

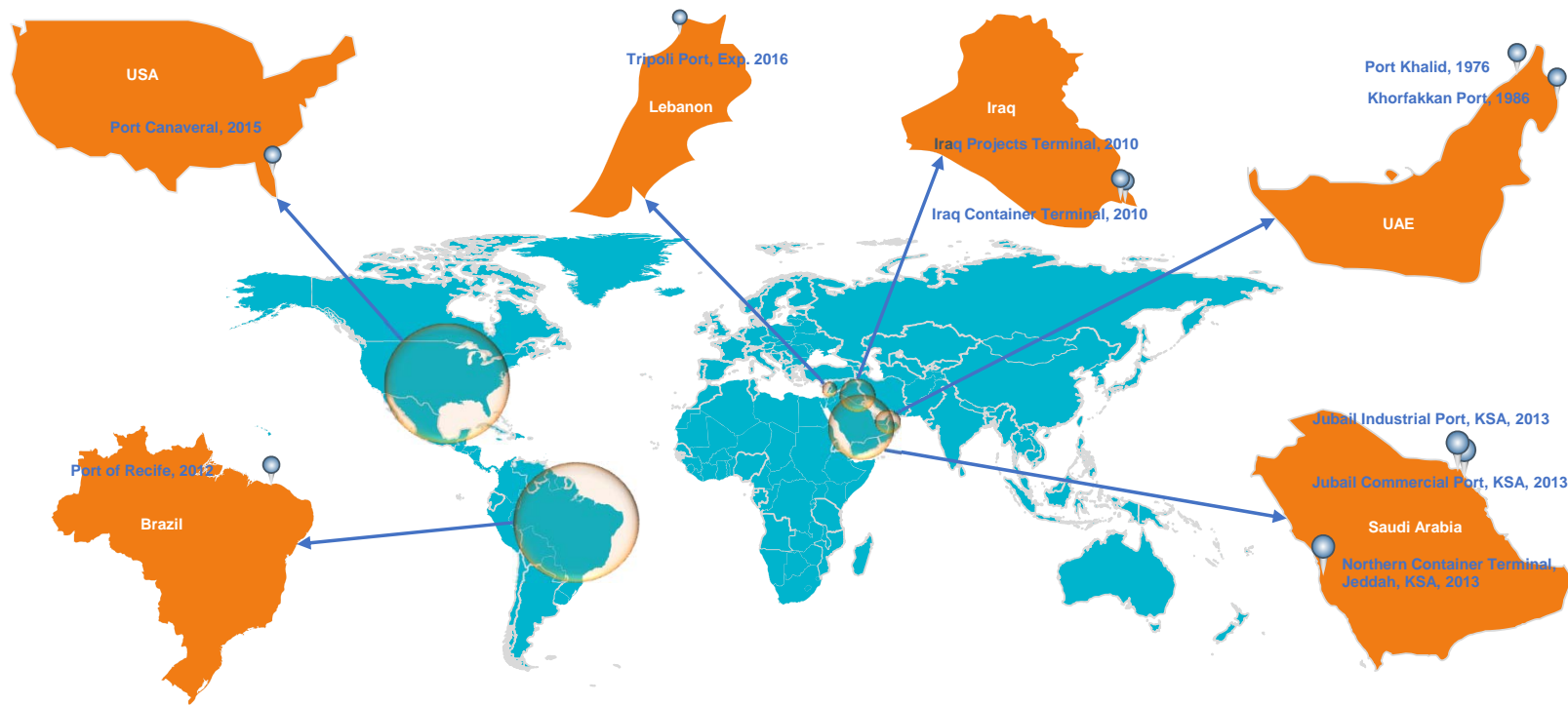
**Improving port operations and ensuring
balanced economic growth**



