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Alliance of the Ports of Canada, the Caribbean, Latin America and the United States

Marine Terminal Management Training Program

Critical Issues Facing Ports & The Marine Terminal Industry

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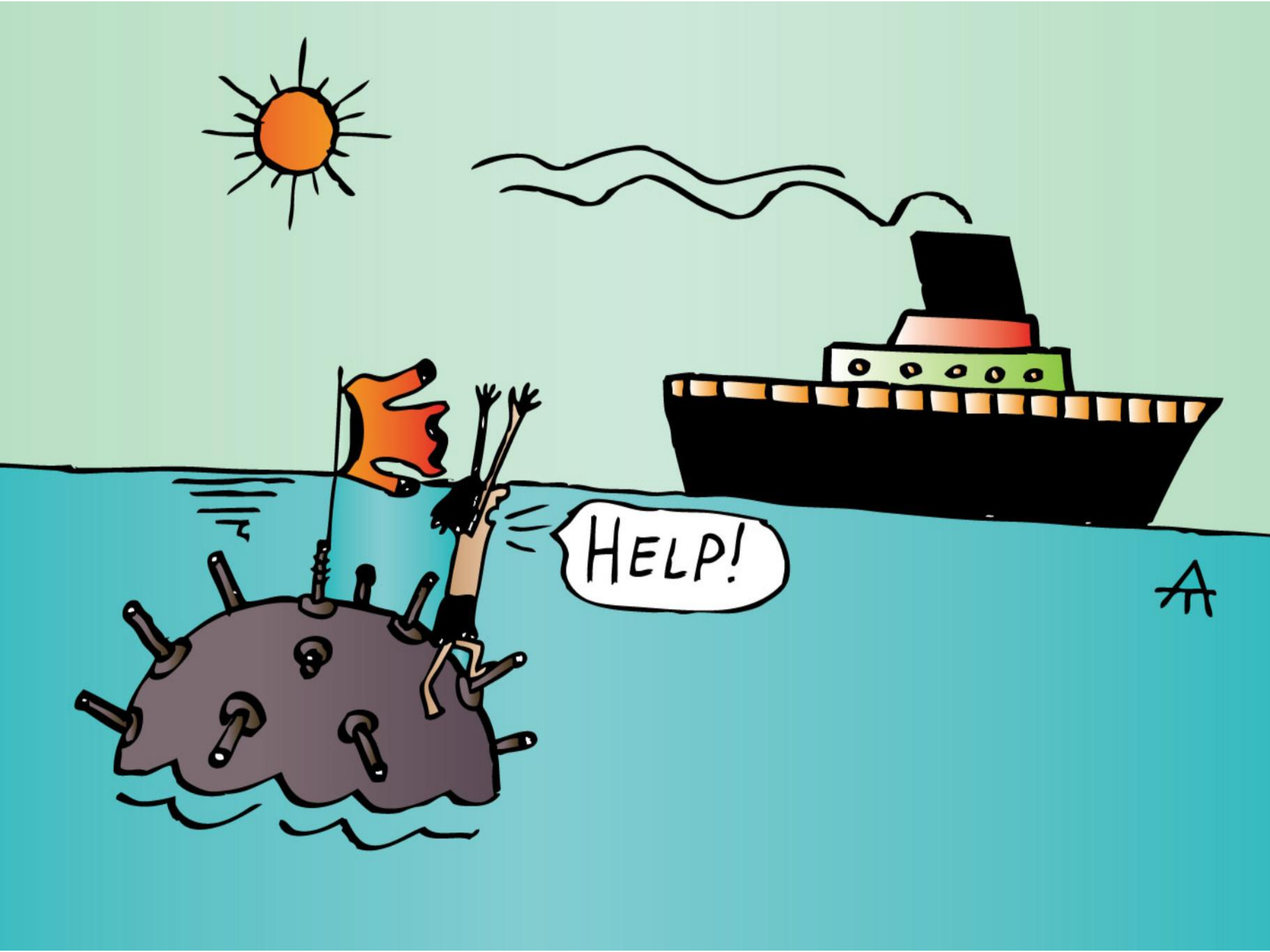
September 9, 2013


HELP!

2013 Milestones

Global Economic Events

- 2013 begins with world financial system in recovery
- Slow recovery from global recession
- Sustained recovery in consumer demand
- Increasing Real Estate values
- Unemployment falling - slowly
- Retail sales increasing - slowly
- World trade continues slow growth
- Containerized shipments continue slow growth
- Stock Markets continue upswing from bottom in March 2009
- Rising oil prices

Impact to Liner Industry

- Carriers add back services to handle increasing volumes and gain market share
- Carriers continue slow steaming to control costs and capacity
- Containership capacity increases continue to outstrip demand
- Containership new build orders dominated by ships exceeding 10,000 teu capacity
- Emergence of “Super Alliances” (P3, G6) to control costs
- Volatile freight rates continue
- Vessel charter rates deteriorate
- Liner industry projected to sustain further losses

Key Critical Issues – Terminal Operator/Stevedore Perspective

- Slow Growth – Will it get better?
- Labor Stability/Availability – Critical horizons looming
- Cost Environment – How do you make money?

