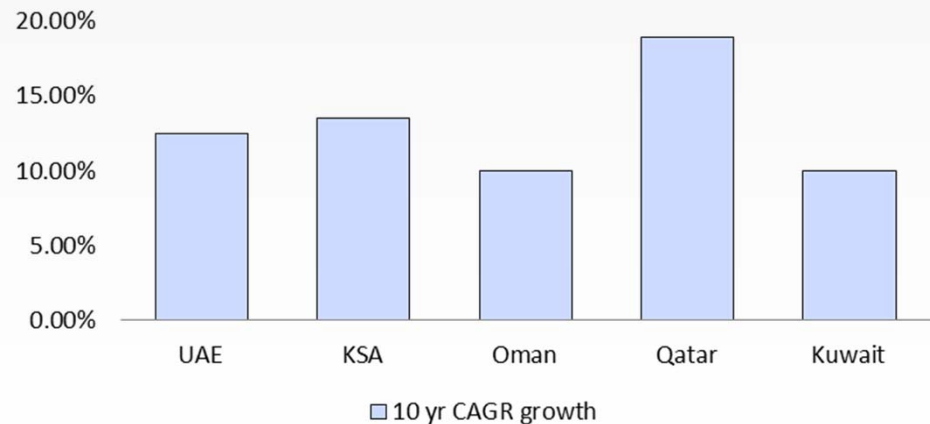
Middle East growth story proves its robustness and will support growth of container throughput

- Hydrocarbons export, with sustained oil price levels had supported consumption and diversification, but the future growth planning has to be more meticulous with the slump in oil prices which has put pressure on trade surpluses
- Asia - Middle East trade going to be the key catalyst but intra-regional trade may help absorb the cascading tonnages
- Volume growth may not justify the larger container vessels- as we see, alliances and slow steaming are definitive ways forward
- Shift of some bulk cargo to containers may impact both import and export containerized traffic
- Larger and more advanced ports will be in a position to handle larger vessels which may cascade down from the main haul routes

Container traffic projection for Middle East



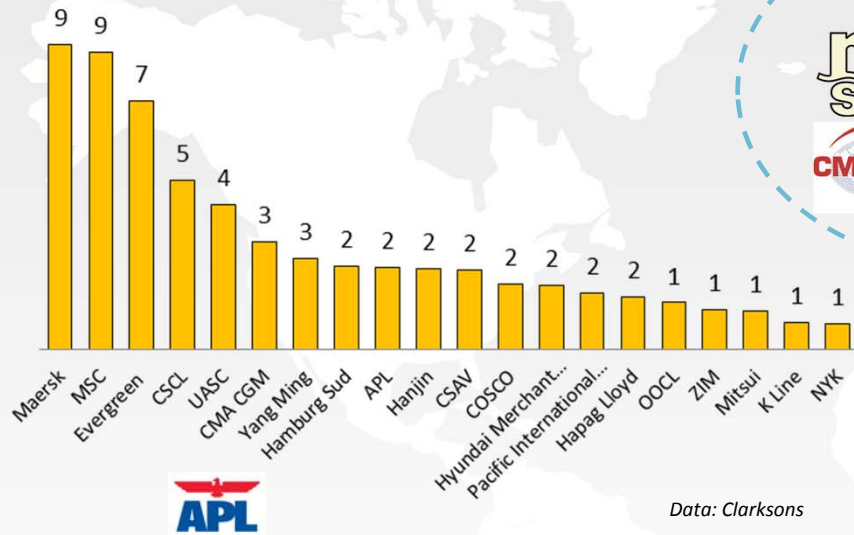
10 yr CAGR growth



Source: World Bank Data, IMF, Milaha, Drewry

Middle East's presence also in container shipping should be continuously evaluated/supported

Top 20 companies with container order books



Data: Clarksons



In US, 1 job in the maritime sector generates approximately 1.6 jobs, and sales of \$1 million in the maritime sector supports around 10 jobs

Notable developments in GCC Supply Chain landscape

Enhanced Connectivity

- Larger cargo networks and supporting infrastructure leading to newer markets and creation of new logistics hubs
- Largely linked to Governments' focus on economic diversification



Focus on Economies of Scale

- Influencing capacity ramp up capabilities of ports, new networks and re-location of transshipment hubs