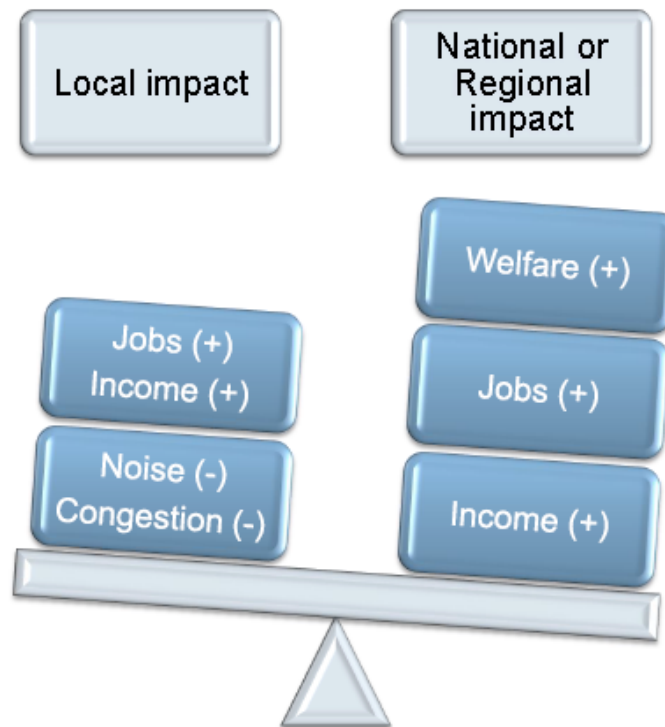
Partnering progress....

Iain Rawlinson
Group Commercial Director
Gulftainer

Gulftainer's Terminal Portfolio



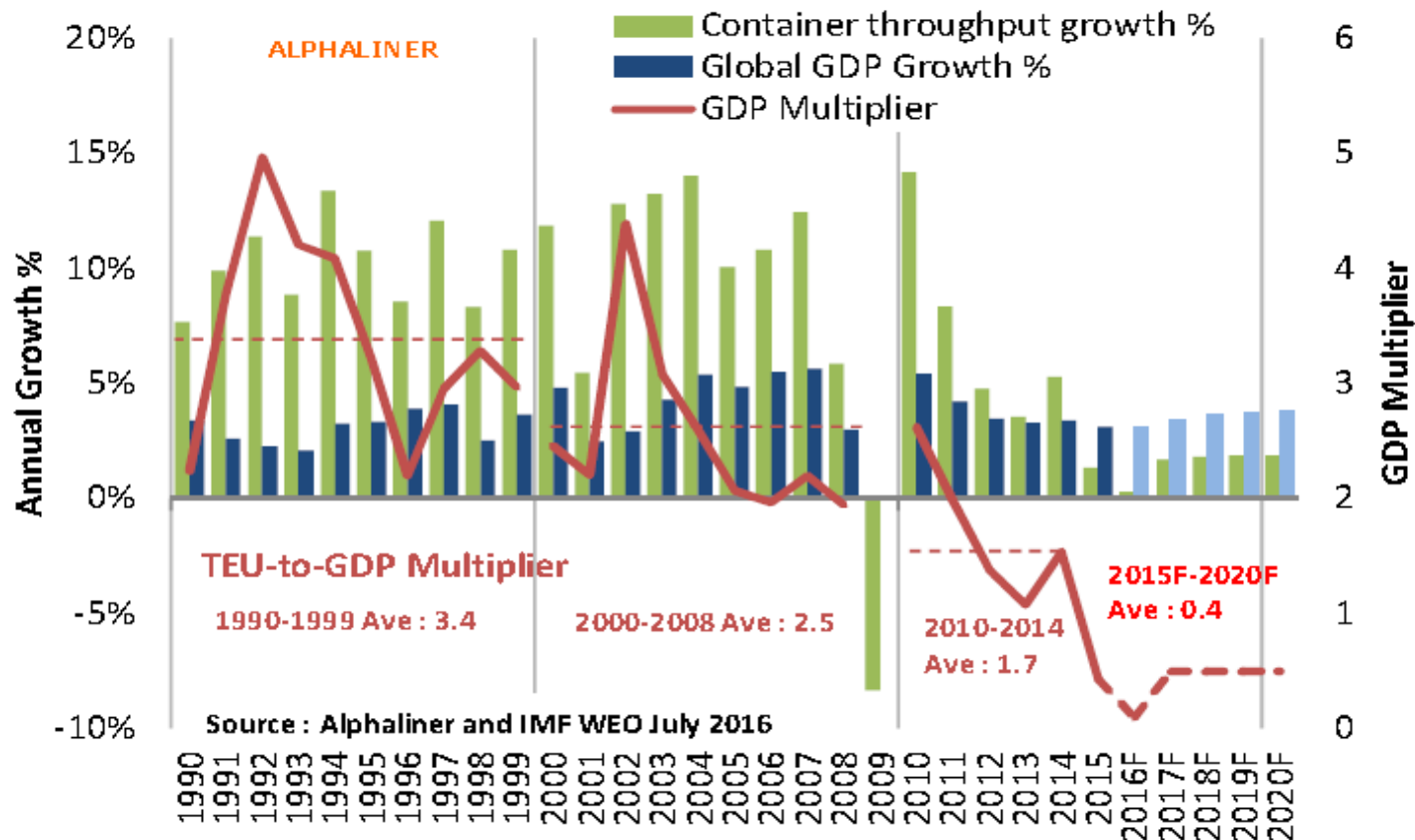
The benefits of port operations supporting the local, regional and global economies are there to see



