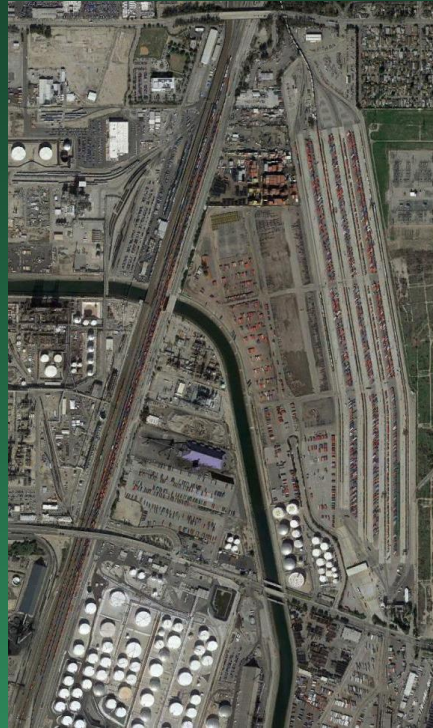


Regional Planning and Port Cooperation

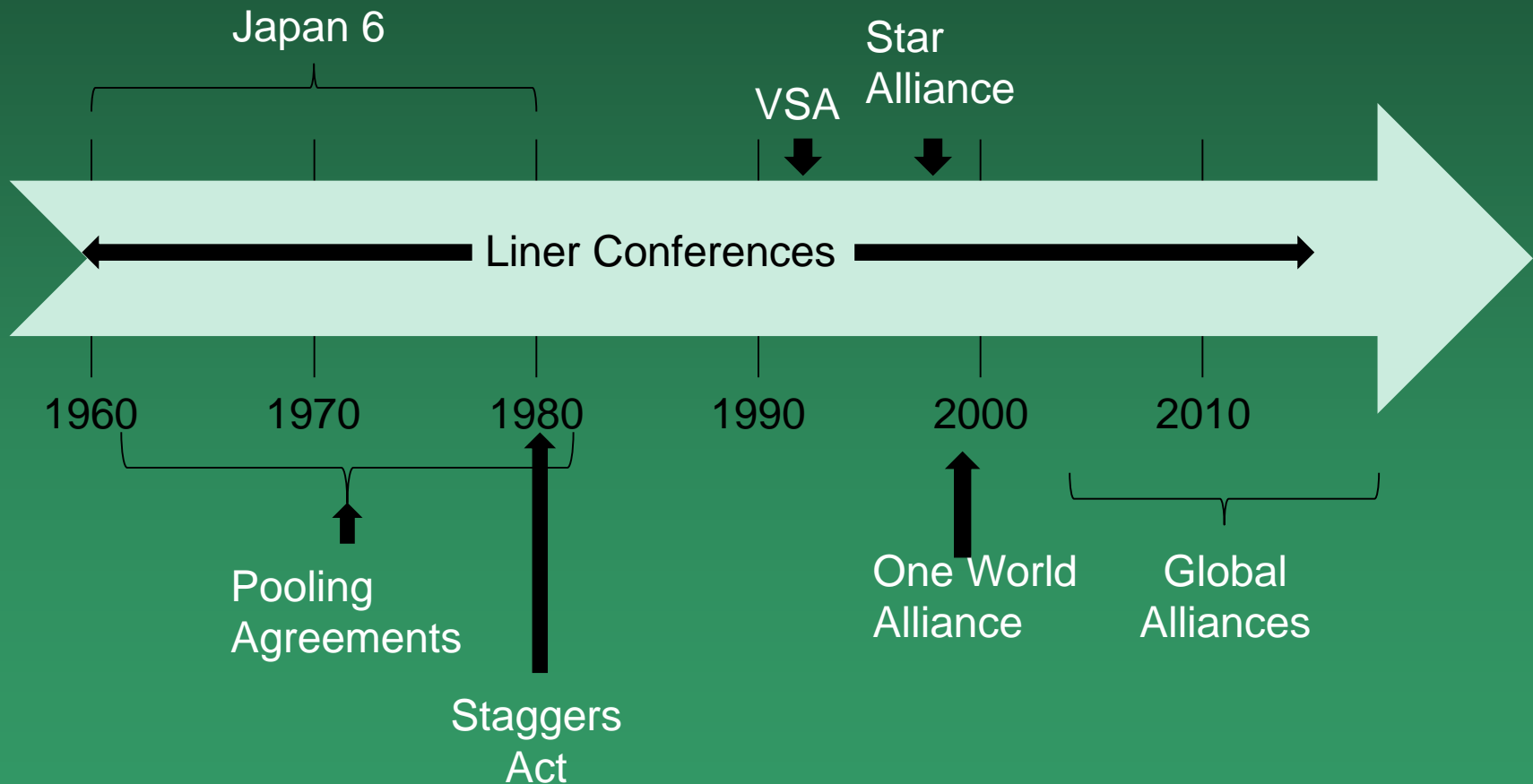


February 2, 2017

Presentation Objectives

- ✓ Provide a brief synopsis of cooperation arrangements in the transport industry
- ✓ Discuss why ports should expand cooperation
- ✓ Present some key success factors

There is a long history of cooperation in the global transport sector