Slow Growth – Will it get better?

- With the first half of 2013 officially in the books, minimal-to-slow growth is likely to remain intact for the foreseeable future.
- The outlook for global trade activity continues to be relatively dim, according to the most recent edition of the *Global Port Tracker* report. Carriers are seeking out ways to increase or stabilize rates at a time when the global container fleet is expanding, especially on the larger end of vessels coming on line, even though overcapacity is apparent.
- Global container fleet capacity increased 9% in 2012 and is projected to grow 6% in 2013
- Global growth, according to the IMF will be subdued at 3 per cent, the same as last year which means too much capacity chasing too little cargo."
- "U.S. Consumer demand still remains weak at a 1% growth rate even though the GDP is slightly above 2%, the current situation makes it increasingly likely there will not be a true Peak Season in Europe or the United States.
- United States-bound import activity is expected to remain along its current trend lines of slow growth continuing the ongoing trend of a relatively slow summer, but that could change with increased import activity heading into the holiday season in the fall.
- Annual containerized import growth rate for all ports covered in the report is expected to be north of 3 percent and possibly as high as 4 percent with the caveat that it is dependent on economic measures taken in Washington.

Source: Global Port Tracker/Alphaliner

Main carriers operating profit margins : 1st half (Jan-Jun) 2013

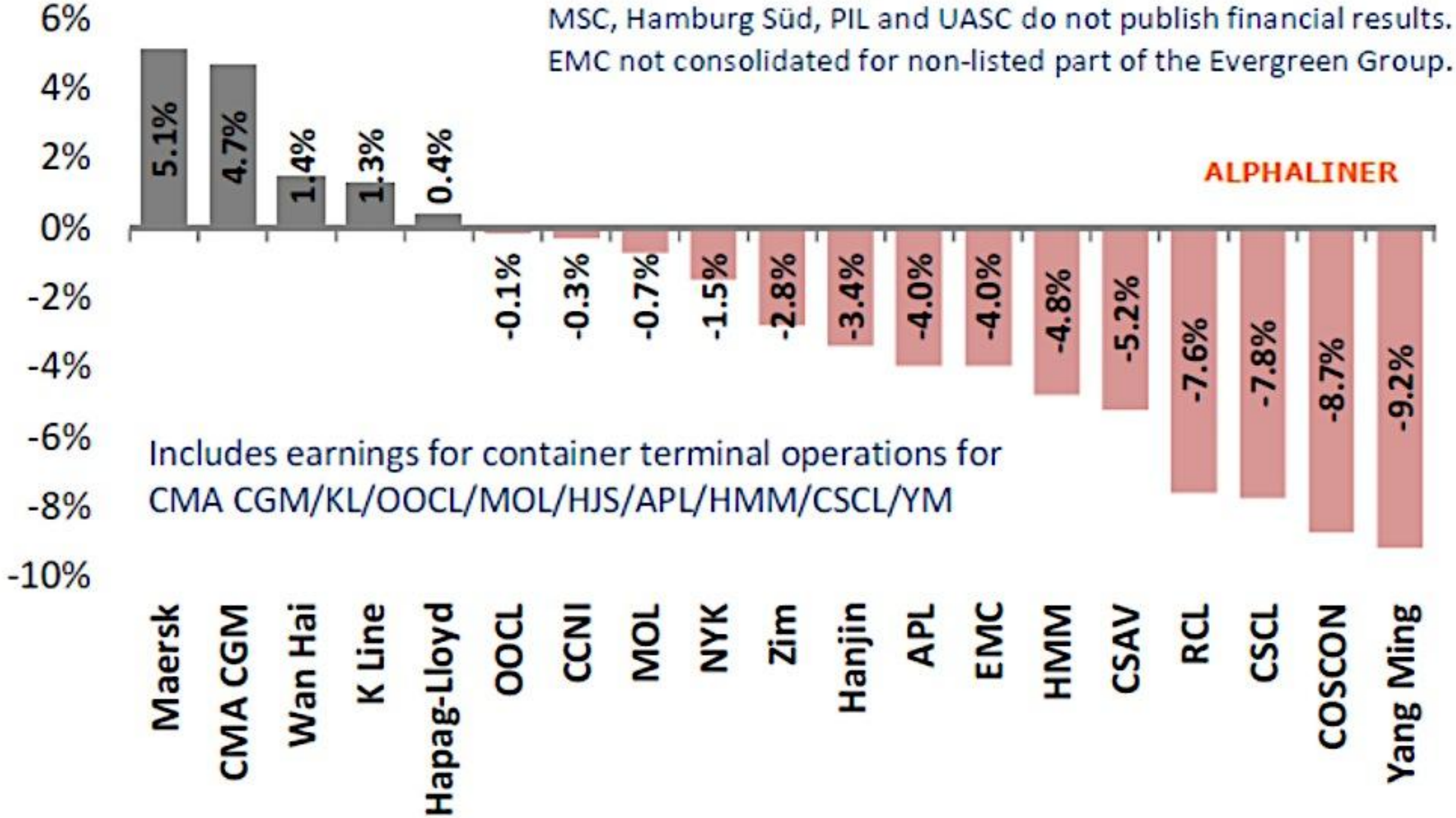
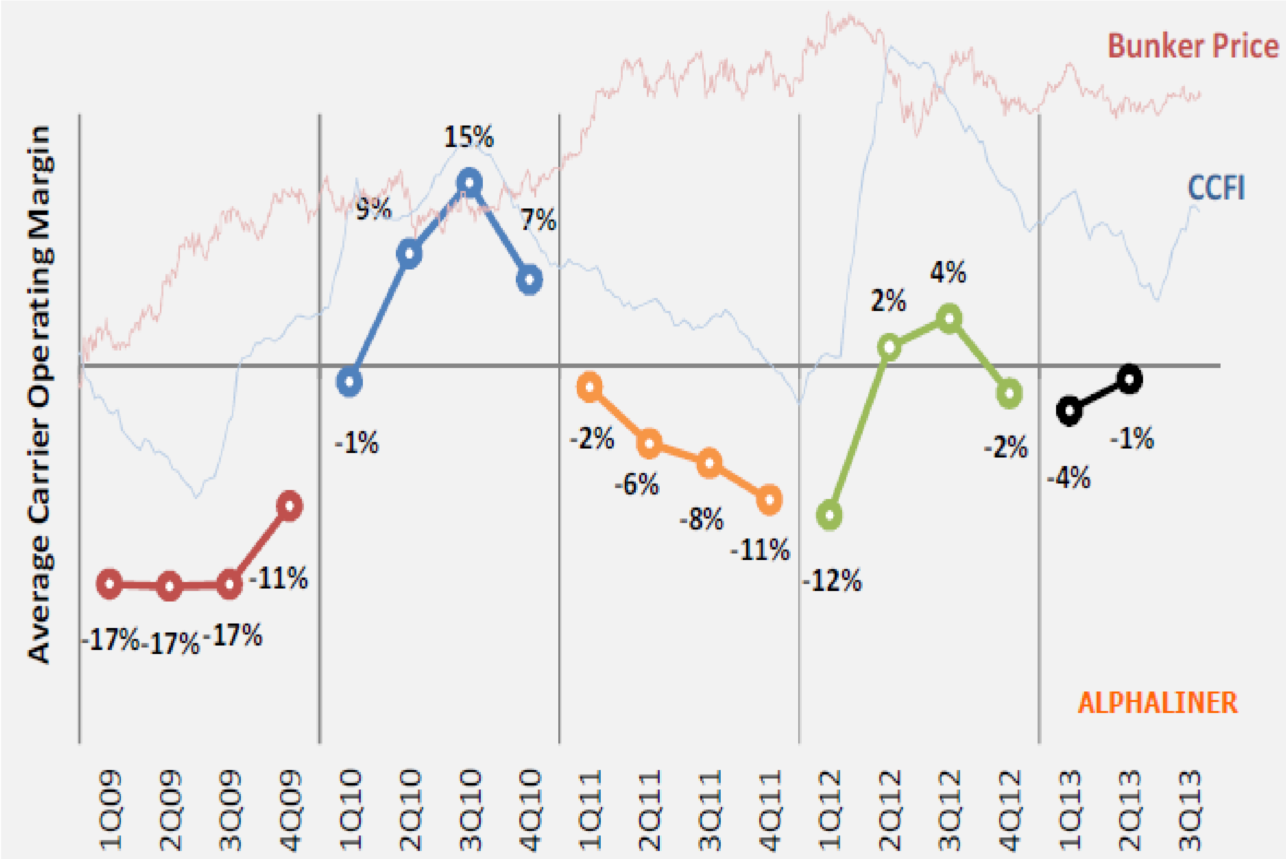


Chart of the week

Carrier Operating Income Margin by Quarter vs Freight & Bunker Index : 2009-2013



Average of APL, CMA CGM (fr 2010) , CCNI, CSAV, CSCL, EMC, Hanjin, HMM, Hapag-Lloyd, KL, Maersk, MOL, NYK, RCL, STX PO (until 2012), WHL, YML, Zim

Industrial Transpacific Eastbound Revenue/TEU Figures

based on annual averages for all origins/destinations

	Year	Average REV/TEU	
5/1/1993	1993-1994	$1,804	0.16%
5/1/1994	1994-1995	$1,687	
5/1/1995	1995-1996	$1,711	
5/1/1996	1996-1997	$1,246	
5/1/1997	1997-1998	$1,102	
5/1/1998	1998-1999	$1,252	
5/1/1999	1999-2000	$1,658	
5/1/2000	2000-2001	$1,359	
5/1/2001	2001-2002	$1,463	
5/1/2002	2002-2003	$1,529	
5/1/2003	2003-2004	$1,635	
5/1/2004	2004-2005	$1,675	
5/1/2005	2005-2006	$1,526	
5/1/2006	2006-2007	$1,658	
5/1/2007	2007-2008	$1,702	
5/1/2008	2008-2009	$1,331	
5/1/2009	2009-2010	$1,852	

In a business climate characterized by persistent overcapacity, weak demand, disastrous freight rates, tight credit, low scrap prices, rising fuel costs and an increasingly burdensome regulatory regime, ship-owners, already encumbered by high levels of debt, face a bleak near-term future. Many are already teetering on the edge of insolvency. It will likely get worse. As the new ships on order are delivered into a market that is already oversupplied, freight rates will almost certainly remain depressed in most segments.