...the industry in itself is struggling...



Global Container Throughput vs GDP Growth (TEU-to-GDP Multiplier)



Why is this happening? What is changing?

Dramatic changes occurred in a relatively short period of time



What is changing?

- **In the economy:**
 - Lower economic growth
 - Relocation of production
- **In maritime transport:**
- **New normal of seaborne trade (lower growth)**
 - Ships' size
 - Containerization
 - Transhipment
- **In the industrial organization of transport industry:**
 - Cooperation: Strategic Alliances, M&As, vertical integration
 - Development of dry ports and inland terminals
 - Control of intermodal and logistic cycles, logistics outsourcing

Changes affecting the port sector

- **Port operations become:**
 - more capital intensive
 - labour saving
 - space consuming
- **In port market:**
 - more competition between ports, lower tariffs and lower port times (pressures from liners)
 - risk of overcapacity
 - decreases in terminal operator's surpluses and increases in demand from liners

Changes impacting ports

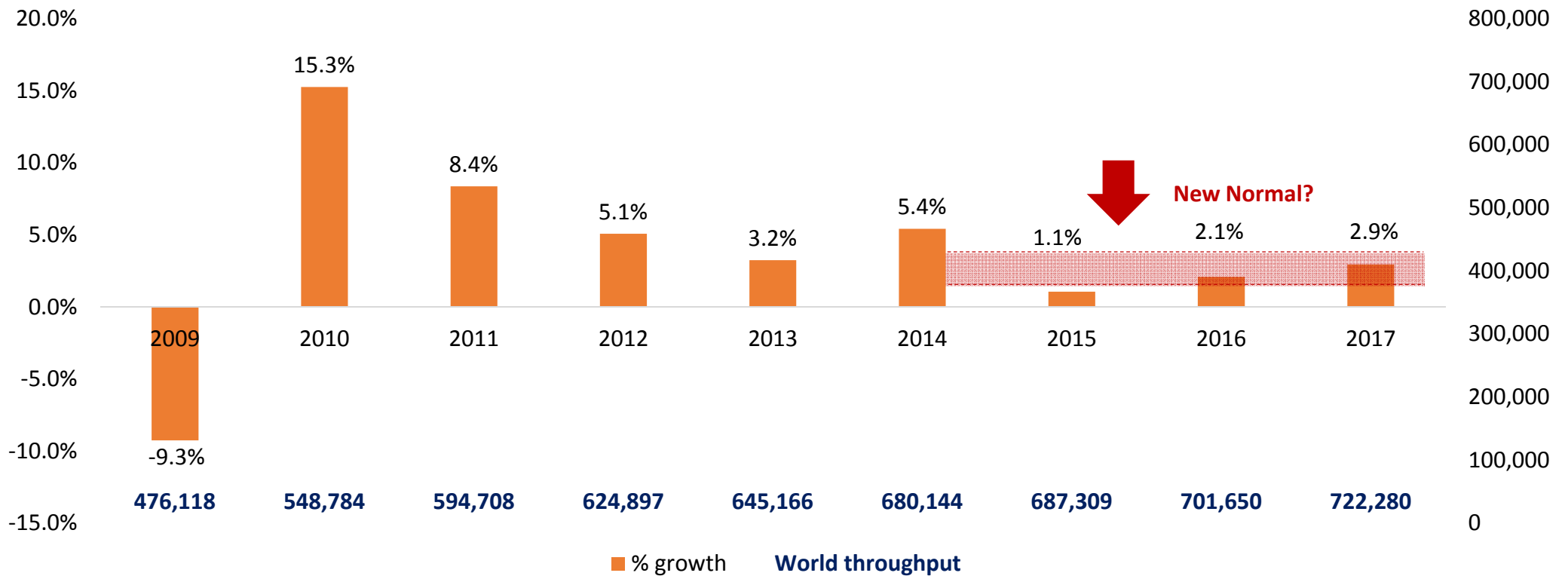
- Dramatic increase/ decrease of port throughput, mainly in the containerized sector
- (consequently) increasing demand for new port areas or overcapacity depending on the region
- Focus on the effectiveness of transport infrastructure in moving cargo to/from the port from/to the hinterland or from/to the inland terminals (or dry ports)