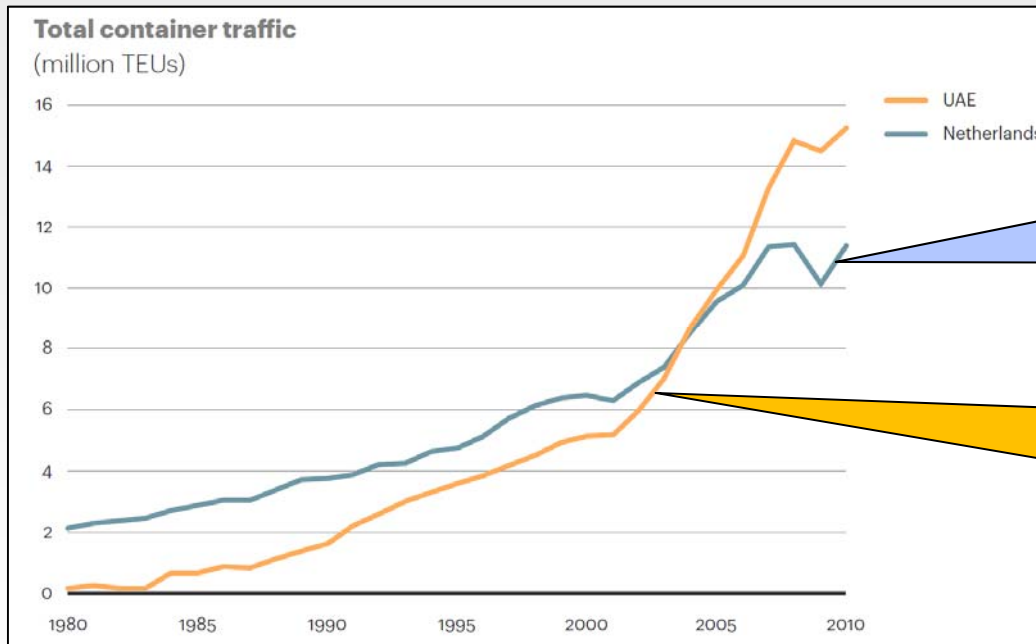


Omni channel capabilities

- Optimizing inventory through virtualization
- Flexible distribution strategies
- Enabling retailers to quickly locate and deliver inventory according to dynamic market demand



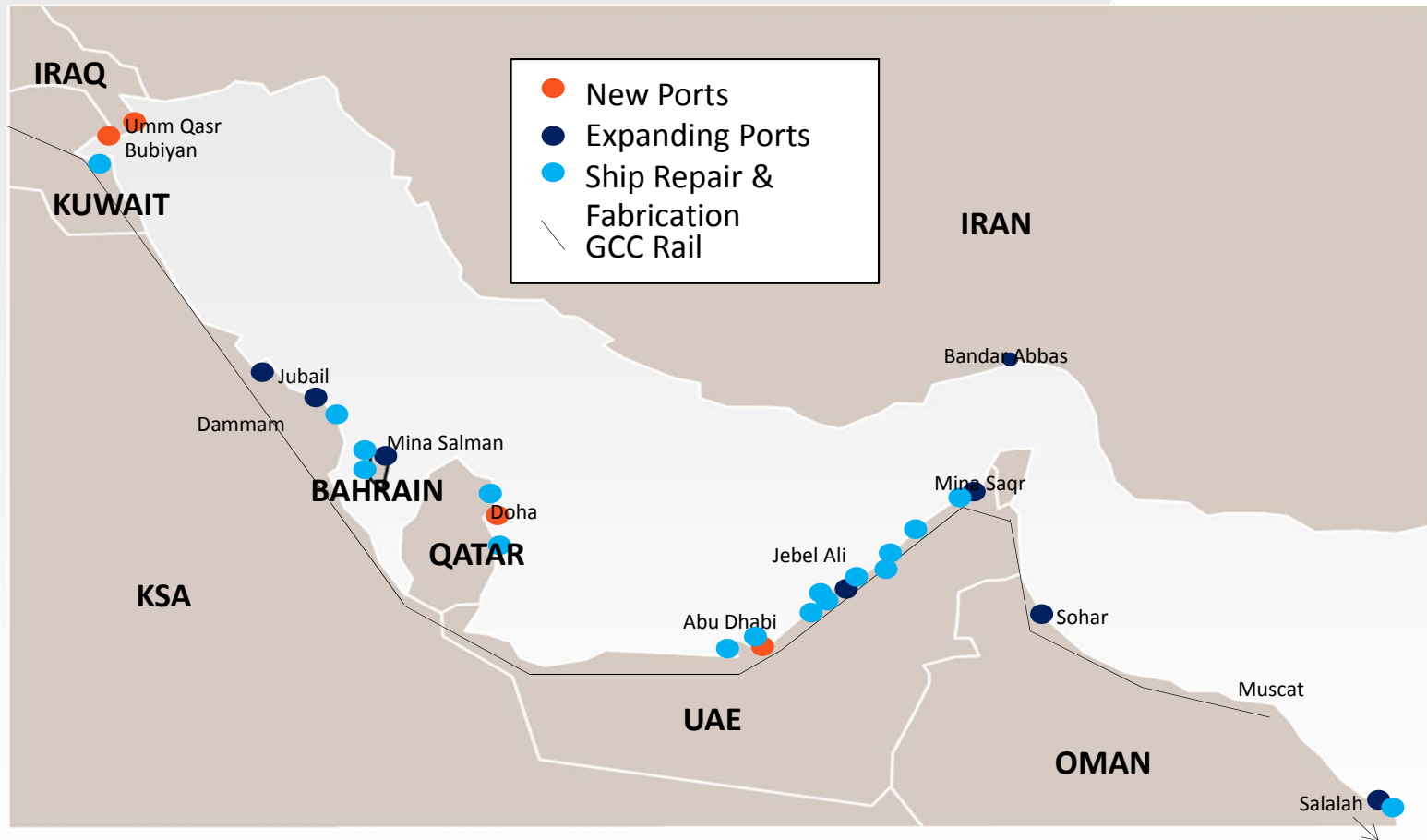
Led by Jebel Ali, ports in the Middle East are poised to experience hyper growth in throughputs