Airlines Alliances



STAR ALLIANCE



JAPAN AIRLINES



Airline alliances

- Share flight capacity through code sharing
- Simplified booking process
- Common rewards programs, benefits, and lounges
- Share services and labor at airports (ex. baggage handling)

Railroads



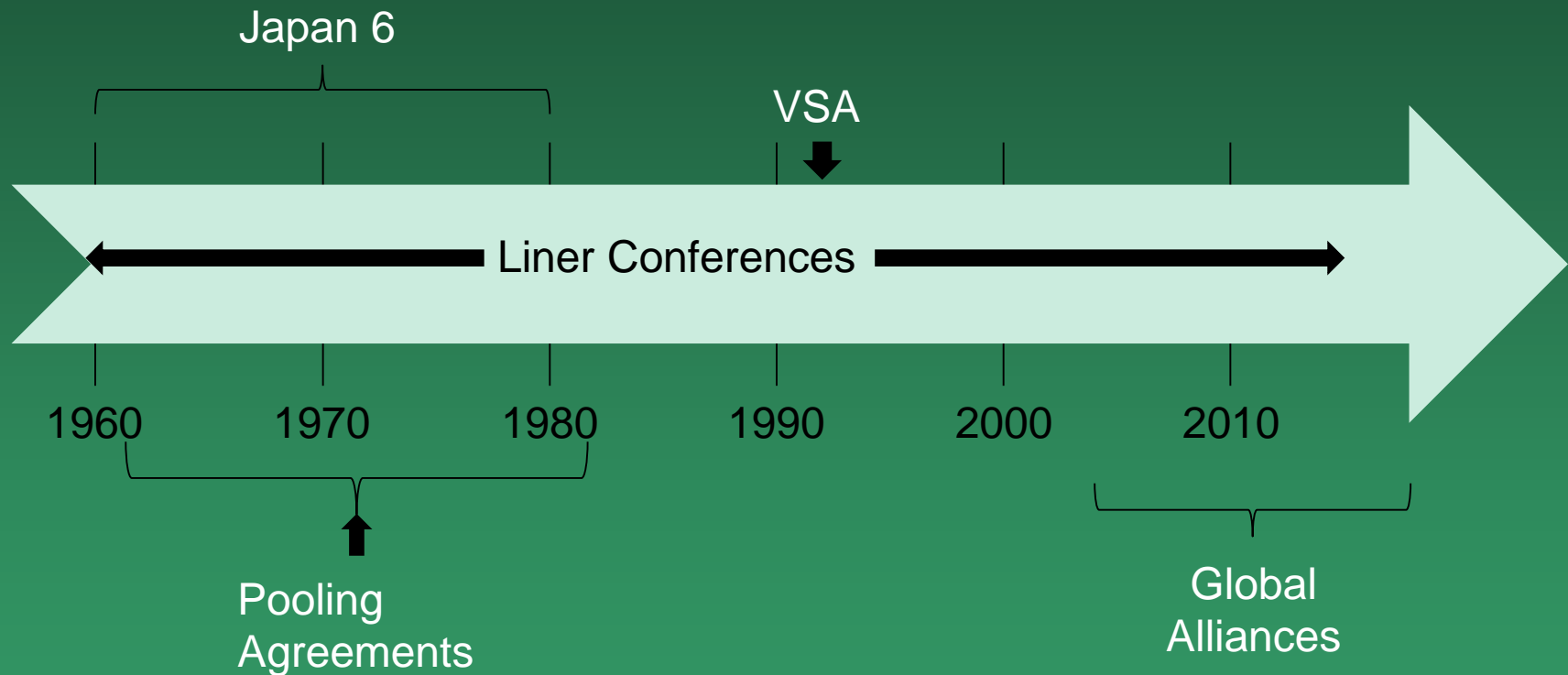
TTX is a sustained success story of rail industry cooperation