Why is this happening? What is changing?

Problems concerning Shipping Industry at large – Adapting to the new "New Normal"



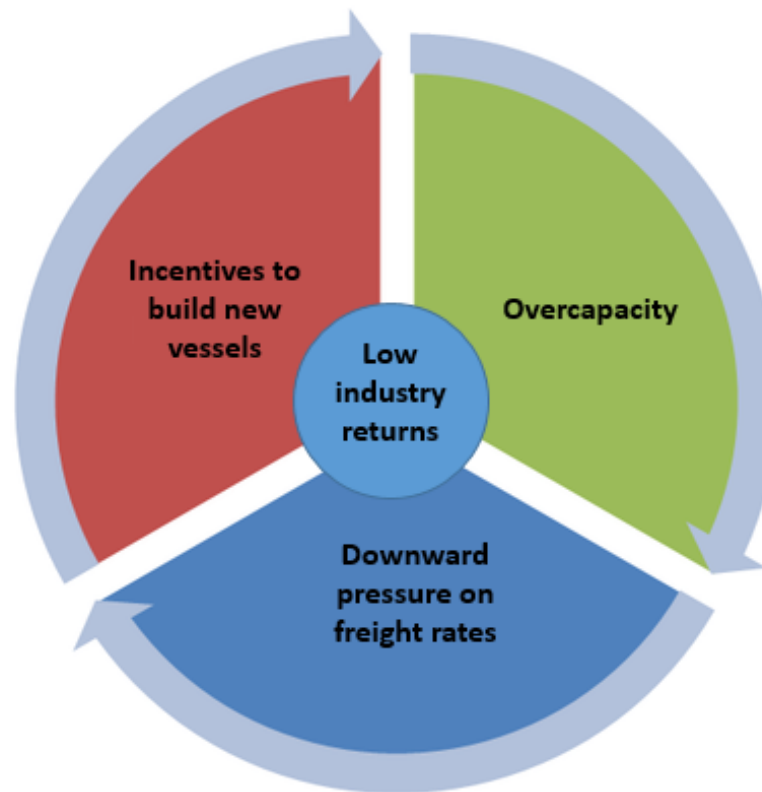
World Container Throughput (TEUs-Right axis) and Growth (%-Left axis)



Ports have become a party to liners' vicious cycle

Carriers are trapped in a vicious cycle

- ✓ **Demand misperception**
 - New building orders do not reflect actual demand
- **More competitive fleet**
 - Greater scale
 - Higher fuel efficiency
 - Lower costs
- **Available financing**
 - New sources of capital
- **Low newbuilding prices**
 - Available yard capacity
 - Chinese capabilities improving



✓ Can be addressed by individual liners

- ✓ **Reluctance to adjust capacity**
 - Idling cost
 - Lower charter rates
- **High barriers to exit**
 - Large book losses
 - Nonfinancial interests

- ✓ **Low-pricing discipline**
 - Each carrier – A price taker
- **Commoditization**
 - Price – The main differentiator
 - Low switching costs
- **Inelastic demand**
 - Total demand – not adjusting to price changes

Are the lines really coping with the slowdown?

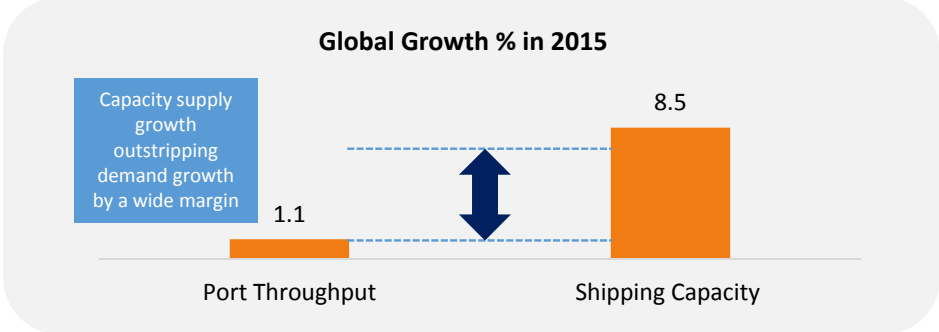


Trying to reduce costs...