To be sure, the owners placing orders for new-generation more fuel-efficient ships may emerge the winners. They are betting that savings in fuel costs will give them a competitive advantage over other shipping companies operating older less-efficient tonnage. They may be right, but they will still continue to struggle for solvency.

“The problem is there are too many ships in the market, so better demand can help but not much. And the ordering spree from private equities this year may prolong the downturn.” Research conducted by the analyst has revealed that the 21 carriers of the top 30 that publish financial results reported an overall loss of $239 million in 2012, with seven returning a profit.

Maritime Professional Blog

Labor Stability/Availability/Cost – Critical horizons looming

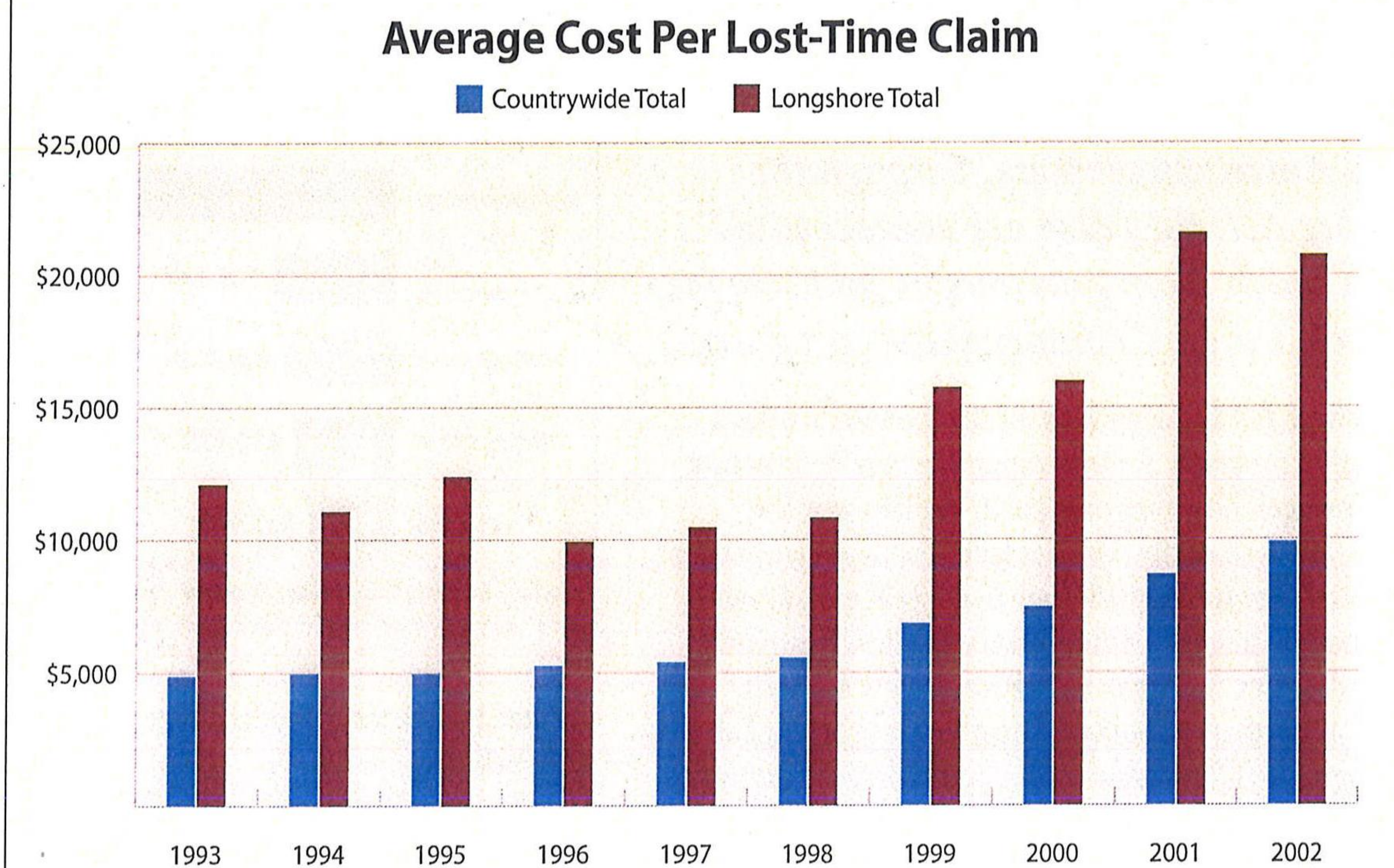
- Implementation of new ILA contract USEC: Flashpoint issues??
  - Chassis jurisdiction, credentialing, automation, productivity, safety
- ILWU contract USWC July 2014
- Management leadership – USMX recent changes
- Aging work force some areas – ILA USEC 50 year old average
- Unfunded liability in pension funds – 1 bil
- Workers comp cost continue to climb > $600mil pa
- Credentialing
  - no workable plan yet, how will implementation be funded
  - artificial limitation of available work force