- Formed in 1955 as Trailer Train by the Pennsylvania RR
- Purpose was to invest in Trailer on Flat Car Technology
- Evolved into an industry owned rail equipment pool
- Today it owns over 220,000 rail cars & intermodal wells
- Charter includes rail car innovation & design, construction, ownership and management

Railroads cooperate in a variety of ways

- **Haulage Rights**: Railroad A agrees to haul Railroad B's rail cars on its rail line
- **Trackage Rights** - Railroad B operates its trains on Railroad A's tracks
- **Overhead or Bridge Trackage Rights**: Railroad B operates its trains on Railroad A's tracks but only on a through basis
- **Directional Running**: Railroads A & B agree to use A's track to run eastbound trains and B's track to run westbound trains

There is also a long history of cooperation in the liner shipping industry



Name at least three participants in the US-ECSA pooling agreements

Name at least three participants in the US-ECSA pooling agreements

- CAVN
- Delta Steamship Lines
- ELMA
- FMG
- Grace Lines
- Lloyd Brasileiro
- Lykes Brothers
- Prudential Lines

Who were the Japan Six?

The Japan Six



Who were the original VSA members



Recent regulatory pressures have generally limited liner shipping cooperation to capacity and operations

- Slot chartering
- Vessel sharing
- Terminal sharing
- Chassis pools
- Inland transport remains outside the alliances

In general, asset rationalization remains outside the alliance scope. Will it change if the industry becomes an oligopoly?

Ports

Tariff Discussion Agreements



Vancouver Port Authority,
Fraser Surrey Port
Authority, North Fraser
Port Authority



Why Cooperate vs Compete



The benefits of cooperation can be significant, but the devil is always in the details

POTENTIAL BENEFITS

- Potentially enhanced leverage to attract funding
- Increased political leverage
- Optimize asset bases and capital investment
- Scale economy gains
- Efficiency gains
- Cost reduction
- Enhanced competitiveness
- More sustainable business

CHALLENGES

- Political
- Legal
- Financial
- Perceptual
 - *E.G.:* “Why would we want to cooperate, we are winning”
 - “Nobody _____ better than we do”

Key Success Factors



Key Success Factors

- ✓ Open minds & open books: cooperation does not mean:
 - Someone wins and someone loses
 - Merger is the end game
- ✓ Clear objectives
- ✓ Emphasis on how it can work vs why it won't work; initial focus on common interests
- ✓ Multi-disciplinary teams
- ✓ Rigorous due diligence
- ✓ Evolutionary may yield better results than revolutionary

IF

THAN



Global airlines, global shipping lines & railroads can cooperate

Shouldn't ports cooperate?