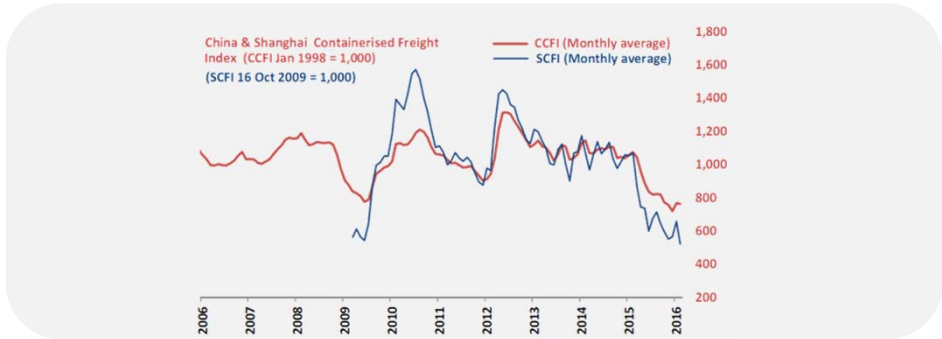
- Withdrawing capacity
- New vessel-sharing agreement
- Improving vessel utilization
- Consolidation
- Vessel network efficiencies
- Reducing the fuel usage



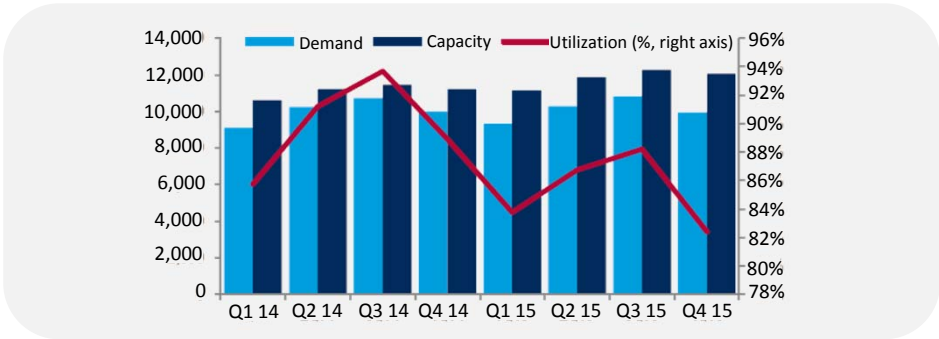
But capacity growing much faster than the volumes....