Labor Profile: USEGC

Port	# of ILA Employees on 9/30/08*	# of ILA Employees on 9/30/11*	Total Manhours for Contract Year Ending 9/30/11**	Average Age of the Workforce as of 9/30/11
Boston	464	460	529,464	48.14
NY/NJ	3,579	3,367	9,941,030	47.53
Ports of Delawre River	1,900	1,364	1,248,167	52.84
Baltimore	1,592	1,371	2,132,930	49.46
Hampton Roads	2,064	1,781	2,897,502	45.47
Wilmington, NC	703	525	363,767	55.49
Charleston	1,202	1,010	1,287,447	50.31
Savannah	2,186	2,277	2,822,866	46.93
Jacksonvile	1,331	1,139	985,672	50.12
S. Florida	2,219	2,136	2,242,070	49.14
Tampa	425	327	286,974	52.78
Mobile	493	386	361,439	49.98
New Orleans	1,530	1,234	1,052,604	47.88
West Gulf Ports	2,478	2,420	3,986,353	50.08
Totals	**22,166**	**19,797**	**30,138,285**	**49.73**

* The # of ILA Employees included in the above count is based on an individual incurring at least 1 manhour of work which means all casual labor which is significant in some ports is included.

** the manhours reported are inclusive of container, ro/ro and breakbulk/bulk work.



Source: Annual Statistical Bulletin, the National Council on Compensation Insurance, Inc.

On a per claim basis, the Longshore Act is our nation's most expensive workers' compensation program and costs continue to rise. According to the National Council on Compensation Insurance, Inc. (NCCI), the average total cost for a Longshore claim rose 72 percent from 1993 to 2002. Private sector employers paid $595 million of Longshore Act claims in calendar year 2004, while taxpayers financed the federal administration of the program by the U.S. Department of Labor.

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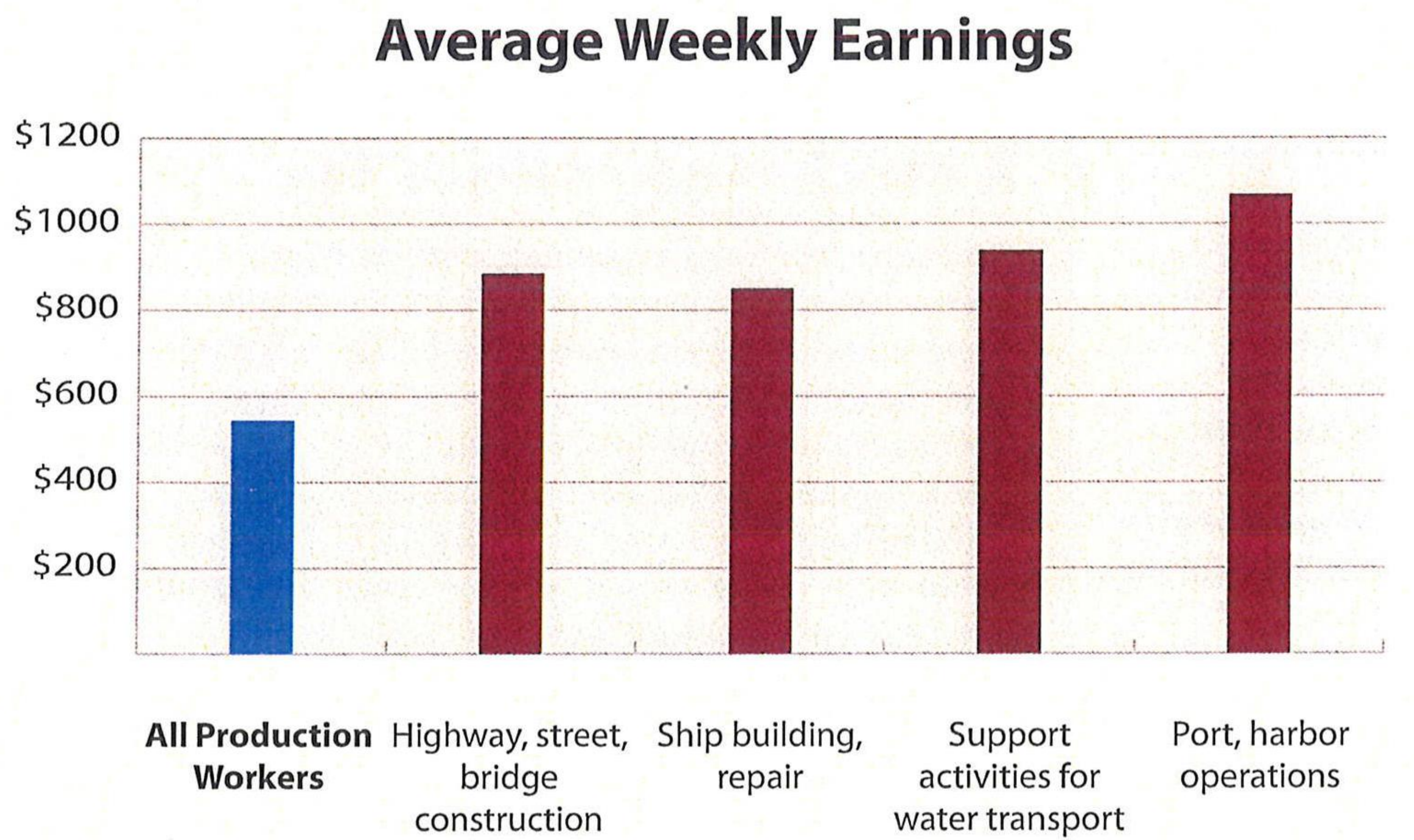
Cost Environment – How do you make money?