- Port of Rotterdam became the busiest port globally, in 1960
- It was established in the 14th century

- Jebel Ali Port started in 1980
- It surpassed Rotterdam in 2004-05 to be one of the world's busiest ports

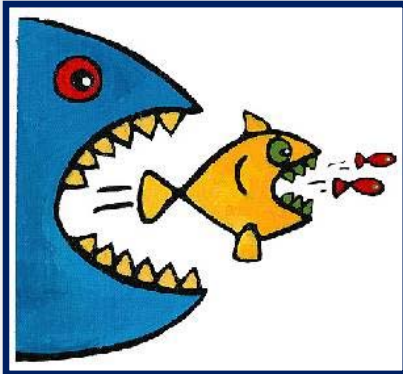
The ambitious ports landscape in GCC may face severe competition from one another



- 17 major port projects across GCC
- Over \$40 bn. to be invested and 10 million TEU capacity to be added by this year

Concerns with regional port developments

Cannibalization



Scale of expansion not in line with growth of gate-way cargo, and hence the projects seem to be planned with an eye on capturing transshipment containers

Price Wars



Current established ports will try to fend competition, and all things equal, may engage in tariff reduction, which may erode return from the project investments

Consolidation



Increasing consolidation perceived, not only with a few operators managing multiple ports in the region, but between companies within the logistics value chain so as to provide seamless services

Other concerns continue to be skilled labor shortage and political unrest, affecting project delays which in turn make a clear and stable picture of container throughput pattern more difficult to interpret.

Opportunities in pursuing efficiencies e.g. through customs and tariff alignments continue to exist.

What does it take to ‘Unleash the potential of the global maritime industry’?

“First, we must safeguard open markets for international shipping. At a time where global trade patterns are changing, this is fundamental for preserving easy distribution of food, goods and energy for the world’s population.

Secondly, we must put smart global regulations in place. We should set targets and conditions for the shipping industry and at the same time give business room and flexibility to come up with innovative and efficient solutions.

Thirdly, funds – both public and private – must be available to finance necessary development of infrastructure that will allow the maritime transport chain to function efficiently from factories to consumers.

Finally, we must ensure skilled people with the right competences to support the industry. The foundation for our success is our maritime workforce.”

Henrik Sass Larsen,
Minister of Business and Growth, Denmark
From the DANISH MARITIME FORUM, the
Maritime Industry’s equivalent to the Economic
Forum’s Davos meeting, Copenhagen 8-9
October 2014 (2015 dates 7-8 October)

Partly - in a Middle East context...

Robust nature of Middle East growth

- The Middle East growth story continues, but there is a need for orchestrated and unified execution of plans for establishment of maritime and logistics hub across the region
- Enabling growth through support of local companies across the value chain will assist sustainable economic growth in our region

Struggle for “right” talent

- Recruiting the required and “right” capabilities at the right price is a continuous journey
- Recruiting and developing local talent responsibly must increase
- Local value propositions to retain outside talent to be further considered

Regional instability blocking clear vision

- Stability in the region will provide a true picture of the demand – supply story in the region
- The fundamentals for a larger consumption base is there
- Further potential remains to make the region even more attractive to investments for developing trade routes and logistics networks

Investing in shipping has never been for those weak at heart, but in the midst of continued challenges – this is not the time to reduce investments – on the contrary...

Thank You