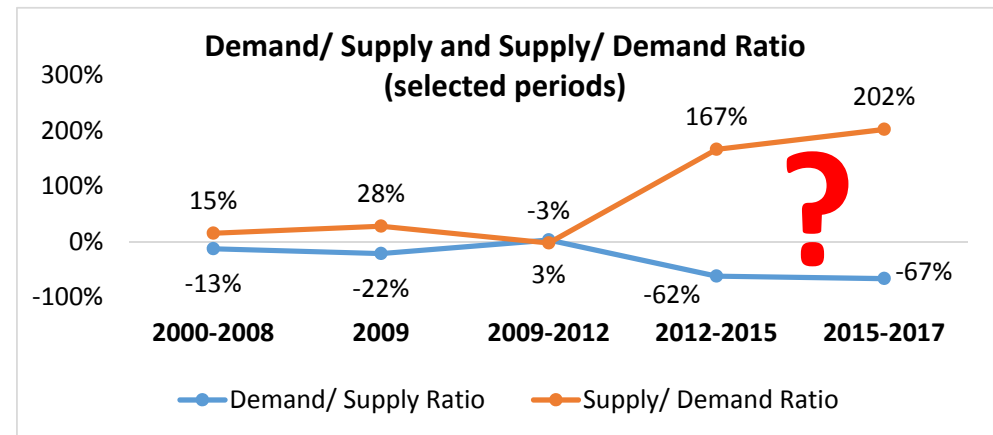
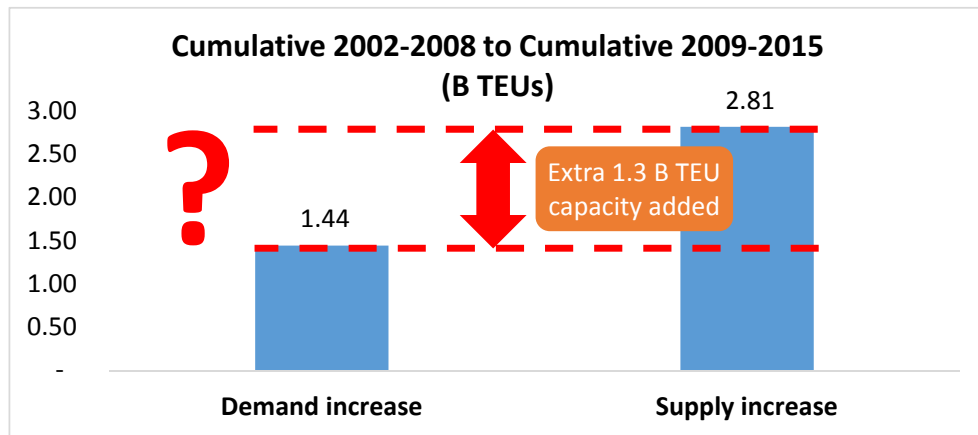
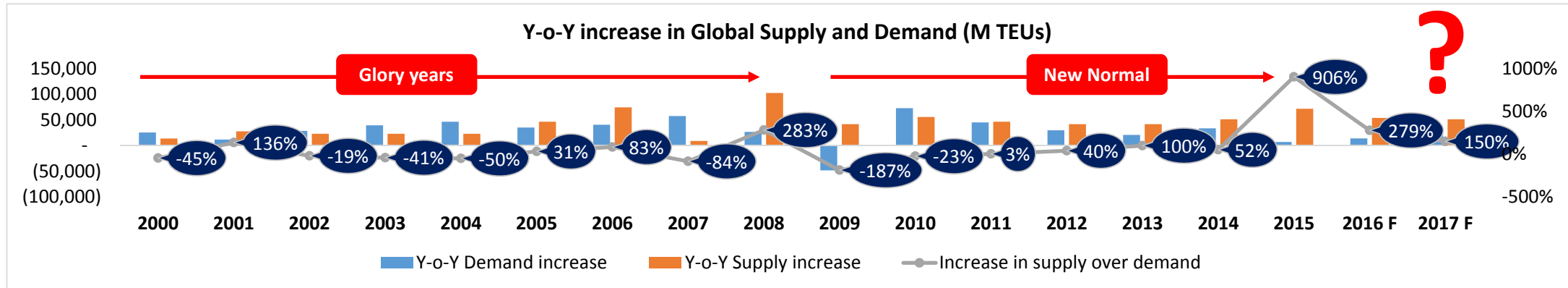
and drop in freight...



Leading to reduced utilization levels...