- Ocean freight rates are the same or lower today than 20 years ago and no near term signs of improving.
- Heightened equipment, IT, terminal/rail/gate, labor requirements for VLCC's
- Labor costs have continued to increase – pension/benefit assessments, base wage scale, workers comp exposure
- Operating/equipment costs continue to increase – fuel, leases, cranes, RTG, Strads, UTR's
- Capital/construction costs are not decreasing
- While TO/Stevedoring rates were stable in some areas the continued pressure is downward due to continued carrier alliance alignments, P3, G6, CKYH, Others?
- Container carriers continue to add capacity resulting in lower rates and in turn pressure vendors, TO's, PA's on cost, using LA/LB as an example, the rate was $300/move when the several terminals opened in 1991. It's about the same now or lower, some 20 years later.
- Minimization of private sector to role of 'labor broker' in Ports with substantial Port Authority involvement in fixed asset ownership.
- Increased environmental/security compliance; Regional environmental legislation; *What will CARB do next*?

Industrial Transpacific Eastbound average Rev/Teu

Base Wage ILA Longshore Deepsea 1995 through 2016

	10/1/1995		$ 22.00	
	10/1/1996		$ 23.00	
	10/1/1997		$ 23.00	
	10/1/1998		$ 24.00	
	10/1/1999		$ 24.00	
	10/1/2000		$ 25.00	
	10/1/2001		$ 26.00	
	10/1/2002		$ 27.00	
	10/1/2003		$ 27.00	
	10/1/2004		$ 28.00	
	10/1/2005		$ 28.00	
	10/1/2006		$ 29.00	
	10/1/2007		$ 29.00	
	10/1/2008		$ 30.00	
	10/1/2009		$ 31.00	
	10/1/2010		$ 31.00	
	10/1/2011		$ 32.00	
	10/1/2012		$ 32.00	
	10/1/2013		$ 32.00	
	10/1/2014		$ 33.00	
	10/1/2015		$ 33.00	
	10/1/2016		$ 34.00	
		54%		



Source: U.S. Bureau of Labor Statistics (2005 figures)

How Will TO's Endure?

- TO/Stevedore success largely depends on the overall cost of getting the goods onto the dockside and the degree of reliability and efficiency. The two main factors that users will weigh are the total cost of landing goods and which operators can handle cargo reliably and efficiently. Reliability on the dockside is essential.
- Ocean carriers are struggling to make a profit in the face of overcapacity and declining freight rates, are taking dramatic and sometimes unexpected actions to slash costs. In this environment of frenzied cost-cutting, the proprietary container terminal operated for a single shipping line is becoming an endangered species.
- Likely more consolidation within TO'S, Stevedoring Companies
- Formation of operating/equipment sharing agreements – become asset light
- Push to automation sooner where possible
- More joint ventures with carriers
- New approaches to billing for stevedoring/terminal services for account of BCO? (Pier Pass, THC to include stevedoring)

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Trends in Public Port Governance & Marine Terminal Service

Typical Ownership & Operating Structures for Container Terminals

Increasing Degree of Privatisation

Mode of Ownership	Land Area	Terminal Infrastructure	Terminal Superstructure	Quayside Operations	Landside Operations
100% state owned & operated	State owned	Owned & constructed by port authority	State owned	Port authority	Port authority
"Suitcase" stevedores	State owned	Owned & constructed by port authority	State owned	Private stevedores (on common-user berths)	Port authority
Leased terminal	State owned	Owned & constructed by port authority	Privately owned or rented from port authority	Terminal operator	Terminal operator
Concession agreement	State owned	Owned & constructed by port authority	Privately owned	Terminal operator	Terminal operator
BOT concession	State owned	Construction privately funded	Privately owned	Terminal operator	Terminal operator
100% privately owned	Privately owned	Privately owned	Privately owned	Terminal operator	Terminal operator

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North American Stevedoring & Terminal Operator Categories/Competitive Profile

Global

- APM*
- APL
- CMA-CGM*
- (Cosco Pacific)
- DP World
- Evergreen*
- Hanjin*
- (HPH)
- ICTSI
- K Line
- MOL
- MSC*
- NYK
- (PSA)

- ( )=Not yet in NA

Investment Vehicles

- SSA /
  - Goldman Sachs
- Ports America/
  - Highstar Capital
- Gateway/
  - J. P. Morgan
- Maher Terminals/
  - Deutsch Bank
- Global Terminals/
  - Ontario Teacher's Pension Fund
- Halterm/Fraser Surrey
  - Macquarie
- Total Terminals/*
  - Macquarie

Strategic to Liner Affiliate

- APM*
- Cal United
- Eagle Marine
- Evergreen*
- ITS
- LBCT
- Matson
- PCT
- Pier A
- Trapac
- Total Terminals*
- West Basin
- YTI

Regional Operators

- Cooper T. Smith*
- Eller
- Empire
- Florida Stevedoring
- Flanagan
- Holt
- Jones Stevedoring
- Logistec*
- Metropolitan
- Pasha*
- RHT
- Shippers
- Suderman
- Other non union

Joint Ventures

- APM/CMA
- CP&O
- Ceres/Logistec
- Ceres/MSC
- DRS
- Eller ITO
- MGT
- PA/Yang Ming
- PA/CSCL
- PA/Hanjin
- PA/TIL
- PET
- POMTOC
- SSA/Cooper
- SSA/MSC
- SSA/Cosco

Diversified into other Businesses

- Cooper T. Smith*
- Pasha*
- Logistec*

***Appears in more than one category**

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Major Terminal Operators & Stevedores

North America

Size/Scope of Business
$600 mil plus annual revenue

Broad Geographic/Operating Scope
West Coast No America
East Coast No America
Gulf Coast No America
Marquee – high demand terminal locations

Large asset base readily available
Equipment
Systems
Management

State of the Art, Well Established, and/or Proprietary TOS/IT Systems

Project Development – Internal Resources Available
Research/Analysis Engineering
Finance – Mgmt & Admin

Apparent ready access to Capital
Ability to Respond to opportunities

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New Players In North America Since 2006

Date	Target	TEU Volume	Acquirer	Price	Price/TEU	EBITDA Multiple	Comment
Sep-06	Hanjin		Macquarie Bank	$348,000,000			40% Stake in LB/Oak/Sea/KHH/OSA/TKO
Nov-06	OOIL Terminals	2,568,000	Ontario Teachers' Pension Plan	$2,400,000,000	$934.58	26.9	TSI, NYCT, Global
Dec-06	Halterm	210,000	Macquarie Bank	$157,430,000	$749.67	22.9	
Dec-06	DP World U.S.	2,593,000	Highstar Capital	$1,100,000,000	$424.22	23.0	
Feb-07	Montreal Gateway	995,000	Morgan Stanley	$409,500,000	$514.45	22.4	80% Stake
Mar-07	Maher Terminals	1,900,000	Deutsche Bank	$2,100,000,000	$1,105.26	40+	
Apr-07	Amports		Highstar Capital	$430,000,000	N/A		
May-07	MTC	2,458,000	Highstar Capital	$860,000,000	$349.88	13.0	
Jul-07	SSA	22,000,000	Goldman Sachs	$1,600,000,000	$148.42	31.0	49% Stake
				$9,404,930,000			