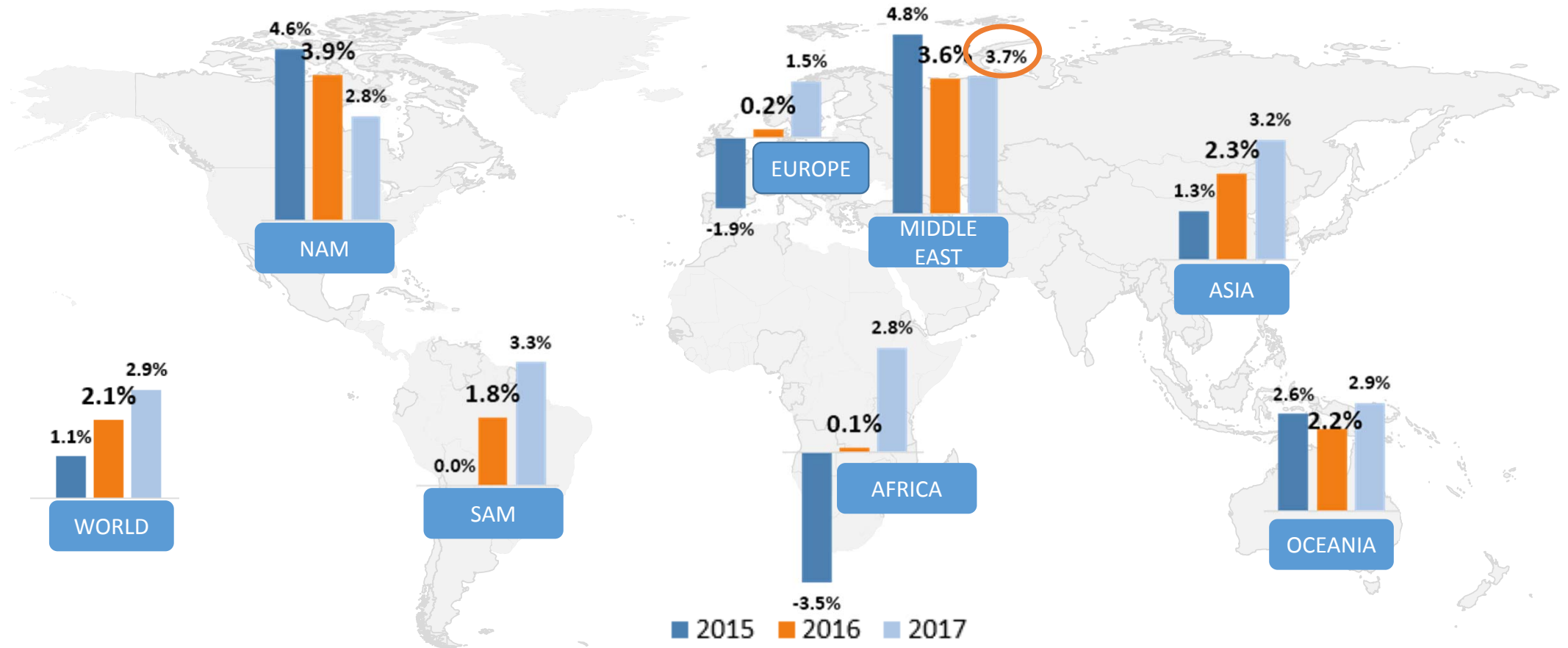
Not really. This is how dramatic the picture is...



Source: Alphaliner, Drewry, GulfTainer Analysis
 Note: Supply (Capacity) has been reduced by 10% to adjust for scrapping/ repairs etc.