Goldman Sachs

Morgan Stanley Investment Management

MACQUARIE

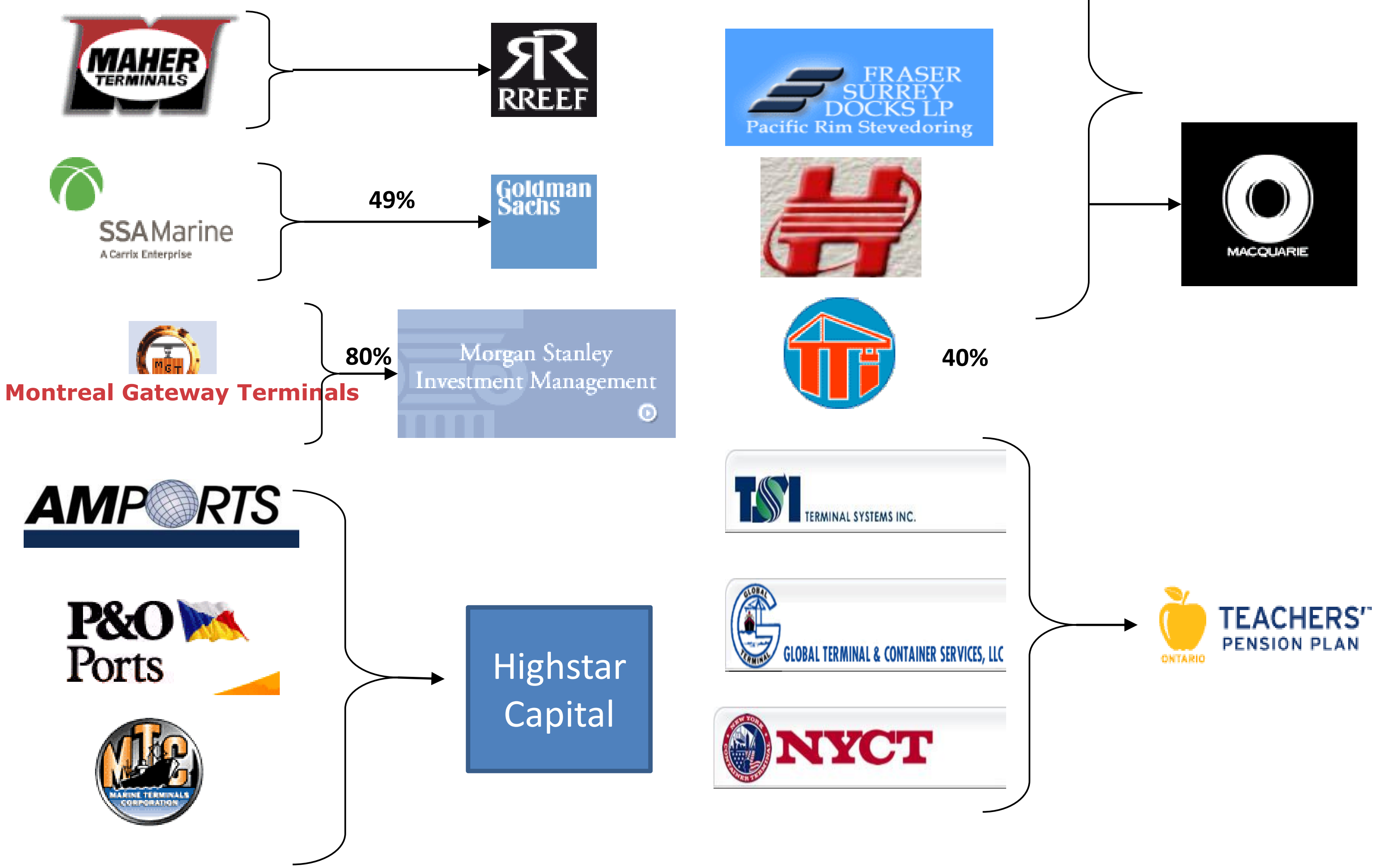
ONTARIO TEACHERS' PENSION PLAN

Highstar Capital

RREEF

A Passion to Perform. Deutsche Bank

WHO PURCHASED WHO?



Key Differences

Highstar Capital

Goldman Sachs

MACQUARIE

RREEF

Morgan Stanley Investment Management

- Willing to spend big bucks
- Using other people's money
- May consolidate and/or spin off group companies
- Envisioned flipping for near term gain

TEACHERS' PENSION PLAN ONTARIO

Using their own money
Appear to be in the business for the long haul

Port Consolidation?

Port Authorities are the only players in the global supply chain system that have not yet aggressively moved toward consolidation/acquisition/joint ventures to improve economies of scale, operating efficiencies and stabilization/improvement of return on assets.

Is there a sea change coming and does it make economic sense?

Private sector money seems to be backing away from these investments for the near term – will Port Authorities look to collaborate more closely rather than duplicate spending on capacity/assets in limited market range and also eliminate predatory pricing to protect "market share" for political reasons?

Should you go corporate or get the local government/authority to own and operate a port?

At the river port of Sacramento a division of SSA Marine is taking over the master lease at the Port of Sacramento. The five-year lease will bring $650,000 to West Sacramento each year.

Virginia on the other hand is doing the opposite. The state government is taking over the whole operation and reducing Virginia International Terminals to a shell with no executive powers.

- Governor Backs Decision to Restructure Virginia Port
  April 4, 2013 3:16PM EDT
- VPA to Decide on Terminal Privatization Next Week
  March 19, 2013 12:23PM EDT
- Tampa Port, CSX to Develop Reefer Transload Facility
  August 19, 2013 3:11PM EDT
- New Steel Terminal to Be Built at Port of Mobile
  July 24, 2013 3:14PM EDT
- Georgia Ports, Cordele Intermodal Sign Inland Port Accord
  July 10, 2013 4:09PM EDT
- Kemmsies Talks Public-Private Partnerships for Infrastructure
  April 19, 2013 9:46AM EDT

New Port Models – Where Does It Go Next?

More Cooperation Between Public Ports?

- Joint planning for the financing, construction and leasing of new container facilities would reduce costly and unnecessary duplications. (Jasper County – Chstn/Sav)
- Joint marketing efforts would result in cost-saving simplifications. (USWC, USGC Ports)
- Joint planning would encourage logical port specialization that makes the most of each port's comparative advantages. (Mia/PE, Phil/SJPC/Wil)
- Some ports share much the same physical environment while also sharing approximately the same global location and rely on many of the same overland transport systems.
- Joint efforts to finance and, in fact, allocate space for new facilities are likely to have more chance of success than would a divided approach. (LA/LB)
- Joint efforts would give more clout in dealing with the major railroad systems providing transcontinental freight service for gateway ports. (LA/LB, Sea/Tac)
- New strategic port pairings – focused on super alliances/VLCC’s. (Hfx/NY, Nfk, Mia)
- Past Examples - New York-New Jersey Port Authority, Virginia Consolidation, Vancouver Fraser Port Authority,