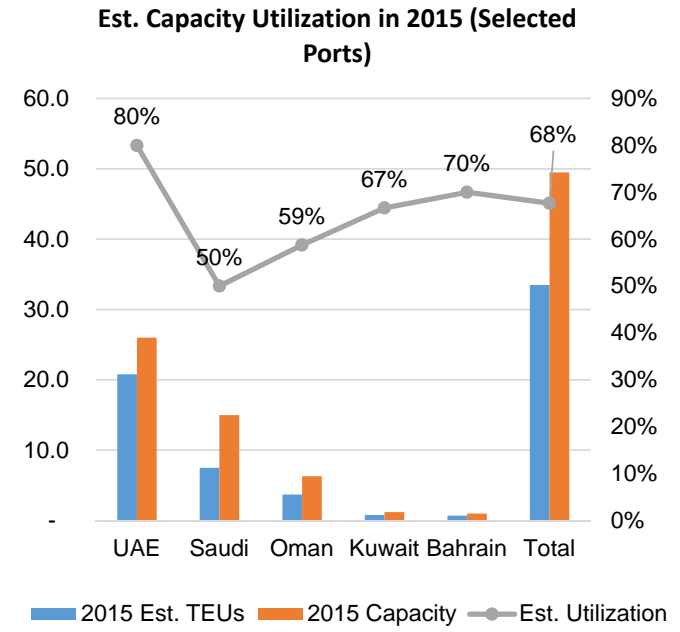
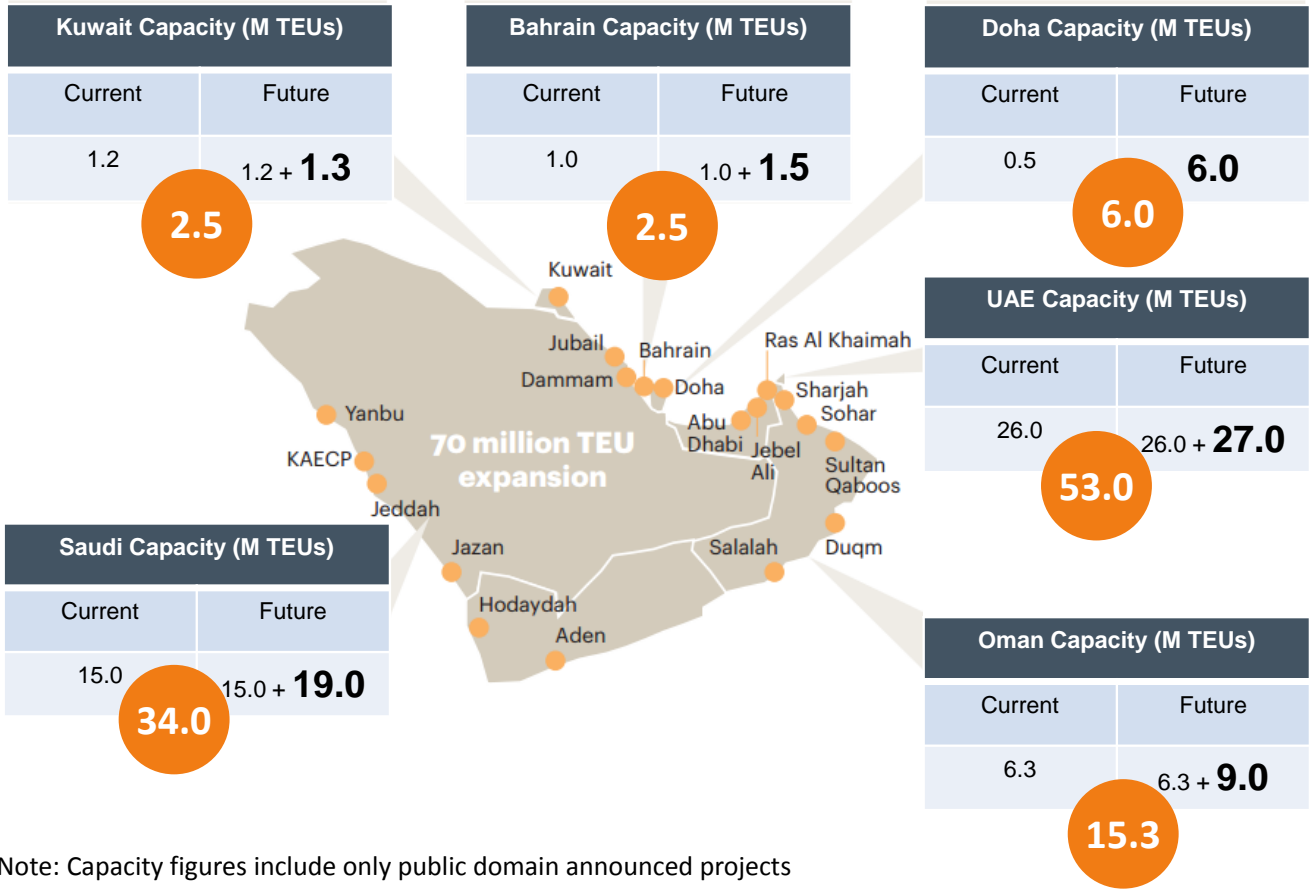
Sitting here in Jeddah, let's look at the situation in the Middle East

Next year global throughput is projected to grow at 2.9% , but regional growth rates will vary, with Middle East likely to emerge as star performer for the next 2 years



Is it good to be over-ready?

Major ports in selected countries in the Middle East are only ~68% utilized in 2016



Is there a need to add capacity at the level it is being added?

Note: Capacity figures include only public domain announced projects

The consensus among big ship carriers nowadays is that terminals should handle 6,000 moves a day on a ULCS, while the universal consent among stevedores is that a production of 3,500 moves is “a more realistic maximum”

Two schools of thought!

1. Port over capacity - *NOT REQUIRED*



2. Port over capacity - *MUST TO PREVENT CONGESTION*



Between National and Regional Governments

Planning for Uncertainty

Within Ports

Optimising Ports – Doing More with Less

Between Carriers and Terminals

Improved Dialogue and Coordination

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Insights on improving port operations and ensuring a balanced economic growth



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